

**The Royal School of
Needlework**

**Annual Report and Consolidated
Financial Statements**

31 August 2016

**Company Registration Number
12192 (England and Wales)**

**Charity Registration Number
312774**

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Reference and administrative information

Patron	HRH The Duchess of Cornwall
President	HRH The Duchess of Gloucester
Council Members	Mr Nicholas Rochez – Chairman* Mrs Elizabeth Braakenburg Dyce Ms Nicola Clarke Mrs Caroline De Guitaut Mrs Morgan Fowles Miss Samantha Hoe-Richardson Ms Deborah Lamb Prof John Miles Mr Andrew Palmer – Honorary Treasurer* Mr Christopher Stooke* Mrs Sharan Wicks *Members of the Finance and Investment Committee
Chief Executive	Dr Susan Kay-Williams
Registered office	Apartment 12A Hampton Court Palace East Molesey Surrey KT8 9AU
Auditor	Buzzacott LLP 130 Wood Street London EC2V 6DL
Bankers	Barclays Bank plc 8/12 Church Street Walton on Thames Surrey KT12 2QX
Investment managers	J M Finn & Co 4 Coleman Street London EC2R 5TA
Company registration number	12192 (England and Wales)
Charity registration number	312774

CHAIRMAN'S INTRODUCTION

As my term as Chairman and Trustee comes to an end at the next AGM, this report provides an opportunity to reflect on the development and evolution of the RSN over the past decade. Some ten years ago my predecessor, Brian Levy, set the RSN on a new path with the appointment of Dr Susan Kay-Williams as our Chief Executive. I detail below some of those achievements.

In short the RSN faced and overcame a number of challenging situations, and has now demonstrated consistently that it can live within its means. More excitingly during this period it has grown both its income and its influence. Notable achievements include an expansion of its Certificate and Diploma courses, introducing a future tutor programme, establishing a degree programme and extending its reach throughout the UK and, indeed, internationally.

The RSN Certificate and Diploma in technical hand embroidery continue to be the high watermark of technical excellence and qualification. These qualifications are sought by people from a range of cultures and countries with students coming from all corners of the globe from America to Australia and Brazil to Botswana.

In order to keep pace with the demand, a future tutor programme was introduced and is now well established. This enables us to ensure we have quality tutors who in turn can help us further expand the locations where we teach, both at home and internationally.

The degree programme was a bold step in 2009. We now have a full three year BA programme which continues to be reviewed by the Quality Assurance Agency. Through that review the RSN received a commendation for its course and student opportunities; a first such achievement for a higher education facility that does not receive government funding. The degree team has maintained its commendations at each annual inspection.

The number and range of short courses the RSN offers has grown extensively and in new locations from Exeter to Glasgow and this year included visits to Dublin and Belfast. Over the same period we have offered both short courses and Certificate and Diploma at least twice a year in North America, visiting Canada for the first time this year.

The RSN studio has undergone some of the most significant changes. From having to reduce capacity in 2010 the team has worked consistently hard and this year it has taken on a mixture of new commissions, conservation and restorations. The variety of new commissions has also increased over time from a CD cover for an American R&B star to the Oscar dress for Naomie Harris and most recently a series of truly stunning altar frontals for a private oratory.

In the last year the RSN has added to its footprint at Hampton Court moving into additional rooms for the Certificate and Diploma courses. This has had several benefits including the opportunity to provide private lessons, bespoke classes and enabling the future tutors to have their own room. We are grateful to the Palace authorities for the ability to expand and have taken full advantage of doing so, now occupying five times the space we did ten years ago.

CHAIRMAN'S INTRODUCTION (continued)

One of the greatest delights is seeing the various strands of the RSN coming together. We have seen the studio, future tutors and degree departments work together on a project to create the White Walker Panel for the DVD launch of the fifth series of the iconic television series Game of Thrones. The final piece, which also included work by the Embroiderers Guild Members and Fine Cell Work, measured 6m x 4m!

All the above and more has been achieved over the past decade. At the same time we have seen a significant growth in the income, maintaining a balanced budget each and every year. Whilst the RSN has now demonstrated that it can live within its means, it does rely significantly on our friends and supporters, in particular the livery companies who provide the RSN with the ability to fund new projects, bursaries for students and fuel much of the growth described above. A big thank you to all who support the RSN.

In December we learned that Her Majesty The Queen was stepping down as our Patron. We thank Her Majesty for all her support over the past fifteen years. The RSN's new royal Patron will be HRH The Duchess of Cornwall and the RSN team will look forward to welcoming the Duchess and introducing her to the RSN's students and work.

Having said all that, none of the above would have been possible without our staff. The number in the core management and administrative team remains remarkably small at 7 full-time and 16 part-time staff, working alongside the part-time stitchers and tutors. Thank you to each one of them for their dedication, commitment and engagement, which goes well beyond reasonable expectations. Their tireless effort and support is recognised by the trustees.

As I depart I leave the RSN in the capable hands of Andrew Palmer, currently Honorary Treasurer, and a Board of Trustees who have much to contribute. Not only is the RSN in rude health, but it is well placed, supported by a great staff and a strong Council, to continue and to expand its influence as the centre of excellence for the art of hand embroidery.



Nicholas Rochez

Chairman

CHIEF EXECUTIVE'S INTRODUCTION: LOOKING TO THE FUTURE

The RSN has been growing and developing in small incremental stages, but with the increase in floor space and a small but increased headcount we now need to ensure we can grow more effectively. To achieve some of this we need to enhance our IT provision by smartening our systems, so that information does not have to be rekeyed, but rather automatically updates, allowing our team to focus on more directly income-generating activities. At the heart of our development in the short term will be a complete review of our IT provision, capabilities and future requirements so that we can gear up effectively for the next five years.

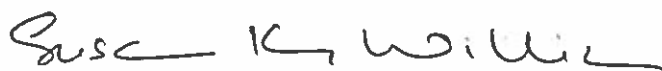
Next, we need to look at where we are delivering courses and look at meeting the needs of different communities. As more Tutors graduate from our Future Tutor programme we will endeavour to offer courses in more places, as we have with courses in Dublin and Belfast for the first time in 2016.

We have been fundraising to establish a number of important new projects. We have now completed the initial funding for the RSN Stitch Bank to document every stitch and record examples of where it has been used. Next we need to appoint the project manager and the advisory group to push this forward. We shall also, over the next year, be undertaking the first tranche of archive digitisation so that over the next five years we will work to have many of our records and documents online for everyone to access, from family historians to researchers specialising in the late 19th century or women's history or economic history. However, merely having the pages digitised is only the first step in the process, as to make it accessible, we will require the copperplate writing to be translated into a computer-readable script through the use of volunteers, and then prepare the website to take these additions. We will need to raise further funds for a project manager to oversee the copperplate translation and we will need to work out the best way to present some of the information online so that instead of them just being a series of books they help the reader by telling stories through images and information.

So this coming year will in many ways be a year of consolidation, allowing the small staff team to 'catch their breath'. We have additional space at Hampton Court which we need to learn how to use as effectively as possible and we will also have a need for additional larger rooms from September 2017 if we are to continue to build the degree numbers.

We have a very dedicated staff team and yet our numbers remain very small which means we have no spare capacity. We will need to ease this burden through increased headcount if we are to achieve the future plans.

Finally, in 2017 the RSN will have been based at Hampton Court Palace for 30 years, and we will plan to celebrate this during the year.



Dr Susan Kay-Williams

Chief Executive

The Members of the Council (as trustees), who are also the directors for the purposes of company law, present their annual report together with the audited consolidated financial statements of The Royal School of Needlework for the year ended 31 August 2016. The report has been prepared in accordance with the Charities Act 2011 and is also the report of the directors for the purposes of the Companies Act 2006. The reference and administrative information set out on page 1 and the Chairman's and Chief Executive's Introductions set out on pages 2 to 4 also form part of the report.

The financial statements have been prepared in accordance with the accounting policies on pages 24 to 28 of the attached financial statements, and comply with the charitable company's memorandum and articles of association, the Charities Act 2011 and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), effective for accounting periods commencing on or after 1 January 2015.

