MERCHISTON CASTLE SCHOOL
(COMPANY LIMITED BY GUARANTEE)

REPORT AND ACCOUNTS

For the year ended 31 July 2016

Company Registration Number: SC014265

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MERCHISTON CASTLE SCHOOL

REFERENCE AND ADMINISTRATIVE INFORMATION
Year ended 31 July 2016

Chairman	G T G Baird HND FRAgS
Governors	H P G Maule MA (resigned 02/07/16) G R T Baird Professor L A M Waterhouse BA MSW S C G Kuenssberg CBE BA Dip Ad Ed FRSA R M Ridley MA Cert Ed (resigned 02/07/16) S P Abram FICS J L Broadfoot BA Med (resigned 17/08/15) B M McCorkell MA Cantab (resigned 02/07/16) I H McAteer LLB R W Nutton MB BS MD FRCS (Eng) FRCS D R Whiteford OBE BSC DipAg FRSA ARAGS R S Elliott P W Yellowlees BA CA D C M Moore BSc PhD P Abrahams MA (appointed 07/03/16) D E L Johnston QC MA PhD LLD FRSE (appointed 07/03/16) A Fraser LLB DIPLP NP WS (appointed 07/03/16)
Merchistonian Club President	W A McDonald BA
Headmaster	A R Hunter BA
Secretary	A G Clayton BA MBA (Bursar)
Auditors	Geoghegans, Chartered Accountants
Solicitors	Shepherd & Wedderburn LLP Veale Wasbrough Vizards
Bankers	Lloyds Banking Group
Insurance Brokers	Marsh Brokers Limited
Investment Managers	Speirs & Jeffrey Stockbrokers
Registered Office and Principal Address	294 Colinton Road, Edinburgh, EH13 0PU
Website:	www.merchiston.co.uk
Scottish Charity Number	SC016580

MERCHISTON CASTLE SCHOOL

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MERCHISTON CASTLE SCHOOL

ANNUAL REPORT (INCORPORATING THE STRATEGIC REPORT AND THE GOVERNORS' REPORT)
For the year ended 31 July 2016

The Governors, who are trustees for the purposes of charity law and directors for the purposes of company law, present their Report on the affairs of the Company together with the accounts and auditors' report for the year ended 31 July 2016. This Report is also the Strategic Report and the Directors' Report for purposes of the Companies Act.

STRUCTURE, GOVERNANCE AND MANAGEMENT

Governing Document

Merchiston Castle School is a Company limited by guarantee, governed by its Articles of Association dated 1926 as subsequently amended.

There are 216 (2015 – 232) members who are obliged to guarantee payment of £1 in the event that the Company was to go into liquidation. A list of members is available from the registered office.

Board of Governors

The Board consists of a maximum of eighteen Governors, of whom at least one third must be former pupils of the School. One Governor has a son who is a pupil at the School and a further seven Governors have had sons at the School. The present Governors are as listed and have held office during the whole of the period from 1 August 2015 to the date of this Report unless otherwise stated. Hugh Maule, Michael Ridley and Barry McCorkell retired after 14 years, 7 years and 6 years of service respectively and we thank each one of them most warmly for their contribution and dedication to the Board. We are delighted to welcome Philomena Abrahams, David Johnston and Allan Fraser as new Governors.

Governors' Responsibilities Statement

The Governors (who are trustees for the purposes of charity law and directors of the charitable company for the purposes of company law) are responsible for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the Governors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the group and the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the group and the charitable company for that period. In preparing these accounts, the Governors are required to:

- select suitable accounting policies and apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the charitable company will continue in operation.

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

The Governors have overall responsibility for the preparation of the accounts but have delegated this function to the Finance and General Purposes Committee in conjunction with the Secretary/Bursar.

Governors' Responsibilities Statement (continued)
The Governors have also delegated to the Secretary/Bursar the responsibility to keep adequate accounting records which disclose with reasonable accuracy at any time the financial position of the charitable company and a responsibility for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Disclosure to the Auditors
The Governors make this statement of disclosure to the auditors:

- so far as the Governors are aware, there is no relevant audit information of which the charitable Company's auditors are unaware; and
- the Governors have taken all the steps which they ought to have taken as Governors in order to make themselves aware of any relevant audit information and to establish that the charitable Company's auditors are aware of that information.

Recruitment, Appointment, Induction and Training of Governors
Governors are identified and chosen by the Nominations Committee and are proposed to the full Governors' meeting. Candidates are selected based on eligibility, personal competence and professional skills which can benefit the Company, as well as local availability. New Governors are inducted into the workings of the Company at briefing sessions held with the Chairman, the Headmaster and the Secretary/Bursar. These sessions cover educational and business matters and include a familiarisation tour of the School's facilities. Governors are issued with extensive background material together with the Independent Schools Council's Guidelines for Governors and the Guidelines for Governors issued by the Association of Governing Bodies of Independent Schools.

Governors are encouraged to attend training sessions organised for the education sector. During the year, Governors attended meetings organised by the Scottish Council of Independent Schools and the Association of Governing Bodies of Independent Schools.

All Governors receive Safeguarding training and updates on at least an annual basis from the School's Child Protection Co-Ordinator. The Prevent Duty in England, Scotland and Wales came in to force on 1 July 2015. This covers Independent and Grant-aided Schools, with a duty "to prevent people from being drawn into terrorism" falling on governance of individual Schools. The School is currently in the process of securing relevant training for all staff and Governors.

Organisational Management
The full Board of Governors meets four times during the year. Certain aspects of the Company's business are delegated to the following sub-committees on which the Headmaster, Bursar and other senior staff also sit as appropriate:
Finance & General Purposes (which meets five times during the year) – GTG Baird (Chairman), GRT Baird, SP Abram, BM McCorkell, IH McAteer, RS Elliot, PW Yellowlees (Finance Convener).
Education & Pastoral (which meets three times during the year) – Professor LAM Waterhouse, SCG Kuenssberg, RW Nutton, P Abrahams
Child Protection & Compliance – D Johnston (Chairman), Professor LAM Waterhouse, SCG Kuenssberg, P Abrahams. A deputy head from Firrhill High School (R Porter) is co-opted onto this committee
Health & Safety – RS Elliot
Development – GRT Baird.
Nominations – GRT Baird, GTG Baird.
Risk Management – GRT Baird, PW Yellowlees.
Facilities Committee – GTG Baird, GRT Baird, RW Nutton, DR Whiteford, RS Elliott, PW Yellowlees

Organisational Management (continued)
Remuneration Committee – GTG Baird, GRT Baird, PW Yellowlees.

The Governing body has strengthened its oversight of the care and support offered by the School, through the formation in May 2016 of a Child Protection and Compliance Committee, chaired by a Governor and reporting directly to the Board, which supports the Senior Leadership Team in its assessment of the quality of the School's care and support.

The Headmaster is appointed by the Governors to manage the day to day operations of the School. In order to facilitate effective operations, the Headmaster and the Secretary/Bursar have delegated authority within terms approved by the Governors for operational matters including educational, finance and employment matters.

Group Structure and Relationships
The School has a trading company (Merchiston Enterprises Limited) which is also a company limited by guarantee. Merchiston Enterprises Limited uses the facilities owned by the School for letting and promotional events in order to benefit the School.

Merchiston benefits from the generosity of a thriving network of friends and former pupils whose close interest and support we greatly appreciate and gladly acknowledge.

Risk Management
A regular review of the risks facing the Company and of the controls in place to mitigate these risks is undertaken by both the Risk Management Committee and the full Board.

The key controls used by the Company include:

- formal agendas and minutes of Board and committee meetings.
- detailed terms of reference for committees.
- comprehensive strategic planning, budgeting and management accounting.
- established organisational structure and lines of reporting.
- formal written policies; and
- clear authorisation and approval levels.

Through the risk management processes established for the Company, the Governors are satisfied that the major risks identified have been adequately mitigated where necessary. It is recognised that systems can only provide reasonable, but not absolute, assurance that major risks have been adequately managed.

OBJECTS, AIMS, OBJECTIVES AND PRINCIPAL ACTIVITIES

Charitable Objects
The Charity's principal object, as set out in its Articles of Association, is the advancement of education.

