

John Watson's Trust

JOHN WATSON'S TRUST
Charity No. SC014004

REPORT and FINANCIAL STATEMENTS

For the year ended 31 December 2017

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JOHN WATSON'S TRUST

REPORT and FINANCIAL STATEMENTS

For the year ended 31 December 2017

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JOHN WATSON'S TRUST

REFERENCE AND ADMINISTRATIVE INFORMATION

Principal Office	The Signet Library Parliament Square Edinburgh EH1 1RF
Charity No.	SC014004
Governors	The Keepers and Commissioners of the Signet
Trustees	<p><i>Six nominated by the Society to Writers to Her Majesty's Signet</i> Caroline Docherty DKS (Chairman of the Trustees) Phillippa M O Snell (Grants Committee Chair) (resigned 22 August 2017) Robin Garrett WS (Finance Committee Chair) John Harding-Edgar WS John N Kerr WS (resigned 14 November 2017) Richard Murray WS Karen Phillips WS (appointed 22 August 2017) Kenneth Mackay WS (appointed 14 November 2017)</p> <p><i>Two nominated by The City of Edinburgh Council</i> Chris Brodie (resigned 14 November 2017) Cammy Day (resigned 22 August 2017) Councillor Alison Dickie (appointed 14 November 2017) Councillor Ian Perry (appointed on 22 August 2017) (resigned 14 November 2017) Andrew Cochrane (appointed 14 November 2017)</p> <p><i>One nominated by the Lothian Association of Youth Clubs</i> Susie Jamieson</p> <p><i>One nominated by the Merchant Company Education Board</i> Gordon Wyllie WS</p> <p><i>Co-opted Trustees:</i> Fraser D Falconer (acting Grants Committee Chair from 22 August 2017) Maureen Grant</p>
Clerk and Treasurer	Anna Bennett WS The WS Society The Signet Library Parliament Square Edinburgh EH1 1RF
Auditor	Chiene + Tait LLP Chartered Accountants and Statutory Auditor 61 Dublin Street Edinburgh EH3 6NL
Investment Managers	Brewin Dolphin Sixth Floor, Atria One 144 Morrison Street Edinburgh EH3 8EX

JOHN WATSON'S TRUST

REPORT OF THE TRUSTEES

The Trustees submit their report and the financial statements for the year ended 31 December 2016. The financial statements have been prepared in accordance with the accounting policies set out in note 1 to the financial statements and comply with the charity's trust deed, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) published on 16 July 2015.

HIGHLIGHTS OF THE YEAR

The Trustees approved grants of £149,504 for distribution during the period.

STRUCTURE, GOVERNANCE AND MANAGEMENT

John Watson's Trust (JWT) is governed by its trust deed and is registered as a charity in Scotland with the Office of the Scottish Charity Regulator (OSCR) and HMRC.

John Watson's School, Edinburgh was closed in 1975. The building and grounds were sold in 1977 and the proceeds were invested for charitable purposes. JWT was set up by Statutory Instrument 1984 No. 1480 (s120) entitled "*The John Watson Trust Scheme 1984*" which came into force 13 September 1984. The Trustees began regular distribution of funds in 1986.

The names and appointments of the Trustees are listed on page 1. All Trustees served throughout the period except as noted. The Trustees appoint a Finance Committee and a Grants Committee to carry out the business of JWT. All new Trustees participate in an orientation and training meeting, and are provided copies of the trust deed, minutes of recent meetings and previous financial statements. JWT has appointed the WS Society to deal with all necessary grant giving, administrative and compliance matters. JWT has appointed a firm of investment managers to manage its investments on a fully discretionary basis.

RISK MANAGEMENT

The Trustees have identified the major strategic, business and operational risks which JWT faces, as follows:

- Operational risks – employment issues, health and safety issues and fraud
- Financial risks – investment management
- Protection of trust data – computer data, personal records and sensitive data

The Trustees consider they have established systems to mitigate these risks by a variety of means viz: setting up fidelity insurance to cover loss through fraud; investment in a portfolio of equity and bond funds managed by Brewin Dolphin and regular reporting by the manager and review of their performance by the Finance Committee; and protection of computer records by means of back up data. The Trustees have also adopted an Anti-Bribery policy.