ACTIVITIES AND ACHIEVEMENTS

The Royal School of Needlework (RSN) exists to offer practical education in the art and techniques of hand embroidery and to create, collect, conserve, interpret and display items of hand embroidery. The income and property of the charity are to be applied solely towards the promotion of its objects.

Teaching

Teaching the art and techniques of hand embroidery is at the heart of what we do, through four programme areas. The RSN also has regard to section 17 of the Charities Act 2011 requiring charities to offer public benefit and the RSN's commitment to this is reflected in the activities outlined below. We endeavour to make teaching by the RSN available to as many people as possible, taking people from beginners to advanced, we also offer taster courses for people to 'have a go' and we offer courses in various locations to try to offer an RSN opportunity to more people.

Future Tutors

To teach for the RSN one must be taught by the RSN in order to appreciate and pass on the hallmarks of how we teach and the technical approach to stitch. Maintaining and developing the number of teachers we have is absolutely vital to our plans for development. We can only teach more often in more locations if we have more tutors.

This year there were ten Future Tutor students across the three years including three transitional students who had completed the Certificate and some of the Diploma units before starting on the Future Tutor programme, so would be able to complete the course in two years. Four graduated at the end of the year, three in the UK and one in the US. The UK graduates will now start regular teaching for the RSN and working in the Studio.

ACTIVITIES AND ACHIEVEMENTS (continued)

Future Tutors (continued)

The financial challenge of the Future Tutor programme is that, as a practical course which is RSN-specific, students are not eligible for any loans or grants, so the RSN has taken the approach of raising funds to support the programme, enabling fees to be reduced and attracting bursaries to support the individual student's needs. This year more than £42,000 was raised for the course costs including £15,200 towards student bursaries and prizes.

The long-term financial goal is to increase the RSN endowment to support the ongoing Future Tutor programme.

Degree

The RSN degree in hand embroidery is the only degree focusing solely on hand embroidery in the UK and probably within Europe. The programme teaches core stitch techniques but then challenges students to take the stitch in new, creative directions based on their work in art and design, research and experimentation.

The degree is subject to the same quality assurance standards as all other higher education providers and the RSN was once again commended for the quality and breadth of its course, especially in relation to the opportunities available to students. This year students worked for Fashion Week shows with Hussain Chalayan, Giles Deacon, Jasper Conran and Alexander McQueen and worked on longer projects with Zandra Rhodes. They also worked on the central figure for a six metre by four metre depiction of a White Walker from the television series Game of Thrones for the launch of the fifth season on DVD.

This year we welcomed fifteen first year students, our largest first year intake for several years. We put the increased numbers down to more active marketing and especially to the change to the full three-year BA programme. However, two anticipated students from the second and third years did not continue and we had our smallest ever third year of just three students. Going forward, as students are signing up for the three-year degree we do not anticipate a significant fall-off between the second and third year again, although a loss of one student per cohort per annum, often for reasons outwith the course, is becoming common. Because of how the budget is structured, the loss of students and therefore income ran all through the year, but the degree team organised resources accordingly to endeavour to cover the budget shortfall.

Marketing for the degree remains important but we are also beginning to see the impact of raising the profile of the course, through high profile activities as well as media coverage.

Certificate and Diploma

The Certificate and Diploma in technical hand embroidery are the hallmark courses of the RSN. As part time courses they are open to a wide range of people and, due to demand, they are taught six days a week at Hampton Court Palace, in four other centres in England and Scotland, in three locations in Japan and as intensive courses in North America.

This year we went for the first time to Canada, teaching both the Certificate and Diploma and short courses in Toronto.

ACTIVITIES AND ACHIEVEMENTS (continued)

Certificate and Diploma (continued)

As the number of students and the locations grew, administering the fees and attendances became more challenging so during the year the team worked with an RSN trustee to identify and evaluate a number of online booking systems which could handle the bookings, enable students to change their booked days if required and ensure that students had paid before attending. The Bookeo system was introduced in spring 2016 for bookings from September onwards and proved an immediate success with both students and administrators. Now all centres are on the system, with the exception of Japan as we need to finalise translating the screens.

During 2015-16 we taught a total of 345 students: 234 Certificate and 111 Diploma, a small increase on 2014-15.

Short courses

Short courses are mostly one and two day courses at weekends for leisure stitchers. The courses are for all levels, beginning with introductory classes through to advanced techniques. They take place at Hampton Court and also in Bristol, Glasgow, Rugby and Exeter on a regular basis, as well as being part of our North American offering. We also offer taster classes at exhibitions so that more people can experience the RSN approach to stitch.

For the first time this year we offered short courses in Belfast and Dublin to meet demand, having for several years exhibited at the Dublin Knitting and Stitching show and always being asked when courses would be available locally. These were very successful and are planned to be repeated in 2017.

The number of courses we offered this year doubled as a response to perceived demand and the acquisition of additional rooms at Hampton Court. In the event, there was an increase in the number of students who participated, up from 1,355 to 1,877, but we did not achieve the budgeted level of income. Over the coming year we will look at the range of courses we provide but also at the range of locations, as we know that the greatest unfulfilled demand is outside the Hampton Court area.

With the new space we are also able to offer more private lessons and bespoke classes. We have already seen an increase in the number of private lessons whether that be for people starting new projects or wanting to know how to restart something that they had not completed. Bespoke classes are for a minimum of six people and can last from half a day to a week and be on a technique or combination of techniques to meet the needs of the group. We have had a small number of successful bespoke classes, particularly one where it ended with 10 students not just six, but this is an approach that is taking a little longer to embed as potential groups need to get used to the idea.

ACTIVITIES AND ACHIEVEMENTS (continued)

Exhibitions and lectures off site

Our exhibitions and lectures off site are a key component of fulfilling our public benefit, allowing many more people to see and hear about examples of recent student work and pieces from the RSN Collection. Exhibitions of contemporary work were held at Hampton Court Palace during the RHS flower show and in Durham. Unfortunately an exhibition planned for Rugby had to be cancelled at the last minute when the local borough council wanted the space for an exhibition on rugby. We also took the For Worship and Glory exhibition to Chester Cathedral. While the number of visitors was down on the Ely exhibition which took place in the previous year, over 1,000 people came to see the pieces displayed in the Chapter House.

The Chief Executive speaks about the RSN at all opportunities and this year events have included lectures at the Knitting and Stitching Show, Bath in Fashion, Chester Cathedral as part of the Worship and Glory Exhibition, Worcester Cathedral as part of its costume exhibition, many National Association of Decorative and Fine Art Societies, Embroiderers' Guilds, WIs and a special day event, with a sell-out audience of 170, in Toronto to celebrate the RSN's first visit to Canada.

One of the more unusual requests to exhibit the RSN's work was at Kew Gardens. While plants would be considered a subject of mutual interest, the fact that we were stationed outdoors is less common, leading to one day being abandoned due to repeatedly intermittent rain. Nevertheless on the other two days we reached a new audience and people enjoyed seeing the work of students and we also had two frames where people could have a go themselves.

Exhibitions on site

Each year we hold two exhibitions in the RSN Studio and offer educational Talk and Tours for people to visit. The event comprises an introductory talk followed by a guided tour around the exhibition, led by one of the RSN's trained volunteers. Visitors also have the opportunity to see some of the pieces being worked on by the RSN Studio team and those coming on a Curator's Talk and Tour may also see additional pieces that link to the theme but for a variety of reasons cannot be included in the exhibition.

As a general principle we try to alternate one exhibition majoring on pieces from the RSN Collection with an exhibition predominantly featuring students' work, but both of the exhibitions for this year featured a preponderance of work from the Collection, thereby giving people a greater chance to see some of our pieces from all over the world.

The *Whitework* exhibition proved slightly less popular, possibly because of a misunderstanding that whitework is 'all the same', but the following exhibition, *Peacocks and Pomegranates* was very popular and attracted RSN fans from around the world.