Objectives, Aims and Intended Impact
The School's mission statement is: "leading young people in the pursuit of personal excellence through a well-rounded education". We develop this statement with the following aims:

> To give each boy in his way the capacity and confidence to live in an uncertain world, and to make sure that life is as rich as possible; more specifically, to encourage him to work hard and to take a pride in achievement, to think independently, to face up to challenges, to accept responsibility, to show concern for others and to develop wider skills and interests.

ANNUAL REPORT (INCORPORATING THE STRATEGIC REPORT AND THE GOVERNORS' REPORT) (Continued)

Objectives, Aims and Intended Impact (continued)

Our main objective is always to motivate pupils to try their hardest and to strive to achieve the highest levels possible in all areas – academic, cultural, sporting and simply living together as part of a community. They are encouraged to make the most of their talents, and to look after one another in a caring environment, to ensure that the School years are a happy time for all involved. The ethos of Merchiston is concerned with people and relationships, and particular importance is attached to the development of personal character and moral values in our pupils. In the pursuit of excellence, it is important to develop a partnership which involves the boys, parents and staff working together. Thus, we can all give encouragement and confidence to our pupils and prepare them for the challenges ahead in an extremely competitive world in which they will have to demonstrate commitment, flexibility, teamwork and vision.

We seek to ensure, therefore, that each boy who comes to Merchiston realises his full potential, learns new skills and leaves as a courteous, confident, employable and well-rounded individual, with a secure foundation for the journey of life ahead. In this respect, the School fully endorses the key focus of the Scottish Government policy document "A Curriculum for Excellence" in promoting and developing the following key capacities in young people in helping them to become:

- successful learners.
- confident individuals.
- responsible citizens.
- effective contributors to society.

Objectives for the Year

During the academic year 2015/16, the focus has continued on:

- Further improving the pupil support which is provided for all boys, whether boarding or day pupils.
- The continued achievement of high academic performance.
- Maintaining an experienced and high quality group of committed teachers.
- Further developing wider sporting, cultural and social skills in our pupils.
- Further widening access to the School and its facilities.

We continued to monitor academic standards against external public examinations and independent value-added criteria.

The principal financial objectives are that we should achieve the budgeted number of pupils and therefore produce an annual surplus which is adequate to meet the future needs of the School in terms of investment and maintenance of the property. The budgeted surplus is arrived at after due and careful consideration and pays particular attention to treating both our fee-paying parents and our staff fairly.

Strategies to Achieve the Year's Objectives

Continued academic achievement is an ongoing process and is the result of: (a) regular review of the academic syllabus in order to provide a broad range of subjects; (b) commitment of adequate resources to academic departments and to a wide range of co-curricular activities. Strategies employed included sharing good teaching practice, the encouragement of individual learning, a programme of staff training, further development of ICT and promoting the academic success and high reputation of the School.

ANNUAL REPORT (INCORPORATING THE STRATEGIC REPORT AND THE GOVERNORS' REPORT) (Continued)

Strategies to Achieve the Year's Objectives (continued)
The School Improvement Plan (updated in 2016) is an important tool in auditing the School's performance in a number of different areas and in helping to focus on key issues. This Plan considers the recent feedback received from our Regulators and sets out the Merchiston action/development themes which are:

- care welfare and development.
- learners' experiences.
- the School's success in involving parents, carers and families.
- the curriculum.
- meeting learning needs.

The overall strategy has been formulated into a business plan prepared by the Headmaster and the Bursar which has been reviewed and endorsed by the Governors.

Principal Activities Employed in Pursuit of these Objectives
The School continues to provide a high level of education for boys. The policy of having a high ratio of teachers to pupils is an important factor which has contributed to the School's reputation for excellence.

Foreign travel has an important role to play in helping to provide a broad education and in developing the minds of young people. To this end, there were again a large number of trips to many parts of the world involving pupils and staff. These included a Physics trip to CERN in Geneva, a History trip to Poland/Germany, a Third Form trip to Spain, a ski trip to Switzerland, a Geography expedition to Venezuela and a rugby development tour to New Zealand. Trips closer to home included a Sixth Form trip to Stratford-upon-Avon, Pringle trips to the Isle of Raasay and London and a CCF summer camp at Barry Buddon. Sports teams also toured various parts of the United Kingdom. We are indebted to all the members of staff who give of their time to organise and lead such trips.

In order to fully support the academic and pastoral programme, we have continued our drive to ensure excellence in our buildings and facilities. We have continued our on-going rolling programme of refurbishment in the boarding houses including new shower facilities and the upgrade of décor and furniture. Renovation of toilet facilities within the School has also continued. A full-size 2g astro pitch was completed to enhance the sporting options available alongside an all-weather golf practice facility. Work also commenced on a new path from the front of school to enhance the safety of all those visiting the School. Two new replacement minibuses were also purchased.

Policy on Means Tested Assistance & Access
Given the high cost of independent education, especially in a boarding environment, the School has a policy of giving assistance to those boys whose financial circumstances might otherwise prevent them enjoying the benefits of an education at Merchiston. A variety of scholarships and bursaries are available for this purpose, with bursaries being awarded on a means-tested basis. In circumstances where a boy's position at School is at risk for financial reasons, often as the result of a sudden and dramatic change in circumstances, the School will go to considerable lengths to ensure educational stability for those affected.

The following information is published on the School's website;
Where parental income is not sufficient to allow the pupil to attend Merchiston, parents may apply for means-tested assistance, which may be up to 100% of the day or boarding fees depending upon financial circumstances. Assistance is normally offered from Year 8 (Scottish S1) upwards. Applicants' parents will be asked to complete a confidential Statement of Financial Circumstances.

Care and welfare of pupils (continued)
In this way, Merchiston strives to ensure that financial assistance is used to widen access to the School and to assist the greatest number of parents who require support. The School may also assist parents with applications to external trust funds, such as the Royal National Children's Foundation, for additional financial support where appropriate. Further information about financial planning for school fees, applying for scholarships and assistance, and support from Educational Trust Funds is also available from the Independent Schools Council Information Service website.

ACHIEVEMENTS AND PERFORMANCE

Care and welfare of pupils
The Governing body has strengthened its oversight of the care and support offered by the School, through the formation in May 2016 of a Child Protection and Compliance Committee, chaired by a Governor and reporting directly to the Board, which supports the Senior Leadership Team in its assessment of the quality of the School's care and support.

A new position of Deputy Head Pupil Support was created and the first incumbent has been in post since September 2015. A further 2 Assistant Heads Pupil Support have been appointed with effect from September 2016. The newly formed Pupil Support Leadership Team (Deputy Head Pupil Support, 2 Assistant Heads Pupil Support and the Senior Deputy Head) offers greater support to pupils, parents and staff and it mirrors the structure of the effective Academic Leadership Team.

During 2015/16 the School was jointly inspected on 2 occasions by Education Scotland and the Care Inspectorate and a subsequent inspection in September 2016. The outcomes reflect the great improvements that have been made across all areas of safeguarding and welfare.

Every boy has a Housemaster, a Tutor and specific Prefects whose role is to safeguard their welfare when at the School, but often also to understand and help with any other issues. From J4 to Shell inclusive, there is a Housemother who also helps look after the boys. Additionally, the Chaplaincy Team provides spiritual guidance and counselling and our on-site medical centre is staffed by a well-qualified and dedicated team of registered nurses and doctors and provides excellent care at all times for the boys' health needs. Merchiston also runs a Personal, Social and Health Education (PSHE) programme appropriate to each year group within the curriculum.

Through these measures, Merchiston continues to ensure all pupils are able to benefit from the ideal boarding experience and the outstanding opportunities given to them e.g. development of leadership, learning journeys, sports experiences, trips and tours.

Operational Performance of the School
We started the year with 455 pupils (300 boarders and 155 day boys). This increased to 463 (302 boarders and 161 day boys) by the summer term which is extremely pleasing and is a great credit to the continuing high reputation of the School and the considerable efforts of the Headmaster and all staff involved in the recruitment process.

The A*-C grade pass-rate for A-level examinations was 94% and we are delighted that 13% of A level grades were A*s and that 43% of all grades were A* and A grades. An impressive 77% of grades were A*, A and B grades. 75% gained grades which enabled them to accept the offers at their first choice of university. Five boys gained places at Cambridge and Oxford Universities for the coming academic year, although one boy chose Cornell Institute of Technology (Ivy League) and one chose Edinburgh University. The GCSE pass rate at A*-C grades this year was 97%.