The Trustees are developing a policy relative to GDPR compliance for adoption in early 2018.

OBJECTIVES AND ACTIVITIES

JWT's primary purpose is to assist the education of young people, under the age of 21, who have additional support needs and/or are underprivileged. Those resident in the Lothians are given preferential treatment. Up to one third of JWT's income can be used to help pay boarding school fees, where this is seen to be the best option for the young person. This provision is restricted to residents in Scotland. The demand for boarding grants has dropped considerably over the past few years.

JOHN WATSON'S TRUST

REPORT OF THE TRUSTEES (Continued)

GRANT MAKING POLICY

JWT invites applications from institutions and individuals by advertising in the press, by maintaining an online presence, by writing to institutions and by maintaining regular contact with institutions who may know of individuals eligible to apply. Applicants must submit applications in a specified format for consideration and approval at a Grants Committee meeting. The Grants Committee normally meets six times each year. Details of how to apply for grants and forms to download are available from JWT's website.

ACHIEVEMENTS AND PERFORMANCE

The Grants Committee met on 5 occasions during 2017 and disbursed a net total after refunded grants of £149,504 (2016: £158,192). There are three groups of grants in accordance with the charitable constitution:

- (a) Grants to children and young people under 21 who have additional support needs or are socially disadvantaged and to organisations representing them;

Individuals: 110 (2016: 108) individual grants were paid to help education and advancement in life. The main categories were similar to the previous year, including equipment for children and young people under 21 with additional support needs, in-school special expenses, tutoring for dyslexic children, post-school education for disadvantaged students and there were other grants to encourage sporting, cultural and social opportunities.

Individual grants ranged from £100 to £2,000.

Organisations: 63 (2016: 71) grants were paid to organisations, including mainstream schools serving the socially deprived and pupils with additional support needs. There was a wide range of specific projects.

Grants ranged from £150 to £1,890 for youth activities or equipment.

- (b) Boarding Education. Grants were paid for 6 young people during the year, ranging from £1,316 to £11,604.
- (c) Weir Bursaries and Gordon Prizes. These are monetary prizes (total £385) made to school pupils to acknowledge academic merit, and are administered via schools in Edinburgh.

Future commitments: Including grants for boarding education, grants to individuals and organisations of £20,804 were committed for 2018.

FINANCIAL REVIEW

Investment income decreased to £190,952 (2016: £192,789). The benefits of a more diversified asset class across the investment portfolio continue to provide substantial income resources.

Net income available for grants was £144,764 (2016: £145,074). The grants committee had a budget of £150,000 for 2017 and subsequently awarded a total of £149,504 for payment in 2017. Of this, £20,804 was awarded from John Watson's Trust but carried forward as commitments to 2018. In accordance with the accounting policy, £20,804 was provided at the year-end date.

The Trustees are satisfied that the JWT's assets are available and adequate to fulfil its obligations on each fund.

JOHN WATSON'S TRUST

REPORT OF THE TRUSTEES (Continued)

INVESTMENT POLICY AND PERFORMANCE

Brewin Dolphin acted as investment managers throughout the year. The Trust holds investments in a diverse range of holdings including bonds, equities and investment trusts.

All investments are carried at their fair value. Investment in equities and fixed interest securities are all traded in quoted public markets, primarily the London Stock Exchange. Holdings in common investment funds, unit trusts and open-ended investment companies are at the bid price. The basis of fair value for quoted investments is equivalent to the market value, using the bid price. Asset sales and purchases are recognised at the date of trade at cost (that is their transaction value).

The significance of financial instruments to the ongoing financial sustainability of the Trust is considered in the financial review and investment policy and performance sections of the Report of the Trustees.

Market Overview

2017 proved a turbulent year politically. Economically however, we saw the US focused and inspired recovery from the financial crisis broaden out globally and gain momentum. Many global stock markets reached record highs despite significant global geopolitical uncertainties.

