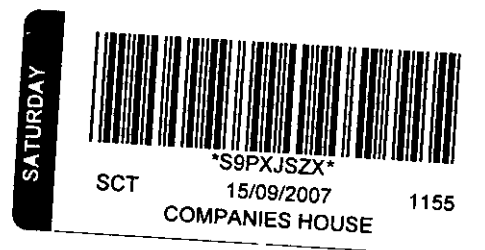


HARMENY EDUCATION TRUST LIMITED

CONTENTS

Directors, Officers and Advisers	3
Directors' Report	4 – 7
Auditors' Report	8
Statement of Financial Activities	9
Balance Sheet	10
Cashflow Statement	11
Notes to the Accounts	12 22
Appendix	23

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HARMENY EDUCATION TRUST LIMITED

DIRECTORS

Alison Davies OBE
Kerr Cowan
Ivan Middleton
Scott Rae
Margery Browning OBE (appointed 30th March 2007)

CHIEF EXECUTIVE

Peter Doran

COMPANY SECRETARY

Isabelle Guillot D'Hauterives

AUDITORS

McCabes
Chartered Accountants
56 Palmerston Place
Edinburgh
EH12 5AY

SOLICITORS

Morton Fraser LLP
30/31 Queen Street
EDINBURGH
EH2 1JX

BANKERS

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

REGISTERED OFFICE

Harmeny School
Mansfield Road
Balerno
Midlothian
EH14 7JY

HARMENY EDUCATION TRUST LIMITED

DIRECTORS' REPORT

(Incorporating the Trustees' Annual Report)

The directors submit their report together with financial statements for the year ended 31 March 2007. The Financial Statements comply with current statutory requirements, the memorandum and articles of association and with the Statement of Recommended Practice 2005.

ACCOUNTING AND REPORTING RESPONSIBILITIES

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

- select suitable accounting policies and to apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- follow applicable accounting standards and the Charities SORP subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in operation

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985, the Charities and Trustee Investment (Scotland) Act 2005 (the Act) and Charities Accounts (Scotland) Regulations 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities.

The directors confirm that, so far as they are aware, there is no relevant audit information of which the company's auditor is unaware and that all steps have been taken by the directors to make themselves aware of any such information and to establish that the company's auditor is aware of that information.

STRUCTURE, GOVERNANCE AND MANAGEMENT

Harmeny Education Trust Limited is a company limited by guarantee and not having a share capital. The governing documents are the company's memorandum and articles of association.

The directors of the company are chosen for appointment with reference to their experience and their ability to contribute to the charity's work. The Board of Directors meets regularly and has appointed sub-committees covering the principle aspects of the company's operation. The day to day running of the company is managed by the Chief Executive and a team of senior managers. An induction pack is provided for new Board members.

Save The Children Fund has a right to appoint a director.

The directors, none of whom has beneficial interest in the company are

Alison Davies O B E
Margery Browning O B E
Kerr Cowan
Ivan Middleton
Scott Rae

During the year we were delighted to welcome Margery Browning to the Board. Margery's background in education is extensive. Qualified as a secondary teacher and educational psychologist, she worked first as a teacher in a secondary school and then in a local authority psychological service. She went on to teacher education and special educational needs research at the University of Strathclyde before being appointed to Her Majesty's Inspectorate of Education in 1983. Her work as an HMI encompassed inspection and developments related to nursery, primary, secondary and special schools as well as teacher education institutions and latterly education authorities. Since retiring from HMIE in 2005 she has worked in education authorities as a consultant and in 2005 was appointed to the panel of adjudicators to assist in the resolution of disputes relating to the 2004 Additional Support for Learning legislation. She was awarded an OBE in the 2006 New Years' Honours List.

The major risks to which the charity is exposed, as identified by the directors, have been reviewed and systems established to mitigate those risks.

OBJECTIVES AND ACTIVITIES

The company was incorporated on 6th December 1995 and is a registered Scottish charity. The assets and liabilities of its predecessor organisation, Harmeny School, were transferred to the company on 21st December 1995.

