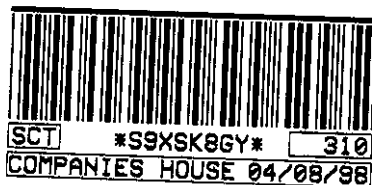


HARMENY EDUCATION TRUST LIMITED
(Limited by guarantee)

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 MARCH 1998**

Registered number SCO 162021
Registered Charity Number SCO24256



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HARMENY EDUCATION TRUST LIMITED

DIRECTORS

Gavin Reed
Alison Davies OBE
Kerr Cowan

PRINCIPAL

Patrick Webb

COMPANY SECRETARY

Rosemary Fitch

AUDITORS

The McCabe Partnership
Chartered Accountants
56 Palmerston Place
Edinburgh
RH12 5AY

BANKERS

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

REGISTERED OFFICE

Harmeny School
Mansfield Road
Balerno
Midlothian

HARMENY EDUCATION TRUST LIMITED

DIRECTORS' REPORT

The directors submit their report together with financial statements for the year ended 31 March 1998.

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

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

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BUSINESS REVIEW

The principal activity of the company is to advance the education of children in Scotland with special educational needs on a residential and day basis.

The company was incorporated on 6 December 1995 and the assets and liabilities of its predecessor organisation Harmeny School were transferred to the company on 21 December 1995 together with the responsibilities for members of staff.

The General Fund for the year shows a deficit of £572 and the directors of the company recommend that it is transferred to reserves. The directors are pleased with the results for the year and are confident that the school can maintain the current level of fees in the coming year.

The school's present classroom block requires to be replaced, and the opportunity is being taking not only to replace the classroom facilities but to extend them and also to incorporate other features which are recognised as necessary in the education and care of children who are placed at Harmeny. It is also important to us to be recognised as a national resource. The cost of the development is likely to exceed £2,700,000. Work has commenced on the building of two residences. The project has been given the blessing of the Scottish Office who have agreed to make a contribution of £1,200,000 towards the cost.

STATUS

Harmeny Education Trust Limited is a company limited by guarantee and not having a share capital.

DIRECTORS

The directors of the company, none of whom have a beneficial interest in the company are :-

Gavin Reed
Alison Davies OBE
Kerr Cowan

HARMENY EDUCATION TRUST LIMITED

DIRECTORS' REPORT (continued)

FIXED ASSETS

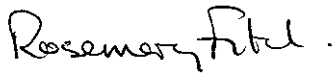
Details of movements on fixed assets are shown in note 7.

The directors are of the opinion that the market value of company's heritable properties is higher than the net book value transferred from the Save the Children Fund.

AUDITORS

A resolution to re-appoint The McCabe Partnership will be put to the members at the Annual General Meeting.,

By order of the board



Rosemary Fitch
Secretary

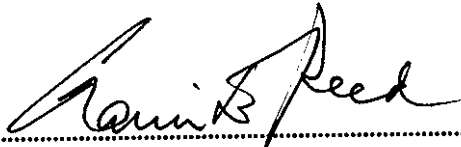
Date : 9 July 1998

HARMENY EDUCATION TRUST LIMITED

BALANCE SHEET as at 31 March 1998

		1998	1997
	Note	£	£
FIXED ASSETS			
Tangible assets	7	<u>614,385</u>	<u>184,070</u>
CURRENT ASSETS			
Debtors	8	75,631	56,344
Cash at bank and in hand		418,395	118,896
		<u>494,026</u>	<u>175,240</u>
CREDITORS: amounts falling due within one year	9	<u>(221,138)</u>	<u>(110,279)</u>
NET CURRENT ASSETS		<u>272,888</u>	<u>64,961</u>
NET ASSETS	12	<u><u>887,273</u></u>	<u><u>249,031</u></u>
FUNDS			
Unrestricted - Revenue Fund	11	57,330	57,902
Reserves - Capital Development Fund	11	97,559	90,427
Restricted - Children's Fund	11	5,743	15,712
Restricted - New Building Capital Fund	11	690,907	49,256
Restricted - Other Capital Fund	11	35,734	35,734
		<u><u>887,273</u></u>	<u><u>249,031</u></u>