In the UK, equity markets weathered the impact of both a snap general election announcement as well as the political uncertainty that came from the result, in part due to the international nature of the UK's listed companies. The Bank of England delivered its first interest rate rise in a decade in November and Britain finally reached some agreement with the European Union on exit terms. The agreement clears the way for talks on future relations including trade discussions, although it is just the start of what is likely to be a long, drawn-out extraction process for the UK. Potentially of more concern to investment markets is the weakened state of the current Conservative administration and the potential impact of more political uncertainty. UK economic data portrays a somewhat mixed picture, not helped by the OECD and IMF downgrading forecasts for UK economic growth. UK stock markets have carried on regardless, with the year ending with a sharp rally, driven by mining and energy companies benefiting from a rally in commodities prices.

The market reacted positively to Donald Trump's election victory in 2016, following speculation that his pro-growth policies will provide a boost to an economy that is already well on the road to recovery. The US equity market repeatedly hit new all-time highs throughout the year driven by continued low volatility and strong earnings growth, primarily in technology. Following the December announcement of corporate tax cuts in the US we saw a late rally in the US market.

The picture in Europe at the beginning of the year was one of considerable economic and political uncertainty, with negative bond yields persisting and several key elections on the horizon. Since then, elections in France and the Netherlands have passed without shock and bond yields have risen markedly, pushing equity markets higher. The second half of the year saw renewed political turmoil in Europe with a weaker Merkel government following the German election and an independence uprising in Catalonia weighing on markets.

Asian markets benefitted from a much-improved corporate environment, renewed global optimism and robust external demand. China provided huge support for the global economy during 2017, although the stellar stock markets performance was dominated by the returns of a small handful of technology and internet related stocks.

Sovereign bond markets sold off over 2017, led by the US where stronger growth and improving employment resulted in Federal Reserve to raise interest rates three times in 2017. In Europe, government bond yields fluctuated throughout the year but saw a more pronounced rise in the closing stages of 2017. There were several contributors to the sell-off in sovereign bonds; hawkish comments from the ECB, an announcement from the German Finance Agency that it will issue more long-term debt, expectations of an increased supply of US government bonds, and the final passage of the US tax bill. Behind the headlines, we are seeing the surplus of global liquidity gradually withdrawn and there is a general trend towards policy tightening, albeit the process is at different stages in different markets.

JOHN WATSON'S TRUST

REPORT OF THE TRUSTEES (Continued)

INVESTMENT POLICY AND PERFORMANCE (Continued)

The Trustees were pleased with the performance, the relationship, service and Brewin Dolphin's understanding of the charity sector and JWT's purposes.

RESERVES POLICY

The free reserves of JWT are the Revenue Fund which stands at £165,841 (2016: £167,178) at the end of the year. The Trustees' policy is to disburse the whole of the net income in grants and to utilise these free reserves to provide John Watson's Trust grants in any years of deficit. None of the free reserves relate to the John Watson's Foundationalers' Trust.

PLANS FOR FUTURE PERIODS

JWT's main objective is to provide income to meet the charitable purposes. The Trustees have approved a budgeted figure of £150,000 to be allocated for grants for 2018 although this will be subject to review in the course of the year.

Statement of Trustees' Responsibilities

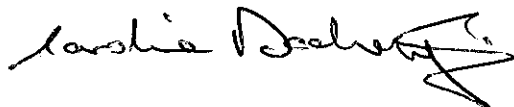
The Trustees are responsible for preparing the Report of the Trustees and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in Scotland requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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 charity will continue in operation.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the provisions of the charity's constitution. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Trustees



Caroline Docherty
Trustee

27 MARCH 2018

JOHN WATSON'S TRUST

Opinion

We have audited the financial statements of John Watson's Trust (the 'charity') for the year ended 31 December 2017 which comprise the Statement of Financial Activities, Balance Sheet, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's trustees, as a body, in accordance with Regulation 10 of the Charities Accounts (Scotland) Regulations 2006. Our audit work has been undertaken so that we might state to the charity's trustees 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 trustees as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 December 2017, and of its incoming resources and application of resources, 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 Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The trustees are responsible for the other information. The other information comprises the information included in the report of the trustees, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF

JOHN WATSON'S TRUST (continued)



Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Charities Accounts (Scotland) Regulations 2006 require us to report to you if, in our opinion:

- the information given in the financial statements is inconsistent in any material respect with the trustees' report;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of trustees

