



Rugby School

THE GOVERNING BODY OF RUGBY SCHOOL

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

Registered Charity Number 528752

THE GOVERNING BODY OF RUGBY SCHOOL

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007

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THE GOVERNING BODY OF RUGBY SCHOOL

ANNUAL REPORT

FOR THE YEAR ENDED 31 JULY 2007

The Governing Body

W M T Fowle CBE, MA, FCA (Chairman) (1, 2, 7, 9)
R W A Swannell FCA (Deputy Chairman) (1, 2, 3)
Mrs PA Williams ACA (Deputy Chairman) (1, 2, 3, 5, 7)
Professor H F A Strachan FRSE (2, 9)
HM Lord Lieutenant of Warwickshire (M Dunne) (1, 9)
The Lord Bishop of Birmingham (Rt Revd D A Urquhart)
Sir Richard Friend FRS
M J Mansell LLB (Hons) (2, 6, 7)
P D Berners-Price FCIM
Lady McFarlane MCSP (1, 2, 4)
Dame Fiona Caldicott DBE, FRCP
T R Cookson MA (2, 7, 8)
R W B Williams MA (2, 7)
C H E Imray FRCS (6)
Mrs L Holmes BA (Hons) (3, 6, 7)
R C A Hingley MA (2, 4, 5, 7)

Appointed by

Governing Body
Governing Body
Governing Body
Cambridge University
Ex Officio
Governing Body
Royal Society
Governing Body
Governing Body
Governing Body
Oxford University
Governing Body
Head Master & Staff
University of London
Governing Body
Governing Body

Head Master

P S J Derham MA (2, 6, 8, 9)

Deputy Head

Mrs S K Fletcher MA (2, 8)

Bursar and Clerk to the Governing Body

G J Lydiatt BSc, FCCA (2, 4, 5, 6, 7, 8, 9)

Principal Office

Rugby School, The Bursary, 10, Little Church Street, Rugby, CV21 3AW

Website

www.rugbyschool.net

THE GOVERNING BODY OF RUGBY SCHOOL

ANNUAL REPORT

FOR THE YEAR ENDED 31 JULY 2007

Membership of Governing Body Committees

(1) Nominations	(2) Finance	(3) Audit and Risk
(4) London Estate	(5) Investment	(6) Bursaries
(7) Pensions	(8) Capital Control and Property	(9) Collections

Other Members of Governing Body Committees

S Bakewell (4)	Dr R Bryant (6)	C J Daw (8)
C J Edwards (9)	K J Hall (6)	P Henderson (5)
C John (9)	W M C Kennedy (5)	Mrs J Leslie (8)
R A Lewis (5)	Miss E Llewellyn-Smith CB (3)	D S R MacLean (9)
R D Montgomerie (6)	H G Steele-Bodger (6)	M J Swales (2)
D W W Townsend (7)	P S L Viney (9)	S J Westwood (8)
J Winchester (9)		

Auditors

Horwath Clark Whitehill LLP
London

Advisers

Bankers

National Westminster Bank plc, Rugby

Surveyors

Farebrother, London

Solicitors

Veale Wasbrough, Bristol
Iliffes Booth Bennett, Uxbridge

Investment Managers

Cheviot Asset Management Ltd, London

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

The Governing Body, who are the trustees, present their Annual Report and the audited financial statements of Rugby School for the year ended 31 July 2007. The Governing Body confirms that the financial statements comply with the charity's governing document, with current statutory requirements, with applicable accounting standards in the United Kingdom, with the Statement of Recommended Practice on Accounting and Reporting by Charities (the Charities SORP 2005) and with the Charities Act 1993.

Rugby School was founded in 1567 and is incorporated under the Public Schools Acts 1868-1873. It is a registered charity, number 528752, and is governed in accordance with its statutes. The School provides an independent (boarding and day) education for boys and girls between the ages of 11 and 18.

Under the statutes, a number of Governors are appointed by external bodies, there is one ex-officio Governor and other members are co-opted by the Governing Body itself. The Governors and principal officers are named on page 3 of this report.

Robert Hingley, an Old Rugbeian, was appointed to the Governing Body on 1 March 2007.

Mrs P Williams, has been appointed as a Deputy Chairman of the Governing Body from 1 September 2007.

The School and the Governing Body wish to express their gratitude to The Rt. Hon. Lord Lang of Monkton DL, who retired from the Governing Body on 21 June 2007, for his considerable work for the School over many years and his contribution as a member of the Governing Body for ten years.

The School and the Governing Body greatly appreciate the important and valuable support given to the School in so many ways by Old Rugbeians and many other friends of the School. Above all, the Governing Body remains deeply grateful to the entire staff, both teaching and non-teaching, whose unstinting hard work and loyalty has enabled the School to achieve its major objectives.

The School's Objectives

The School's principal activity is the education and pastoral care of its pupils. All of its assets and its income and expenditure relate to that activity. Rugby School's Development Plan 2005/10 recognises that the distinguishing features and ethos of the School are:

1. One of the leading co-educational schools in the UK and the world, looking to maintain its tradition of innovation in all areas.
2. An all round school which values academic excellence while consistently striving for excellence in other areas of its education and care.
3. A school which seeks to broaden access and to promote tolerance and understanding.
4. A school with a strong sense of service to the community.
5. A school in which each individual is encouraged to develop his or her own talents and skills, while also developing a sense of responsibility and commitment to the community.
6. A Christian foundation which encourages spiritual development.
7. A strong boarding ethos, with pupils at the school seven days a week.
8. A national and international school in terms of recruitment and outlook, offering equal opportunities to all pupils and staff.
9. A strong house structure especially house dining which is one of the distinctive features of Rugby.
10. Pupil numbers around 800 maintaining the boarder/day ratio at 80/20.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

A major strength of Rugby School is that it consistently strives for all-round excellence. It recognises that there are many fundamental qualities which are not examinable: curiosity, shrewdness, initiative, an awareness of beauty, a sense of humour, a sense of responsibility and a gift for friendship, and that these and other basic qualities need to be developed in an institution that regards itself as educational.

The School's strategies for achieving its objectives are:

- To continue to review the academic curriculum to ensure that it is both broad and challenging.
- To provide a commitment through the curriculum where we influence the pupils' spiritual and moral growth, their cultural awareness and physical development by promoting participation in a wide range of activities.
- To maintain the house structure, which continues to be one of the defining features of life at Rugby School.
- To maintain the high quality of pastoral care for all pupils.
- To emphasise the role of the chaplaincy.

