

John Watson's Trust

JOHN WATSON'S TRUST
Charity No. SC014004

REPORT and FINANCIAL STATEMENTS

For the year ended 31 December 2018

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JOHN WATSON'S TRUST

REPORT and FINANCIAL STATEMENTS

For the year ended 31 December 2018

Contents	Pages
Reference and Administrative information	1
Report of the Trustees	2 - 5
Independent Auditor's Report	6 - 7
Statement of Financial Activities	8
Balance Sheet	9
Statement of Cash Flows	10
Notes forming part of the financial statements	11 - 19

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	<i>Six nominated by the Society to Writers to Her Majesty's Signet</i> Caroline Docherty DKS OBE WS (Chair of Trustees) (resigned 31 December 2018) Robin Garrett WS (Chair of Finance Committee) John Harding-Edgar WS Richard Murray WS Karen Phillips WS Kenneth Mackay WS Amanda Laurie DKS WS (new Chair of Trustees) (appointed 31 December 2018) <i>Two nominated by The City of Edinburgh Council</i> Councillor Alison Dickie Andrew Cochrane <i>One nominated by the Lothian Association of Youth Clubs</i> Susie Jamieson (resigned 13 November 2018 as an ex officio trustee, appointed the same date as a co-opted trustee) <i>One nominated by the Merchant Company Education Board</i> Gordon Wyllie WS <i>Co-opted Trustees:</i> Fraser D Falconer (resigned 27 March 2018) Janet Morton (appointed 27 March 2018) Maureen Grant Susie Jamieson (appointed 13 November 2018)
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 2018. 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 £135,477 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.

In March 2018 the Trustees adopted a Privacy and Data Protection Policy in line with the General Data Protection Regulation, which then came into force in May 2018. The Trustees also approved an Interim Safeguarding Policy in November 2018, recognising JWT's support for vulnerable beneficiaries. An amendment was made to the application process asking organisational applicants to exhibit their own Safeguarding and Child Protection Policies when applying for funding. During the period the Trustees also reviewed the existing Conflict of Interest Policy and Risk Register. Declarations of interest were collected for new appointed Trustees.

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 6 occasions during 2018 and disbursed a net total after refunded grants of £135,477 (2017: £149,504). 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: 88 (2017: 110) 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 £12,500.

Organisations: 73 (2017: 63) 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 £80 to £2,550 for youth activities or equipment.

- (b) Boarding Education. Grants were paid for 4 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. These are administered via schools in Edinburgh but were not awarded in the current year.

Future commitments: Including grants for boarding education, grants to individuals and organisations of £11,669 were committed for 2019.

FINANCIAL REVIEW

Investment income decreased to £181,987 (2017: £190,952). The benefits of a more diversified asset class across the investment portfolio continue to provide substantial income resources.

Net income available for grants was £136,271 (2017: £144,764). The grants committee had a budget of £150,000 for 2018 and subsequently awarded a total of £135,477 for payment in 2018. Of this, £11,669 was awarded from John Watson's Trust but carried forward as commitments to 2019. In accordance with the accounting policy, £11,669 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

2018 proved to be the worst year for global stocks since the financial crisis. The final three months of the year saw a sharp global market sell-off and a precipitous decline in the oil price, while Brexit and political uncertainty led to UK markets being shunned by global investors, and global trade disputes hampered wider progress. The scale of volatility was greater than anticipated and, despite impressive gains made worldwide in the summer, almost all markets ended 2018 negative over the year.

During 2018 the portfolio returned -4.8% on a total return basis, compared with a 5.4% fall in the agreed benchmark.

The portfolio's outperformance of the benchmark can be attributed in part to the c.20% allocation to US equities, which held their value better than other overseas equities over the period. The portfolio's largest allocation is to UK equities, at c.44%. UK returns were very mixed over the period, with Brexit uncertainty dragging down the share prices of companies whose earnings are generated domestically, as well as those associated with the struggling UK housing market. However, UK equities featured among the best-performing assets within the portfolio over the period as well. UK firms generating revenue overseas benefitted from currency differences, and several sectors (including pharmaceuticals and consumer goods) performed well overall. The worst-performing UK stocks were also generally the smallest holdings within the portfolio, while larger allocations to better-performing assets allowed the portfolio to outperform the benchmark.