As explained more fully in the trustees' responsibilities statement set out on page 5, the trustees are responsible for the preparation of financial statements which give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the charity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under that Act.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Chiene + Tait LLP

CHIENE + TAIT LLP
Chartered Accountants and Statutory Auditor
61 Dublin Street
Edinburgh EH3 6NL

30 April 2018

Chiene + Tait LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

JOHN WATSON'S TRUST

STATEMENT OF FINANCIAL ACTIVITIES

For the year ended 31 December 2017

	Note	Revenue Fund Unrestricted £	Capital Fund Restricted £	JWFT Fund Restricted £	Total Funds 2017 £	Total Funds 2016 £
Income and endowments from:						
Donations		-	-	-	-	100
Investments	2	182,168	-	8,784	190,952	192,789
Total		182,168	-	8,784	190,952	192,889
Expenditure on:						
<i>Raising funds</i>						
- Investment management costs	3	-	26,876	1,296	28,172	26,074
<i>Charitable activities</i>						
- General grants	5	111,511	-	12,039	123,550	120,538
- Boarding grants		25,569	-	-	25,569	37,260
- Other prizes		385	-	-	385	394
- Support costs		42,972	-	-	42,972	44,605
- Governance costs		3,068	-	148	3,216	3,210
Total		183,505	26,876	13,483	223,864	232,081
Net expenditure before gains on investments		(1,337)	(26,876)	(4,699)	(32,912)	(39,192)
Net gains on investments	8	-	133,715	6,447	140,162	410,384
Net movement in funds		(1,337)	106,839	1,748	107,250	371,192
Reconciliation of funds						
Total funds brought forward		167,178	4,304,769	201,825	4,673,772	4,302,580
Total funds carried forward	11	165,841	4,411,608	203,573	4,781,022	4,673,772
Summary of net income available for grants						
Income		182,168	-	8,784	190,952	192,889
Expenditure before grants		(46,040)	-	(148)	(46,188)	(47,815)
Net income available for grants		136,128	-	8,636	144,764	145,074
Grants awarded		(137,465)	-	(12,039)	(149,504)	(158,192)
Capital fund expenditure		-	(26,876)	(1,296)	(28,172)	(26,074)
Deficit for year		(1,337)	(26,876)	(4,699)	(32,912)	(39,192)

The notes on pages 11 to 19 form part of these financial statements.

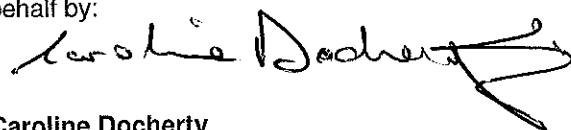
JOHN WATSON'S TRUST

BALANCE SHEET

As at 31 December 2017

	Note	Revenue Fund Unrestricted £	Capital Fund Restricted £	JWFT Fund Restricted £	2017 £	2016 £
Fixed assets						
Investments	8	139,908	4,411,608	201,324	4,752,840	4,642,342
Current assets						
Debtors	9	13,103	-	631	13,734	20,457
Cash at bank and in hand		36,702	-	1,766	38,468	40,660
		49,805	-	2,397	50,202	61,117
Liabilities						
Creditors falling due within one year	10	(23,872)	-	(148)	(24,020)	(29,687)
Net current assets		25,933	-	2,249	28,182	31,430
Net assets		165,841	4,411,608	203,573	4,781,022	4,673,772
The funds of the Trust						
Restricted capital funds		-	4,411,608	-	4,411,608	4,304,769
Restricted funds		-	-	203,573	203,573	201,825
Unrestricted income funds		165,841	-	-	165,841	167,178
Total funds	11	165,841	4,411,608	203,573	4,781,022	4,673,772

The financial statements were approved by the Trustees on *27 MARCH* 2018 and were signed on its behalf by:



Caroline Docherty
Trustee

The notes on pages 11 to 19 form part of these financial statements.