ACTIVITIES AND ACHIEVEMENTS (continued)

RSN Studio

The role of the Studio is to undertake commissions of both new embroidery and conservation and restoration of historic textiles for a range of clients. This year the predominance was on new work, especially for a private oratory in Berkshire. It also worked on two special initiatives: the roundels to represent the Lannister clan for a work to launch the fifth season of Game of Thrones and a stitched corsage for the Queen's 90th birthday featuring the four flowers of the United Kingdom. These special pieces help to lift our profile. The corsage was featured in an extended article in The Lady magazine.

In addition to its core area, the Studio plays an important teaching role for our Future Tutors who spend 6 weeks each year in the Studio learning conservation techniques and also about working on other people's pieces.

RSN Collection/Archive

The RSN Collection of textiles and Archive of documents on the history of the RSN are both valuable resources for students, tutors and researchers. We endeavour to make these available to the public through the exhibitions and also welcome individual researchers and students if they identify what it is they want to look at. Given the limited cataloguing of much of what we have, sometimes the requests have to be turned down if we cannot identify their needs, as the role of Curator and Archivist is taken by the Chief Executive and time to explore these vast repositories is limited.

Nevertheless, during the year we have welcomed researchers to look at, amongst other things, materials relating to the history of the RSN in Scotland, from the D Day Museum in Portsmouth to examine Margaret Bartlett's notebook about the making of the Overlord Embroideries and we have provided information, which we have and other sources do not, on the teaching and promotion of needlework as therapy and as 'make do and mend' in the Second World War.

Students also have access to handling collections and are introduced to the collection so they know something of what we have that might be of use to them in their studies. For example second years examine a piece from the collection as part of their research.

The contextual studies lecturer also ran three Study Days for the public looking in more detail at pieces in the collection especially relating to lingerie of different periods. We also made some places available to Future Tutors.

Friends

The Friends of the RSN are people who want to support the RSN. They make an annual payment or, by choice can become a Life Friend or a Special Supporter and pay more for their Friends' membership as a donation to the organisation.

ACTIVITIES AND ACHIEVEMENTS (continued)

Friends (continued)

The Friends have a vital role as ambassadors and advocates for the RSN and many have also been additional donors, encouragingly supporting the work.

There were just under 1,000 Friends at the year end.

Media

A key part of the RSN's strategic outreach is to inform more people about its work, and to this end the RSN has embarked on reaching new audiences through a range of publications. These included supplying notes on a range of classic stitches for the textile journal *Selvedge*.

Retail

We offer both a physical shop at Hampton Court Palace and an online shop for a range of specialist and supporting products. As needlework supplies become more difficult to find in many local communities we are finding people turning to the RSN and we will endeavour to meet this growing need. In particular we specialise in sales of slate frames and trestles. We also offer a range of cards based on students' work from which the student gets 50p from the sale of each card; this helps support our students and shows visitors the wide range of subjects suitable as embroidery designs from owls and rabbits to t-shirts and nursery rhyme characters.

Like for like shop sales increased in the year, as did gross margin and also online sales.

Our aim for the future is to offer a wider range of specialist materials. As these items such as metal threads become more difficult to source, customers will look to the RSN to provide them, so we believe that there is scope for growth in this area. We also plan to launch a new series of cards of students' work, additional stitch books and colouring books of RSN patterns.

How have we done this year?

Across the board, all departments increased their performance and even though some may not have achieved their individual budgeted targets, overall the RSN did achieve target and this represents a really strong performance from the team.

The RSN took on additional space at Hampton Court Palace which became available in September 2015. This space was much bigger for the Certificate and Diploma students, although initially lighting was an issue. After enhancing the lighting by removing the false shelves covering two windows and upgrading the actual lights, it was eventually agreed that the walls could be painted off white, from blue, although this did not happen until the summer 2016 recess. C&D numbers held steady but did not increase to the extent that had been targeted.

ACTIVITIES AND ACHIEVEMENTS (continued)

How have we done this year? (continued)

Additional rooms were provided for the Future Tutors and bespoke classes. Having a separate room for the Future Tutors meant that they could all be taught together on the same days and that the tutors could demand higher standards, sometimes not previously possible in the mixed environment of a general class. As such our Future Tutors have all begun to achieve at a higher level.

The smaller rooms cannot accommodate the maximum twelve people for a short course but are suitable for smaller private lessons and bespoke classes. This was a new initiative made possible because of the new rooms and there are now opportunities for the RSN to build on this in terms of developing both private lessons and bespoke classes.

Donors and supporters

The RSN relies on fundraised income for some of its core programmes, especially Future Tutors and Degree bursaries, but it particularly needs funds for new projects as nothing new can be initiated without the available funds.

During the year, fundraising energy was focused on finding new supporters for the campaign. There was a limited level of success here, but this will be built on over the coming years.

Meanwhile the RSN is extremely grateful to those organisations who continue to support our work in an ongoing way including several charitable trusts, such as the Eranda Rothschild Foundation and livery companies such as the Worshipful Company of Needlemakers, Worshipful Company of Girdlers, and the Worshipful Company of Haberdashers and others who wish to remain anonymous.

FUTURE DEVELOPMENTS

The Year Ahead

In many ways 2016-17 will be a year of consolidation as we develop more Future Tutors, look to increase the take up of short and bespoke courses, continue to market the Degree and the Certificate and Diploma and the Studio completes one large commission and moves on to another. Meanwhile thanks to the available funding, we will be starting work on the RSN Stitch Bank, improving the IT systems and website, beginning the digitisation of the archive and looking at how best to photograph stitching clearly so that we can take further the distance learning we so want to make available.

FINANCIAL REVIEW

Financial report for the year

The consolidated statement of financial activities for the year shows a net surplus (before investment gains) of £4,362 (2014/15 surplus of £267,653).

The overall income for the year 2015/16 amounted to £1,758,317 (2014/15 £1,867,656), a year on year reduction of £109,339. Increases were experienced in all areas of activity, with the exception of donations and legacies of £241,869 (2014/15 £557,245), where a decrease of £315,376 was mainly due to the receipt of a substantial legacy in the previous year. Donations and legacies remain an extremely important source of income, particularly with regard to the Degree and Future Tutor programmes, neither of which receives any government funding.

The trading subsidiary income of £340,449 (2014/15 £277,191) increased mainly due to the level of activity in the RSN studio which benefitted from a particularly large commission.

Income from charitable School activities amounted to £1,010,413 (2014/15 £884,403) a significant increase over the previous year due to increased student numbers across all types of classes, and investment income of £165,586 (2014/15 £148,817) also increased as a result of the receipt of a one off special dividend.

The restricted fund income of £190,610 consisted of resources earmarked for the Degree and Future Tutor programmes and the RSN Stitch Bank and Archive Digitisation Campaigns. Restricted expenditure of £170,072 was incurred against the Degree and Future Tutor programmes and also in relation to the set-up of the new classrooms at Hampton Court Palace (for which funds were largely raised in 2014/15). Both the RSN Stitch Bank and Archive Digitisation projects can now commence in 2016/17 due to the level of funding received to date.

Total expenditure for the year of £1,753,955 was £153,952 more than the previous year (2014/15 £1,600,003) and reflects the additional costs incurred in providing the expanded space for classes at Hampton Court Palace and the staffing and other resources required to yield the additional income in the current year.

Net realised and unrealised gains on investments for the year amounted to £406,717 (2014/15 losses £122,950) reflecting the strength of the market, particularly in the second half of the year following the EU referendum. At the balance sheet date, net assets totalled £4,685,042 of which £1,940,936 are unrestricted.

The Royal School of Needlework has an investment of £100 in the share capital of RSN Enterprises Limited, a wholly owned company which is incorporated in England. The net trading income of the company for the year amounted to £35,452. This will be donated to the School under the Gift Aid arrangements.