Operational Performance of the School (continued)
Furthermore, of the 517 individual candidate results, 303 (59%) gained grades A*/A, with the School's combined A*, A, and B grade pass rate being a very pleasing 86%. We are delighted that 17 pupils were awarded 8 or more A*/A grades.

In terms of the value which the School has added to its pupils, having checked the results, the ALIS predictions made by Durham University have been exceeded in most cases. As a result the School is confident that it has achieved its objectives in terms of academic performance.

In the performing arts, there was a strong cultural offering in the Autumn, with Merchiston students putting on electrifying performances in A View from the Bridge, staged at Merchiston, and Season's Greetings at St. George's. Additionally, Drama prefect Ethan Hemmati wrote, directed and starred in the play Suburban Poetry. In the Lent term the J4 and J5 year groups put on an all singing, all dancing performance of Pinocchio.

Mention should also be made of the Chapel Choir, the Close Harmony Group, the Orchestra, the Jazz Band and the Pipe Band who all continued to perform to a very high standard. The Choral Societies of Merchiston and St George's combined to perform Vivaldi Gloria at St Marys Cathedral.

Some of the competitions in which boys achieved outstanding success included the following:
- Winners of Regional Final in the Mathematics Trust Senior Team Challenge
- Winners of the English-Speaking Union National Debating Competition
- Gold Awards in the UKMT Intermediate and Junior Maths Challenge
- Awarded Best in School, Best in Year (Upper Sixth), Gold, Silver and Bronze Awards in the Senior Mathematics Challenge
- Silver and bronze awards in the British Physics and British Biology Olympiads
- Selected as one of four musicians in the new Royal Scots Club Young Musicians Scheme
- Second place in Scotland in Bank of England Target 2.0 Economics Competition
- In Top 5 in the Senior Engineering category National Finals 2016 Science and Engineering and Gold and Silver CREST Awards in the Engineering Education Scheme.
- Emerald Award in the Senior Physics Challenge run by Cambridge University
- Third place in Law Society of Scotland's National Debating Tournament
- Regional winner of Young Writers Poetry Trials competition and in final 30 nationally
- Runner up in the UK section of CICERO Latin translation Competition

This was another notable year for achievement in sporting activities for the School. In 2015/16, 16 sports, 590 Fixtures and 87 different teams. With a 60% win rate across all the sports and 89% of the boys played/ competed in at least one fixture (5% increase from 2014-15). Achieving 1 UK title (U13 Golf), 8 Scottish Titles and overall rated number 3 in the UK in tennis and ranked number 1 Junior School in the UK for Golf. Also, in Merchiston Juniors (7-13), 99% of the boys have represented the school in a number of sports throughout the year.

Details of some of these achievements are noted below:

Tennis
- Tennis Academy this year:
  - U18 4th place in the Glanvil Cup and Scottish Schools Champions
  - U15 3rd place in the UK AEGON Team Tennis Championship - Golden Griffin Trophy
  - U13 3rd place in the UK AEGON Team Tennis Championship
  - School ranked 3rd in whole of UK

Operational Performance of the School (continued)

Golf

- ISGA No 1 ranked Junior School in the UK
- ISGA U13 UK National Winners
- The U13 Golf team also won the ISGA Scottish Open, Loretto Simmers Cup, ISGA Scottish National Junior League and ISGA Wellington salver.

Rugby

- In Rugby, the 1st XV had a good season, winning 68% of their matches. Most notably, they won the 150th Anniversary Quaich, the Merchiston 7s and Watsons 7s. The U16s won the Scottish Schools Shield Competition and the Goldenacre 7s. Several other cups were secured in 7s including D1s (Loretto and Ardvreck), F1s (Loretto) and B1s (Merchiston). The D1 XV had an unbeaten season. There were also 8 internationalists at U16 and U18 level.

Cricket

- U15A team were winners of Cricket Scotland T20 National competition
- The U14XI and Pringle 1stXI have had an excellent season winning 70% of their matches.
- 14 teams and 86 fixtures with a 62% win ratio across the board.
- Two boys selected for Scotland under age teams.

Athletics

- The O17 4 x 100m team won the Scottish Schools Relay Championships for the first time in 5 years.
- The senior squad won 5 medals at the Scottish Schools and 3 medals at the Edinburgh Schools Championships including gold in the O17 400m, 200m and a bronze in the 800m.

Other

- Shooting continues to improve and this has been reflected in the results. The senior team won the Watson's invitational and 2 boys were selected to train with the Scotland Youth Development Squad and represent Lothian County as part of their junior squads.

In addition to these successes, it is important to recognise the contribution to sports activity at all levels which has been made by all boys in the School. 100% of the School has been involved in some kind of physical activity regularly this year.

The success of the School is the result of a team effort by an enormous number of people. The Governors wish to acknowledge the commitment and contribution made by the Headmaster and his wife. In addition we would like to record our gratitude to all of the hard-working and talented staff within every team, for their continued efforts and dedication to the delivery of such high levels of performance in the classroom and across all aspects of School life. We also wish to thank parents, friends of the School, Merchistonians and all other helpers who do so much to support the School.

Fundraising Performance

A total of £6,352 was raised for the Bursary fund which continued to raise funds for financial assistance. In addition, £735,521 was raised from the Sports & Leisure Appeal for funds to assist with extending and improving the leisure facilities available to the boys. We wish to thank those whose contributions have enabled a number of boys to attend Merchiston and helped us improve the School environment. The success of these appeals and the other regular work is a great credit to the staff of the Development Office and all who have assisted them.

ANNUAL REPORT (INCORPORATING THE STRATEGIC REPORT AND THE GOVERNORS' REPORT) (Continued)

Investment Performance

During the year, our investment portfolio increased in value by 8.0%. This compares with an increase of 3.8% by the Balanced Portfolio Index operated by WMA (Wealth Management Association) which we use as a benchmark. Our trading subsidiary, Merchiston Enterprises Limited, achieved a surplus on ordinary activities of £28,380 (2015 - £34,737), which was used to make a donation of £28,000 (2015 - £34,500) to the School.

PUBLIC BENEFIT

The Curriculum

Details of the education provided and the examination results obtained are covered elsewhere in this Report. In addition, we provided 7 markers/examiners/moderators/paper-setters for the Scottish Qualifications Authority (SQA) National 5; Assessment and Qualifications Alliance (AQA); Oxford, Cambridge and RSA Examinations (OCR); and Cambridge International Examinations (CIE); providing marking for 9 different papers in the summer of 2016.

Our Head of Science and Technology is on the British Physics Olympiad Committee and writes the Physics Challenge paper, set to over 3,000 GCSE level students nationally. In addition, he is one of the main leaders at the experimental training camp at Oxford during the Easter break and helps to train the British Physics Olympiad team through mentoring during the Summer Term.

We provided a placement for a Mandarin, a French and a German Assistant Teacher.

Co-curricular Activities

In addition to outstanding academic success and developing the capacity in young people to become successful learners, the School ethos of all round personal development places great emphasis on participation and active involvement in co-curricular activities. We believe that sport and co-curricular activities are just as important as academic pursuits.

In summary: (a) sport – 89% of the School roll played in at least one competitive fixture in 2015/16 in 16 different sports and 17 boys gained international honours in cricket, golf, rugby, shooting, skiing, table tennis, tennis and tetrathlon; (b) music – 200 boys participated in School choirs, orchestras, ensembles, and bands and performed on public occasions in Edinburgh and elsewhere; (c) drama – 75 boys along with 18 girls from St Georges took part in senior and junior drama productions; (d) the School ran 20 clubs and societies; (e) outdoor education – pupils took part in a large number of outdoor pursuits and 74 pupils took part in the Duke of Edinburgh's Award Scheme last year, with 49 involved at Bronze Level; 15 at Silver Level and 10 at Gold Award Level.

Means Tested Assistance & Access

Merchiston has always tried to make places available to pupils whose parents are unable to afford the full fees, although, unfortunately, we are not a wealthy school in terms of endowments provided by previous generations of Merchistonians. However, in order to enable parents from as wide a range of backgrounds as possible to have their sons educated at the School, means tested assistance is available on admission to the School or during the course of a boy's schooling should there be a change of circumstances. This is granted, when appropriate, to the parents of boys who pass the entrance assessments, and the assistance is subject to regular review in order to ensure that disbursed funds go to those who genuinely have need of them. We advertise the availability of means tested assistance on our website and details are also available on application to the School.