Harmeny is one of seven grant aided schools in Scotland. Operating income comes from a block maintenance grant from the Scottish Executive with the balance of costs being charged out in fees to Local Authorities.

The principal activity of the company is to advance the education in Scotland of children with additional support needs.

There are four constituent functions within the company:

- Harmeny School
- Harmeny Outdoors
- Early Intervention Project
- Learning and Development

Harmeny School

The school offers residential and day education alongside social work and social care services to around 33 children each year and to their families/carers drawn from all over Scotland. The school aims to provide positive educational and emotional experiences with a view to promoting opportunities for children to return to community education and community living.

Harmeny Outdoors

Harmeny Outdoors provides, through outdoor experience and education, opportunities for disadvantaged groups and individuals to develop social and interpersonal skills whilst learning about the environment. An extension of activities to take advantage of the additional facilities available is underway in 2007/08.

Early Intervention Project

In conjunction with West Lothian Council this project aims to identify children and their families who have needs which, if not addressed at an early stage, could lead to an inability to be sustained in mainstream education and community living. The project works alongside community based education and social work services to provide intensive skilled support to children and families which otherwise would not be available. This year has seen the extension of the service to more children and families and the service is now being offered to other Local Authorities.

Learning and Development

Harmeny Learning and Development aims to offer training to workers and students in the field of social, emotional and behavioural difficulties so as to increase the skills and knowledge base in this area.

REVIEW OF ACHIEVEMENTS AND PERFORMANCE

Harmeny School

- Currently provides education, care and social work services to around 33 children each year.
- Currently achieves a yearly average of 48% returns to community education and community living.
- Has been commended for its overall performance in a government sponsored Best Value Review of similar services in Scotland.
- Has been commended by the regulatory authority, The Care Commission, for high performance against national standards.
- Has been nominated as a finalist in the Care Accolades for 2007.

Harmony Outdoors

- Delivers a weekly outdoor education lesson to every class at Harmony School
- Delivers individual programmes for Harmony pupils at times of specific need
- Provides a recreational activity programme for Harmony children outwith school hours
- Has worked with a number of local community groups, delivering personal and social education through outdoor activities and sharing good practice
- Has developed the grounds of Harmony School enhancing the educational and recreational facilities for Harmony pupils and community groups
- Received positive reports about the additional contribution it makes to Harmony School by both HMIE and Care Commission Holds a current AALA (Adventurous Activities Licensing Authority) licence
- Expansion of the service has taken place and we are now working with a wider range of community groups Training in use of the outdoors to teachers and other professionals is happening in 2007

Early Intervention Project

- Works with West Lothian Council on this joint initiative
- Is being evaluated by independent research
- Has begun to share experience, knowledge and skills with staff in community education

Learning and Development

- Has provided 6 staff the opportunity to achieve Level 3 vocational qualifications in 2006/2007
- Has provided 2 staff the opportunity to achieve Level 4 vocational qualifications in 2006/2007
- Has provided 4 staff with the opportunity of achieving Post Qualification awards in 2006/2007
- Has achieved assessment centre status with Scottish Qualifications Agency to provide SVQ awards to Level 3 and Level 4 awards and HNC qualifications
- Provides training to ten social work students annually
- Is offering training to a range of external agencies and organisations

Fundraising Performance

A fundraising exercise (Pathfinder II) which commenced in 2003 has now been completed and the buildings and facilities created are being used successfully

Fundraising for our Harmony Outdoor project is ongoing, partly to pay for further development of the site and the provision of equipment and to fund salaries of staff engaged in the project Fundraising will also continue in order to cover costs not met by either the Scottish Executive Maintenance Grant or Local Authority fees

Grants and donations are included as voluntary income and other incoming resources as disclosed in the statement of financial activities

FINANCIAL REVIEW

The unrestricted fund shows a surplus for the year of £194,529 and the directors recommend that this surplus be transferred to reserves The directors are satisfied with the results of the year and, having been given assurances that the Scottish Executive block maintenance grant will be available at £ 1,131,660 for the year to 31st March 2008, are confident that the balance of income required to meet costs will be met from Local Authority fees