FINANCIAL REVIEW (continued)

Reserves policy and financial position

The Council has examined the requirements for free reserves, i.e. those unrestricted funds not invested in tangible fixed assets, designated for specific purposes or otherwise committed. The Council considers that, given the nature of the charity's work and the discretionary nature of a significant proportion of income, the level of free reserves should be increased from the equivalent of up to four months' unrestricted expenditure to up to five months' total expenditure at any one time. Based upon current expenditure levels this would be in the region of £825,000. The Council is of the opinion that this provides sufficient flexibility to cover temporary shortfalls in incoming resources due to timing differences in income flows, adequate working capital to cover core costs and will allow the charity to cope with and respond to unforeseen emergencies whilst specific action plans are implemented.

The charity has total reserves of £4,685,042. This includes endowment funds and restricted funds of £2,257,587 and £481,749 respectively and designated funds of £800,000. After deducting funds represented by tangible fixed assets and shareholders' funds, this leaves free reserves at 31 August 2016 of £1,111,097. The excess of free reserves compared with the target level of £825,000 largely arose in the latter part of the year due to unrealised investment gains following the rise in the stock market after the EU referendum in June.

At a meeting on 20 July 2016 the Council agreed that £800,000 should be formally designated towards the planned developments within the strategic plan. This is the same level as the previous designation as the future strategic projects planned remain unchanged. The Council will review this designation on an ongoing basis.

Investment policy

Under the Memorandum and Articles of Association, The Royal School of Needlework has the power to make any investments which the Council sees fit. Following the introduction of the new investment policy in 2011, the Finance and Investment Committee has been keeping a close eye on investments and returns to ensure maximum benefit for the RSN, a challenging matter in the currently volatile market.

The tenor of the investment policy remains to maintain the real value of the RSN funds through continued growth of the asset base, seeking to achieve this with an appropriate balance between sustained cash flow and capital growth, to generate over the long term, defined as a period of not less than five years, a total return on capital invested that reflects the risk appetite.

During the year, the Council also considered and reaffirmed its risk appetite for the investments which has been mandated as medium.

STRUCTURE, GOVERNANCE AND MANAGEMENT

Constitution

The Royal School of Needlework was founded in 1872 and incorporated in England, on 16 April 1878 as a company limited by shares, the word 'limited' being omitted by licence of the then Board of Trade. The School is also registered as a charity with the Charity Commission, under the number 312774.

Council and Trustees

The governing body of the RSN is the Council. This comprises the Chairman, Honorary Treasurer and up to 12 ordinary members.

Members of the Council (who are also trustees of The Royal School of Needlework for the purposes of charity law) who served during the year and up to the date of this report were:

Council members (Directors)	Appointed / Retired
Mr Nicholas Rochez (Chairman)*	
Mrs Elizabeth Braakenburg Dyce	Appointed 20 April 2016
Ms Nicola Clarke	Appointed 20 April 2016
Mr David Cohen	Retired 17 February 2016
Mrs Jean Crawford*	Retired 1 October 2015
Mrs Caroline De Guitaut	
Mr David Elford*	Appointed 17 February 2016 and resigned 19 October 2016
Mrs Morgan Fowles	Appointed 20 April 2016
Lady Catherine Garvagh	Retired 1 October 2015
Miss Samantha Hoe-Richardson	Appointed 1 October 2015
Prof Alice Kettle	Resigned 17 February 2016
Ms Deborah Lamb	Appointed 17 February 2016
Prof John Miles	Appointed 5 October 2016
Mr Andrew Palmer (Honorary Treasurer)*	
Mrs Susan Sellers	Retired 17 February 2016
Mr Christopher Stooke*	
Mrs Sharan Wicks	

* indicates members of the Finance and Investment Committee which met four times during the year under the chairmanship of the Honorary Treasurer, Mr Andrew Palmer.

All Council Members at 31 August 2016 held one £10 share in the capital of the charitable company.

In addition to the Council there are two committees which report to the Council:

The Finance and Investment Committee which meets four times a year and ensures that the finances of the RSN are well-managed and accurately reported, and that the investments are handled in accordance with the agreed risk appetite.

The Degree Education Committee which was primarily established to offer support and scrutiny to the degree programme, particularly in light of the enhanced external scrutiny of higher education courses.

STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)

Appointment to Council

Council members serve a term of three years and may serve a second term of three years before retirement.

Approximately biennially the trustees undertake a skills analysis, the Chairman and the Chief Executive review the skills available, the likely retirement dates of trustees and the future needs of the charity in order to start searching for new potential trustees.

During 2015-16 we were aware that four trustees came to the end of their term of office having served two terms and added to this, two further trustees needed to stand down earlier than expected, so there was a higher than usual turnover of trustees.

The following members of Council reached the completion of their term in 2015-16 having served two terms: Mrs Jean Crawford and Lady Catherine Garvagh (both retired 1 October 2015) and Mr David Cohen and Mrs Sue Sellers (both retired 17 February 2016).

In addition the following members of Council resigned in 2016 before the end of their term: Professor Alice Kettle (resigned 17 February 2016) who took on a new role at Manchester University and decided to resign from the RSN as she considered that there could be a potential conflict of interest; and David Elford (appointed 17 February 2016 and resigned 19 October 2016) who relocated unexpectedly, something which had not been known about when he took on the role and given the distance he also decided to stand down.

New trustees were sought through advertising on the RSN website, comparing skill sets with areas of need, and then potential candidates were interviewed by the Chairman and Chief Executive.

This resulted in four new members of Council: Ms Deborah Lamb who was appointed on 17 February 2016 and Mrs Elizabeth Braakenburg Dyce, Ms Nicola Clarke and Mrs Morgan Fowles who all joined on 20 April 2016.

Council Members' Induction and Training

On appointment trustees are provided with the Charity Commission publication about trustees' roles and responsibilities and are invited to come and spend a day with senior managers and their teams learning about the work of each team and are provided with copies of the annual report, strategic plan and campaign presentation. In addition, given the high turnover of trustees, at this year's Away Day of trustees and senior staff, the senior staff presented a summary overview of challenges overcome in the last three years and challenges ahead for the next three. Trustees have also been provided with Charity Commission guidance on the new fundraising regulations.

STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)

Statement of the Council's responsibilities

The Council Members (who are also directors of The Royal School of Needlework for the purposes of company law) are responsible for preparing the report of the Council and financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice).

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

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ observe the methods and principles in Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102);
- ◆ make judgements and estimates that are reasonable and prudent;
- ◆ state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ◆ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in operation.

The Council is responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006 and the Charities Act 2011. They are also responsible for safeguarding the assets of the charitable company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Council Members confirms that:

- ◆ so far as the Council Member is aware, there is no relevant audit information of which the charitable company's auditor is unaware; and
- ◆ the Council Member has taken all the steps that he ought to have taken as a trustee in order to make himself/herself aware of any relevant audit information and to establish that the charitable company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)

Statement of the Council's responsibilities (continued)

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Organisational Structure and Key Management

The key management personnel of the RSN in charge of directing and controlling, running and operating the charity comprise the Council and the Chief Executive, Dr Susan Kay-Williams. The Chief Executive is supported in day to day operations by a small senior management team and other staff. The RSN is a small organisation with at most only three levels of hierarchy but in practice much of it operates at a more hands-on level.

The salary of the Chief Executive is set by the Council. The salaries of all staff are considered annually by the Finance and Investment Committee and approved by the Council.

As at 31 August 2016 the RSN employed seven full time and sixteen part time management and administrative staff and core teams of six part time stitchers in the studio and seventeen part time tutors. In addition there are around twenty volunteers who assist with the library, studio Talk and Tours, marketing and data entry.

Risk management

The Council and senior managers have reviewed the principal financial, reputational, operational and governance risks that might impact on the organisation during the year and updated the risk register accordingly. The review enables the RSN to reflect upon the impact of both internal and external changes and the longer term impact they may have, ensuring that mitigation is updated to respond to the changes. In the nature of a changing world, while known risks can be mitigated there will always be unanticipated events.

The Finance and Investment Committee continues to take the lead in reviewing the financial risks, aiming to minimise and mitigate any that appear or will potentially impact the charity and that are within its power to affect.

The Council has reviewed the RSN's internal financial controls and is satisfied that these are appropriate in minimising any risks to its funds.