JOHN WATSON'S TRUST

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 £	2016 £
Net cash used in operating activities	12	(222,808)	(217,099)
Cash flows from investing activities			
Interest and dividends		190,952	192,789
Purchase of investments		(466,463)	(365,338)
Proceeds from sale of investments		498,371	412,345
Net cash provided by investing activities		222,860	239,796
Change in cash and cash equivalents in the year		52	22,697
Cash and cash equivalent brought forward		49,934	27,237
Cash and cash equivalents carried forward		49,986	49,934
Cash held for reinvestment		11,518	9,274
Cash at bank and in hand		38,468	40,660
Cash and cash equivalents carried forward		49,986	49,934

The notes on pages 11 to 19 form part of these financial statements.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. Accounting policies

Basis of accounting

The financial statements have been prepared on the historical cost basis of accounting with the exception of investments which are carried at market value. The financial statements have been prepared in accordance with the Statement of Recommended Practice – Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2015 and the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

The trust constitutes a public benefit entity as defined by FRS 102.

Going concern

The financial statements have been prepared on a going concern basis. The Trustees consider that there are no material uncertainties about the Trust's ability to continue as a going concern. The most significant areas of adjustment and key assumptions that affect items in the financial statements are to do with estimating the liability from future grant commitments (see note 10 for more information). With respect to the next reporting period, 2018, the most significant areas of uncertainty that affect the carrying value of assets held by the Trust are the level of investment return and the performance of investment markets (see the investment policy and performance and risk management sections of the Report of the Trustees for more information).

Fund accounting

Unrestricted funds are funds that can be used in accordance with the objectives of the charity at the discretion of the Trustees.

Restricted funds are funds that can only be used for particular restricted purposes within the objectives of the Trust. Restrictions arise when specified by the donor or when funds are raised for particular restricted purposes. The Capital Fund and JWFT Fund are restricted funds.

Further details of each fund are disclosed in note 11.

Income recognition

All incoming resources are included in the Statement of Financial Activities when the Trust is entitled to the income, it is probable that the income will be received and the amount can be measured reliably. The following specific policy is applied to investment income:

Investment income, including all associated income tax recoveries, is recognised when receivable and the amount can be measured reliably by the Trust. Dividends are recognised once the dividend has been declared and notification received of the amount due.

Expenditure recognition

Liabilities are recognised as expenditure as soon as there is a legal or constructive obligation committing the Trust to that expenditure, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

All expenditure is accounted for on an accruals basis. All expenses including support costs and governance costs are allocated or apportioned to the applicable expenditure headings.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

1. Accounting policies (continued)

Expenditure recognition (continued)

Grants payable are payments made to third parties in the furtherance of the charitable objects of the Trust. In the case of an unconditional grant offer this is accrued once the recipient has been notified of the grant award. The notification gives the recipient a reasonable expectation that they will receive the grant. Grant awards that are subject to the recipient fulfilling performance conditions are only accrued when the recipient has been notified of the grant and any remaining unfulfilled condition attaching to that grant is outside of the control of the Trust.

Provisions for grants are made when the intention to make a grant has been communicated to the recipient but there is uncertainty as to the timing of the grant or the amount of grant payable.

Irrecoverable VAT

The Trust is not registered for VAT and accordingly irrecoverable VAT is charged against the category of resources expended to which it relates.

Allocation of support and governance costs

Support costs have been allocated between governance costs and other support costs. Governance costs include those costs incurred in the governance of the Trust and its assets and are primarily associated with constitutional and statutory requirements.

Governance costs and support costs relating to charitable activities have been apportioned based on the number of grant awards made in recognition that the administrative costs of awarding, monitoring and assessing all grants are broadly equivalent. The allocation of support and governance costs is analysed in note 4.

Costs of raising funds

The costs of raising funds consist of investment management costs.

Charitable activities

Costs of charitable activities include grants made, governance costs and an apportionment of support costs as shown in note 5.

Investments

Investments are a form of basic financial instrument and are initially recognised at their transaction value and subsequently measured at their fair value as at the balance sheet date using the closing quoted market price. The Statement of Financial Activities includes the net gains and losses arising on revaluation and disposals throughout the year.

The Trust does not acquire put options, derivatives or other complex financial instruments.

The main form of financial risk faced by the Trust is that of volatility in equity markets and investment markets due to wider economic conditions, the attitude of investors to investment risk, and changes in sentiment concerning equities and within particular sectors or sub sectors.