All regions are expected to see economic growth slow in 2019 whilst market sensitivities to both good and bad news are expected to continue. However, given the well-diversified nature of the portfolio and long-term investment mandate, there is the capacity to withstand short-term volatility for the sake of long-term capital growth and a sustainable income.

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

JOHN WATSON'S TRUST

REPORT OF THE TRUSTEES (Continued)

RESERVES POLICY

The free reserves of JWT are the Revenue Fund which stands at £170,939 (2017: £165,841) 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 Foundationers' 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 2019 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



Amanda Laurie WS
Trustee

26 MARCH 2019

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF

JOHN WATSON'S TRUST



Opinion

We have audited the financial statements of John Watson's Trust (the 'charity') for the year ended 31 December 2018 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).

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 December 2018, 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF

JOHN WATSON'S TRUST (continued)



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.

Use of our report

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.

Chiene + Tait LLP

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

3 APRIL 2019

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 2018

	Note	Revenue Fund Unrestricted £	Capital Fund Restricted £	JWFT Fund Restricted £	Total Funds 2018 £	Total Funds 2017 £
Income and endowments from:						
Investments	2	173,616	-	8,371	181,987	190,952
Total		173,616	-	8,371	181,987	190,952
Expenditure on:						
<i>Raising funds</i>						
- Investment management costs	3	-	26,565	1,281	27,846	28,172
<i>Charitable activities</i>						
- General grants	5	101,110	-	12,522	113,632	123,550
- Boarding grants		21,845	-	-	21,845	25,569
- Other prizes		-	-	-	-	385
- Support costs		42,386	-	-	42,386	42,972
- Governance costs		3,177	-	153	3,330	3,216
Total		168,518	26,565	13,956	209,039	223,864
Net income/(expenditure) before (losses)/gains on investments						
		5,098	(26,565)	(5,585)	(27,052)	(32,912)
Net (losses)/gains on investments						
	8	-	(378,232)	(18,238)	(396,470)	140,162
Net (expenditure)/income and net movement in funds						
		5,098	(404,797)	(23,823)	(423,522)	107,250
Reconciliation of funds						
Total funds brought forward		165,841	4,411,608	203,573	4,781,022	4,673,772
Total funds carried forward						
	11	170,939	4,006,811	179,750	4,357,500	4,781,022
Summary of net income available for grants						
Income		173,616	-	8,371	181,987	190,952
Expenditure before grants		(45,563)	-	(153)	(45,716)	(46,188)
Net income available for grants		128,053	-	8,218	136,271	144,764
Grants awarded		(122,955)	-	(12,522)	(135,477)	(149,504)
Capital fund expenditure		-	(26,565)	(1,281)	(27,846)	(28,172)
Surplus/(deficit) for year		5,098	(26,565)	(5,585)	(27,052)	(32,912)

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

JOHN WATSON'S TRUST

BALANCE SHEET

As at 31 December 2018

	Note	Revenue Fund Unrestricted £	Capital Fund Restricted £	JWFT Fund Restricted £	2018 £	2017 £
Fixed assets						
Investments	8	144,807	4,006,811	177,928	4,329,546	4,752,840
Current assets						
Debtors	9	16,103	-	776	16,879	13,734
Cash at bank and in hand		24,875	-	1,199	26,074	38,468
		40,978	-	1,975	42,953	50,202
Liabilities						
Creditors falling due within one year	10	(14,846)	-	(153)	(14,999)	(24,020)
Net current assets		26,132	-	1,822	27,954	28,182
Net assets		170,939	4,006,811	179,750	4,357,500	4,781,022
The funds of the Trust						
Restricted capital funds		-	4,006,811	-	4,006,811	4,411,608
Restricted funds		-	-	179,750	179,750	203,573
Unrestricted income funds		170,939	-	-	170,939	165,841
Total funds	11	170,939	4,006,811	179,750	4,357,500	4,781,022