The top three risks that could have a negative impact on achieving the RSN's strategic plan have been identified as:

The challenge of achieving budgeted income where the growth area is in short courses. This is being mitigated by stronger marketing of the short courses, potentially offering the courses in different locations and exploring additional income sources to cover the gaps.

STRUCTURE, GOVERNANCE AND MANAGEMENT (continued)

Risk management (continued)

The loss of key staff. We endeavour to mitigate this by training staff to step into roles, and bringing in others from different RSN areas as well as encouraging staff to return after maternity leave. As a small team there is very little 'slack' in the system. When someone is ill, especially a tutor, there can be a knock-on effect and the Council is aware of the engagement of all staff in working to achieve the agreed programme even where resources are constrained.

Delays in system enhancements impacting on staff efficiency and morale. This is an outcome of growth and sometimes new systems cannot be put in place fast enough, but the organisation is now looking at the needs for the medium to long term to ensure that the solutions that are put in place will bring maximum benefit. This will be actioned as quickly as possible commencing in 2017.

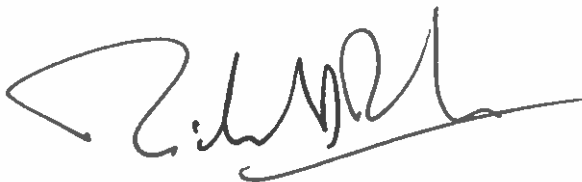
Trading subsidiary

The School has a wholly owned trading subsidiary RSN Enterprises Limited, a company incorporated in England with a share capital of £100. The principal activity of the company is that of undertaking the commercial and retail activities of The Royal School of Needlework. The company comprises the RSN Studio which undertakes commissions for individuals and public bodies and a retail outlet within the premises of The Royal School of Needlework. The retail outlet also offers products for sale via its website.

All taxable profits of the trading subsidiary are donated to the School under the Gift Aid scheme.

During the year the company made a net profit of £35,452 (2014/15 £3,464).

This report is approved by the Council on 28 February 2017 and signed on its behalf by:



Nicholas Rochez
Chairman



Susan Kay-Williams
Chief Executive

Independent auditor's report Year to 31 August 2016

Independent auditor's report to the members of The Royal School of Needlework

We have audited the financial statements of The Royal School of Needlework for the year ended 31 August 2016 which comprise the consolidated statement of financial activities, the consolidated and parent charity balance sheets; the consolidated statement of cash flows, the principal accounting policies 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 solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the charity's trustees, as a body, in accordance with Section 144 of the Charities Act 2011 and with regulations made under Section 154 of that Act. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and auditor

As explained more fully in the Statement of the Council's responsibilities set out in the Report of the Council, the Council (who are also the directors of the charitable company for the purposes of company law), is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed auditor under Companies Act 2006 and Section 151 of the Charities Act 2011 and report in accordance with those Acts. Our responsibility is to audit and express an opinion on the financial statements 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 and charitable company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Council to identify material inconsistencies with the audited financial statements 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 auditor's report Year to 31 August 2016

Opinion on financial statements

In our opinion the financial statements:

- ◆ give a true and fair view of the state of affairs of the group and the parent charitable company as at 31 August 2016 and of the group's 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 and the Charities Act 2011.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Council for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 Act 2011 requires us to report to you if, in our opinion:

- ◆ the parent charitable company has not kept adequate and sufficient accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- ◆ the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- ◆ certain disclosures of Council Members' remuneration specified by law are not made; or
- ◆ we have not received all the information and explanations we require for our audit; or
- ◆ the Council were not entitled to take advantage of the small companies exemption from the requirement to prepare a Strategic Report.



Katharine Patel, Senior Statutory Auditor
for and on behalf of Buzzacott LLP, Statutory Auditor
130 Wood Street
London
EC2V 6DL

8 March 2017

Consolidated statement of financial activities Year ended 31 August 2016

	Notes	Unrestricted funds £	Restricted funds £	Endowment funds £	2016 Total funds £	2015 Total funds £
Income and expenditure						
Income and endowments from:						
Donations and legacies	1	51,259	190,610	—	241,869	557,245
Investment income	2	165,586	—	—	165,586	148,817
Income from trading activities	3	340,449	—	—	340,449	277,191
Charitable activities						
. School activities	4	1,010,413	—	—	1,010,413	884,403
Total income		1,567,707	190,610	—	1,758,317	1,867,656
Expenditure on:						
Raising funds	5	392,525	21,300	—	413,825	403,254
Charitable activities						
. Costs of school activities	6	1,180,058	148,772	11,300	1,340,130	1,196,749
Total expenditure		1,572,583	170,072	11,300	1,753,955	1,600,003
Net (expenditure) income before investment gains and losses	8	(4,876)	20,538	(11,300)	4,362	267,653
Realised losses on investments	11	(26,148)	(3,083)	(27,553)	(56,784)	(27,130)
Unrealised gains/(losses) on investments	11	213,431	25,166	224,904	463,501	(95,820)
Net income and net movement in funds		182,407	42,621	186,051	411,079	144,703
Reconciliation of funds:						
Fund balances brought forward at 1 September 2015		1,758,529	439,128	2,071,536	4,269,193	4,124,490
Fund balances carried forward at 31 August 2016		1,940,936	481,749	2,257,587	4,680,272	4,269,193

Balance sheets 31 August 2016

	Notes	Group		Charity	
		2016 £	2015 £	2016 £	2015 £
Fixed assets					
Tangible assets	9	111,358	112,392	111,358	112,392
Investments	11	4,570,262	4,195,908	4,570,362	4,196,008
		<u>4,681,620</u>	<u>4,308,300</u>	<u>4,681,720</u>	<u>4,308,400</u>
Current assets					
Stocks	12	53,388	47,144	19,829	21,247
Debtors	13	110,985	112,899	149,115	77,652
Cash at bank and in hand		296,084	186,377	247,997	169,298
		<u>460,457</u>	<u>346,420</u>	<u>416,941</u>	<u>268,197</u>
Creditors: amounts falling due within one year	14	<u>(457,035)</u>	<u>(380,817)</u>	<u>(413,619)</u>	<u>(302,694)</u>
Net current assets (liabilities)		<u>3,422</u>	<u>(34,397)</u>	<u>3,322</u>	<u>(34,497)</u>
Total net assets		<u>4,685,042</u>	<u>4,273,903</u>	<u>4,685,042</u>	<u>4,273,903</u>
Represented by:					
Capital and reserves					
Called up share capital	15	290	290	290	290
Capital redemption reserve	16	4,480	4,420	4,480	4,420
		<u>4,770</u>	<u>4,710</u>	<u>4,770</u>	<u>4,710</u>
The funds of the charity:					
Endowment	17	2,257,587	2,071,536	2,257,587	2,071,536
Restricted	18	481,749	439,128	481,749	439,128
Unrestricted funds:					
· General fund		1,140,936	958,529	1,140,936	958,529
· Designated fund	19	800,000	800,000	800,000	800,000
		<u>4,680,272</u>	<u>4,269,193</u>	<u>4,680,272</u>	<u>4,269,193</u>
		<u>4,685,042</u>	<u>4,273,903</u>	<u>4,685,042</u>	<u>4,273,903</u>

Approved by the Council of Members on 28 February 2017 and signed on its behalf by:



Nicholas Rochez
Chairman



Andrew Palmer
Honorary Treasurer

The Royal School of Needlework: Company Registration Number 12192

Consolidated statement of cash flows Year to 31 August 2016

	Notes	2016 £	2015 £
Cash flows from operating activities:			
Net cash (used in) provided by operating activities	A	(61,907)	219,164
Cash flows from investing activities:			
Investment income		165,586	148,817
Purchase of tangible fixed assets		(26,335)	(42,518)
Proceeds from the disposal of investments		571,538	525,814
Purchase of investments		(422,280)	(770,927)
Net cash provided by (used in) investing activities		288,509	(138,814)
Change in cash and cash equivalents in the year		226,602	80,350
Cash and cash equivalents at 1 September 2015		209,545	129,195
Cash and cash equivalents at 31 August 2016	B	436,147	209,545

Notes to the statement of cash flows for the year to 31 August 2016

A Reconciliation of net movement in funds to net cash (used in) provided by operating activities

	2016 £	2015 £
Net movement in funds (as per the statement of financial activities)	411,079	144,703
Adjustments for:		
Depreciation charge	27,369	16,186
(Gains) losses on investments	(406,717)	122,950
Investment income	(165,586)	(148,817)
Increase in stocks	(6,244)	(4,460)
Decrease (increase) in debtors	1,914	(25,054)
Increase in creditors	76,218	113,646
Increase in capital redemption reserve	60	10
Net cash (used in) provided by operating activities	(61,907)	219,164

B Analysis of cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	296,084	186,377
Cash held by investment managers	140,063	23,168
Total cash and cash equivalents	436,147	209,545

Principal accounting policies Year to 31 August 2016

The principal accounting policies adopted, judgements and key sources of estimation uncertainty in the preparation of the financial statements are laid out below.