The School's policy is to award scholarships on the basis of an individual's educational potential. The School provides bursaries and augmentations, up to 100% if required, to those pupils whose education may be at risk due to financial hardship or to make places available for deserving pupils from families who might otherwise not be able to afford school fees.

This year the value of scholarships, bursaries and prizes exceeded £1.4 million. Almost a quarter of the pupils receive awards which entitle them to financial assistance up to 100% of fees, subject to parental means test.

Review of the Year's Achievements and Performance

The School's activities and strategy over the year have continued to support the School's Development Plan. The School has maintained its high academic performance and its position as one of the leading co-educational boarding schools in the UK and the world.

The School has 13 boarding houses in addition to two 13-18 day houses and a day house for junior pupils.

The average number of pupils in the School during the year was 802 (2006-07), within the target range of 790 to 810. The total number of boarders was 637, which maintains the boarder/day ratio at 80/20.

Educational Performance

Success in the major public examinations has again confirmed Rugby's position as one of the leading co-educational boarding schools in the country.

A Levels	2007	2006	2005	2004	2003	All Schools 2007
A	62.3	62.7	60.5	62.1	57.4	25.3
A-B	85.1	85.6	83.9	86.1	82.1	49.7
A-E (pass)	100.0	100.0	100.0	100.0	100.0	96.9

In 2007 a 99.6% (2006: 99.3%) pass rate was achieved at AS level, 55.7% (2006: 52.7%) of candidates achieving grade A and 80.6% (2006: 77.4%) of candidates achieving grades A – B. At GCSE the pass rate was 98.8% (2006: 98.6%) with 40.9% (2006: 36.1%) of candidates achieving A* and 77.5% (2006: 77.7%) achieving A* - A.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

While Rugby is proud of these results it is even more gratifying to report that independent analysis of value added shows that our pupils out perform their predicted grades by a significant margin.

As previously noted, Rugby aims to offer far more than a strong academic performance. The Governing Body and staff place particular importance on robust and effective systems and processes for the pastoral care, support and guidance of our pupils.

The School continues to offer a very broad range of cultural, artistic, sporting and musical opportunities as well as involving its pupils with the outside community, especially in collaboration with the social services and through the Partnership Scheme with local secondary schools. The Management and Leadership Conference in 2007 was a great success including pupils from Ashlawn, Rugby High, Lawrence Sheriff and Rugby School. The Arts Festival, introduced in 2006 was successfully repeated at the end of the summer term involving pupils in a range of activities perhaps the most outstanding being a performance of Dido and Aeneas by E block pupils. Other highlights of the year and in no particular order are as follows:

Celebrated the 200th Anniversary of the birth of William Webb Ellis, including the unveiling of a commemorative plaque, and a match between the XV and the Menton Cadets, a team from the town in France where William Webb Ellis died in 1872.

Rugby School and William Webb Ellis were the first inductees into the newly created International Rugby Board Hall of Fame at the IRB Annual Awards Dinner in Glasgow in November 2006.

November 2006 saw the publication of "*with a fine disregard....*", the first book on Rugby to appear for over 40 years.

The fourth Arnold Foundation Lecture was given by James Kynge who spoke to the school about China. Other notable visiting speakers included Terry Waite recounted his experiences as a hostage, Professor Andrew Blake who gave the 2006 Foxcroft Lecture on Computer Science and Delusion and Fergal Keane.

The highlights of the cultural year included the first production in the refurbished Macready Theatre, "Delusions of Grandeur", adapted from Moliere's "*Le Bourgeois Gentilhomme*". The major musical of the year was "Godspell".

Musically our pupils continue to perform extremely well: Tim Bentham and Sophie Broadbent gained scholarships to Music College; Rachel Shakespeare successfully re-auditioned for the National Youth Chamber Orchestra.

Sofia Zabolotskih won the gold medal in the inaugural Erasmus price examination which is designed to stimulate reading and thought on an ethical issue or theme.

Notable sporting achievements included the selection of Rob Milligan and Oliver Grove for the Midlands U18 Rugby side and for the U18 England Rugby Academy Squad, Rhodri Davies for the Welsh Exiles U18 Rugby Squad, and a number of other pupils have played at county and divisional level. Marina Lawson-Smith was part of the successful Great Britain Junior Eventing Team which won the gold medal in the European Championships. Kate Trowbridge came 2nd in the U21 age group in the International 3 Day Event and has been long listed for the Great Britain squad. Eve Rossi finished 5th in the National Triathlon Championships. Marshall House girls' gymnastics team won a gold medal at the West Midlands sport acrobatics and tumbling competition. The Intermediate girls' athletics team qualified for the national final of the English Schools' Athletic Association Track and Field Cup.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

Widening access to the School

Rugby School's management continues to recognise the importance of strong cost control, seeking to contain cost increases as much as possible while ensuring that the School continues to deliver first class education and pastoral care. Nevertheless, over recent years costs, and hence fees, have grown at a faster rate than the annual growth in average earnings. There have been many causes, notably the significant increases in energy costs, the constant need to meet ever more stringent regulatory requirements, and our own requirement to meet pupil needs and parent requirements through major facility developments.

Against this background we are conscious that our School must remain accessible to parents of talented children irrespective of parental means. This was the main driving force for the launch of the Arnold Foundation for Rugby School in late 2002. We are delighted to report that by 31 July 2007 we had raised over £3 million. We thank all the donors who have contributed to this result and are delighted that there were 13 Arnold Foundation pupils at the School during 2006/07, rising to 20 in September 2007.

Long before the launch of the Arnold Foundation for Rugby School, Rugby School funded from its endowed and restricted funds a large number of scholarships, bursaries and concessions. We are determined to ensure that these are directed to cases of greatest need. Therefore the School limited scholarship and foundation scholarship awards to a maximum of 10% of fees, such scholarships being augmentable (up to 100% if necessary) based upon an assessment of parental means. As mentioned earlier, almost a quarter of pupils now receive awards which entitle them to financial assistance up to 100% of fees, subject to parental means test.

The total cost of scholarships, bursaries and augmentations during the year was £1.46 million (2006: £1.25 million).

Community partnerships and services

The School aims to be a good neighbour in its local community and to develop mutually beneficial partnerships wherever possible. Such initiatives have included:

- participation in the Warwickshire Schools' Partnership, under which staff, pupils and technicians of Rugby and two neighbouring state schools share best practice in the teaching of science, information and communications technology and mathematics.
- Science themed lectures and expositions are provided free of charge, throughout the year, to local school pupils.
- The School co-ordinates and hosts an Annual Management and Leadership Conference, which is run by Warwickshire Education Partnership which is open to three local schools in the state sector.
- The School opens its sports and other facilities to many local individuals and organisations (including other schools) charging rates below those applying to commercial businesses, sometimes providing facilities free of charge.
- Pupils undertake community-related projects on one afternoon per week including assisting at local primary schools, assisting at a local young offender institution, visiting the elderly, providing relief for carers.
- The School organises and hosts a number of events during the year which are open without charge to the public, including concerts, plays and art exhibitions.