The financial statements were approved by the Trustees on 26 MARCH 2019 and were signed on its behalf by:



Amanda Laurie WS
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 2018

	Note	2018 £	2017 £
Net cash used in operating activities	12	(221,205)	(222,808)
Cash flows from investing activities			
Interest and dividends		181,987	190,952
Purchase of investments		(307,557)	(466,463)
Proceeds from sale of investments		375,879	498,371
Net cash provided by investing activities		250,309	222,860
Change in cash and cash equivalents in the year		29,104	52
Cash and cash equivalent brought forward		49,986	49,934
Cash and cash equivalents carried forward		79,090	49,986
Cash held for reinvestment		53,016	11,518
Cash at bank and in hand		26,074	38,468
Cash and cash equivalents carried forward		79,090	49,986

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 2018

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, 2019, 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 2018

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 2018

2. Investment income	2018	2017
	£	£
Dividends – equities	167,476	175,657
Interest – fixed interest securities	14,490	15,288
Interest on cash deposits	21	7
	-----	-----
	181,987	190,952
	=====	=====

In 2018 of the investment income, £8,371 (2017: £8,784) was attributable to restricted funds with the balance of £173,616 (2017: £182,168) relating to unrestricted income funds.

3. Investment management costs	2018	2017
	£	£
Investment management fees	27,846	28,172
	=====	=====

In 2018, £26,565 (2017: £26,876) of investment management costs were attributable to the restricted capital fund and £1,281 (2017: £1,296) 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	386	-	386
	-----	-----	-----
	42,386	-	42,386
	=====	=====	=====

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

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:	2018	2017
	£	£
Auditor's remuneration		
Audit fees	2,412	2,340
Accountancy fees	918	876
	-----	-----
	3,330	3,216
	=====	=====

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	2018	2017
	£	£
General grants	43,613	43,169
Boarding grants	2,103	2,578
Weir Bursaries and Gordon Prizes	-	441
	-----	-----
	45,716	46,188
	=====	=====

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	Grants to	Support	Governance	Total	Total
	institutions	individuals	costs	costs	2018	2017
	£	£	£	£	£	£
Funded from unrestricted funds:						
General grants	62,965	50,667	41,642	3,177	158,451	166,571
Boarding grants	-	21,845	744	153	22,742	28,295
Weir Bursaries and Gordon Prizes	-	-	-	-	-	826
	-----	-----	-----	-----	-----	-----
	62,965	72,512	42,386	3,330	181,193	195,692
	=====	=====	=====	=====	=====	=====

In 2018 the expenditure on charitable activities was £181,193 (2017: £195,692) of which £168,518 (2017: £183,505) was expenditure from unrestricted funds and £12,675 (2017: £12,187) was expenditure from restricted funds.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

5. Analysis of charitable expenditure (continued)

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

Name	Amount £	Purpose
Winston Lodge	1,680	Climbing helmets
Epilepsy Scotland	1,500	Lighthouse project
Cyrenians Key to Potential	1,400	Transport costs
Even Keel	1,300	Boat kits
Royal Lyceum Theatre	1,236	Special Schools project
Workingrite	1,078	Trainee allowance
Royal Blind	1,000	Clown Doctors
Dance World Cup Team	1,000	Kit and transport
Ocean Youth Trust Scotland	1,000	Beeslack voyage
Gracemount Primary School	1,000	Music equipment
LAYC	1,000	Youth work skills course
Tall Ships Youth Trust	1,000	Edinburgh sailing experiences
Womens Aid East and Midlothian	1,000	Summer activities
St Johns RC Primary School	1,000	Books for library
North Edinburgh Childcare	1,000	Outdoor activities
The Yard	1,000	4-9 Club activity
Roses Charitable Trust	1,000	Dunedin School trip
Imaginate	1,000	Accessible theatre
Sighthill Community Centre	1,000	Outdoor activities
Craigmillar Literacy Trust	1,000	Book festival
Mentor UK	1,000	Ipads for club
Mayfield and E Youth 2000	1,000	Residential trip
Cutting Edge Theatre	1,000	Theatre equipment
Columba 1400	1,000	Castlebrae project
Scottish Huntington's Association	1,000	Weekend break
Action for Children	1,000	DoE Award for BAME
	<u>28,194</u>	
Grants less than £1,000	<u>34,771</u>	
	<u>62,965</u>	

6. Salary costs

There were no employees during the year (2017: nil).