Basis of preparation

These financial statements have been prepared for the year to 31 August 2016.

The financial statements have been prepared under the historical cost convention with items recognised at cost or transaction value unless otherwise stated in the relevant accounting policies below or the notes to these financial statements.

The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) (Charities SORP FRS 102) issued on 16 July 2014, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Charities Act 2011.

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

The financial statements are presented in sterling and are rounded to the nearest pound.

Reconciliation with previous Generally Accepted Accounting Practice

In preparing the financial statements, the Council has considered whether in applying the accounting policies required by FRS 102 and the Charities SORP FRS 102 a restatement of comparative items was needed. No balance sheet restatements were required. Net income has been restated to include unrealised losses on investments.

This adjustment has had the following effect on the net income per the statement of financial activities for the year to 31 August 2016:

Reconciliation of reported net income per statement of financial activities	2015 £
Net income as previously stated	240,523
Adjustment for unrealised losses on investments now treated as a component of net income	(95,820)
2015 net income as restated	144,703

Critical accounting estimates and areas of judgement

Preparation of the financial statements requires the Council Members and management to make certain judgements and estimates.

The items in the financial statements where these judgements and estimates have been made include: stock provisions, estimating the useful economic life of tangible fixed assets and legacy recognition.

Principal accounting policies Year to 31 August 2016

Assessment of going concern

The Council has assessed whether the use of the going concern assumption is appropriate in preparing these financial statements. The Council has made this assessment in respect to a period of one year from the date of approval of these financial statements.

The Council has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the ability of the charity to continue as a going concern. The Council is of the opinion that the charity will have sufficient resources to meet its liabilities as they fall due. The most significant areas of judgement that affect items in the financial statements are detailed above. With regard to the next accounting period, the year ending 31 August 2017, the most significant areas that affect the carrying value of the assets held by the charity are the level of donations and legacies, the level of investment return and the performance of the investment markets.

Consolidation

Consolidated financial statements ("group financial statements") have been prepared in respect of the charity and its wholly owned subsidiary, RSN Enterprises Limited. The results of RSN Enterprises Limited have been consolidated on a line by line basis.

A separate statement of financial activities for the charity itself is not presented because the charity has taken advantage of the exemptions afforded by the Charities SORP FRS 102. The company has also taken advantage of the exemption in the Companies Act 2006 Section 408 not to present its own statement of financial activities. Net income of £375,627 (2014/15 - £141,239) is attributable to The Royal School of Needlework.

Income recognition

Income is recognised in the period in which the charity has entitlement to the income, the amount of income can be measured reliably and it is probable that the income will be received.

Income comprises donations and legacies, investment income, income from trading activities and school income.

Donations are recognised when the charity has confirmation of both the amount and settlement date. In the event of donations pledged but not received, the amount is accrued for where the receipt is considered probable. In the event that a donation is subject to conditions that require a level of performance before the charity is entitled to the funds or where the donation is specifically for a subsequent period, the income is deferred and not recognised until either those conditions are fully met, or the fulfilment of those conditions is wholly within the control of the charity and it is probable that those conditions will be fulfilled in the reporting period.

In accordance with the Charities SORP FRS 102 volunteer time is not recognised.

Principal accounting policies Year to 31 August 2016

Income recognition (continued)

Legacies are included in the statement of financial activities when the charity is entitled to the legacy, the executors have established that there are sufficient surplus assets in the estate to pay the legacy, and any conditions attached to the legacy are within the control of the charity.

Dividends are recognised once the dividend has been declared and notification has been received of the dividend due.

Interest on funds held on deposit is included when receivable and the amount can be measured reliably by the charity; this is normally upon notification of the interest paid or payable by the bank.

Income from school activities is accounted for on an accruals basis; where fees are received for courses commencing in the following financial period, the income is deferred to the next financial period.

Expenditure recognition

Liabilities are recognised as expenditure as soon as there is a legal or constructive obligation committing the charity to make a payment to a third party, it is probable that a transfer of economic benefits will be required in settlement and the amount of the obligation can be measured reliably.

All expenditure is accounted for on an accruals basis. Expenditure comprises direct costs and support costs. All expenses, including support costs, are allocated or apportioned to the applicable expenditure headings. The classification between activities is as follows:

- ◆ Expenditure on raising funds includes all expenditure associated with raising funds for the charity. This includes investment management fees, the costs of the trading subsidiary company and costs incurred in encouraging people and organisations to contribute financially to the charity.
- ◆ Expenditure on charitable activities includes all costs associated with furthering the charitable purposes of the charity through the provision of its charitable activities. Such costs include the direct cost of operating the school and support costs.

Allocation of support and governance costs

Support costs represent indirect charitable expenditure including governance costs. In order to carry out the primary purposes of the charity it is necessary to provide support in the form of personnel development, financial procedures, provision of office services and equipment and a suitable working environment. Governance costs comprise the costs involving the public accountability of the charity (including audit costs) and costs in respect of its compliance with regulation and good practice.

Principal accounting policies Year to 31 August 2016

Allocation of support and governance costs (continued)

Support costs (which are predominantly staff costs for the Chief Executive and marketing and finance teams) are apportioned between expenditure on raising funds and on charitable activities (which comprises costs of school activities) based on an estimate of the proportion of the time spent on each area. Governance costs are all included within expenditure on charitable activities (costs of school activities).

Tangible fixed assets

Depreciation is provided on all tangible fixed assets at the following annual rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life:

◆ Fixtures and fittings	10% on cost
◆ Office equipment	20% on cost
◆ Leasehold improvements	10% on cost or if shorter over the remaining term of the lease

Fixtures and fittings and office equipment with a value greater than £1,000 are capitalised.

Heritage assets

The Royal School of Needlework possesses a collection of historic embroidery, the value of which has not been included in the financial statements as the Council does not believe that the value of ascertaining their market value would be commensurate with the associated cost. Further details are disclosed in note 10 to the financial statements.

Investments

Investments are included on the balance sheet at their market value at the end of the financial period. Investment income is credited to income on an accruals basis, using dates of payment for dividends and daily accruals for interest. Realised and unrealised gains and losses are credited, or debited, to the statement of financial activities in the year in which they arise.

Stocks

Stocks are stated at the lower of cost and net realisable value as follows:

Materials	- At purchase cost on a first-in, first-out basis
Work-in-progress, finished work and goods held for re-sale	- At purchase cost or at cost of direct materials and labour plus attributable overheads based on the normal level of activity

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Principal accounting policies Year to 31 August 2016

Debtors

Debtors are recognised at their settlement amount, less any provision for non-recoverability. Prepayments are valued at the amount prepaid. They have been discounted to the present value of the future cash receipt where such discounting is material.

Cash at bank and in hand

Cash at bank and in hand represents such accounts and instruments that are available on demand or have a maturity of less than three months from the date of acquisition.

Creditors and provisions

Creditors and provisions are recognised when there is an obligation at the balance sheet date as a result of a past event, it is probable that a transfer of economic benefit will be required in settlement, and the amount of the settlement can be estimated reliably. Creditors and provisions are recognised at the amount the charity anticipates it will pay to settle the debt. They have been discounted to the present value of the future cash payment where such discounting is material.