The directors have reviewed the reserves of the charity Maintenance grant has been capped at increases of 3% and 2% respectively for the years to 31st March 2007 and 31st March 2008 This has been taken into account by the directors who assess the need for minimum short term reserves at £250,000 The current level of unrestricted funds as at 31st March 2007 is £ 685,859 The Scottish Executive maintenance grant will continue to be paid until 31st March 2008 but what the position will be thereafter is not known The directors consider it prudent to aim in the longer term for reserves equivalent to three months expenditure This level of reserves would allow the charity to take appropriate steps to re organise Harmony's activities to meet any major change in circumstances

PLANS FOR FUTURE PERIODS

The board is working on a three year strategic plan which will have a number of objectives including

- 1) To continue developing the Curriculum in line with national priorities and guidance
- 2) To continue to develop our performance in terms of improving the outcome for children and their families/carers
- 3) Maintaining our current level of pupil occupation and staff/pupil ratio necessary for the work we do with children with additional support needs
- 4) To continue to maintain a fully qualified compliment of staff
- 5) To further develop the Early Intervention Project
- 6) To extend the learning development programme to other staff groups
- 7) To make full use of the extended facilities available in the Harmeny Outdoors Project
- 8) Continue to build Partnership arrangements with other agencies
- 9) Strengthen reserves in line with Reserves Strategy agreed by Board

VOLUNTEERS

Over the year many people and organisations have volunteered their assistance including "Friends of Harmeny School Association" whose members and associates devote many hours of fundraising and other activities on behalf of Harmeny Education Trust Limited

AUDITORS

A resolution to re appoint McCabes will be put to the members at the Annual General Meeting

Approved by the Board of Directors of Harmeny Education Trust Limited on *6th September 2007*
and signed on its behalf by

Alison Davies O B.E.
Chair



Date:

06/09/2007

HARMENY EDUCATION TRUST LIMITED

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of Harmeny Education Trust Limited for the year ended 31 March 2007 on pages 9 to 22, which have been prepared under the accounting policies set out on page 12 and 13

This report is made solely to the charity's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charity's members those matters we are required to state to them in an auditor's 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 charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE AUDITORS

As described on page 4, the company's directors who are also the trustees for the purpose of charity law, are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

It is our responsibility to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, and whether the information given in the directors report is consistent with the financial statements. We also report to you if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We are not required to consider whether the statement in the Directors Annual Report concerning the major risks to which the charity is exposed covers all existing risks and controls, or to form an opinion on the effectiveness of the charity's risk management and control procedures.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements in it.

BASIS OF OPINION

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

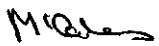
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the charity's state of affairs as at 31 March 2007 and of its incoming resources and application of resources, including its income and expenditure, in the year then ended and have been properly prepared in accordance with Companies Act 1985, and
- the information given in the directors report is consistent with the financial statements

56 Palmerston Place
Edinburgh
EH12 5AY


McCABES
Chartered Accountants and
Registered Auditor

Date: 6/4/07

HARMENY EDUCATION TRUST LIMITED

STATEMENT OF FINANCIAL ACTIVITIES

(INCLUDING INCOME AND EXPENDITURE ACCOUNT) for the year to 31 March 2007

		Unrestricted Funds	Restricted Funds	Permanent Endowment Fund	Total 2007	Total 2006
	Notes	£	£	£	£	£
Incoming Resources						
Incoming Resources from generated funds						
Voluntary Income		1,359	33,838	-	35,197	192,026
Scottish Executive Maintenance Grant		1,109,470	-		1,109,470	1,077,468
Scottish Executive Additional Grant		19,924	140,724		160,648	
Investment Income		39,404	5,340	-	44,744	36,105
Incoming Resources from charitable activities				-	-	
Local Authority fees		2,301,085	-	-	2,301,085	2,171,962
Other income	3	193,345	-		193,345	143,841
Total Incoming Resources		3,664,587	179,902	-	3,844,489	3,621,402
Resources Expended						
Costs of generating funds						
Costs of generating Voluntary Income		3,018		-	3,018	4,465
Charitable activities		3,448,884	146,930	-	3,595,814	3,420,541
Governance costs		18,156	-		18,156	21,032
Total Resources Expended	4	3,470,058	146,930	-	3,616,988	3,446,038
Net Incoming/(Outgoing) Resources before transfers		194,529	32,972		227,501	175,364
Transfers between funds						
Reconciliation of funds						
Fund balances brought forward		491,330	2,997,797	38,401	3,527,528	3,352,164
Total funds carried forward		685,859	3,030,769	38,401	3,755,029	3,527,528