One fifth of the annual net income from the London Estate (2007: £0.42 million, 2006: £0.41 million) is paid to our neighbour, Lawrence Sheriff School, which operates in the state sector.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

In May 2007 the School hosted a two day Rugby Football Union tournament involving regional teams at U15 and U14 levels. The event attracted up to 2,500 visitors per day. The Victims of Crime day, an U9 rugby tournament run for national primary schools, was attended by approximately 400 pupils.

The School hosted a celebrity cricket match on behalf of the Wooden Spoon Charity in July 2007. The Bunbury X1 played a celebrity rugby team captained by Martin Johnson and the event was attended by invited guests and over 350 members of the public.

Fundraising Performance

The Arnold Foundation has raised £0.5 million in the year. The majority of these funds will be applied for the specific aim of providing scholarships to those pupils who would not otherwise be able to afford an education at Rugby School. Funds have also been raised for specific capital projects.

Plans for Future Periods

The Governing Body continues to pursue the School's general objectives as set out earlier. The Governing Body has also set as an objective for the coming year the further widening of access to the School by increasing the number of Arnold Foundation pupils.

The capital expenditure programme for 2007/08 includes the final phase of the Science Schools programme, the addition of two classrooms in the History block and an extension in one of the boarding houses.

The Development Plan 2005/10 is reviewed by the Governing Body on an annual basis.

Financial Review

The School endeavours to ensure financial stability and continuing solvency year on year so that it can pursue its educational aims and objectives.

The School's charitable activities continue to be the main source of the Charity's consolidated income and expenditure. For the financial year ended 31 July 2007 the School's operations achieved a surplus in the year of £0.5 million (2006 - £0.4million), after charging £1.5 million for depreciation on the School's property and equipment but before pension adjustments under FRS 17; this represented a return of 2.9% (2006: 2.5%) of fee income.

The consolidated net incoming resource for the year, before adjusting for scholarships and bursaries was £3.1 million, which in addition to the School's operating surplus included:

- Rugby School Enterprises Limited (the School's trading company) delivered a surplus of £0.14 million which is gifted to the School.
- The London Estate continued to deliver strong results. The net surplus was £2 million of which £1.6 million was transferred to the School (after the payment of the one-fifth share to Lawrence Sheriff School). Of the School's share £0.5 million was used to fund scholarships and bursaries and the remaining £1.1 million was applied to help fund the school's capital investment programme.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

- The "Other" restricted funds in the Statement of Financial Activities consist of the War Memorial Fund, the Arnold Foundation for Rugby School and the General Charitable Trust, which have generated combined income of £0.5 million in the year.

Of the £3.1 million that was available from the group sources, £1.5 million (representing 8% of fees) was used to fund scholarship and bursary awards and assistance towards payment of the fees was in this way provided to a total of 195 pupils.

This leaves a consolidated net incoming resource before investment gains of £1.6 million. Including the year end revaluation gains on investments and the pension scheme actuarial gain gives rise to a net increase in the Charity's funds for the year of £5.8 million.

Balance Sheet

The inflow of funds for the year brings to £66million the total of consolidated funds standing to the credit of the School as at 31 July 2007. The underlying assets and liabilities are set out in the Balance Sheet and further analysed in the notes which accompany the financial statements.

In October 2007 the London Borough of Camden Council agreed to remove the restrictive covenant over the London Estate investment properties (see note 13).

Governance

The Governing Body list on page 3 indicates who appoints each Governor. Where the Governing Body itself co-opts a new member, this follows a selection process and a recommendation from its Nominations Committee. Governors are selected for their skills and experience across an appropriate spectrum. Before taking up appointment, new Governors visit the school for induction, receive key information relating to the charity and sign an appointment letter. All Governors are encouraged to attend the annual strategic planning meeting which incorporates trustee-training issues.

The Governing Body's voluntary code on retirements provides that, with the exception of the Lord Lieutenant and the Chairman and Deputy Chairmen, members of the Governing Body do not normally serve more than ten years.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

The Governing Body is responsible for the overall management and control of the School and meets at least once a term. Its principal responsibilities are to:

- Ensure that the school is run in accordance with its charitable objectives and that all the functions of the school are authorised by the powers provided by its statutes and regulations and by charity law.
- Appoint the Head, the Deputy Head and the Bursar and approve their terms and conditions.
- In consultation with the Head and the Management Team, set the strategy and policies by which the School will be run.
- Approve the Development Plan.
- Ensure that the School meets the objectives that the Governing Body sets from time to time.
- Control finance by approving realistic budgets and longer-term plans and by approving systems and safeguards that optimise the chances that they will be achieved.
- Understand the extent of duties in relation to risk management and to legal compliance and be satisfied that there is a rolling programme for meeting them.
- Ensure that competent professional advice is taken when necessary.
- Appoint a Chairman and Deputy Chairmen.
- Appoint members to its committees.
- Review and approve the terms of reference and the output of these committees on a regular basis.

Under the statutes the Governing Body delegates the daily management of the School to the Head Master who is supported by a Senior Management Team which includes his Deputy, the Bursar who is also Clerk (Secretary) to the Governing Body, three Assistant Heads, the Registrar, Estates Manager, Development Director, Commercial Manager and the Senior Housemaster or Housemistress.

The Governing Body has appointed the following committees of its members to oversee the activities set out below; membership is supplemented by some of the principal officers of the School and by others with appropriate specialist knowledge. All these committees report regularly to the Governing Body and their terms of reference are reviewed annually.

- Nominations Committee. Review of Governing Body membership, including recommendations of individuals who might be co-opted to the Governing Body.
- Finance Committee. Financial policy and general operations relating to the running of the School.
- Audit and Risk Committee. Audit, financial reporting, legal and regulatory compliance, integrity of financial controls, risk management.
- London Estate Committee. Management and administration of property assets in London (see below).
- Investment Committee. Management and administration of Special Funds (see below) and all other non-property investments. The Governing Body have agreed that the School's investment portfolio be managed on a discretionary basis by its Investment Managers subject to policies and objectives that the Governing Body establishes from time to time having regard to the Investment Committee's recommendations.
- Bursaries Committee. The award of scholarship augmentations and grants on the basis of assessed financial need.
- Pensions Committee. Consideration of developments in relation to pensions and the associated implications for the School's pension schemes. The periodic review of costs and liabilities associated with these pension schemes.
- Capital Control & Rugby Property Committee. The monitoring and review of capital projects and the effective utilisation of the School's properties in Rugby.
- Collections Committee. Identifies, catalogues and protects such works of art, artefacts or other items or collections of historical and/or educational merit as may be in the possession of the School.