Realised / Unrealised gains and losses

All gains and losses are taken to the Statement of Financial Activities as they arise. Realised gains and losses on investments are calculated as the difference between sales proceeds and opening market value (purchase date if later). Unrealised gains and losses are calculated as the difference between the market value at the year end and opening market value (or purchase date if later). Realised and unrealised investment gains and losses are combined in the Statement of Financial Activities.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

2. Investment income	2017	2016
	£	£
Dividends – equities	175,657	170,956
Interest – fixed interest securities	15,288	21,810
Interest on cash deposits	7	23
	-----	-----
	190,952	192,789
	=====	=====

In 2017 of the investment income, £8,784 (2016: £8,868) was attributable to restricted funds with the balance of £182,168 (2016: £183,921) relating to unrestricted income funds.

3. Investment management costs	2017	2016
	£	£
Investment management fees	28,172	26,074
	=====	=====

In 2017, £26,876 (2016: £24,875) of investment management costs were attributable to the restricted capital fund and £1,296 (2016: £1,199) was attributable to the restricted JWFT fund.

4. Allocation of governance and support costs

The breakdown of support costs and how these were allocated between governance and other support costs is shown in the table below:

Cost type	Total allocated	Governance related	Other support costs
	£	£	£
Management fees - case assessment	21,525	-	21,525
Management fees - support	20,475	-	20,475
Computer and sundry expenses	972	-	972
	-----	-----	-----
	42,972	-	42,972
	=====	=====	=====

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

4. Allocation of governance and support costs (continued)

Due to the nature of the Trust's activities and its management structure, the Trustees do not believe it is appropriate to allocate any of the support costs against the governance costs of the Trust.

Governance costs:	2017 £	2016 £
Auditor's remuneration		
Audit fees	2,340	2,268
Accountancy fees	876	942
	-----	-----
	3,216	3,210
	=====	=====

The total governance and support cost attributable to charitable activities is then apportioned pro rata to the number of grants awarded as shown in the table below. An allocation of 4.6% of governance and support costs is charged to the restricted JWFT fund based upon the split of the value of funds at the date of receipt of this restricted fund.

Allocation of governance and support costs	2017 £	2016 £
General grants	43,169	44,486
Boarding grants	2,578	2,872
Weir Bursaries and Gordon Prizes	441	457
	-----	-----
	46,188	47,815
	=====	=====

5. Analysis of charitable expenditure

The Trust undertakes its charitable activities through grant making and awarded grants to a number of individuals and institutions in furtherance of its charitable activities.

	Grants to institutions £	Grants to individuals £	Support costs £	Governance costs £	Total 2017 £	Total 2016 £
Funded from unrestricted funds:						
General grants	54,191	69,359	39,953	3,068	166,571	165,024
Boarding grants	-	25,569	2,578	148	28,295	40,132
Weir Bursaries and Gordon Prizes	385	-	441	-	826	851
	-----	-----	-----	-----	-----	-----
	54,576	94,928	42,972	3,216	195,692	206,007
	=====	=====	=====	=====	=====	=====

In 2017 the expenditure on charitable activities was £195,692 (2016: £206,007) of which £183,505 (2016: £194,255) was expenditure from unrestricted funds and £12,187 (2016: £11,752) was expenditure from restricted funds.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

5. Analysis of charitable expenditure (continued)

The following grants of £1,000 or more were made to organisations:

Name	Amount £	Purpose
Stepping Stones North Edinburgh	1,000	Pilton Ratho Retreat
Castleview Primary School	1,000	Benmore Trip
Redhall School	1,000	Dounans Trip
Prospect Bank School	1,000	Adventure Week
Longstone Primary School	1,000	Residential Trip
Liberton Primary	1,000	Benmore Trip
Broomhouse Primary School	1,890	Lagganlia Trip
Carrick Knowe Primary School	1,000	Lagganlia Trip
Royal Mile Primary	1,000	Broomlee Trip
Sighthill Primary School	1,000	Lendrick Muir Trip
Forthview Primary School	1,500	Benmore Trip
The Royal High Primary School	1,040	Lagganlia trip
Lothian Autistic Society	1,000	Basecamp 2
Roses Charitable Trust	1,000	Mull Trip
Womens Aid East and Midlothian	1,000	Summer Programme
Portobello Sailing and Kayaking Club	1,000	Activities for 11-14 year olds
Granton Youth Centre	1,050	Desktop Computers
Mayfield and Eaterhouses Youth 2000 Project	1,000	Personal Dev Residential
Workingrite	1,000	Apprenticeships
Imaginate	1,000	Tickets and Transport
Cyrenians	1,000	Key to Potential
Dunedin School	1,000	Outdoor Education
	<u>23,480</u>	
Grants less than £1,000	<u>32,907</u>	
	<u>56,387</u>	

6. Salary costs

There were no employees during the year (2016: nil).