NOTES

- All of the above results derive from continuing activities
- All gains and losses recognised in the year are included in the Statement of Financial Activities
- The notes on pages 12 - 22 form part of these financial statements

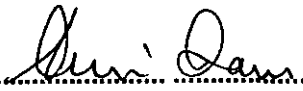
HARMENY EDUCATION TRUST LIMITED

BALANCE SHEET as at 31 March 2007

	Note	2007 £	2006 £
FIXED ASSETS			
Tangible assets	8	3,125,953	3,021,410
Investments	9	2	2
		<u>3,125,955</u>	<u>3,021,412</u>
CURRENT ASSETS			
Debtors	10	68,961	12,516
Cash at bank and in hand		<u>1,202,172</u>	<u>850,428</u>
		1,271,133	862,944
Creditors amounts falling due within one year	11	<u>642,059</u>	<u>356,828</u>
TOTAL CURRENT ASSETS LESS CURRENT LIABILITIES		629,074	506,116
NET ASSETS	14	<u>3,755,029</u>	<u>3,527,528</u>
FUNDS			
Unrestricted General Fund	13	522,067	327,538
Designated Capital Development Fund	13	163,792	163,792
Restricted	13	3,030,769	2,997,797
Endowment		<u>38,401</u>	<u>38,401</u>
		3,755,029	3,527,528

The notes on pages 12 – 22 form part of these financial statements

The financial statements on pages 9 – 22 were approved by the board of directors on 06/07/2007

Alison Davies O.B.E.  Chair

HARMENY EDUCATION TRUST LIMITED

CASHFLOW STATEMENT for the year to 31 March 2007

	2007 £	2006 £
Net Inflow from Operating Activities		
Net incoming resources	227,501	175,364
(Increase)/decrease in Debtors	(56,445)	115,956
Increase/(decrease) in Creditors	285,231	39,867
Depreciation	170,664	146,540
(Gain)/loss on sale of fixed assets	(6,758)	(10,134)
	<u>620,193</u>	<u>467,593</u>
Capital Expenditure		
Payments to acquire fixed assets	(281,049)	(437,915)
Proceeds from sale of fixed assets	12,600	21,250
	<u>(268,449)</u>	<u>(416,665)</u>
Increase/(decrease) in cash during year	<u>351,744</u>	<u>50,928</u>

Analysis of changes in net cash resources

	2006 £	Cashflow £	2007 £
Current Accounts	(16,085)	(12,271)	(28,356)
Deposit Accounts	865,713	364,015	1,229,728
Cash Balance	800	0	800
	<u>850,428</u>	<u>351,744</u>	<u>1,202,172</u>

The notes on pages 12 – 22 form part of these financial statements

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year to 31 March 2007

1 STATUS OF COMPANY

The company is limited by guarantee and does not have a share capital. The liability of each member is limited to £1. The company is a registered charity, number SCO24256.

The financial statements cover the year to 31 March 2007.

2 ACCOUNTING POLICIES

The financial statements have been prepared under the Companies Act 1985 and in accordance with applicable accounting standards, The Charities Accounts (Scotland) Regulations 2006 and Accounting and Reporting by Charities and the Statement of Recommended Practice issued in March 2005.

Accounting convention

The financial statements are prepared under the historical cost convention.

Grants receivable

Grants receivable are recognised as incoming resources when the conditions for their receipt have been satisfied. Grants received for specific purposes are accounted for as restricted funds. Any grants restricted to future accounting periods are deferred, and recognised in the periods to which they relate. Grants for capital projects are credited to a separate restricted fund.