During the year 159 boys (2015 – 157 boys) or 34.6% (2015 – 33%) of the School roll received a bursary, scholarship or other fee remission, which includes one boy receiving support from the MacRobert Trust, Royal National Children's Foundation, John Watson's Trust and the Buttle Trust. 5 pupils in receipt of an Education Maintenance Allowance.

Means Tested Assistance & Access (continued)

The School's ability to continue to widen access to its education and to support pupils who might not otherwise be able to continue at School because of a sudden change in circumstances continues to be boosted by an extremely generous commitment from Lord Laidlaw of Rothiemay. The Laidlaw Scholarships are awarded to boys with talent who would otherwise be unable to enjoy the benefits of an education at Merchiston.

The value of means-tested bursaries awarded in academic year 2015-16 amounted to £820k which is 7.6% of gross fee income. Other forms of non-means tested assistance were also awarded during the academic year, including sibling and staff discounts. In total these awards amounted to £436k (3.7% of gross fee income).

Merchiston participates in the Headmasters' and Headmistresses' Conference Projects in Central and Eastern Europe scholarship scheme and we offer means tested assistance where applicable. In 2015/16, we had 1 HMC Scholar in the School, who had applied to continue his studies in the School in the Upper Sixth.

The breakdown of financial assistance is as follows:

Value of awards	Number of awards
< 10%	59
11% - 20%	19
21% - 30%	13
31% - 40%	11
41% - 50%	12
51% - 60%	10
61% - 70%	5
71% - 80%	18
81% - 90%	2
91% - 99%	1
100%	9

Pupil numbers

The average number of pupils in school for the year was 459.

	Boarding	Day	TOTAL
Junior	29	80	**109**
Senior	272	78	**350**
TOTAL	**301**	**158**	**459**

Fees

The following termly fees were charged during 2015/16

	Boarding	Day
J4, J5, and First Form	£6,345	£4,540
Second and Third Form	£7,375	£5,130
Senior	£9,900	£7,315

Charitable Giving & Fundraising
Over £20,000 was raised by the School for charity. The full listing of Merchiston's charitable donations is published on the website. Some notable donations were as follows:

There were collections throughout the School year for a variety of charities. There was a Whole School Collection in December 2015 which raised £1,379 for the Sick Kids Friends Foundation

A total of £4,200 was raised at a Burns Supper in January 2016. The funds raised were donated to Braidburn Special School, CHAS and Place2Be. Charity Highland Balls in December 2015 and March 2016 raised £3,200 donated to The Skye Mountain Rescue Team and The Yard.

In June 2016, the boys in our Fifth Form cycled 3,351km in their 24 hour charity cycle event, raising £1,600 for the charities of The Army Benevolence Fund, Doctors Without Borders, The Sandpiper Trust and Maggie's Cancer Support.

Koinonia (Teamwork in the Community)
52 pupils in the Lower Sixth took part in Koinonia throughout the year. This included 19 boys who attended 2 primary schools in the local area: Balgreen and Murrayburn. 5 boys also offered help in a local retirement home, Davidson House and a further 10 helped at the local Retirement Cottages. 36 pupils undertook a training programme with Place2Be to be trained as mentors to work with the children in city primary schools. Others helped local community groups with environmental clean-ups and over 70 boys and staff cleared a section of the Water of Leith of litter and rubbish in conjunction with the Water of Leith Conservation Trust.

Use of facilities by the Local Community
The Colinton and Merchiston choir continues to practise in School and perform concerts. The local Reel Club and the Board of Young Enterprise Scotland meets every month. The Friends of the Pentlands and the Colinton Amenity Association use the School's facilities for their meetings. Our swimming pool is used by local groups and by the City of Edinburgh Council who aim to ensure that every pupil has learned to swim by the end of P7 (we now have 2 sessions for 15 children each week throughout the School year). Our sports hall is used by local tennis, football and cricket clubs. Our sports pitches are used by a local primary School for its annual sports days. The Braid Hills Rotary Club hosts an annual music competition and the Edinburgh Society of Organists hold an annual meeting at the School.

Use of our facilities by School Age Children
Events which we run and which other schools are invited to attend include: (a) Maths Fun Day which was attended this year by 116 P5 children from 22 local Primary and Junior Schools; (b) Primary Schools' Science and Technology Day which welcomed 276 pupils; (c) Prestige Science lecture by a leading academic; (d) an annual Music evening with local Schools; (e) Oxford Application Seminar; (f) sporting fixtures and festivals; (g) the Merchiston Community Boys' Choir, involving 22 pupils from local primary Schools and Merchiston. Our Community Piping Initiative, *Sounds Like Friday* continues to be a successful project. We linked up with the Edinburgh City Council Youth Music Initiative to provide piping and drumming lessons to 36 pupils (24 pipers and 12 drummers) in 13 local primary schools on a weekly basis. In total we receive almost 32,000 "child visits" every year.

Links with Other Schools
The School has close links with a number of local schools, especially primary schools. In addition our partnership with the Excelsior Academy in Newcastle has been strong. There are regular exchanges and meetings of staff and pupils and we have one scholar attending School in the Lower Sixth Form and one in the Upper Sixth Form.

ANNUAL REPORT (INCORPORATING THE STRATEGIC REPORT AND THE GOVERNORS' REPORT) (Continued)

FINANCIAL REVIEW AND RESULTS FOR THE YEAR

The group's surplus for the year was £1,207,647 (2015 - £1,058,570). The group's surplus was higher than the figure which was budgeted at the start of the year due to an increase in the School roll resulting in higher fee income and from an increase in donations received. At the year end, there were net current assets of £1,598,222 (2015 – £1,865,497) and net liquid funds of £3,514,963 (2015 - £3,415,099). The group has sufficient working capital by way of cash to ensure that the School can continue to operate effectively.

Funds continue to be made available for the refurbishment of other areas of the School with capital expenditure during the year being £1,965,682 (2015 – £641,153). The commercial letting of the School's facilities produced a surplus of £237,855 (2015 - £234,485) which will be reinvested in facilities around the School.

Investment Policy and Objectives

Our investment portfolio is managed to achieve a balance, focused on overall return and long term growth in both income and capital. The principal activity of Merchiston Enterprises Limited continues to be to promote the interests and welfare of the School.

Reserves Policy

The Group's total reserves stood at £16,174,481 (2015 - £14,966,834) at the year end, which are held for the furtherance of the Group's charitable aims. The Group's policies are to strengthen its reserves through strict budgeting and financial processes and that the need for day to day working capital is met by these reserves.

At the same time the board is committed to reinvest operational surpluses into School improvements to ensure our buildings, facilities and educational needs meet the requirements of a first rate independent all boys' boarding School.

The level of the Group's reserves will continue to be closely monitored.

FUTURE PLANS

(1) We will continue to work with Education Scotland and the Care Inspectorate (our principal bodies) to become sector-leading.
(2) We will continue to implement the plan agreed with OSCR in order to maintain our charitable status.
(3) We are committed to promote and market our Bursary Funds and increase accessibility.
(4) The School will continue to implement existing strategies in relation to improvement in educational delivery and facilities. The key objectives of the planning strategy are to maintain pupil numbers together with an enhancement of facilities.
(5) We are committed to ensuring that there are sufficient funds available in order to allow for the proper maintenance of the magnificent Merchiston buildings and estate which are our unique inheritance.
(6) We will further develop our plans to improve the leisure facilities within the School
(7) The funding of the investment in new facilities will include a prudent level of medium to long term borrowings which have been agreed, in principle, with the School's bankers.

