

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

AUDITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 MARCH 2016**

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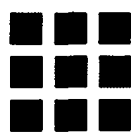
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COMPANIES HOUSE



**Wellden
Turnbull**

Chartered Accountants and
Chartered Tax Advisers
Statutory Auditors

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

COMPANY INFORMATION

DIRECTORS

Mr R. J. Austin
Mr A. T. S. Parry

COMPANY SECRETARY

Mr A. T. S. Parry

REGISTERED NUMBER

SC210981

REGISTERED OFFICE

Dundas & Wilson LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

INDEPENDENT AUDITORS

Wellden Turnbull Ltd
Chartered Accountants & Statutory Auditors
Munro House
Portsmouth Road
Cobham
Surrey
KT11 1PP

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

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COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2016

The directors present their report and the financial statements for the year ended 31 March 2016.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were that of designing, constructing, financing, maintaining and providing building management services for schools under the Government's Private Finance Initiative ("PFI").

RESULTS

The profit for the year, after taxation, amounted to £453,715 (2015 - £523,110).

DIRECTORS

The directors who served during the year were:

Mr R. J. Austin
Mr A. T. S. Parry

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2016**

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

Date here

This report was approved by the board on _____ and signed on its behalf.

Sign here

Mr A. T. S. Parry
Director

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

We have audited the financial statements of Community Schools (Highlands) Limited for the year ended 31 March 2016, set out on pages 5 to 23. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2006 and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit or loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with those accounts. In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

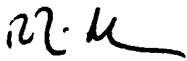
COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMUNITY SCHOOLS
(HIGHLANDS) LIMITED (CONTINUED)**

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a Strategic Report or in preparing the Directors' Report.



Robin John FCA CTA (Senior Statutory Auditor)

for and on behalf of
Wellden Turnbull Ltd

Chartered Accountants
Statutory Auditors

Munro House
Portsmouth Road
Cobham
Surrey
KT11 1PP

Date: 5.8.16

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2016**

	Note	2016 £	2015 £
Turnover	4	2,103,858	2,036,747
Cost of sales		(1,367,616)	(1,271,794)
GROSS PROFIT		<u>736,242</u>	<u>764,953</u>
Administrative expenses		(143,402)	(170,847)
OPERATING PROFIT	5	<u>592,840</u>	<u>594,106</u>
Interest receivable and similar income	7	907,753	965,619
Interest payable and similar charges	8	(930,824)	(977,139)
PROFIT BEFORE TAX		<u>569,769</u>	<u>582,586</u>
Tax on profit on ordinary activities	9	(116,054)	(59,476)
PROFIT FOR THE YEAR		<u><u>453,715</u></u>	<u><u>523,110</u></u>

The notes on pages 10 to 23 form part of these financial statements.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2016**

	Note	2016 £	2015 £
Profit for the financial year		453,715	523,110
OTHER COMPREHENSIVE INCOME			
Fair value gains/(losses) on swaps		258,575	(305,436)
Deferred tax arising on fair value (gains)/losses		(51,715)	61,087
OTHER COMPREHENSIVE INCOME FOR THE YEAR		206,860	(244,349)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		660,575	278,761

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED
REGISTERED NUMBER: SC210981

BALANCE SHEET
AS AT 31 MARCH 2016

	Note	£	2016 £	As restated 2015 £
CURRENT ASSETS				
Debtors: amounts falling due after more than one year	11	10,408,078	11,406,007	
Debtors: amounts falling due within one year	11	613,963	598,766	
Cash at bank and in hand	12	2,872,584	2,567,669	
		<u>13,894,625</u>	<u>14,572,442</u>	
Creditors: amounts falling due within one year	13	(1,578,372)	(1,318,425)	
NET CURRENT ASSETS			12,316,253	13,254,017
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>12,316,253</u>	<u>13,254,017</u>
Creditors: amounts falling due after more than one year	14		(12,989,185)	(14,040,044)
PROVISIONS FOR LIABILITIES				
Deferred tax	16	(950,038)	(1,032,987)	
Other provisions	17	(3,000)	(10,000)	
			<u>(953,038)</u>	<u>(1,042,987)</u>
NET LIABILITIES			<u>(1,625,970)</u>	<u>(1,829,014)</u>
CAPITAL AND RESERVES				
Called up share capital	18		1	1
Share premium account			197	197
Other reserves			(2,122,460)	(2,329,320)
Profit and loss account			496,292	500,108
SHAREHOLDERS' DEFICIT			<u>(1,625,970)</u>	<u>(1,829,014)</u>