Local Authority fees

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

Depreciation

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

Expenditure

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

Pension Schemes

The Charity contributes to the Scottish Teachers' Superannuation Scheme at rates set by the Scheme Actuary and advised to the Board by the Scheme Administrator. The Charity also contributes to a defined contribution scheme for non-teaching staff. Contributions to both schemes are charged in the SOFA as they become payable in accordance with the rules of the schemes.

Tangible Fixed Assets

On incorporation, Harmeny Education Trust Limited was gifted the land and existing property at Harmeny on condition that should the assets cease to be used for the purposes of Special Needs Education, the property would revert to Save the Children Fund. The main building and the Lodge are listed and are inalienable. The original cost of the asset is not available and only costs incurred by the predecessor organisation, Harmeny School, were capitalised on incorporation.

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

Since incorporation all additions and improvements to land and buildings have been included at cost. Other tangible assets costing more than £500 are capitalised.

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

Unrestricted funds

Unrestricted funds comprise the charitable activities of the Trust together with donations and other incoming resources received or generated for charitable purposes

Designated fund

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

Restricted funds

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

Endowment fund

The endowment fund represents the book value of property and other assets acquired by Harmeny Education Trust Limited on the date of incorporation in December 1995

Donations

Donations are recognised on a cash basis. Donations for purposes restricted by the wishes of the donor are taken to Restricted Funds

Governance Costs

These are the costs associated with the governance arrangements of the charity which relate to the general running of the charity as opposed to those costs associated with fundraising or charitable activity. The costs include external audit, legal advice for trustees and costs associated with constitutional and statutory requirements. Included within this category are any costs associated with the strategic as opposed to day to day management of the charity's activities

Support Costs

Support costs are those costs that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Support costs include the central office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources and financing,

3. INCOMING RESOURCES – Other Income

	Total 2007 £	Total 2006 £
Learning & Development	19,892	28,090
Intensive Early Intervention	165,034	108,317
Sale of Land	6,000	
Other	2,419	7,434
	<u>193,345</u>	<u>143,841</u>

4. ANALYSIS OF RESOURCES EXPENDED

	Activities Undertaken Directly £	Support Costs £	Total 2007 £	Total 2006 £
Cost of generating voluntary income	3,018		3,018	7,471
Charitable Activities	3,518,196	77,618	3,595,814	3,417,535
Governance Costs	18,156		18,156	21,032
	<u>3,539,370</u>	<u>77,618</u>	<u>3,616,988</u>	<u>3,446,038</u>

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

5 STAFF COSTS

	Total 2007 £	Total 2006 £
Wages and salaries	2,531,096	2,357,969
Social security costs	201,396	192,450
Pension costs	161,771	127,962
	<u>2,894,263</u>	<u>2,678,381</u>

One employee received remuneration between £70,000 to £79,999 (2006 one in range £60,000 to £69,999)

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

	Total 2007 Number	Total 2006 Number
Teaching staff	23	24
Care staff	78	78
Domestic staff	12	12
Administrative staff	8	8
Estate	4	4
	<u>125</u>	<u>126</u>
Number of staff in Pension Schemes	61	49
Number of staff earning over £60,000 in Pension Scheme	1	1

PENSIONS

Teaching Staff

Past and present employees are covered by the provisions of the Scottish Teachers Superannuation Scheme (STSS). The scheme is an unfunded multi employer defined benefit scheme. It is accepted that the treatment can be as a defined contribution scheme as Harmeny Education Trust Limited is unable to identify its share of the underlying assets and liabilities of the scheme. A full actuarial valuation was carried out at 31 March 2001. Contributions were payable to the STSS at a rate of 7.15% of pensionable pay with effect from 1 April 2002, 7.4% from 1 April 2003 and 12.5% from 1 October 2003 before grant aid. Employer contribution rates are reviewed every 5 years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred and they reflect past experience of the scheme.