No remuneration was paid to the Trustees (2016: £nil).

No Trustees received any reimbursements of expenses during the year (2016: £nil).

The Trust considers its key management personnel comprise the Trustees and the Clerk and Treasurer. No remuneration was payable to the key management personnel. However, as disclosed in note 13, the Clerk and Treasurer of JWT is an employee of the WS Society and six of the Trustees are members of the WS Society, as required by JWT's trust deed. During the year JWT paid management fees, on a commercial basis, totalling £35,000 plus VAT (2016: £35,000 plus VAT) to the WS Society.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

7. Auditor's remuneration

The auditor's remuneration constituted an audit fee of £2,340 (2016: £2,268) and additional accountancy support fees of £872 (2016: £852).

8. Investments	2017	2016
	£	£
Market value at 1 January 2017	4,633,068	4,269,691
Additions at cost	466,463	365,338
Disposal proceeds	(498,371)	(412,345)
	-----	-----
	4,601,160	4,222,684
Net gain on revaluation at 31 December 2017	140,162	410,384
	-----	-----
	4,741,322	4,633,068
Cash held for reinvestment	11,518	9,274
	-----	-----
Market value at 31 December 2017	4,752,840	4,642,342
	=====	=====
Historical cost (including cash) at 31 December 2017	3,994,509	4,073,640
	=====	=====

Included within the net gain on revaluation for the year ended 31 December 2017 were realised losses of £25,537 (2016: realised gains of £8,679).

Investments at fair value comprised:

Equities	4,435,268	4,230,571
Fixed interest securities	306,054	402,497
Cash held within the investment portfolio	11,518	9,274
	-----	-----
	4,752,840	4,642,342
	=====	=====

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

8. Investments (continued)

The investments are held in accordance with the Trustees' powers. The following investments exceeded 5% of the total portfolio value as at 31 December 2017:

Aviva Investors UK US Equity Inc II 5.40%
JP Morgan AM UK Ltd US Equity 6.16%
North American Income TST 5.50%

All investments are carried at their fair value. Investment in equities and fixed interest securities are all traded in quoted public markets, primarily the London Stock Exchange. Holdings in common investment funds, unit trusts and open-ended investment companies are at the bid price. The basis of fair value for quoted investments is equivalent to the market value, using the bid price. Asset sales and purchases are recognised at the date of trade at cost (that is their transaction value).

The significance of financial instruments to the ongoing financial sustainability of the Trust is considered in the financial review and investment policy and performance sections of the Report of the Trustees.

The main risk to the Trust from financial instruments lies in the combination of uncertain investment markets and volatility in yield. Due to 'quantitative easing' and market sentiment favouring lower risk investments, the yield on bonds has been abnormally low giving rise to a significant downside risk of a fall in capital values when interest rates return to normal levels. Although rising interest rates resulting from a stronger economy and improved economic activity should be indicative of improving dividend yields and equity values, there is a concern that the abnormal availability of 'cheap money' to the banking sector has led to wider over-valuation of traded assets (an 'asset bubble') that may depress equity values once economic conditions ease. The Trust is reliant on dividend yield in part to finance its work and this leads to a greater exposure to international companies, the values of which, together with their yield are exposed to exchange rate risk when converting the holdings into sterling. The outlook for the sterling exchange rate is that it is anticipated to weaken as European, US and Asian economies strengthen. A weakening in the exchange rate will improve sterling returns from foreign currency denominated holdings.

The default rate on fixed interest securities due to corporate failures is expected to improve with a strengthening economy. The high current demand for high quality corporate bond and government stock continues to depress the yield.