No remuneration was paid to the Trustees (2017: £nil).

No Trustees received any reimbursements of expenses during the year (2017: £nil).

The Trust considers its key management personnel comprise the Trustees and the Clerk and Treasurer.

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

6. Salary costs (continued)

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 (2017: £35,000 plus VAT) to the WS Society.

7. Auditor's remuneration

The auditor's remuneration constituted an audit fee of £2,412 (2017: £2,340) and additional accountancy support fees of £900 (2017: £876).

8. Investments	2018	2017
	£	£
Market value at 1 January 2018	4,741,322	4,633,068
Additions at cost	307,557	466,463
Disposal proceeds	(375,879)	(498,371)
	-----	-----
	4,673,000	4,601,160
Net (loss)/gain on revaluation at 31 December 2018	(396,470)	140,162
	-----	-----
	4,276,530	4,741,322
Cash held for reinvestment	53,016	11,518
	-----	-----
Market value at 31 December 2018	4,329,546	4,752,840
	=====	=====
Historical cost (including cash) at 31 December 2018	3,998,861	3,994,509
	=====	=====

Included within the net loss on revaluation for the year ended 31 December 2018 were realised losses of £4,237 (2017: realised gains of £25,537).

Investments at fair value comprised:

Equities	3,988,765	4,435,268
Fixed interest securities	287,765	306,054
Cash held within the investment portfolio	53,016	11,518
	-----	-----
	4,329,546	4,752,840
	=====	=====

JOHN WATSON'S TRUST

NOTES to the FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2018

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 2018:

Aviva Investors UK US Equity Inc II 5.72%
JP Morgan AM UK Ltd US Equity 6.69%
North American Income TST 5.69%

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 2018

9. Debtors	2018	2017
	£	£
Dividends receivable	16,879	13,734
	=====	=====

Debtors of £16,103 (2017: £13,103) relate to unrestricted income funds and £776 (2017: £631) relates to the restricted JWFT fund.

10. Creditors falling due within one year	2018	2017
	£	£
Grants committed – JWT	11,669	20,804
Grants committed – JWFT	-	-
Accruals	3,330	3,216
	-----	-----
	14,999	24,020
	=====	=====

Grants committed represent grant applications approved but not paid by the year end. At 31 December 2018, grants committed totalled £11,669 (2017: £20,804). The total grants approved in the year and charged to the Statement of Financial Activities, were £135,477 (2017: £149,504).

Creditors of £14,846 (2017: £23,872) relate to unrestricted income funds and £153 (2017: £148) relates to the restricted JWFT fund.

11. Movement in Funds

	As at 1 January 2018 £	Incoming Resources £	Outgoing Resources £	Gains / (Losses) £	As at 31 December 2018 £
Unrestricted Revenue Fund	165,841	173,616	(168,518)	-	170,939
Restricted Capital Fund	4,411,608	-	(26,565)	(378,232)	4,006,811
Restricted JWFT Fund	203,573	8,371	(13,956)	(18,238)	179,750
	-----	-----	-----	-----	-----
	4,781,022	181,987	(209,039)	(396,470)	4,357,500
	=====	=====	=====	=====	=====

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 2018

11. Movement in Funds (Continued)

The JWFT Fund represents the proceeds from the winding up of the John Watson's Foundationers' 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

	2018	2017
	£	£
Net movement in funds	(423,522)	107,250
Deduct investment income shown in investing activities	(181,987)	(190,952)
Add losses/(deduct gains) on investments	396,470	(140,162)
(Increase)/decrease in debtors	(3,145)	6,723
Decrease in creditors	(9,021)	(5,667)
	-----	-----
Net cash used in operating activities	(221,205)	(222,808)
	=====	=====

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 (2017: £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.