Fund accounting

The unrestricted general fund comprises those monies which may be used towards meeting the charitable objectives of the charity at the discretion of the Council.

The designated fund comprises monies set aside out of unrestricted funds for future projects or purposes.

The restricted funds are monies raised for, and their use restricted to, a specific purpose, or donations subject to conditions imposed by the donor.

The endowment funds comprise permanent endowments, where the capital is held indefinitely and the income is used for prizes and training for students and expendable endowments, where both the capital and income can be used for student scholarships or the general purposes of the charity.

Notes to the financial statements Year to 31 August 2016

1 Donations and legacies

	Unrestricted funds £	Restricted funds £	Endowment funds £	Total 2016 £	Total 2015 £
Donations	46,259	153,685	—	199,944	260,245
Legacies	5,000	36,925	—	41,925	297,000
2016 Total funds	51,259	190,610	—	241,869	
2015 Total funds	58,477	498,768	—		557,245

2 Investment income

	Unrestricted funds £	Restricted funds £	Endowment funds £	Total 2016 £	Total 2015 £
Bank and deposit interest received	745	—	—	745	343
Income from listed investments	164,841	—	—	164,841	148,474
2016 Total funds	165,586	—	—	165,586	
2015 Total funds	148,817	—	—		148,817

3 Income from trading activities

The Royal School of Needlework has a wholly owned trading subsidiary which is incorporated in England. RSN Enterprises Limited undertakes the retail activities of The Royal School of Needlework. The company will donate its taxable profits to the charity under Gift Aid. A summary of the company's trading results is shown below. Audited financial statements have been filed with the Registrar of Companies.

RSN Enterprises Limited – Profit and loss account

	Total 2016 £	Total 2015 £
Turnover	351,297	299,205
Cost of sales	(250,132)	(235,258)
Gross profit	101,165	63,947
Other operating income	1,380	1,691
Administrative expenses	(67,093)	(62,174)
Operating profit	35,452	3,464
Gift Aid donation to The Royal School of Needlework	(35,452)	(3,464)
Retained profit for the financial year	—	—

In the year ended 31 August 2016, turnover includes £12,228 (2015: £23,705) of income received by RSN Enterprises Limited from the charity, which is eliminated upon consolidation.

Notes to the financial statements Year to 31 August 2016

4 Income from school activities

Income from school activities is wholly unrestricted and comprises mainly fees for the Degree programme, Certificate and Diploma programme, Future Tutors and Short Courses.

5 Raising funds

	Unrestricted funds £	Restricted funds £	Endowment funds £	Total 2016 £	Total 2015 £
Costs of trading subsidiary	317,225	—	—	317,225	297,432
Investment managers' fees	33,446	—	—	33,446	34,051
Advertising and literature	40,688	—	—	40,688	44,109
Fundraising costs	1,024	18,698	—	19,722	21,584
Travelling & other costs	142	2,602	—	2,744	6,078
2016 Total funds	392,525	21,300	—	413,825	
2015 Total funds	376,072	27,182	—		403,254

6 Costs of school activities

	Unrestricted funds £	Restricted funds £	Endowment funds £	Total 2016 £	Restated Total 2015 £
Staff costs	803,250	52,525	—	855,775	777,581
Other costs	376,808	96,247	11,300	484,355	419,168
2016 Total funds	1,180,058	148,772	11,300	1,340,130	
2015 Total funds	1,062,564	133,885	300		1,196,749

7 Staff costs

	2016 £	2015 £
Wages and salaries	902,013	820,208
Social security costs	61,491	58,532
Pension costs	59,051	45,237
	1,022,555	923,977
Staff costs by function were as follows:		
Cost of school activities	855,775	777,581
Cost of raising funds	166,780	146,396
	1,022,555	923,977

The average monthly number of employees during the year was 44 (2015: 41) and on a full time equivalent basis was 21 (2015: 20).

Notes to the financial statements Year to 31 August 2016

7 Staff costs (continued)

The number of employees who earned £60,000 or more (including taxable benefits but excluding employer's pension contributions) during the year was as follows:

	2016	2015
£70,001 - £80,000	—	1
£80,001 - £90,000	1	—

One Council Member received reimbursement of travelling expenses totalling £154 (2015: three Council Members received travelling expenses of £505).

No remuneration was paid to the Council Members in the year (2015 – none).

The key management personnel of the charity in charge of directing and controlling, running and operating the charity on a day to day basis comprise the Council and the Chief Executive. The total remuneration (including taxable benefits and employer's pension contributions) of the key management personnel for the year was £88,053 (2015 - £85,453).

8 Net (expenditure) income before investment gains and losses

These are stated after charging:

	2016 £	2015 £
Depreciation	27,369	16,186
Auditor's remuneration		
· Charity audit	7,000	6,700
· Trading subsidiary audit	3,090	2,970
· Other services – charity and trading subsidiary	2,688	2,780

9 Tangible fixed assets

Group and Charity	Leasehold improve- ments £	Office equipment £	Fixtures and fittings £	Total £
Cost				
At 1 September 2015	139,329	72,140	44,711	256,180
Additions	11,180	4,180	10,975	26,335
At 31 August 2016	150,509	76,320	55,686	282,515
Depreciation				
At 1 September 2015	63,170	56,353	24,265	143,788
Charge for year	19,105	5,262	3,002	27,369
At 31 August 2016	82,275	61,615	27,267	171,157
Net book values				
At 31 August 2016	68,234	14,705	28,419	111,358
At 31 August 2015	76,159	15,787	20,446	112,392

10 Heritage assets

The RSN is rich in heritage assets comprising embroidered textiles, designs, company archives, photographs and student pieces. The RSN does not generally have the funds to acquire pieces so most of the collection has been donated. The acquisition policy relates firstly to items that have an RSN connection, then to items of a high standard of work and/or types of work not already included in the collection.

The Collection of textiles comprises objects almost all of which have been donated to the RSN and which are mostly examples of embroidery, with some examples of lace. Whilst there are a few pieces from the 16th century most date from the 19th and 20th centuries. They comprise many embroidery techniques from the UK and around the world. Also included are a number of pieces worked by the RSN and its students, especially from the original Diploma course which ran from the late 19th century until 1960, which have been given back to the RSN by the families.

The Archive comprises registers, minutes and other paperwork relating to the management of the RSN, photographs and ephemera from various events. It also contains work books of jobs undertaken from the 1940s onwards, some with samples, and drawings. The largest holding is of designs relating to work undertaken in the Studio.

The RSN collection and archive is unique and though it is only minimally catalogued, researchers are given access to specific parts of the archive if it can be identified. The Collection and Archive are made available for student research and for public exhibition.

The RSN also endeavours to offer public access to the Collection through exhibitions and study days both at Hampton Court and elsewhere. Researchers wishing to access the archive can also make appointments but with the caveat that we do not have a resident archivist or curator and most parts of the archive are not catalogued, especially the designs. The most popular requests are whether a family member worked for the RSN (until the registers are digitised this will not be possible to answer), and also in relation to the work the RSN did in therapeutic stitch during the First World War.

Heritage assets have not been capitalised in the financial statements as the Council considers that the significant costs involved in valuing the charity's collection of historic embroidery would outweigh the benefits derived from such an exercise.

11 Investments

	2016 £	2015 £
Listed investments and cash holdings	4,570,262	4,195,908
Group total	4,570,262	4,195,908
Shares in subsidiary undertaking at cost	100	100
Charity total	4,570,362	4,196,008

The charity owns the entire issued share capital of RSN Enterprises Limited which is incorporated in England and Wales.