The financial statements on pages 4 - 11 were approved by the board of directors on 9 July 1998

Gavin Reed 

Chairman

HARMENY EDUCATION TRUST LIMITED

STATEMENT OF FINANCIAL ACTIVITIES for the year to 31 March 1998

		Unrestricted Funds General Fund	Designated Capital Development Fund	Restricted Funds Children's' Fund	New Building Capital Fund	Other Capital Fund	Total 1998	Total Funds 1997 (15 Months)
	Notes	Income						
Incoming Resources								
Local Authority fees		669,673	-	-	-	-	669,673	875,386
Scottish Office maintenance grant		601,576	-	-	-	-	601,576	681,637
Scottish Office capital grants		-	-	-	469,365	-	469,365	81,898
Budget relief grant		-	-	-	-	-	-	5,004
Children in Need Grant		-	-	-	-	-	-	5,000
Bank interest		-	7,132	441	-	-	7,573	8,479
Donations		-	-	985	134,231	-	135,216	1,478
Other income		-	-	-	38,055	-	38,055	2,120
Total Incoming Resources		1,271,249	7,132	1,426	641,651	-	1,921,458	1,661,002
Resources Expended								
Direct charitable expenditure	3	1,188,280	-	11,395	-	-	1,199,675	1,469,803
Administration	3	71,669	-	-	-	-	71,669	79,344
Publicity and fundraising	3	11,872	-	-	-	-	11,872	6,396
Total Resources Expended		1,271,821	-	11,395	-	-	1,283,216	1,555,543
Net Incoming/(Outgoing) Resources before Transfers		(572)	7,132	(9,969)	641,651	-	638,242	105,459
Transfers between funds		-	-	-	-	-	-	-
Net Income/(Outgoing) Resources for the Year		(572)	7,132	(9,969)	641,651	-	638,242	105,459
Fund Balance brought forward		57,902	90,427	15,712	49,256	35,734	249,031	-
Transfer from predecessor organisation		-	-	-	-	-	-	143,572
Fund Balances carried forward at 31 March 1998	11/12	57,330	97,559	5,743	690,907	35,734	887,273	249,031

HARMENY EDUCATION TRUST LIMITED

INCOME AND EXPENDITURE ACCOUNT for the year to 31 March 1998

	Note	Unrestricted Funds £	Restricted Funds £	Total 1998 £	Total 1997 (15 Months) £
Income					
Local authority fees	2	669,673	-	669,673	875,386
Scottish Office maintenance grant	2	601,576	-	601,576	681,637
Other income		7,132	1,426	8,558	17,077
Total Income		<u>1,278,381</u>	<u>1,426</u>	<u>1,279,807</u>	<u>1,574,100</u>
Expenditure					
Direct charitable expenditure		1,188,280	11,395	1,199,675	1,467,891
Administration		71,669	-	71,669	79,344
Publicity and fund raising		11,872	-	11,872	6,396
Total Expenditure		<u>1,271,821</u>	<u>11,395</u>	<u>1,283,216</u>	<u>1,553,631</u>
Retained surplus/(deficit) for the year		<u>6,560</u>	<u>(9,969)</u>	<u>(3,409)</u>	<u>20,469</u>

- A detailed analysis of incoming and outgoing resources, providing full information on the movements during the year on all the funds, is contained in the Statement of Financial Activities on page 5. In particular, all movements on capital funds, which are not included above, are disclosed therein.
- All income arose from continuing operations.

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year to 31 March 1998

1. STATUS OF COMPANY

The company is limited by guarantee and does not have a share capital. The liability of each member is limited to £1. The company is a registered charity, number SC24256.

The financial statements cover the year to 31 March 1998.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice on accounting by Charities.