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 3 October 2016



Mr A. T. S. Parry
Director

The notes on pages 10 to 23 form part of these financial statements.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016**

	Called up share capital	Share premium account	Other reserves - Hedging reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 April 2015	1	197	(2,329,320)	500,108	(1,829,014)
COMPREHENSIVE INCOME FOR THE YEAR					
Profit for the year	-	-	-	453,715	453,715
Fair value gains on swaps	-	-	258,575	-	258,575
Deferred tax arising on fair value adjustments	-	-	(51,715)	-	(51,715)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	206,860	-	206,860
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	206,860	453,715	660,575
Dividends: Equity capital	-	-	-	(457,531)	(457,531)
TOTAL TRANSACTIONS WITH SHAREHOLDERS	-	-	-	(457,531)	(457,531)
AT 31 MARCH 2016	1	197	(2,122,460)	496,292	(1,625,970)

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2015**

	Called up share capital	Share premium account	Other reserves - Hedging reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 April 2014	1	197	(2,084,971)	207,408	(1,877,365)
COMPREHENSIVE INCOME FOR THE YEAR					
Profit for the year	-	-	-	523,110	523,110
Fair value losses on swaps	-	-	(305,436)	-	(305,436)
Deferred tax arising on fair value adjustments	-	-	61,087	-	61,087
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-	(244,349)	-	(244,349)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-	-	(244,349)	523,110	278,761
Dividends: Equity capital	-	-	-	(230,410)	(230,410)
TOTAL TRANSACTIONS WITH SHAREHOLDERS	-	-	-	(230,410)	(230,410)
AT 31 MARCH 2015	1	197	(2,329,320)	500,108	(1,829,014)

The notes on pages 10 to 23 form part of these financial statements.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

1. GENERAL INFORMATION

Community Schools (Highlands) Limited is a private company, limited by shares, incorporated in Scotland, registered number SC210981. The registered office is Dundas & Wilson LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EN.

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 23.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Cardale PFI Investments Limited as at 31 March 2016 and these financial statements may be obtained from the registered office at 4 Greengate, Cardale Park, Harrogate, North Yorkshire, HG3 1GY.

2.3 Going concern

The financial statements have been prepared on a going concern basis. The directors acknowledge that the company has net liabilities. However this is a result of the SWAPs, which are significantly out of the money, being brought onto the balance sheet on transition to FRS102. It is not the intention to close out these instruments before their maturity date, therefore there is no impact on the company's ability to meet its liabilities as they fall due. The company has a contract with The Highland Council until 2027. The directors have prepared projected cash flow information for at least twelve months from the date of their approval of these financial statements. On the basis of this cash flow information, the directors consider that the company will continue to operate within the long term facility currently agreed. In addition, during the operational phase of the project, sufficient cash flow has been, and is, projected to continue to be generated to allow the company to meet its liabilities as they fall due for payment. Accordingly, the directors believe it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

2. ACCOUNTING POLICIES (continued)

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract; and
- the stage of completion of the contract at the end of the reporting period can be measured reliably.

2.5 Revenue accounting policy

The company recognises income when it has fully fulfilled its contractual obligations. In accordance with FRS 102 the company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and operating costs.

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements.

2.6 Finance debtor

The company operates a PFI contract. During the operational phase income is allocated between interest receivable and the finance debtor using an asset specific interest rate. The remainder of the PFI unitary charge is included within turnover.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment.

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

2. ACCOUNTING POLICIES (continued)

2.9 Financial instruments

The Company enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

2. ACCOUNTING POLICIES (continued)

2.10 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value at each reporting date. Fair value gains and losses are recognised in the statement of comprehensive income unless hedge accounting is applied and the hedge is a cash flow hedge.