Membership of these committees is shown on pages 3 and 4.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

Risk Management

The Governing Body conducts annually a review of risk assessments undertaken by the School's Management Team to identify the major risks to which the School (and the subsidiary and associated entities covered by this report) is exposed, and the systems for their mitigation. In the opinion of the Governing Body, the School (and the subsidiary and associated entities) has established resources and review systems which, under normal conditions, should allow those risks to be mitigated to an acceptable level in its day-to-day operations.

Investment Policy, Objectives and Performance

In relation to its financial investments, the Governing Body aims to maximise the total return of investment growth and income whilst allowing an income stream which is at least maintained in real terms. This objective will be achieved if the benchmark, determined for each fund, is exceeded by at least 0.5% per annum on a rolling 3, 5 and 10 year period, provided the income targets are also met.

The investment objective is to produce growth in both income and capital over the long term which is superior to the annual growth in the retail price index. This objective is to be achieved by investment in a balanced portfolio comprised of equities, fixed interest securities and cash with a medium risk profile. There are no specific restrictions other than that the investments should be suitable for trusts.

The School's investment performance is monitored regularly against objectives by the Investment Committee. In the year to 31 July 2007 the performance exceeded the benchmark.

Group Structure

The School's consolidated report and financial statements include the activities and the total results of its wholly-owned subsidiary, Rugby School Enterprises Limited and also of three associated charities – the Arnold Foundation for Rugby School, the Rugby School General Charitable Trust and the Rugby School War Memorial Fund. The trustees of these associated charities are all appointed by the Governing Body of Rugby School.

The Arnold Foundation for Rugby School

The Arnold Foundation for Rugby School, an associated company that is also a registered charity, number 1095856, has the principal aim of raising funds for more scholarships and bursaries, widening access to Rugby School, so that more talented people may benefit from an education at Rugby, irrespective of their parents' ability to pay the fees. Funds may also be given to the Foundation in order to improve the School's facilities.

The Rugby School General Charitable Trust

Prior to the 2002 incorporation of the Arnold Foundation for Rugby School, this trust (also an associated entity) was principally engaged in raising funds from supporters of the School, usually to assist with named capital projects. Since 2002 activity in this Trust is limited to the receipt of income from covenants and legacies that were established before the Foundation's existence.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

The Rugby School Combined War Memorial Fund

Originally established in honour of those members of the Rugby School family who fell in the two Great Wars, this trust (an associated entity) uses its investment income to fund scholarships or bursaries awarded to the children of Old Rugbeians who meet the criteria for financial assistance to attend or remain at Rugby School.

Rugby School Enterprises Limited

The principal aim of this trading subsidiary is to generate income from the use of the School's facilities when not required for their principal educational purpose, and particularly during holiday periods. The company operates language and sports courses and also runs a Sports Centre, which is open to the public when not being used by the School. The company's distributable income for the year is given to the School to be used for its principal activity.

Funds

The results of School operations (fee and related income less expenditure to administer, maintain and develop the School) are identified separately within the body of the financial statements. The use of net funds generated by this activity is unrestricted.

Endowed funds are represented by the London Estate, consisting principally of property in London bequeathed by the School's founder, Lawrence Sheriff. This permanent endowment yields commercial and residential rental income and, after accounting for the costs of its maintenance and administration, one fifth of the remaining surplus (plus one fifth of the income from certain non-property investments) is paid to Lawrence Sheriff School, a neighbouring secondary school originally established by the Governing Body of Rugby School and now operating in the state sector. Of the four fifths which remain, the primary use is to fund foundations, scholarships and bursaries. Any remaining balance is unrestricted in use, but in practice is applied to finance capital projects which are of long-term benefit, or accumulated for the same uses in future years.

Restricted funds can only be used for specified purposes and, accordingly, the School accounts separately for such assets, and for the income and expenditure related to them. The Consolidated Statement of Financial Activities further analyses these restricted funds as Special funds, consisting principally of fixed interest bearing securities and holdings in investment trusts and equities, many of which arose originally from bequests for specific purposes, such as scholarships, grants and prizes. The annual net income from such funds is used exclusively for the specified purposes, with any unallocated amounts being carried forward for the specific purposes in future years.

Special funds also include the unexpended balance of gifts from the Arnold Foundation (see above) to Rugby School, which are invested by the School until used for the purposes for which they were given.

Other partly restricted funds, consisting primarily of gifts and legacies received through The Arnold Foundation for Rugby School but also through the General Charitable Trust and the War Memorial Fund (see above). Gifts from the Arnold Foundation and from the General Charitable Trust are transferred to Special Funds so that the carried forward balance of other items on the Statement of Financial Activities relates exclusively to the War Memorial Fund.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

Reserves Policy

The financial statements indicate that the majority of the school's unrestricted funds of £25.6 million are invested in premises and equipment of £24.9 million; this gives rise to free reserves of £0.7 million (2006: deficit of £1.4 million).

The Governing Body has currently adopted the reserves objective that the School shall make an operating surplus each year and shall not borrow money other than to cover short-term timing issues.

In addition, it is the intention of the Governing Body that, on a continuing basis, the School will retain sufficient unrestricted reserves to sustain the fixed assets which are used by the School for its charitable activities. In those years where there are free reserves the School may consider advancing the capital expenditure programme. In other years where the School may have negative free reserves, the School is able to manage the day to day working capital requirements through careful management of short term liquid resources.

The Governing Body prepares a detailed five year development plan having regard to the School's financial and physical resources, so that at all times the School retains the strength and flexibility to respond to contingencies and to longer term needs that may not be currently foreseen.

The reserves policy is monitored by the Finance Committee and is reviewed annually.

REPORT OF THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

Statement of Governing Body responsibilities in respect of the Annual Report and the Financial Statements

The Governing Body is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The Governing Body is responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the School and group and of the surplus or deficit of the School and group for that period. In preparing those financial statements, the Governing Body is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the School will continue in business.

The Governing Body confirms that it has complied with the above requirements in preparing the financial statements.

The Governing Body is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and the group and enable it to ensure that the financial statements comply with the Statement of Recommended Practice 'Accounting and Reporting by Charities 2005' and the governing document. It is also responsible for safeguarding the assets of the charity and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Governing Body is responsible for the maintenance and integrity of the information about the charity (including financial information) included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

During the year PricewaterhouseCoopers LLP resigned and Horwath Clark Whitehill LLP were appointed as the School's auditors.