Latest Actuarial Valuation	31 March 2001	Next Actuarial Valuation	31 March 2006
Actuarial Method	Prospective Benefits		
Rate of Return on Investment	3.5%	Rate of Increase in Salaries	5.0%

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

Non Teaching Staff - SCVO Pension Scheme

A number of non teaching staff are members of the SCVO Staff Final Salary Scheme As required by FRS17 the Directors report

Harmeny Education Trust Limited (HETL) participates in the SCVO Pension Scheme The SCVO Pension Scheme is a multi employer defined benefit scheme The Scheme is funded and is contracted out of the state scheme

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate, to March 2007 From April 2007 there are two benefit structures available These are final salary with a 1/60th accrual rate and final salary with a 1/80th accrual rate Participating employers must choose which benefit structure that they wish to offer to their employees

As of the date these accounts were signed no decision had been made on which benefit structure HETL would offer from October 2007

The Trustee commissions an actuarial valuation of the Scheme every 3 years The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date Asset values are calculated by reference to market levels Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns

During the accounting period HETL paid contributions at the rate of 12.0% Member contributions were 6.0%

As at the balance sheet date there were 49 active members of the Scheme employed by HETL HETL continues to offer membership of the Scheme to its employees

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable

The last formal valuation of the Scheme was performed as at 30 September 2005 by a professionally qualified actuary using the "projected unit credit" method

The financial assumptions underlying the valuation as at 30 September 2005 were as follows

	% per annum
Investment return pre retirement	6.10
Investment return post retirement	4.80
Rate of salary increases	4.00
Rate of pension increases	
for pensionable service pre 6 April 2005	2.50
for pensionable service post 5 April 2005	2.25
Rate of price inflation	2.50

The market value of the Scheme's assets at the valuation date was £33.2 million The valuation revealed a shortfall of assets compared with the value of liabilities of £6.7 million (equivalent to a past service funding level of 83%)

The long term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed at

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

Benefit structure	Long term joint contribution rate (% of pensionable salaries)
Final salary 1/60 th accrual rate	20.0% comprising employer contributions of 13.0% and member contributions of 7.0%
Final salary 1/80 th accrual rate	15.3% comprising employer contributions of 9.3% and member contributions of 6.0%

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall

In view of the past service shortfall it was agreed that the joint contribution rates shown in the table below would be payable with effect from 1 October 2007

Benefit structure	Joint contribution rate (% of pensionable salaries)
Final salary 1/60 th accrual rate	22.7% comprising employer contributions of 15.7% and member contributions of 7.0%
Final salary 1/80 th accrual rate	18.0% comprising employer contributions of 12.0% and member contributions of 6.0%

New employers joining the Scheme pay contributions at the ongoing employer future service contribution rate. This rate applies from the date the employer joins the Scheme to the date of the second actuarial valuation of the Scheme following the date of joining.

New employers also pay an additional age loading if the average age of their members is higher than the average age of the Scheme membership. This loading applies from the date the employer joins the Scheme to the date of the second actuarial valuation of the Scheme following the date of joining, or such earlier date as agreed between the SCVO Pensions Committee and the Scheme Actuary.

Employers that have closed the Scheme to new entrants and are required to pay an additional contribution loading to reflect the higher costs of a closed arrangement. This loading is based on actuarial advice and is subject to change from time to time. The loading is currently 3.5%.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit, on an on going funding basis, by 31 March 2022.

A copy of the recovery plan must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and / or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan).

A copy of the recovery plan has been sent to the Pensions Regulator. The Regulator had not issued his response to the recovery plan as at the date of this document.

The next actuarial valuation of the Scheme will be carried out as at 30 September 2008. Actuarial Reports will be prepared as at 30 September 2006 and 30 September 2007 in line with statutory regulations.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy out market. The amounts of debt can therefore be volatile over time.

HETL has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Scheme as at 30 September 2005. As of this date the estimated employer debt for HETL was £1,717,000. HETL treats the potential employer debt as a contingent liability.

Growth Plan

HETL participates in the Pensions Trust's Growth Plan as a consequence of employees paying personal additional voluntary contributions (AVC's). The Plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi employer pension Plan.

Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by the purchase of an annuity.

The rules of the Growth Plan allow for the declaration of bonuses and / or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses / investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

The rules of the Growth Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities, known as Technical Provisions.