To qualify for hedge accounting, the Company documents the hedged item, the hedging instrument and the hedging relationship between them and the causes of hedge ineffectiveness.

The Company elects to adopt hedge accounting for interest rate swaps and inflation rate swaps (the 'swaps') where:

- The swaps are a qualifying hedging instrument with an external party that hedges rate risk on a loan, part of the nominal amount of a loan, or a group of loans managed together that share the same risk and that qualify as a hedged item;
- The hedging relationship between the swaps and the interest rate risk on the loan is consistent with the risk management objectives for undertaking hedges (i.e. to manage the risk that fixed interest rates become unfavourable in comparison to current market rates or the variability in cash flows arising from variable interest rates);
- The change in the fair value of the swaps is expected to move inversely to the change in the fair value of the interest rate risk on the loan.

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.12 Hedge accounting

The Company has entered into variable to fixed rate interest swaps to manage its exposure to interest rate cash flow risk on its variable rate debt. These derivatives are measured at fair value at each balance sheet date. To the extent the hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the period.

2.13 Finance costs

Finance costs are charged to the Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.14 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

2. ACCOUNTING POLICIES (continued)

2.15 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

2.16 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.17 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the actual results.

Critical areas of judgement

The Company makes judgements on the recoverability of the amounts recoverable on long term contracts, based on the receipt of the unitary fee in accordance with the contractual payment mechanisms contained in the project agreement with its client, The Highlands Council.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Certain critical accounting judgements in applying the Company's accounting policies are described below:

- Accounting for the service concession contracts and finance debtors requires estimation of service margins, finance debtors interest rates and associated amortisation profile which is based on forecasted results of the PFI contract.

First time adoption of FRS102

- Reconciliations and descriptions of the effect of the transition to FRS 102 on; (i) equity at the date of transition to FRS 102; (ii) equity at the end of the comparative period; and (iii) profit or loss for the comparative period reported under previous UK GAAP are detailed in note 22.

4. TURNOVER

An analysis of turnover by class of business is as follows:

	2016 £	2015 £
Sales - fees	1,876,836	1,915,372
Sales - utilities pass through income	227,022	121,375
	<u>2,103,858</u>	<u>2,036,747</u>

All turnover arose within the United Kingdom.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

5. OPERATING PROFIT

The operating profit is stated after charging:

	2016 £	2015 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	6,000	6,000
	<u>6,000</u>	<u>6,000</u>

During the year, no director received any emoluments (2015 - £NIL).

6. EMPLOYEES

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Directors	2	2
	<u>2</u>	<u>2</u>

7. FINANCE INCOME

	2016 £	2015 £
Interest income on finance receivable	907,753	965,619
	<u>907,753</u>	<u>965,619</u>

8. FINANCE COSTS

	2016 £	2015 £
Bank interest payable	743,688	779,759
Other loan interest payable	187,136	197,380
	<u>930,824</u>	<u>977,139</u>

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

9. TAXATION

	2016 £	2015 £
CORPORATION TAX		
Current tax on profits for the year	199,003	190,714
DEFERRED TAX		
Origination and reversal of timing differences	(82,949)	(131,238)
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	<u>116,054</u>	<u>59,476</u>

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

There were no factors that affected the tax charge for the year which has been calculated on the profits on ordinary activities before tax at the standard rate of corporation tax in the UK of 20% (2015 - 21%).