Approved by the Board of Governors and signed on behalf of the Board by:

AG Clayton, Secretary
28 November 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS AND GOVERNORS OF MERCHISTON CASTLE SCHOOL

We have audited the financial statements of Merchiston Castle School for the year ended 31 July 2016 which comprise the group and parent charitable company Statement of Financial Activities, the group Income and Expenditure Account, the group and parent charitable company Balance Sheets, the Group Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made exclusively to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and to the charity's Governors, as a body, in accordance with section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the company's members and its Governors those matters that 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 company, the company's members as a body and its Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Governors and Auditors

As explained more fully in the Governors' Responsibilities Statement set out on pages 1-2, the Governors (who are trustees for the purposes of charity law and directors of the charitable company for the purposes of company law) are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts

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

INDEPENDENT AUDITORS' REPORT (Continued)
TO THE MEMBERS AND GOVERNORS OF MERCHISTON CASTLE SCHOOL

Opinion on accounts

In our opinion the accounts:

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 July 2016 and of the group's and the parent charitable company's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

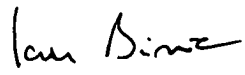
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Annual Report for the financial year for which the accounts are prepared is consistent with the accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- the parent charitable company has not kept proper and adequate accounting records or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company's accounts are not in agreement with the accounting records and returns; or
- certain disclosure of Governors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Iain Binnie (Senior Statutory Auditor)
For and on behalf of Geoghegans

28 November 2016

Chartered Accountants
Statutory Auditor

6 St Colme Street
Edinburgh
EH3 6AD

MERCHISTON CASTLE SCHOOL

GROUP INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 July 2016

	Notes	2016	2015 As restated
		£	£
Income			
School fees	2	10,491,552	10,296,544
Donations	2	779,612	294,506
Investment income	2	27,612	25,672
Rental and other income	2	578,305	580,962
Total income		11,877,081	11,197,684
Expenditure			
Staff costs	4	6,762,581	6,292,508
Other external charges	6	3,932,829	3,867,750
Interest and charges	7	10,946	10,459
Total expenditure	9	10,706,356	10,170,717
Operating surplus for the year		1,170,725	1,026,967
Realised and unrealised gain on investments	10	36,922	31,603
Retained surplus for year		1,207,647	1,058,570

MERCHISTON CASTLE SCHOOL

GROUP BALANCE SHEET
As at 31 July 2016

	Notes	2016	2015 As restated
		£	£
Fixed Assets			
Tangible assets	11	14,517,263	13,093,371
Investments	12	802,674	742,861
		15,319,937	13,836,232
Current Assets			
Stock	13	121,988	115,069
Debtors	14	484,355	437,679
Cash at bank and in hand		3,507,176	3,407,493
		4,113,519	3,960,241
Creditors: Amounts falling due within one year	15	(2,515,297)	(2,094,744)
Net Current Assets		1,598,222	1,865,497
Total Assets less Current Liabilities		16,918,159	15,701,729
Creditors: Amounts falling due after more than one year	16	(743,678)	(734,895)
Net Assets		16,174,481	14,966,834
		£	£
Reserves			
Unrestricted Funds	18	15,207,795	14,302,262
Revaluation Reserve	18	210,967	174,045
Total Unrestricted Funds		15,418,762	14,476,307
Restricted Funds	18	755,719	490,527
		16,174,481	14,966,834

These accounts were approved by the Governors and authorised for issue on 28 November 2016.

G T G Baird Chairman

P W Yellowlees Governor

Company Registration Number: SC014265

MERCHISTON CASTLE SCHOOL

CHARITABLE COMPANY BALANCE SHEET
As at 31 July 2016

	Notes	2016	2015 As restated
		£	£
Fixed Assets			
Tangible assets	11	14,605,831	13,180,979
Investments	12	802,674	742,861
		15,408,505	13,923,840
Current Assets			
Stock	13	9,300	9,702
Debtors	14	611,174	549,939
Cash at bank and in hand		3,456,006	3,360,921
		4,076,480	3,920,562
Creditors: Amounts falling due within one year	15	(2,509,298)	(2,084,984)
Net Current Assets		1,567,182	1,835,578
Total Assets less Current Liabilities		16,975,687	15,759,418
Creditors: Amounts falling due after more than one year	16	(743,678)	(734,895)
Net Assets		16,232,009	15,024,523
		£	£
Reserves			
Unrestricted Funds	18	15,265,323	14,359,951
Revaluation Reserve	18	210,967	174,045
Total Unrestricted Funds		15,476,290	14,533,996
Restricted Funds	18	755,719	490,527
		16,232,009	15,024,523

These accounts were approved by the Governors and authorised for issue on 28 November 2016.

G T G Baird — Chairman

P W Yellowlees — Governor

Company Registration Number: SC014265

MERCHISTON CASTLE SCHOOL

GROUP STATEMENT OF FINANCIAL ACTIVITIES
For the year ended 31 July 2016

	Notes	Unrestricted Funds £	Restricted Funds £	Total Funds £	2015 As restated £
Income and endowments from:					
Donations and legacies	2	10,989	768,623	779,612	294,506
Charitable activities	2	10,893,061	-	10,893,061	10,699,191
Other trading activities	2	176,796	-	176,796	178,315
Investments	2	27,360	252	27,612	25,672
Total incoming resources	2	11,108,206	768,875	11,877,081	11,197,684
Expenditure on:					
Raising funds	9	335,866	-	335,866	301,473
Charitable activities	9	10,340,937	29,553	10,370,490	9,869,244
Total resources expended	9	10,676,803	29,553	10,706,356	10,170,717
Net income before gains and losses		431,403	739,322	1,170,725	1,026,967
Net gains on investments	10	36,922	-	36,922	31,603
Net incoming resources before transfers		468,325	739,322	1,207,647	1,058,570
Transfers between funds	19	474,130	(474,130)	-	-
Net movement in funds		942,455	265,192	1,207,647	1,058,570
Reconciliation of funds:					
Fund balances at 1 August 2015		14,476,307	490,527	14,966,834	13,908,264
Fund balances at 31 July 2016		15,418,762	755,719	16,174,481	14,966,834

The group Statement of Financial Activities includes all gains and losses in the year. All incoming resources and resources expended derive from continuing operations.

MERCHISTON CASTLE SCHOOL

CHARITY STATEMENT OF FINANCIAL ACTIVITIES
For the year ended 31 July 2016

	Notes	Unrestricted Funds £	Restricted Funds £	Total Funds £	2015 As restated £
Income and endowments from:					
Donations and legacies	2	10,989	768,623	779,612	294,506
Charitable activities	2	10,893,162	-	10,893,162	10,699,290
Investments	2	55,360	252	55,612	60,172
Total incoming resources	2	10,959,511	768,875	11,728,386	11,053,968
Expenditure on:					
Raising funds	9	187,332	-	187,332	157,315
Charitable activities	9	10,340,937	29,553	10,370,490	9,869,244
Total Resources Expended	9	10,528,269	29,553	10,557,822	10,026,559
Net income before gains and losses		431,242	739,322	1,170,564	1,027,409
Net gains on investments	10	36,922	-	36,922	31,603
Net incoming resources before transfers		468,164	739,322	1,207,486	1,059,012
Transfers between funds	19	474,130	(474,130)	-	-
Net movement in funds		942,294	265,192	1,207,486	1,059,012
Reconciliation of funds:					
Fund balances at 1 August 2015		14,533,996	490,527	15,024,523	13,965,511
Fund balances at 31 July 2016		15,476,290	755,719	16,232,009	15,024,523

The charity Statement of Financial Activities includes all gains and losses in the year. All incoming resources and resources expended derive from continuing operations.

MERCHISTON CASTLE SCHOOL

GROUP STATEMENT OF CASH FLOWS
For the year ended 31 July 2016

	Notes	2016	2015 As restated
		£	£
Cash generated by operating activities	23	2,054,546	1,715,465
Cash generated by / (used in) investing activities			
Investment income receipts		27,611	25,672
Payments to acquire tangible fixed assets	11	(1,965,682)	(641,153)
Receipts from sale of assets		6,099	-
Payments to acquire investments	12	(22,710)	(27,997)
		(1,954,682)	(643,478)
Increase in cash		99,864	1,071,987

Reconciliation of net cash flow to movement in net funds:	2016 £	2015 £
Increase in cash in year	99,864	1,071,987
Movement in net funds	99,864	1,071,987
Net funds at 1 August 2015	3,415,099	2,343,112
Net funds at 31 July 2016	3,514,963	3,415,099

NOTES TO THE ACCOUNTS
For the year ended 31 July 2016

1 Accounting Policies

Company information
Merchiston Castle School is a private company limited by guarantee incorporated in Scotland. The registered office address is 294 Colinton Road, Colinton, Edinburgh, EH13 0PU.