Approval

This report and the accompanying financial statements were approved by the Governing Body on 22 November 2007.

W.M.T. Fowle
Chairman
22 November 2007

INDEPENDENT AUDITORS' REPORT TO THE GOVERNING BODY OF RUGBY SCHOOL FOR THE YEAR ENDED 31 JULY 2007

We have audited the group and parent charity financial statements of Rugby School for the year ended 31 July 2007 (the "financial statements") which comprise the Group Statement of Financial Activities, the Group and Charity Balance Sheets, the Group Cash Flow Statement and the related notes set out on pages 17 to 38. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the charity's Governing Body in accordance with section 43 of the Charities Act 1993 and regulations made under section 44 of that Act. Our audit work has been undertaken so that we might state to the Governing Body those matters we are required to state to them in an auditors' 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 School and its Governing Body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of Governors and auditors

The Governing Body is responsible for preparing the Governors' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Governing Body Responsibilities on page 15.

We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993.

We also report to you if, in our opinion, the information given in the Governors' Report is not consistent with the financial statements, if the charity has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Governors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 also includes an assessment of the significant estimates and judgments made by the Governing Body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether 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.

Unqualified opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with the United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent charity's affairs as at 31 July 2007 and of the group's incoming resources and application of resources for the year then ended; and
- have been properly prepared in accordance with the Charities Act 1993.

Horwath Clark Whitehill LLP
Chartered Accountants and Registered Auditors
Date: 22 November 2007

St Bride's House
10 Salisbury Square
London EC4Y 8EH

**THE GOVERNING BODY OF RUGBY SCHOOL
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED 31 JULY 2007**

Funds:	Unrestricted		Endowed	Restricted		Total 2007	Total 2006
	School operations	RSE		Special Funds	Other		
Notes	£'000	£'000	£'000	£'000	£'000	£'000	£'000
INCOMING RESOURCES							
Income from Charitable Activities							
School fees receivable	2	17,597	-	-	-	17,597	16,624
Other educational income	4	65	-	-	-	65	74
Other ancillary trading income	4	317	-	-	41	358	351
Income from Generated Funds							
Activities for generating funds:							
Trading income (non-ancillary)	5	-	568	-	-	568	503
Investment income	6	162	48	3,008	445	34	3,619
Donations and legacies		5	-	-	5	493	1,393
Other	4	3	-	-	-	3	86
Total Incoming Resources		18,149	616	3,008	491	527	22,791
RESOURCES EXPENDED							
Costs of generating funds							
Trading expenditure	7	294	476	-	-	-	750
Fund-raising costs for donations and legacies		-	-	-	-	228	208
Finance costs		161	-	-	-	-	32
Investment property expenses and management costs		-	-	920	-	-	966
Costs of generating funds		455	476	920	-	228	1,956
Charitable Activities							
School operations		17,040	-	-	-	-	16,047
Scholarships, bursaries and prizes	3	-	-	523	936	-	1,246
Payment to Lawrence Sheriff School	9	-	-	422	-	-	414
Costs of Charitable Activities		17,040	-	945	936	-	17,707
Governance costs		185	-	-	-	-	242
Other resources expended							
Taxation	11	-	-	-	-	-	3
Total Resources Expended	7	17,680	476	1,865	936	228	21,185
Net Incoming Resources before Transfers	8	469	140	1,143	(445)	299	2,742
Transfers between funds	25	(24)	-	-	293	(269)	-
Transfer for charitable use by the School	25	1,283	(140)	(1,143)	-	-	-
Transfer to reserves	21	-	-	-	-	-	(76)
NET INCOMING RESOURCES BEFORE OTHER RECOGNISED GAINS AND LOSSES		1,728	-	-	(152)	30	2,666
Gains/(Losses) on investments :							
Realised		-	-	1	215	15	310
Unrealised	13	(23)	-	2,721	701	19	2,065
Actuarial gain/(loss) on defined benefit pension scheme	19	524	-	-	-	-	(551)
NET MOVEMENT IN FUNDS		2,229	-	2,722	764	64	4,490
Reconciliation of Funds							
Balances brought forward							
at 1 August 2006		23,385	-	24,558	11,668	777	55,898
BALANCES CARRIED FORWARD							
at 31 July 2007		25,614	-	27,280	12,432	841	60,388

All incoming resources and resources expended derive from continuing activities.
All gains and losses in the year are included above, accordingly a statement of total realised gains and losses has not been prepared.

The notes on pages 20 to 38 form part of these financial statements.

**THE GOVERNING BODY OF RUGBY SCHOOL
BALANCE SHEETS
AS AT 31 JULY 2007**

	Notes	Parent Charity		Consolidated	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
FIXED ASSETS					
Freehold properties, fixtures & equipment	12	24,873	24,607	24,873	24,607
Investments	13	40,689	35,456	41,426	36,158
		<u>65,562</u>	<u>60,063</u>	<u>66,299</u>	<u>60,765</u>
CURRENT ASSETS					
Stocks		47	30	47	30
Debtors	14	2,157	2,927	1,916	2,393
Bank and cash		4,131	2,587	4,661	3,326
		<u>6,335</u>	<u>5,544</u>	<u>6,624</u>	<u>5,749</u>
CURRENT LIABILITIES					
Creditors due within one year	15	4,019	3,213	4,204	3,343
		<u>2,316</u>	<u>2,331</u>	<u>2,420</u>	<u>2,406</u>
NET CURRENT ASSETS					
		<u>2,316</u>	<u>2,331</u>	<u>2,420</u>	<u>2,406</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>67,878</u>	<u>62,394</u>	<u>68,719</u>	<u>63,171</u>
CREDITORS due after more than one year	16	1,945	1,422	1,945	1,422
NET ASSETS EXCLUDING PENSION LIABILITY		<u>65,933</u>	<u>60,972</u>	<u>66,774</u>	<u>61,749</u>
PROVISIONS					
Defined benefit pension scheme liability	19	607	1,361	607	1,361
NET ASSETS INCLUDING PENSION LIABILITY	20	<u>65,326</u>	<u>59,611</u>	<u>66,167</u>	<u>60,388</u>
FUNDS OF THE CHARITY:					
Endowment funds					
Repairs, rehabilitation and reconstruction reserve	21	314	314	314	314
Other		26,966	24,244	26,966	24,244
Total endowment funds	22	<u>27,280</u>	<u>24,558</u>	<u>27,280</u>	<u>24,558</u>
Restricted funds	23	<u>12,432</u>	<u>11,668</u>	<u>13,273</u>	<u>12,445</u>
Unrestricted funds:					
Unrestricted income funds		26,221	24,746	26,221	24,746
Pension reserve		(607)	(1,361)	(607)	(1,361)
Total unrestricted funds	24	<u>25,614</u>	<u>23,385</u>	<u>25,614</u>	<u>23,385</u>
TOTAL CHARITY FUNDS		<u>65,326</u>	<u>59,611</u>	<u>66,167</u>	<u>60,388</u>

Approved by the Governing Body on 22 November 2007 and signed on their behalf by:

W M T Fowle – Chairman of Governing Body

P A Williams – Governor, Chairman of Finance Committee

G J Lydiatt – Bursar and Clerk to the Governing Body

The notes on pages 20 to 38 form part of these financial statements.