Notes to the financial statements Year to 31 August 2016

11 Investments (continued)

	Listed investments & cash holdings £
Market value at 1 September 2015	4,172,740
Additions at cost	422,280
Disposal proceeds	(571,538)
Realised losses	(56,784)
Unrealised gains	463,501
Market value at 31 August 2016	4,430,199
Cash held by investment managers	140,063
	<u>4,570,262</u>

Listed investments held at 31 August comprised the following:

	2016 £	2015 £
Fixed interest	647,832	466,175
UK equities	1,876,587	2,115,934
Overseas equities and equity funds	1,078,840	870,606
Other listed investments	826,940	720,025
	<u>4,430,199</u>	<u>4,172,740</u>
Listed investments at cost	<u>3,423,503</u>	<u>3,641,678</u>

12 Stocks

	Group		Charity	
	2016 £	2015 £	2016 £	2015 £
Materials	20,402	21,940	19,829	21,247
Finished work and goods held for resale	32,986	25,204	—	—
	<u>53,388</u>	<u>47,144</u>	<u>19,829</u>	<u>21,247</u>

13 Debtors

	Group		Charity	
	2016 £	2015 £	2016 £	2015 £
Trade debtors	30,767	49,487	22,812	27,744
Prepayments and accrued income	80,218	63,412	71,735	49,908
Amounts owed by subsidiary company	—	—	54,568	—
	<u>110,985</u>	<u>112,899</u>	<u>149,115</u>	<u>77,652</u>

Notes to the financial statements Year to 31 August 2016

14 Creditors: amounts falling due within one year

	Group		Charity	
	2016 £	2015 £	2016 £	2015 £
Trade creditors	84,060	21,359	70,366	16,362
Other taxes and social security costs	20,544	26,055	20,198	17,685
Capital expenditure - accruals	8,178	46,494	8,178	46,494
Accruals and deferred income	344,253	286,909	314,877	204,828
Amounts owed to subsidiary company	—	—	—	17,325
	457,035	380,817	413,619	302,694

15 Share capital

	Issued, called up and fully paid	
	2016 £	2015 £
Ordinary shares of £10 each	290	290

16 Capital redemption reserve

	2016 £	2015 £
448 Ordinary shares of £10 each (2015 – 442)	4,480	4,420

17 Endowment funds

	At 1 September 2015 £	Expenditure £	Investment gains £	At 31 August 2016 £
Victoria Adams Fund	1,614,501	(10,000)	153,811	1,758,312
General Endowment Fund	434,375	—	41,382	475,757
Hilda Watson Fund	2,941	(100)	280	3,121
Charrington / Broderers Fund	2,941	(100)	280	3,121
Sheila Fraser Fund	208	—	20	228
Wendy Hogg Fund	16,570	(1,100)	1,578	17,048
	2,071,536	(11,300)	197,351	2,257,587

- The Victoria Adams Fund is an expendable endowment fund for student scholarships and the general purposes of the charity;
- The General Endowment Fund provides for the training of students;
- The Hilda Watson Fund provides prizes for Silk Work;
- The Charrington / Broderers Fund provides prizes for students;
- The Sheila Fraser Fund is an expendable endowment to provide prizes for students;
- The Wendy Hogg Fund is an expendable scholarship / prize fund for students.

Notes to the financial statements Year to 31 August 2016

18 Restricted funds

	At 1 September 2015 £	Income £	Expenditure £	Investment gains £	At 31 August 2016 £
Janet Churm Fund	231,801	4,925	(33,828)	22,083	224,981
Degree Building Improvements	41,515	—	(7,416)	—	34,099
Future Tutor Programme	37,160	44,650	(55,474)	—	26,336
Degree Programme	—	38,640	(38,640)	—	—
Campaign HCP New Rooms	82,883	860	(21,276)	—	62,467
Other Campaign Funds	45,769	71,035	(9,586)	—	107,218
Other Restricted Funds	—	500	(500)	—	—
Other Restricted Legacy	—	30,000	(3,352)	—	26,648
	439,128	190,610	(170,072)	22,083	481,749

- a) The Janet Churm Fund provides support for both the Degree and Future Tutor programmes and was funded by a generous legacy from the estate of the late Mrs Janet Churm.
- b) The Degree Building Improvements Fund was established when the RSN Degree programme commenced. Expenditure relates to the depreciation on leasehold improvements which were required to set up the Degree rooms at Hampton Court Palace.
- c) The Future Tutor Programme Fund specifically provides bursaries, prizes and day to day support for the Future Tutor programme and includes restricted donations and legacies from a number of donors.
- d) The Degree Programme Fund specifically provides bursaries, prizes and day to day support for the Degree Programme and includes restricted donations and legacies from a number of donors.
- e) The Campaign HCP New Rooms Fund was established to fund the improvement works and equipment required to set up additional rooms at Hampton Court Palace which were taken on in 2015 to accommodate expansion. It was funded by donations from a wide number of RSN Friends and other donors. Expenditure includes depreciation on capital works.
- f) Other Campaign Funds include donations from a number of donors towards the RSN Stitch Bank, Archive & Collection Digitisation, Distance Learning and General Campaign projects. Both the RSN Stitch Bank and Digitisation projects are commencing in 2016/17.
- g) Other Restricted Funds provide funding for student prizes.
- h) The Other Restricted Legacy Fund relates to a legacy which is expected to be settled shortly and will provide support for the Future Tutor Programme.

Notes to the financial statements Year to 31 August 2016

19 Designated funds

	At 1 September 2015 £	New Designations £	Utilised/ released £	At 31 August 2016 £
Futures campaign	800,000	—	—	800,000

The Futures campaign fund comprises monies set aside for various campaign projects. The level of designated funds is unchanged this year.

20 Analysis of net assets between funds

Group	Share- holders funds £	Restricted funds £	Un- restricted funds £	Endowment funds £	Total 2016 £	Total 2015 £
Tangible fixed assets	—	81,519	29,839	—	111,358	112,392
Investments	—	297,000	2,015,675	2,257,587	4,570,262	4,195,908
Current assets	4,770	146,256	309,431	—	460,457	346,420
Creditors: amounts falling due within one year	—	(43,026)	(414,009)	—	(457,035)	(380,817)
Total net assets	4,770	481,749	1,940,936	2,257,587	4,685,042	4,273,903

Charity	Share- holders funds £	Restricted funds £	Un- restricted funds £	Endowment funds £	Total 2016 £	Total 2015 £
Tangible fixed assets	—	81,519	29,839	—	111,358	112,392
Investments	—	297,000	2,015,775	2,257,587	4,570,362	4,196,008
Current assets	4,770	146,256	265,915	—	416,941	268,197
Creditors: amounts falling due within one year	—	(43,026)	(370,593)	—	(413,619)	(302,694)
Total net assets	4,770	481,749	1,940,936	2,257,587	4,685,042	4,273,903

21 Unrealised gains

The total unrealised gains as at 31 August 2016 constitute a revaluation reserve and comprise unrealised gains on investments of £1,006,696 (2015: £531,062).

	2016 £	2015 £
Reconciliation of movements in unrealised gains		
Unrealised gains at 1 September 2015	531,062	689,115
Add: in respect of disposals in the year	12,133	(62,233)
Add: net gains (losses) arising on revaluation arising in the year	463,501	(95,820)
Total unrealised gains at 31 August 2016	1,006,696	531,062

Notes to the financial statements Year to 31 August 2016

22 Operating lease commitments

As at 31 August 2016 the group and charity had the following future minimum payments under non-cancellable operating leases:

	Land and buildings £	Equipment £	2016 £	2015 £
Operating lease payments due:				
. within the next year	106,541	6,787	113,328	110,588
. between two and five years	276,063	17,524	293,587	316,138
. after more than five years	—	1,030	1,030	—
	<u>382,604</u>	<u>25,341</u>	<u>407,945</u>	<u>426,726</u>

23 Related party transactions

RSN Enterprises Limited has donated its taxable profits of £35,452 for the year ended 31 August 2016 via Gift Aid to the charity (2015: £3,464).

At 31 August 2016 £54,568 is due by RSN Enterprises Limited to the charity (2015: £17,325 was due to RSN Enterprises Limited by the charity).

The total amount of donations received from Council Members for the year was £1,550 (2015: £6,150). In addition, Council Members paid an aggregate of £1,067 (2015: £680) for classes and £175 (2015: £66) for Friends' subscriptions at standard un-discounted rates.