10. DIVIDENDS

	2016 £	2015 £
Community Schools (Holdings) Limited	<u>457,531</u>	<u>230,410</u>

11. DEBTORS

	2016 £	2015 £
DUE AFTER MORE THAN ONE YEAR		
Finance debtor	9,877,463	10,823,677
Deferred tax asset	<u>530,615</u>	<u>582,330</u>
	£	£
DUE WITHIN ONE YEAR		
Finance debtor	613,429	574,463
Prepayments and accrued income	<u>534</u>	<u>24,303</u>
	<u>613,963</u>	<u>598,766</u>

12. CASH AND CASH EQUIVALENTS

	2016 £	2015 £
Cash at bank and in hand	<u>2,872,584</u>	<u>2,567,669</u>

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

13. CREDITORS: Amounts falling due within one year

	2016 £	2015 £
Bank loans	725,181	684,791
Trade creditors	115,649	26,887
Amounts owed to group undertakings	77,156	72,602
Corporation tax	304,668	190,714
Taxation and social security	86,873	88,580
Accruals and deferred income	268,845	254,851
	<u>1,578,372</u>	<u>1,318,425</u>

14. CREDITORS: Amounts falling due after more than one year

	2016 £	2015 £
Bank loans	9,337,294	10,052,367
Amounts owed to group undertakings	998,815	1,076,027
Fair value of derivative contracts	2,653,076	2,911,650
	<u>12,989,185</u>	<u>14,040,044</u>

Secured loans

The loan from the Royal Bank of Scotland plc (senior debt) is secured by way of a fixed and floating charge over all the assets of the borrower, and by fixed charge over the cash balances and investments of the borrower. The subordinated loan is not secured.

Interest on the senior debt is charged at a margin of 0.95% over LIBOR. The repayment is at six monthly intervals until July 2025.

Interest on the subordinated debt is charged at 16% p.a. Repayment is at six monthly intervals until July 2025.

Payments of interest and principal in respect of subordinated debt are conditional on satisfaction of covenants specified in the loan agreement with The Royal Bank of Scotland plc.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

15. LOANS

Analysis of the maturity of loans is given below:

	2016 £	2015 £
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Bank loans	725,181	684,791
Other loans	77,156	72,602
	<u>802,337</u>	<u>757,393</u>
AMOUNTS FALLING DUE 1-2 YEARS		
Bank loans	816,976	725,181
Other loans	86,840	77,156
	<u>903,816</u>	<u>802,337</u>
AMOUNTS FALLING DUE 2-5 YEARS		
Bank loans	3,082,478	2,790,570
Other loans	327,365	296,422
	<u>3,409,843</u>	<u>3,086,992</u>
AMOUNTS FALLING DUE AFTER MORE THAN 5 YEARS		
Bank loans	5,437,840	6,536,616
Other loans	584,612	702,449
	<u>6,022,452</u>	<u>7,239,065</u>
	<u><u>11,138,448</u></u>	<u><u>11,885,787</u></u>

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

16. DEFERRED TAXATION

	2016 £	2015 £
At beginning of year	(450,657)	(642,982)
Charged to the profit or loss	82,949	131,238
Charged to other comprehensive income	(51,715)	61,087
AT END OF YEAR	<u><u>(419,423)</u></u>	<u><u>(450,657)</u></u>

The provision for deferred taxation is made up as follows:

	2016 £	2015 £
Accelerated capital allowances	(950,038)	(1,032,987)
Timing differences arising from fair value adjustments	530,615	582,330
	<u><u>(419,423)</u></u>	<u><u>(450,657)</u></u>

COMPRISING:

Asset - due after one year	530,615	582,330
Liability	<u>(950,038)</u>	<u>(1,032,987)</u>
	<u><u>(419,423)</u></u>	<u><u>(450,657)</u></u>

17 PROVISIONS

	Lifecycle provision £
At 1 April 2015	10,000
Utilised in year	<u>(7,000)</u>
AT 31 MARCH 2016	<u><u>3,000</u></u>

18. SHARE CAPITAL

	2016 £	2015 £
Shares classified as equity		
Allotted, called up and fully paid		
1 Ordinary share of £1	<u><u>1</u></u>	<u><u>1</u></u>

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

19. BASIC FINANCIAL INSTRUMENTS

Financial assets that are debt instruments measured at amortised cost £10,490,891 (2015 - £11,398,141).

Financial liabilities measured at amortised cost £11,254,096 (2015 - £11,912,674).