The Trustee commissions an actuarial valuation of the Growth Plan every 3 years. The purpose of the actuarial valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

The rules of the Growth Plan state that the proportion of obligatory contributions to be borne by the Member and the Member's Employer shall be determined by agreement between them. Such agreement shall require the Employer to pay part of such contributions and may provide that the Employer shall pay the whole of them.

HETL paid nil contributions during the accounting period. One member paid additional voluntary contributions (AVC's).

As at the balance sheet date there was one active member of the Plan employed by HETL. HETL continues to offer membership of the Plan to its employees.

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30 September 2005 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £675 million and the Plan's Technical Provisions (i.e. past service liabilities) were £704 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £29 million, equivalent to a funding level of 96%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Plan as at 30 September 2006. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £747 million and indicated surplus of assets compared to liabilities of approximately £2 million, equivalent to a funding level of 100.2%. Annual funding updates of the Growth Plan are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However they will provide a good indication of the financial progress of the Plan since the last full valuation.

Since the contribution rates payable to the Plan have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2005.

The financial assumptions underlying the valuation as at 30 September 2005 were as follows:

	% per annum
Investment return pre retirement	6.6
Investment return post retirement	4.5
Bonuses on accrued benefits	0.0
Rate of price inflation	2.5

In determining the investment return assumptions the Trustee considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustee has incorporated an element of prudence into the pre and post retirement investment return assumptions, such that there is a 60% expectation that the return will be in excess of that assumed and a 40% chance that the return will be lower than that assumed over the next 10 years.

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

In view of the small funding deficit and the level of prudence implicit in the assumptions used to calculate the Plan liabilities the Trustee has prepared a recovery plan on the basis that no additional contributions from participating employers are required at this point in time. In reaching this decision the Trustee has taken actuarial advice and has been advised that the shortfall of £29 million will be cleared within 5 years if the investment returns from assets are in line with the "best estimate" assumptions. "Best estimate" means that there is a 50% expectation that the return will be in excess of that assumed and a 50% expectation that the return will be lower than that assumed over the next 10 years. These "best estimate" assumptions are 7.6% per annum pre retirement and 4.8% per annum post retirement.

A copy of the recovery plan must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and / or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the Growth Plan and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

The next full actuarial valuation will be carried out as at 30 September 2008. An Actuarial Report will be prepared as at 30 September 2007 in line with statutory regulations.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Plan. The Trustee's current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Plan. If the liabilities exceed assets there is a buy out debt.

The leaving employer's share of the buy out debt is the proportion of the Plan's pre October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre October 2001 liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Plan liabilities, Plan investment performance the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy out market. The amounts of debt can therefore be volatile over time.

HETL has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2006. As of this date the estimated employer debt for HETL was £12,986,62. The potential employer debt is treated as a contingent liability.

TRANSACTIONS WITH TRUSTEES

Directors are not remunerated. Expenses of £106 relating to car mileage were reimbursed to directors during the year. During the year fees of £517 (2006: £1,012) were paid to Morton Fraser LLP for legal and professional services supplied to the company. One of the directors, Mr Scott Rae is a partner in Morton Fraser LLP.

6 TAXATION

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

7 OPERATING SURPLUS/ (DEFICIT)

The operating deficit is stated after charging/crediting

	Total 2007 £	Total 2006 £
Directors' emoluments		
Director's expenses reimbursed	106	
Trustee Indemnity Insurance Premium	1,365	1,360
Audit fee	5,581	4,932
Operating lease rentals - equipment	4,585	4,585
Gain / (Loss) on sale of assets	6,758	10,134
Depreciation	170,664	146,540

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

8 TANGIBLE FIXED ASSETS

	Heritable Property	Fixtures & Fittings	Motor Vehicles	Total
	£	£	£	£
Cost or Valuation				
Cost or value brought forward	3,215,972	335,226	109,373	3,660,571
Additions	143,693	99,339	38,017	281,049
Disposals		(26,073)	(30,739)	(56,812)
At 31 March 2007	3,359,665	408,492	116,651	3,884,808
Depreciation				
Brought forward	355,264	214,391	69,506	639,161
Charge for period	66,425	82,120	22,119	170,664
Eliminated on disposals		(26,073)	(24,897)	(50,970)
At 31 March 2007	421,689	270,438	66,728	758,855
Net book value				
At 31 March 2006	2,860,708	120,835	39,867	3,021,410
At 31 March 2007	2,937,976	138,054	49,923	3,125,953