**THE GOVERNING BODY OF RUGBY SCHOOL
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

	Consolidated	
	2007	2006 £'000
Reconciliation of net incoming resources to net cash inflow from operations		
Net Incoming Resources before revaluations and investment asset disposals	1,606	2,666
Depreciation	1,521	1,407
Surplus on sale of fixed assets	(3)	(86)
Amounts accrued to advance fee contracts	58	42
New advance fee contract money received	1,137	789
Advance fee contracts applied to School fees	(810)	(745)
Advance fees repaid	(76)	-
Bank interest receivable	(218)	(175)
Income on equities	(467)	(463)
(Increase) /decrease in stocks	(17)	2
Decrease / (increase) in debtors	477	(868)
Increase in creditors	1,075	662
(Decrease) in pension scheme liability	(230)	(310)
(Increase) /decrease in inter-company fund balances	-	-
	<hr/>	<hr/>
Net cash inflow from operating activities before revaluations and investment asset disposals	4,053	2,921
	<hr/>	<hr/>
Returns on investments and servicing of finance		
Bank interest receivable	218	175
Income on equities	467	463
	<hr/>	<hr/>
Capital expenditure and financial investment		
Purchase of fixed assets	(1,787)	(2,316)
Sale of fixed assets	3	158
Purchase of investments	(5,024)	(2,289)
Sale of investments	3,405	1,714
	<hr/>	<hr/>
	(3,403)	(2,733)
	<hr/>	<hr/>
INCREASE / (DECREASE) IN CASH IN THE YEAR	1,335	826
Net bank balance at 1 August	3,326	2,500
Adjustment to opening cash	<hr/>	<hr/>
Net bank balance at 31 July	4,661	3,326
	<hr/>	<hr/>

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the Statement of Recommended Practice (SORP) on "Accounting and Reporting by Charities": the Charities SORP 2005 and the Charities Act 1993 and the Rugby School Act 1922. A summary of the principal accounting policies, which have been applied consistently, is set out below.

(a) Basis of Accounting

The financial statements are prepared in accordance with the historical cost accounting basis except that investments held as fixed assets, including investment properties, are carried at market value at the balance sheet date.

(b) Basis of Consolidation

In the consolidated statement of financial activities(SOFA), the term "School operations" encompasses all incomes and expenditures which arise from the running of Rugby School for its primary educational purpose. The consolidated balance sheet and the consolidated cash flow statement include the financial statements of the School and its subsidiary undertakings made up to 31 July 2007. The subsidiary undertakings are Rugby School Enterprises Limited, a trading company, the Arnold Foundation for Rugby School, the Rugby School General Charitable Trust and the Rugby School War Memorial Fund, all of which are registered charities.

No separate SOFA has been presented for the charity as permitted by paragraph 304 of the SORP. The balance sheet of the parent charity is represented by the column headed "parent charity" and includes the results of School operations, the London Estate and the Special Funds, all of which are included within the same legal entity.

The consolidation has been carried out on a line by line basis.

(c) Fees and similar income

Fees receivable and charges for services and use of premises are accounted for in the period in which the service is provided. Fees receivable are stated net of staff concessions and sibling discounts but include contributions received from Endowed and Restricted funds for scholarships and bursaries.

The provision of scholarships, augmentations and additional financial support is reviewed at least annually.

(d) Advance Fees

The School offers parents the opportunity to pay for up to 7 years fees in advance in accordance with a written contract. The amount received is invested and interest is accrued to contracts. This is treated as deferred income until the pupil joins the School, whereupon the fees for each term are charged against the remaining balance and taken to income. Any shortfall is treated as a deduction from fee income and any excess is treated as additional income. Amounts received as Advance Fees may be returned to parents subject to specified conditions.

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

(e) Donations and legacies

Donations are credited to revenue when receivable. Legacies are accounted for on receipt of correspondence from the personal representative indicating that payment of the legacy will be made. It is the policy of the Trustees that any shares or other securities that are donated be converted to cash as soon as possible. No amounts are included in the financial statements for services generated by volunteers.

Donations subject to specific wishes of the donors are retained in relevant restricted funds.

(f) Resources expended

All expenditure is accounted for on an accruals basis, and has been classified under headings that aggregate all costs related to the category. Where costs cannot be directly attributed to particular headings, they have been apportioned according to time spent.

(g) Support costs

Support costs include expenses which enable charitable activities and fund generating to be undertaken. These costs include finance and human resources and are allocated on a basis consistent with the use of the resource.

(h) Governance Costs

Governance costs relate to the general running of the charity. These costs include audit, legal advice for Governing Body and costs associated with meeting constitutional and statutory requirements such as the cost of Committee meetings, the preparation of statutory financial statements and satisfying public accountability.

(i) Recognition of Liabilities

Liabilities are recognised when an obligation arises to transfer economic benefits as a result of past transactions or events.

(j) Finance Costs

These include amounts accrued in accordance with the terms of the Advance Fee contracts.

(k) Taxation

As a registered charity, the School is entitled to certain tax exemptions on income and profits from investments and surpluses on any trading activities carried on in furtherance of the charity's primary objectives, if these profits and surpluses are applied solely for charitable purposes.

Although the School is registered for VAT, School fees are exempt from VAT. Irrecoverable VAT on costs incurred is charged to the Statement of Financial Activities, or capitalised as part of the cost of the related asset, as appropriate.

Rugby School Enterprises Ltd is registered for VAT and all its income and expenditure is recorded net of VAT. Rugby School Enterprises Ltd gifts any profits to the School, resulting in no liability to Corporation Tax.