20. COMPLEX FINANCIAL INSTRUMENTS

Interest rate swaps

The fair value of the Company's derivatives are as follows:

	Principal		Fair value	
	2016	2015	2016	2015
	£	£	£	£
Interest rate swap contracts	(13,537,841)	(13,537,841)	(2,653,076)	(2,911,650)
	<u>(13,537,841)</u>	<u>(13,537,841)</u>	<u>(2,653,076)</u>	<u>(2,911,650)</u>

The Company uses derivatives to manage the exposure to interest rate and inflation movements on its senior debt. The fair values are based on market values of equivalent instruments at the balance sheet date.

The fair value of the interest swaps is determined using the forward curve for 3 Month GBP LIBOR.

All swaps meet the conditions for hedge accounting, as set out in the accounting policies on page 13.

21. RELATED PARTY TRANSACTIONS

The company was under the control of Community Schools Holdings Limited throughout the current and previous year. Community Schools Holdings Limited is the immediate parent company.

The company has taken advantage of FRS102 section 33 paragraph 1A not to disclose transactions with wholly owned group members.

22. CONTROLLING PARTY

The company's immediate parent undertaking is Community Schools Holdings Limited, a company registered in Scotland.

Cardale PFI Investments Limited is considered to hold the ultimate controlling interest. Consolidated financial statements are available from the registered office at 4 Greengate, Cardale Park, Harrogate, North Yorkshire, HG3 1GY.

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

23. FIRST TIME ADOPTION OF FRS 102

	As previously stated 1 April 2014 £	Effect of transition 1 April 2014 £	FRS 102 (as restated) 1 April 2014 £	As previously stated 31 March 2015 £	Effect of transition 31 March 2015 £	FRS 102 (as restated) 31 March 2015 £
Current assets	14,223,083	521,243	14,744,326	13,990,112	582,330	14,572,442
Creditors: amounts falling due within one year	(932,714)	-	(932,714)	(1,318,425)	-	(1,318,425)
NET CURRENT ASSETS	13,290,369	521,243	13,811,612	12,671,687	582,330	13,254,017
TOTAL ASSETS LESS CURRENT LIABILITIES	13,290,369	521,243	13,811,612	12,671,687	582,330	13,254,017
Creditors: amounts falling due after more than one year	(11,877,559)	(2,606,214)	(14,483,773)	(11,128,394)	(2,911,650)	(14,040,044)
Provisions for liabilities	(1,205,204)	-	(1,205,204)	(1,042,987)	-	(1,042,987)
NET ASSETS/(LIABILITIES)	207,606	(2,084,971)	(1,877,365)	500,306	(2,329,320)	(1,829,014)
Capital and reserves	207,606	(2,084,971)	(1,877,365)	500,306	(2,329,320)	(1,829,014)

COMMUNITY SCHOOLS (HIGHLANDS) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016**

23. FIRST TIME ADOPTION OF FRS 102 (continued)

	Note	As previously stated 31 March 2015 £	Effect of transition 31 March 2015 £	FRS 102 (as restated) 31 March 2015 £
Turnover		2,036,747	-	2,036,747
Cost of sales		(1,271,794)	-	(1,271,794)
		<hr/>	<hr/>	<hr/>
		764,953	-	764,953
Administrative expenses		(170,847)	-	(170,847)
		<hr/>	<hr/>	<hr/>
OPERATING PROFIT		594,106	-	594,106
Interest receivable and similar income		965,619	-	965,619
Interest payable and similar charges		(977,139)	-	(977,139)
Taxation		(59,476)	-	(59,476)
		<hr/>	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL YEAR		523,110	-	523,110
		<hr/>	<hr/>	<hr/>

Explanation of changes to previously reported profit and equity:

1 Notes to the reconciliation of equity and profit

a) The derivatives held by the entity, being interest SWAPs, have now been recognised in the balance sheet at their fair value under FRS 102. These have been accounted for as a cash flow hedge and therefore been recognised in a separate hedge reserve.

b) Deferred tax asset has been recognised on the fair value of the SWAP arrangements. This has been recognised within current assets and movements on the deferred tax is taken to the hedge reserve.

c) No changes have been required to the profit and loss account through the transition to FRS 102.