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

The company owns the original main building and lodge house which are both listed. These properties were included in the gift of land and buildings by Save The Children Fund when the company was incorporated in 1995. The value of the assets taken over at that date was recorded as £35,734 in the records of the previous organisation, Harmeny School, and this figure has been included as cost in the balance sheet and the value has been credited to the Endowment Fund. The original cost of the assets is not available and is not included in the balance sheet and the Directors consider that the cost of carrying out a professional valuation to include these assets meaningfully in the accounts would not be justified. Heritable Property is insured for £7,396,598 which is an estimate of replacement cost and which includes Value Added Tax.

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

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £ NIL (2006 £NIL)
Amounts authorised but not contracted for amounted to £ NIL (2006 £NIL)

9	INVESTMENTS	Total 2007	Total 2006
		£	£
	Investment in subsidiary company, Harmeny Services Limited	2	2
	Harmeny Services Limited is a company registered in Scotland for the purpose of conducting school business, other than education, as considered appropriate. The company has been dormant for many years.		
10	DEBTORS	Total 2007	Total 2006
		£	£
	Fees	1,825	3,106
	Other Debtors	2,136	711
	Prepayments and accrued income	65,000	8,699
		68,961	12,516
11	CREDITORS: amounts falling due within one year	Total 2007	Total 2006
		£	£
	Other taxes and social security	60,450	59,087
	Trade creditors	168,029	66,136
	Other creditors	155,021	6,142
	Accruals & deferred income	236,848	208,093
	Amount due to pension funds	21,709	17,368
	Amounts due to subsidiary company	2	2
		642,059	356,828
12	OBLIGATIONS UNDER OPERATING LEASES	Total 2007	Total 2006
	The company had annual commitments under non cancellable equipment leases as set out below		
		£	£
	Operating leases which expire in the second to fifth years	4,585	4,585

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year to 31 March 2007

13 MOVEMENT IN FUNDS

ANALYSIS OF UN-RESTRICTED FUNDS

	Unrestricted		Total
	General Fund	Designated Capital Development Fund	
	£	£	£
Balance of funds brought forward	327,538	163,792	491,330
Net (outgoing)/incoming resources before transfers	194,529		194,529
Transfers			
Balance at 31 March 2007	<u>522,067</u>	<u>163,792</u>	<u>685,859</u>

ANALYSIS OF RESTRICTED FUNDS

	New Building Capital Fund	Learning & Development Fund	Total
	£	£	£
Balance of funds brought forward	2,984,249	13,548	2,997,797
Net (outgoing)/incoming resources before transfers	44,862	(11,890)	32,972
Transfers			
Balance at 31 March 2007	<u>3,029,111</u>	<u>1,658</u>	<u>3,030,769</u>

Note The Learning & Development grant, originally £45,000, has been used to finance an SVQ 3 training programme for staff at Harmeny and students from outside organisations

14 ANALYSIS OF NET ASSETS BETWEEN FUNDS

	Unrestricted Funds	Restricted Funds	Permanent Endowment Funds	Total
	£	£	£	£
Fixed Assets	135,966	2,951,588	38,401	3,125,955
Current Assets	<u>549,893</u>	<u>79,181</u>		<u>629,074</u>
	<u>685,859</u>	<u>3,030,769</u>	<u>38,401</u>	<u>3,755,029</u>

15 CONTINGENT LIABILITIES

Harmeny Education Trust Limited (HETL) is a participating employer in the SCVO Final Salary Pension Scheme (see Note 5). If HETL were to withdraw from the Scheme, the estimated employer debt due to fund liabilities under the Scheme and the associated Growth Plan has been estimated as

▪ Main Scheme (assessed at 30 September 2005)	£1,717,000
▪ Growth Plan (assessed at 30 September 2006)	£12,987