Basis of accounts preparation
The accounts are prepared under the historical cost convention as modified by the revaluation of fixed asset investments and in accordance with applicable accounting standards, the Companies Act 2006, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Statement of Recommended Practice on Accounting and Reporting by Charities (the Charities SORP (FRS 102)).

The financial statements were prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The principal accounting policies adopted are set out below.

These financial statements for the year ended 31 July 2016 are the first financial statements of Merchiston Castle School in accordance with FRS 102, The Financial Reporting Standards applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 August 2014. An explanation of how transition to SORP FRS 102 has affected the reported financial position and financial performance is given in note 24.

Going concern
At the time of approving the financial statements, the Governors are of the opinion that the group has adequate funds to continue in operational existence for the foreseeable future. Thus the Governors continue to adopt the going concern basis of accounting in preparing the financial statements.

Group accounts
These accounts consolidate the results of Merchiston Castle School and Merchiston Enterprises Limited on a line by line basis. No income and expenditure account is presented for the company as permitted by section 408 of the Companies Act 2006.

Incoming resources
All incoming resources are included in the Statement of Financial Activities when the charity is entitled to the income and the amount can be quantified with reasonable accuracy. The following specific policies are applied to particular categories of income:

- Donations, legacies and similar incoming resources are included in full in the Statement of Financial Activities when received unless they relate specifically to another accounting period.
- Incoming resources from activities for generating funds are accounted for when earned. This includes income from the School's trade which includes the rental and hire of the School buildings and facilities.
- Investment income is included when receivable and is generated from dividends and interest.
- Incoming resources from charitable activities are accounted for when earned and include income generated from school fees and other optional activity income. These are included net of bursaries and scholarships granted by the school.
- Other income is recognised when receivable and includes the rental and hire of the School buildings and facilities for educational purposes and income from the School Shop.

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

1 **Accounting Policies (continued)**

Resources expended
Expenditure is recognised on an accruals basis when a liability is incurred and it is reported as part of the expenditure to which it relates. The charitable Company is not registered for VAT and accordingly expenditure is shown gross of irrecoverable VAT. The following specific policies are applied to particular categories of expenditure:

- Expenditure on charitable activities comprises those costs incurred by the charity in the delivery of the charitable activities carried out which meet the objectives of the charity. Expenditure on charitable activities includes governance costs which comprise the costs of running the charity, including strategic planning for its future development, also external audit, any legal advice for the School Governors and all the costs of complying with constitutional and statutory requirements, such as the costs of Board and Committee meetings and of preparing statutory accounts and satisfying public accountability.
- Costs of raising funds include the costs relating to the renting of buildings and facilities and all other direct costs associated to fundraising activities.

Costs are allocated and apportioned between activities based on the nature of the cost incurred.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost is defined as the purchase cost of materials. Net realisable value is the amount which it is anticipated would be realised in the normal course of trade after making due allowance for discounts and selling expenses.

Fixed assets and depreciation
Fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses. Expenditure below £3,000 is not capitalised unless part of a larger project whilst expenditure above this amount will be assessed for capitalisation in line with the school's capitalisation policy.

Depreciation is calculated at the following rates so as to write off the assets over their estimated useful lives.

Land	Nil
Assets under construction	Nil
Buildings	2% on a straight line basis
Property improvements	5% - 10% on a straight line basis
Furniture and equipment	10% - 25% on a straight line basis
Plant, machinery and motor vehicles	10% - 20% on a straight line basis

Investments
Investments are included at market value at the year end. Net investment gains and losses for the year are shown in the income and expenditure account and statement of financial activities.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term liquid investments.

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

1 **Accounting Policies (continued)**

Judgements and key sources of estimation uncertainty
In the application of the company's accounting policies, the Governors' are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Financial instruments
The charity has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the charity's balance sheet when the charity becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets
Debtors with no stated interest rate and payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the profit and loss account.

Financial liabilities
Creditors with no stated interest rate and payable within one year are recorded at transaction price.

All interest bearing loans and borrowings which are basic financial instruments are initially recognised at the present value of cash payable. After initial recognition they are measured at amortised cost.

Leasing and hire purchase commitments
Rentals paid under operating leases are charged to the income and expenditure account as they are incurred.

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase agreements are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under the leases and hire purchase agreements are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the income and expenditure account over the periods of the lease and hire purchase agreements and represent a constant proportion of the balance of the capital repayments outstanding.

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

1 **Accounting Policies (continued)**

Pension Scheme
The Company contributes to the Scottish Teachers' Pension Scheme, which is a defined benefit scheme and is an unfunded, contributory and voluntary membership scheme. In addition, a defined contribution scheme is in operation for non-teaching staff. Contributions to both schemes are charged when they become payable.

Fund Accounting
Unrestricted funds are available for use at the discretion of the members in furtherance of the general objectives of the charity.

Restricted funds are subjected to restrictions on their expenditure imposed by the donor or through the terms of an appeal.

Gifts in kind
Donated assets or services are included in incoming resources when the benefit to the charity is reasonably quantifiable and measurable. They are valued by the Governors at the amount the charity would have been willing to pay for them on the open market.

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

2. Income

Group	Year ended 31 July 2016			Year ended 31 July 2015		
	Unrestricted funds £	Restricted funds £	2016 Total £	Unrestricted funds £	Restricted funds £	2015 Total £
Individual donations	10,989	33,102	44,091	6,503	15,093	21,596
Fundraising	-	735,521	735,521	-	272,910	272,910
Donations and legacies	10,989	768,623	779,612	6,503	288,003	294,506
Gross school fees	11,762,863	-	11,762,863	11,548,555	-	11,548,555
Less: Bursaries, scholarships and allowances	(1,271,311)	-	(1,271,311)	(1,252,011)	-	(1,252,011)
	10,491,552	-	10,491,552	10,296,544	-	10,296,544
Other – events/rents/fees	401,509	-	401,509	402,647	-	402,647
Charitable activities	10,893,061	-	10,893,061	10,699,191	-	10,699,191
Trading: Merchiston Enterprises Limited	176,796	-	176,796	178,315	-	178,315
Other trading activities	176,796	-	176,796	178,315	-	178,315
Investment income	27,360	252	27,612	25,411	261	25,672
Total income	11,108,206	768,875	11,877,081	10,909,420	288,264	11,197,684

Company	Year ended 31 July 2016			Year ended 31 July 2015		
	Unrestricted funds £	Restricted funds £	2016 Total £	Unrestricted funds £	Restricted funds £	2015 Total £
Individual donations	10,989	33,102	44,091	6,503	15,093	21,596
Fundraising	-	735,521	735,521	-	272,910	272,910
Donations and legacies	10,989	768,623	779,612	6,503	288,003	294,506
Gross school fees	11,762,863	-	11,762,863	11,548,555	-	11,548,555
Less: Bursaries, scholarships and allowances	(1,271,311)	-	(1,271,311)	(1,252,011)	-	(1,252,011)
	10,491,552	-	10,491,552	10,296,544	-	10,296,544
Other – events/rents/fees	401,610	-	401,610	402,745	-	402,745
Charitable activities	10,893,162	-	10,893,162	10,699,289	-	10,699,289
Investment income	55,360	252	55,612	59,912	261	60,173
Total income	10,959,511	768,875	11,728,386	10,765,704	288,264	11,053,968

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

3 Income from the Connected Undertaking's Trading Activities

Merchiston Enterprises Limited is a company limited by guarantee, which promotes the interests and welfare of Merchiston Castle School. Its trading results for the year, as extracted from the audited accounts for the year ended 31 July 2016, are summarised below:

	2016 £	2015 £
Turnover and fee income	197,373	188,263
Total costs: subsidiary	(169,126)	(154,133)
Gross profit	28,247	34,130
Donations given	(28,000)	(34,500)
Retained operating surplus / (deficit)	247	(370)

4 Employee Information

	2016 £	2015 £
Staff costs comprise:		
Wages and salaries	5,603,139	5,279,365
Social security costs	485,055	421,855
Pension and other costs	674,387	591,288
	6,762,581	6,292,508

The average monthly number of persons employed by the group during the year was:

	2016 No.	2015 No.
Teaching and support	95	96
Catering and domestic	62	63
Administration	40	44
	197	203

The number of employees have been disclosed above in accordance with FRS 102 on an average of total monthly employees. This differs from previous UK GAAP where the number of employees were disclosed on an average of full-time equivalent monthly employees.