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

(l) Pension Schemes

The School contributes to the Government's Teachers' Pension Scheme, a defined benefit scheme, at rates set by the Scheme Actuary and advised to the School by the Scheme Administrator. The pension liability is the responsibility of the Teachers' Pension Scheme. As a result, it is not possible to identify the assets and liabilities of the Scheme that are attributable to the School. Accordingly, the Scheme is accounted for as if it were a defined contributions scheme.

The School also contributes to the Rugby School Pension and Life Assurance Scheme for Non Teaching Staff, a defined benefit scheme, and the Rugby School Group Stakeholder Pension Scheme, a defined contribution scheme. The defined benefit scheme is administered by trustees and wholly invested with Baillie Gifford, at rates recommended by the Scheme Actuary. Net pension costs are charged to income over the expected remaining service lives of employees. The defined contribution scheme is administered by Norwich Union.

(m) Tangible Fixed Assets

Accounting for land and buildings, fixtures, fittings and equipment follows the provisions of Financial Reporting Standard No.15. As reported in note 12 to the financial statements, the School has elected to retain opening book amounts, as the Governing Body do not consider it appropriate to carry out valuations of the School's land and buildings for accounting purposes. An impairment review of fixed assets is carried out on a regular basis.

The cost of new fixtures, fittings, equipment and building assets over £5,000 are capitalised.

(n) Depreciation

Freehold land is not depreciated.

The School has taken advantage of the FRS15 transitional arrangements to freeze the valuation of the School buildings upon adoption of the accounting standard. The residual value of the existing School buildings is such that no depreciation is deemed material.

Depreciation of other assets is calculated to write off the cost of the tangible fixed assets, less their estimated residual value, on a straight line basis over the expected useful economic life of the assets. Additions of freehold buildings and refurbishments are depreciated from the beginning of the year following completion.

The principal annual rates over which assets are depreciated are:

New building (incl. chapel organ)	50 years
Refurbishments	25 years
All-weather pitches and telecommunications work	15 years
Computer equipment	3 years
Other fixtures, fittings and equipment	5 years

(o) Investments

Investments are included at closing mid-market value at the balance sheet date. Any realised and unrealised gains and losses on revaluation or disposals are reported in the Statement of Financial Activities.

Investment properties (which are all held in the London Estate) are included on an open market valuation basis. A formal professional valuation is carried out every 5 years and prepared on an informal basis in the intervening period. No depreciation is provided on investment properties.

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

The transitional provisions of FRS 15 were followed on adoption of the standard in the 2000 financial statements and the valuation of fixed assets at that date has been retained as book value.

Income from investments is included, together with the related tax credit, in the year in which it is received. Rent receivable from investment property is classified as investment income.

(p) Fund Accounting

Unrestricted funds are available for use at the discretion of the Governing Body in furtherance of the general objectives of the School and have not been designated for other purposes. Designated funds comprise unrestricted funds that have been set aside by the Governing Body for particular purposes.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the School for particular purposes.

Endowed funds are funds for which the capital must be retained in accordance with specific restrictions imposed by donors.

Investment income and gains are allocated to the appropriate fund.

(q) Stocks

Stocks are stated at the lower of cost and net realisable value.

(r) Reserve for Repairs, Rehabilitation and Reconstruction

In order to maintain the London Estate properties in good order, and with the authority granted by the Minister of Education, a designated reserve is set aside for repairs, rehabilitation and reconstruction. An appropriate sum is transferred to the reserve from the incoming resources of the London Estate, to provide sufficient funds to meet liabilities arising in the foreseeable future.

2. FEES

	2007	2006
	£000	£000
The School's fee income comprises:		
Gross fees	17,972	16,979
Less staff, sibling and other concessions	(375)	(355)
	17,597	16,624
Less Scholarships, bursaries and prizes	(1,459)	(1,246)
Add back: Scholarships and bursaries paid for by Endowed and Restricted Funds (note 3)	1,459	1,246
	17,597	16,624

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

3. SCHOLARSHIPS, GRANTS, PRIZES AND OTHER AWARDS

The total scholarships, grants, prizes and other awards paid for by Endowed and Restricted Funds comprise :

	2007	2006
	£000	£000
Foundation Scholarships	261	304
Scholarships	439	399
Arnold Foundationers	377	175
Bursaries	368	354
Contribution to School fees	<u>1,445</u>	<u>1,232</u>
Prizes and Exhibitions	14	12
Transfer to School income	-	2
	<u>1,459</u>	<u>1,246</u>

4. OTHER INCOME

	2007	2006
	£000	£000
Other educational charitable activities		
Entrance fees	50	52
Other including tradesmen discounts and settlement fees	15	22
	<u>65</u>	<u>74</u>
Other ancillary trading income		
Bookshop, museum and second hand shop	317	306
Insurance commissions	41	45
	<u>358</u>	<u>351</u>
Other incoming resources		
Gains on sale of tangible fixed assets	3	86

5. TRADING INCOME AND EXPENDITURE

a) Investment in subsidiary company

The School has a wholly owned subsidiary, Rugby School Enterprises Limited, which is registered in England and Wales. The company has a share capital of £4. Its principal activity is to supply third parties with the School's sports, catering and other facilities when these are not required for its primary purpose of education. The company covenants its taxable profits to the School. The revenue account, cash flow, assets and liabilities are consolidated in these financial statements. Full financial statements are filed with the Registrar of Companies.

b) Income and expenditure

Trading income in Rugby School Enterprises Ltd relates principally to the Sports Centre (£273,508) and to external courses (£186,981).

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

Trading results extracted from its audited financial statements are as follows:

	2007	2006
	£000	£000
Turnover	612	542
Profit on ordinary activities after taxation	140	67
Covenanted payment to Rugby School	(140)	(67)
Retained surplus for the year	<u>-</u>	<u>-</u>

As at 31 July 2007, the Consolidated Balance Sheet includes the following net assets of the subsidiary company:

	£000
Bank & cash	226
Debtors	45
Current Liabilities: due to Rugby School	(88)
due to third parties	<u>(183)</u>
Net Assets	<u>-</u>

6. INVESTMENT INCOME

	2007	2006
	Total	Total
	£000	£000
Rents receivable	3,012	2,981
Income on UK quoted investments	467	463
Interest receivable on UK cash portfolio	218	175
	<u>3,697</u>	<u>3,619</u>