Accounting convention

The financial statements are prepared under the historical cost convention.

Grants receivable

Grants receivable are recognised as incoming resources when the conditions for their receipt have been satisfied. Grants received for specific purposes are accounted for as restricted funds. Any grants restricted to future accounting periods are deferred, and recognised in the periods to which they relate. Grants for capital projects are credited to a separate capital restricted fund, which is not included in the income and expenditure account.

Depreciation

Depreciation will be provided at 2% on a straight line basis on all new property. The property acquired from Save the Children Fund and included in these accounts at £39,456 represents land and buildings and the directors consider that no depreciation is appropriate. Depreciation is not charged on property which is still under development.

Depreciation of all other assets is provided on the straight line method at the rate of 25% per annum.

Local Authority fees

This represents amounts receivable against the school's net costs for the period.

Pension costs

Pension contributions are charged to the income and expenditure account in the year in which they become payable.

Restricted funds

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

Unrestricted funds

Unrestricted funds comprise donations and other incoming resources received or generated for charitable purposes.

Designated funds

Designated funds are unrestricted funds earmarked by the directors for particular purposes.

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (contd.) for the year to 31 March 1998

3. ANALYSIS OF TOTAL RESOURCES EXPENDED

	Staff costs	Other	Depreciation	Consumables	Total 1998	Total 1997 (15 Months)
	£	£	£	£	£	£
Direct charitable expenditure	911,253	200,265	25,387	62,770	1,199,675	1,469,803
Administration	65,626	6,043	-	-	71,669	79,344
Publicity and fund-raising	-	11,872	-	-	11,872	6,396
	<u>976,879</u>	<u>218,180</u>	<u>25,387</u>	<u>62,770</u>	<u>1,283,216</u>	<u>1,555,543</u>

4. STAFF COSTS

	1998 £	1997 £
Wages and salaries	873,663	1,009,894
Social security costs	63,925	73,738
Pension costs	39,291	8,815
	<u>976,879</u>	<u>1,092,447</u>

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

	No.	No.
Teaching staff	18	19
Care staff	37	35
Domestic staff	10	9
Administrative staff	6	5
Estate	2	2
Psychiatry	-	1
	<u>73</u>	<u>71</u>

Members of the teaching staff participate in the Scottish Office Teachers' Superannuation Scheme. A Number of non-teaching staff are members of the SCVO Staff Final Salary Scheme. The pension costs shown above represent contributions payable by the company.

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (contd.) for the year to 31 March 1998

5. TAXATION

The company, being a charity, is exempt from tax under Section 505 Income and Corporation Taxes Act 19788.

6. OPERATING SURPLUS

The operating surplus is stated after charging :-

	1998 £	1997 (15 Months) £
Directors' emoluments	-	-
Audit fee	3,500	3,000
Operating lease rentals - equipment	3,797	3,157
	<u> </u>	<u> </u>

7. TANGIBLE FIXED ASSETS

	Property Under Construction £	Heritable Property £	Fixtures & Fittings £	Motor Vehicles £	Total £
Cost or Valuation					
Cost or value brought forward	49,256	105,424	25,445	17,955	198,080
Additions	402,830	-	33,528	19,344	455,702
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1998	<u>452,086</u>	<u>105,424</u>	<u>58,973</u>	<u>37,299</u>	<u>653,782</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciation					
Brought forward	-	1,304	7,096	5,610	14,010
Charge for period	-	1,319	14,743	9,325	25,387
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1998	<u>-</u>	<u>2,623</u>	<u>21,839</u>	<u>14,935</u>	<u>39,397</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book value					
At 31 March 1997	<u>49,256</u>	<u>104,120</u>	<u>18,349</u>	<u>12,345</u>	<u>184,070</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1998	<u>452,086</u>	<u>102,801</u>	<u>37,134</u>	<u>22,364</u>	<u>614,385</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (contd.) for the year to 31 March 1998

7. TANGIBLE FIXED ASSETS (contd.)

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

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

The company has received a capital grant which is to be spent on building a new education block.

CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £221,448 (1997 - NIL).

8. DEBTORS

	1998 £	1997 £
Fees	12,055	-
Insurance recovery	3,419	-
Scottish Office maintenance grant	60,157	56,344
	<u>75,631</u>	<u>56,344</u>

9. CREDITORS: amounts falling due within one year

Other taxes and social security	19,858	17,666
Trade creditors	185,096	73,682
Other creditors	3,234	10,061
Accruals	12,950	8,870
	<u>221,138</u>	<u>110,279</u>

10. OBLIGATIONS UNDER OPERATING LEASES

The company had annual commitments under non-cancellable equipment leases as set out below.

Operating leases which expire : In the second to fifth years	<u>4,047</u>	<u>4,152</u>
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HARMENY EDUCATION TRUST LIMITED

NOTES TO THE FINANCIAL STATEMENTS (contd.) for the year to 31 March 1998

11. MOVEMENT IN RESERVES

	Unrestricted Revenue Fund Income £	Designated Capital Development Fund £	Restricted Children's' Fund £	New Building Capital Fund £	Other Capital Fund £	Total £
Balance of funds brought forward	57,902	90,427	15,712	49,256	35,734	249,031
Incoming resources	1,271,249	7,132	1,426	641,651	-	1,921,458
Expenditure, gains, losses, transfers	1,271,821	-	11,395	-	-	1,283,216
Balance at 31 March 1998	<u>57,330</u>	<u>97,559</u>	<u>5,743</u>	<u>690,907</u>	<u>37,734</u>	<u>887,273</u>

12. ANALYSIS OF NET ASSETS BETWEEN FUNDS

	Unrestricted Revenue Fund £	Designated Capital Development Fund £	Restricted Children's' Fund £	New Building Capital Fund £	Other Capital Fund £	Total £
Fixed Assets	-	-	-	578,651	35,734	614,385
Current assets	57,330	97,559	5,743	112,256	-	272,888
	<u>57,330</u>	<u>97,559</u>	<u>5,743</u>	<u>690,907</u>	<u>35,734</u>	<u>887,273</u>

HARMENY EDUCATION TRUST LIMITED

ANALYSIS OF COSTS (per General Fund) for the year to 31 March 1998

	1998	1997
	(15 Months)	
	£	£
Consumables		
Food	37,436	48,331
Kitchen supplies	752	2,441
Resources - Activities/care	8,192	11,880
- Activities/education	14,888	23,639
Principal - Outdoor education	1,138	3,650
- Management resources	364	4,437
	62,770	94,378
Other operating charges		
Laundry and cleaning	3,378	3,732
Insurance	12,702	15,982
Council tax	2,903	3,622
Heat and light	22,283	32,799
Motor and vehicle costs and travel	13,750	14,465
Maintenance	96,371	211,915
Printing, postage and stationery	6,043	8,144
Miscellaneous costs	5,830	6,752
Telephone	4,852	6,056
Audit	3,672	5,457
Professional fees	1,428	4,956
Fire/security	3,018	2,421
Chemist /medical	2,112	3,025
Training/resources etc	15,293	14,345
Recruitment	7,778	9,125
Publicity/fundraising	11,872	6,396
Profit on sale of vehicle	(6,500)	(3,700)
Children's expenditure	11,395	9,216
	218,180	354,708

AUDITORS' REPORT

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

We have audited the financial statements on pages 4 to 11 which have been prepared on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

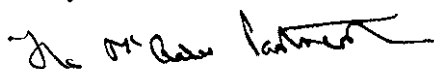
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the charitable company's affairs as at 31 March, 1998 and of its incoming resources and application of resources, including income and expenditure in the year then ended and have been properly prepared in accordance with the Companies Act 1985.



The McCabe Partnership
56 Palmerston Place
Edinburgh
Chartered Accountants
Registered Auditors

9 July 1998