The number of employees whose salaries were above £60,000 (including taxable benefits) for the year were:-

	2016 No.	2015 No.
Between £60,000 and £70,000	2	1
Between £70,000 and £80,000	1	2
Between £80,000 and £90,000	2	0
Between £100,000 and £120,000	1	1

Two (2015 – two) of the above employees were accruing benefits under a defined benefit pension scheme, while the other two (2015 – two) were accruing benefits under a defined contribution scheme. Total pension contributions made in respect of these employees in the year totalled £82,326 (2015 - £76,837).

Remuneration of key management personnel

The remuneration of key management personnel is as follows:	2016 £	2015 £
Aggregate remuneration	592,818	500,850

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

5 Pension Costs

The School participates in the Scottish Teachers' Superannuation Scheme. The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2012. The next valuation will be as at 31 March 2016 but has yet to be finalised and this will set contribution rates from 1 April 2019.

The School has no liability for other employers' obligations to the multi-employer scheme. As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

The scheme is an unfunded multi-employer defined benefit scheme. It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the School is unable to identify its share of the underlying assets and liabilities of the scheme.

The employer contribution rate from 1 April 2015 was 14.9% of pensionable pay, which has increased to 17.2% from 1 September 2015. While the employee rate applied is a variable it will provide an actuarial yield of 9.6% of pensionable pay.

At the last valuation a shortfall of £1.3 billion was identified in the notional fund which will be repaid by a supplementary rate of 4.5% of employers' pension contributions for fifteen years from 1 April 2015. This contribution is included in the 17.2% employers' contribution rate.
The School's level of participation in the scheme is 0.12% based on the proportion of employer contributions paid in 2014-15.

The pension charge in relation to the scheme represents contributions payable by the Company to the fund and amounted to £498,402 (2015 - £419,142).

6 Other External Charges

	2016 £	2015 £
This is stated after including:		
Gain on sale of fixed assets	4,297	212
Depreciation	540,619	550,923
Auditors' remuneration (company £9,500)	12,282	11,718

7 Interest payable and similar charges

	2016 £	2015 £
Interest and charges on bank facilities	10,946	10,459

8 Taxation

As a charity, Merchiston Castle School is exempt from tax on income and gains to the extent that these are applied to its charitable objects. No tax charges have arisen in the Charity.

The wholly owned trading subsidiary is subject to corporation tax. It has, however, made provision to pay its taxable income to the company through the gift aid provisions.

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

9. Analysis of Total Resources Expended

Group	Year ended 31 July 2016			Year ended 31 July 2015		
	Unrestricted funds	Restricted funds	2016 Total	Unrestricted funds	Restricted funds	2015 Total
	£	£	£	£	£	£
Fundraising expenses	187,332	-	187,332	157,315	-	157,315
Trading – Merchiston Enterprises Limited	148,534	-	148,534	144,158	-	144,158
Raising funds	335,866	-	335,866	301,473	-	301,473
Staff costs	6,610,308	-	6,610,308	6,147,979	-	6,147,979
Governance costs	12,282	-	12,282	11,718	-	11,718
Other costs	3,178,688	29,553	3,208,241	3,132,518	27,066	3,159,584
Depreciation	539,659	-	539,659	549,963	-	549,963
Charitable activities	10,340,937	29,553	10,370,490	9,842,178	27,066	9,869,244
Total expenditure	10,676,803	29,553	10,706,356	10,143,651	27,066	10,170,717

Company	Year ended 31 July 2016			Year ended 31 July 2015		
	Unrestricted funds	Restricted funds	2016 Total	Unrestricted funds	Restricted funds	2015 Total
	£	£	£	£	£	£
Fundraising expenses	187,332	-	187,332	157,315	-	157,315
Raising funds	187,332	-	187,332	157,315	-	157,315
Staff costs	6,610,308	-	6,610,308	6,147,979	-	6,147,979
Governance costs	12,282	-	12,282	11,718	-	11,718
Other costs	3,178,688	29,553	3,208,241	3,132,518	27,066	3,159,584
Depreciation	539,659	-	539,659	549,963	-	549,963
Charitable activities	10,340,937	29,553	10,370,490	9,842,178	27,066	9,869,244
Total expenditure	10,528,269	29,553	10,557,822	9,999,493	27,066	10,026,559

9 Analysis of Total Resources Expended (continued)

	Staff Costs £	Other Costs £	Depreciation £	2016 Total £	2015 Total £
Raising funds:					
Trading costs of the subsidiary	24,947	122,627	960	148,534	144,158
Fundraising	127,326	60,006	-	187,332	157,315
Total for Group	152,273	182,633	960	335,866	301,473
Charitable activities:					
Teaching	3,998,642	349,618	-	4,348,260	4,069,150
Welfare	1,117,024	809,848	-	1,926,872	1,766,326
Premises	286,090	1,251,392	539,659	2,077,141	2,129,568
Support	1,208,552	797,383	-	2,005,935	1,892,482
Governance costs	-	12,282	-	12,282	11,718
Total for Group	6,610,308	3,220,523	539,659	10,370,490	9,869,244
Total Resources Expended - Group	6,762,581	3,403,156	540,619	10,706,356	10,170,717
Total Resources Expended - Charity	6,737,634	3,280,529	539,659	10,557,822	10,026,559

The difference between the total resources expended by the group and total resources expended by the charity relates solely to the trading costs of the subsidiary.

10 Analysis of Investment Gains and Losses

All investment gains and losses recognised in the current and prior year relate entirely to unrealised gains within unrestricted funds.

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

11 Tangible Fixed Assets

Group

	Land and Buildings £	Assets Under Construction £	Property Improve-ments £	Furniture and Equipment £	Plant, Machinery and Motor Vehicles £	Total £
Cost						
At 31 July 2015	13,520,904	304,219	2,471,686	1,316,892	638,346	18,252,047
Additions	11,400	1,660,526	108,782	41,884	143,090	1,965,682
Disposals	-	-	-	-	(34,358)	(34,358)
Transfers	-	-	-	-	-	-
At 31 July 2016	13,532,304	1,964,745	2,580,468	1,358,776	747,078	20,183,371
Depreciation						
At 31 July 2015	1,603,487	-	1,986,449	1,082,172	486,568	5,158,676
Charge for year	273,005	-	93,062	99,591	74,961	540,619
Released on disposal	-	-	(33,187)			(33,187)
At 31 July 2016	1,876,492	-	2,046,324	1,181,763	561,529	5,666,108
Net Book Value						
At 31 July 2016	11,655,812	1,964,745	534,144	177,013	185,549	14,517,263
At 31 July 2015	11,917,417	304,219	485,237	234,720	151,778	13,093,371

Company

	Land and Buildings £	Assets Under Construction £	Property Improve-ments £	Furniture and Equipment £	Plant, Machinery and Motor Vehicles £	Total £
Cost						
At 31 July 2015	13,609,472	304,219	2,471,686	1,307,613	638,346	18,331,336
Additions	11,400	1,660,526	108,782	41,884	143,090	1,965,682
Disposals	-	-	-	-	(34,358)	(34,358)
Transfers	-	-	-	-	-	-
At 31 July 2016	13,620,872	1,964,745	2,580,468	1,349,497	747,078	20,262,660
Depreciation						
At 31 July 2015	1,603,487	-	1,986,449	1,073,853	486,568	5,150,357
Charge for year	273,005	-	93,062	98,631	74,961	539,659
Released on disposal	-	-	(33,187)	-	-	(33,187)
At 31 July 2016	1,876,492	-	2,046,324	1,172,484	561,529	5,656,829
Net Book Value						
At 31 July 2016	11,744,380	1,964,745	534,144	177,013	185,549	14,605,831
At 31 July 2015	12,005,985	304,219	485,237	233,760	151,778	13,180,979

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

12 Investments Held as Fixed Assets

	UK Listed £	Cash for Investment £	Total £
Balance at 31 July 2015	735,255	7,606	742,861
Additions	22,710	181	22,891
Gain on revaluation	36,922	-	36,922
Balance at 31 July 2016	794,887	7,787	802,674
Historical cost	580,419	7,787	588,206