Liquidity risk is anticipated to be low as all assets are traded and the commitment to intervention by central banks and market regulators has continued to provide for orderly trading in the markets and so their ability to buy and sell quoted equities and stock is anticipated to continue. The Trust's investments are mainly traded in markets with good liquidity and high trading volumes. The Trust has no material investment holdings in markets subject to exchange controls or trading restrictions.

The Trust manages these investment risks by retaining expert advisors and operating an investment policy that provides for a high degree of diversification of holdings within investment asset classes that are quoted on recognised stock exchanges. The Trust does not make use of derivatives and similar complex financial instruments as it takes the view that investments are held for their longer term yield total return and historic studies of quoted financial instruments have shown that volatility in any particular 5-year period will normally be corrected.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

9. Debtors	2017	2016
	£	£
Dividends receivable	13,734	19,770
Prepayments	-	687
	-----	-----
	13,734	20,457
	=====	=====

Debtors of £13,103 (2016: £19,548) relate to unrestricted income funds and £631 (2016: £909) relates to the restricted JWFT fund.

10. Creditors falling due within one year	2017	2016
	£	£
Grants committed – JWT	20,804	14,963
Grants committed – JWFT	-	11,604
Accruals	3,216	3,120
	-----	-----
	24,020	29,687
	=====	=====

Grants committed represent grant applications approved but not paid by the year end. At 31 December 2017, grants committed totalled £20,804 (2016: £26,567). The total grants approved in the year and charged to the Statement of Financial Activities, were £149,504 (2016: £158,192).

Creditors of £23,872 (2016: £17,828) relate to unrestricted income funds and £148 (2016: £11,748) relates to the restricted JWFT fund.

11. Movement in Funds

	As at 1 January 2017	Incoming Resources	Outgoing Resources	Gains / (Losses)	As at 31 December 2017
	£	£	£	£	£
Unrestricted Revenue Fund	167,178	182,168	(183,505)	-	165,841
Restricted Capital Fund	4,304,769	-	(26,876)	133,715	4,411,608
Restricted JWFT Fund	201,825	8,784	(13,483)	6,447	203,573
	-----	-----	-----	-----	-----
	4,673,772	190,952	(223,864)	140,162	4,781,022
	=====	=====	=====	=====	=====

Unrestricted funds

The Revenue Fund represents income donated or earned by John Watson's Trust to be used at the discretion of the Trustees to fund any activity which is in furtherance of the Trust's objectives.

Restricted funds

The Capital Fund represents the initial original proceeds from the sale of the ground and buildings of John Watson's School in 1977, net realised and unrealised gains on investments arising since then and capital donations. The Capital fund is represented by investments.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

11. Movement in Funds (Continued)

The JWFT Fund represents the proceeds from the winding up of the John Watson's Foundationalers' Trust in 2010 and net realised and unrealised gains on investments arising since then and any surplus of deficit from activities. The purpose of the JWFT Fund is to provide grants for the education of day pupils (non-boarding) at schools in Scotland, who would otherwise not be able to continue in their education due to financial hardship.

When the trust first started to distribute funds in 1986, the balance of the Revenue Fund representing accumulated net revenue since 1977 stood at £134,968. In years of deficit, it is the policy of the Trustees to utilise the Revenue Fund to augment current income available. In years of surplus, the surplus is added to the Revenue Fund.

12. Reconciliation of net movement in funds to net cash flow from operating activities

	2017	2016
	£	£
Net movement in funds	107,250	371,192
Deduct investment income shown in investing activities	(190,952)	(192,789)
Deduct gains on investments	(140,162)	(410,384)
(Increase) in debtors	6,723	(3,967)
(Decrease)/increase in creditors	(5,667)	18,849
Net cash used in operating activities	(222,808)	(217,099)
	=====	=====

13. Related party transactions

Anna Bennett WS, Clerk and Treasurer of JWT is an employee of the WS Society. Six of the Trustees are members of the WS Society, as required by JWT's trust deed. During the year JWT paid management fees, on a commercial basis, totalling £35,000 plus VAT (2016: £35,000 plus VAT) to the WS Society. In 2016 the Trustees agreed to renew the contract with the WS Society at the same price for a further 3 years to 31 December 2019.