Investments whose individual market value exceeds 5% of the total are as follows:

Scottish Investment Trust	£51,898
Securities Trust of Scotland	£59,388
Scottish Mortgage Trust	£74,500
City of London	£45,690
Pacific Assets Trust	£80,500
Treasury 2.5% Index-Linked 2024	£43,442
Scottish American Investment Co.	£75,098
Temple Bar Investment Trust	£61,492
Alliance Trust Asset Management	£42,120
Threadneedle UK Corporate Bond	£43,365
M&G Investment Management Ltd Charifund Inc	£50,137

13 Stock

	2016 Group £	2015 Group £	2016 Company £	2015 Company £
Stock	121,988	115,069	9,300	9,702
	121,988	115,069	9,300	9,702

14 Debtors

	2016 Group £	2015 Group £	2016 Company £	2015 Company £
Fees and outlays in arrears	195,811	195,563	195,694	195,041
Prepayments and accrued income	234,521	177,661	233,949	176,784
Other debtors	54,023	64,455	181,531	178,114
	484,355	437,679	611,174	549,939

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

15 **Creditors:** Amounts falling due within one year

	2016 Group £	2015 Group £	2016 Company £	2015 Company £
Deferred Income	1,250,942	1,251,099	1,250,942	1,251,099
Taxes and social security costs	-	121,797	-	121,797
Trade creditors	680,346	161,755	680,288	159,293
Other creditors	191,070	207,516	189,205	206,955
Accruals	392,939	352,577	388,863	345,840
	2,515,297	2,094,744	2,509,298	2,084,984

Bank of Scotland plc holds a bond and floating charge over the assets of the company.

Deferred income comprises school fees paid in advance as follows:

	2016 Group £	2016 Company £
Balance as at 31 July 2015	1,251,099	1,251,099
Amount released to incoming resources	(1,060,230)	(1,060,230)
Amount deferred in the year	1,060,073	1,060,073
Balance as at 31 July 2016	1,250,942	1,250,942

16 **Creditors:** Amounts falling due after more than one year

	2016 £	2015 £
Other creditors	743,678	734,895
	743,678	734,895

17 Financial instruments

The carrying amount of the financial assets and liabilities include:

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Carrying amounts of financial assets:				
Investments	802,674	742,861	802,674	742,861
Fees and outlays in arrears	195,811	195,563	195,556	195,041
Other debtors	54,023	64,455	181,531	178,114
	1,052,508	1,002,879	1,179,761	1,116,016

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Carrying amounts of financial liabilities:				
Deferred income	1,250,942	1,251,099	1,250,942	1,251,099
Trade creditors	680,346	161,755	680,288	159,293
Other creditors	933,642	938,790	932,883	941,850
Accruals	392,939	352,577	388,863	345,840
	3,257,869	2,704,221	3,252,976	2,698,082

18 Capital and Reserves

Group

	Unrestricted Reserves	Revaluation Reserve	Restricted Reserves	Total Reserves
	£	£	£	£
Balance as at 31 July 2015	14,302,262	174,045	490,527	14,966,834
Surplus for the year	431,403	36,922	739,322	1,207,647
Transfer to unrestricted reserves	474,130	-	(474,130)	-
Balance as at 31 July 2016	15,207,795	210,967	755,719	16,174,481

Company

	Unrestricted Reserves	Revaluation Reserve	Restricted Reserves	Total Reserves
	£	£	£	£
Balance as at 31 July 2015	14,359,951	174,045	490,527	15,024,523
Surplus for the year	431,242	36,922	739,322	1,207,486
Transfer to unrestricted reserves	474,130	-	(474,130)	-
Balance as at 31 July 2016	15,265,323	210,967	755,719	16,232,009

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

19 **Analysis of group net assets between funds**

The restricted fund balance represented by current assets at 31 July 2016 was £755,719 (2015 - £490,527). Unrestricted funds are free to be used in accordance with the charitable objectives of the School. Restricted funds represent those assets which have been historically held to fund bursaries and the donation income received for the planning and construction of the new sport and leisure facility. The restricted fund that assisted with the School's project of building a new Sixth Form Boarding House was released to unrestricted reserves when the project was completed, and a transfer is made each year for ongoing funds received for this project to the unrestricted funds. The transfer in the current year was £1,125 (2015 - £3,027). The donations used to fund the construction of the new sport and leisure facility, have their restrictions lifted when the expenditure has been incurred on the facility and as such a transfer has been made between restricted reserves and unrestricted reserves. The transfer in the current year was £473,005 (2015 - £nil).

Sufficient resources are held in an appropriate form to enable all funds to be applied in accordance with the restrictions imposed on them.

20 **Capital Commitments**

	2016	2015
	£	£
Amount authorised and contracted for	84,103	130,244

21 **Related Party Transactions**

The Company has a connected undertaking, Merchiston Enterprises Limited (a company limited by guarantee) which utilises the facilities owned by the Company (at an agreed rental) for letting and promotional events to benefit the School. During the year, Merchiston Enterprises Limited was charged rent of £100 (2015 - £100) for use of the facilities and a donation of £28,000 (2015 - £34,500) was received. The amount due to the school by Merchiston Enterprises Limited at 31 July 2016 was £128,645 (2015 - £113,659).

The Governors received no remuneration during the year (2015 – £nil), but one Governor was reimbursed for travel and subsistence expenses totalling £2,049 (2015 – one governor £1,345). Where any of the Governors are parents of pupils at the school they have arms length transactions in relation to payment of school fees.

During the year the School incurred costs of £14,202 (2015 – £12,614) for services provided by a company, of which a Governor of the School is also a Director. These services were for advertising costs incurred in the ordinary course of business. Included in trade creditors is a balance of £2,304 (2015 - £5,169) due to this company.

22 **Control**

In the opinion of the Governors' there is no controlling party.

23 Reconciliation of net movements in funds to net cash flow from operating activities

	Notes	2016 £	2015 £
Operating surplus		1,170,725	1,026,967
Non operating cash flows eliminated:			
Investment income		(27,611)	(25,672)
(Gain)/loss on disposal of fixed assets		(4,927)	212
Depreciation	10	540,619	550,923
(Increase)/decrease in stock		(6,920)	13,428
(Increase)/decrease in debtors		(46,676)	44,512
Increase in creditors due within one year		420,552	76,446
Increase in long term creditors		8,784	28,649
Net cash inflow from operating activities		2,054,546	1,715,465

24 Reconciliations on adoption of FRS 102

Reconciliations of funds – Group

	Notes	1 August 2014 £	31 July 2015 £
Funds as reported under previous UK GAAP		14,101,934	15,171,271
Adjustments arising from transition to FRS 102:			
Accrual for holiday pay	A	(193,670)	(204,437)
Funds reported under FRS 102		13,908,264	14,966,834

Reconciliations of funds – Company

	Notes	1 August 2014 £	31 July 2015 £
Funds as reported under previous UK GAAP		14,159,181	15,228,532
Adjustments arising from transition to FRS 102:			
Accrual for holiday pay	A	(193,670)	(204,009)
Funds reported under FRS 102		13,965,511	15,024,523

NOTES TO THE ACCOUNTS (Continued)
For the year ended 31 July 2016

24 **Reconciliations on adoption of FRS 102 (continued)**

Reconciliation of movement in net funds for the year - Group

	Notes	2015 £
Movement in net funds as reported under previous UK GAAP		1,069,337
Adjustments arising from transition to FRS 102:		
Accrual for holiday pay	A	(10,767)
Movement in net funds as reported under FRS 102		1,058,570

Reconciliation of movement in net funds for the year – Company

	Notes	2015 £
Movement in net funds as reported under previous UK GAAP		1,069,351
Adjustments arising from transition to FRS 102:		
Accrual for holiday pay	A	(10,339)
Movement in net funds as reported under FRS 102		1,059,012

Notes to reconciliations on adoption of FRS 102

A In accordance with FRS 102 (section 28) the entity has recognised the cost of all employee benefits, including holiday pay, to which its employees have become entitled to as a result of services rendered to the entity during the reporting period. The impact of all FRS 102 transitional adjustments above are in relation to unrestricted funds.