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

7. ANALYSIS OF TOTAL RESOURCES EXPENDED

	Note	Staff costs £000	Other costs £000	Depreciation £000	2007 Total £000	2006 Total £000
Costs of Generating and Managing Funds:						
Trading expenses		169	601	-	770	750
Fund-raising costs		157	71	-	228	208
Finance costs		-	161	-	161	32
Investment management costs		-	920	-	920	966
		326	1,753	-	2,079	1,956
Charitable Activities						
School operations:						
Teaching		6,831	749	216	7,796	7,568
Welfare		975	2,291	22	3,288	3,152
Premises		1,433	1,747	1,283	4,463	4,000
Support		799	694	-	1,493	1,327
School's operating costs		10,038	5,481	1,521	17,040	16,047
Scholarships, bursaries and prizes	3	-	1,459	-	1,459	1,246
Payment to Lawrence Sherriff School	9	-	422	-	422	414
Governance costs						
Auditors remuneration		-	39	-	39	48
Auditors fees for other services		-	5	-	5	10
Legal advice for trustees		-	51	-	51	25
Costs associated with constitutional and statutory requirements		65	-	-	65	60
Governing Body expenses		-	25	-	25	13
Schools Competition Act Settlement Trust	18	-	-	-	-	86
		65	120	-	185	242
Other resources expended						
Taxation	11	-	-	-	-	3
Total Resources Expended		10,429	9,235	1,521	21,185	19,908

8. EXPENDITURE

Total resources expended include the following amounts:

	2007 £000	2006 £000
Amounts accrued to advance fees	58	43
Eight Governors' travel expenses	2	5

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

9. PAYMENT TO LAWRENCE SHERIFF SCHOOL

Under the Rugby School (Transfer) Act 1906, as amended by the Rugby School Act 1922 and an Order of the Secretary of State for Education and Science dated 30 October 1968, an annual sum is payable to Lawrence Sheriff School, consisting of the income from an initial investment of £34,500 (market value at 31 July 2007 £270,822 [2006 £216,398]), plus one fifth of the remaining net annual income of the London Estate (before minor adjustments), after leaving £984 of income to be invested, plus £100. The total amount payable to Lawrence Sheriff School in respect of the 2006/07 financial year was £422,246.

10. STAFF COSTS

Total Staff Costs:	2007	2006
	£000	£000
Salaries and wages	8,776	8,496
Social security costs	730	704
Pension contributions	828	656
	10,334	9,856
Benefits - BUPA contributions	95	99
Salaries and wages	10,429	9,955

The average number of full-time employees in the year was 219 (2006; 220) of whom 100 (2006; 101) were full time teaching staff. In addition, the School employs a significant number of part-time employees (2007-286; 2006-270) the majority of whom are only employed for a few hours each week during term time.

The number of employees whose emoluments, excluding pension contributions, exceeded £60,000 were:

	2007	2006
	No	No
£60,000-£69,999	4	4
£70,000-£79,999	1	1
£90,000-£99,999	-	1
£100,000-£109,999	1	-
£110,000-119,999	-	1
£120,000-£129,999	1	-

5 of these employees (2006 - 4) were members of a defined benefit pension scheme; 2 employees (2006 - 3) were members of a defined contribution scheme at a charge of £19,000.

During the year a governor, R.W.B. Williams, was employed by the School to provide cover for a member of the teaching staff. He received remuneration for his service in accordance with appropriate teaching salary rates of £12,779.

No other Governors or persons connected with them received any remuneration or other benefits from the School or any connected organisation.

11. TAXATION

The School has charitable status and is thus exempt from corporation tax.

There is no UK corporation tax charge, in respect of prior years, by the trading subsidiary, Rugby School Enterprises Limited (2006 - £3,000).

**THE GOVERNING BODY OF RUGBY SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2007**

12. FREEHOLD LAND & BUILDINGS, FIXTURES AND EQUIPMENT

	Parent Charity and Consolidated		
	Freehold land & buildings	Fixtures & equipment	Total
COST	£000	£000	£000
As at 1 August 2006	35,302	1,935	37,237
Additions	1,532	255	1,787
Disposals	-	(50)	(50)
As at 31 July 2007	<u>36,834</u>	<u>2,140</u>	<u>38,974</u>
 DEPRECIATION			
As at 1 August 2006	11,705	925	12,630
Charge for the year	1,228	293	1,521
Disposals	-	(50)	(50)
As at 31 July 2007	<u>12,933</u>	<u>1,168</u>	<u>14,101</u>
 NET BOOK VALUE			
As at 31 July 2007	<u>23,901</u>	<u>972</u>	<u>24,873</u>
As at 31 July 2006	<u>23,597</u>	<u>1,010</u>	<u>24,607</u>

In addition to the assets recorded on the balance sheet, the School has a collection of works of art and museum exhibits, which it has acquired over many years, mostly as gifts. A physical inventory of such assets was taken in the year to 31 July 2003 but because such assets are held for educational purposes and not for sale, and for cost / benefit reasons the Governing Body have decided not to value these assets in the financial statements.

CAPITAL COMMITMENTS

Capital expenditure authorised by the Governing Body as at 31 July 2007 amounted to £2.566 million (2006: £2.355m), of which £149,000 (2006: £168,000) had been committed.

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13. FIXED ASSET INVESTMENTS

School

	London Estate £000	Special Funds £000	Composition of Fees £000	Total £000
Balance at 1 August 2006	23,785	10,814	857	35,456
Additions	286	3,910	552	4,748
Disposals at opening market value	(270)	(2,593)	(51)	(2,914)
Revaluations	2,666	756	(23)	3,399
Balance at 31 July 2007	<u>26,467</u>	<u>12,887</u>	<u>1,335</u>	<u>40,689</u>
Represented by:				
Freehold properties	25,000	-	-	25,000
Investments listed on the U.K. Stock Exchange	1,446	12,132	770	14,348
Cash deposits	21	755	565	1,341
	<u>26,467</u>	<u>12,887</u>	<u>1,335</u>	<u>40,689</u>
Historical cost	<u>10,321</u>	<u>9,799</u>	<u>1,357</u>	<u>21,477</u>

Consolidated

	Parent Charity £000	War Memorial £000	Total £000
Balance at 1 August 2006	35,456	702	36,158
Additions	4,748	276	5,024
Disposals at opening market value	(2,914)	(260)	(3,174)
Revaluations	3,399	19	3,418
Balance at 31 July 2007	<u>40,689</u>	<u>737</u>	<u>41,426</u>
Represented by:			
Freehold properties	25,000	-	25,000
Investments listed on the U.K. Stock Exchange	14,348	731	15,079
Cash deposits	1,341	6	1,347
	<u>40,689</u>	<u>737</u>	<u>41,426</u>
Historical cost	<u>21,477</u>	<u>612</u>	<u>22,089</u>

Estate investments include property valued at £25 million at 31 July 2007 (2006: £22.4million). As described in the Governors' Report, Rugby School's share of the net income from these properties is used primarily to finance foundations, scholarships and other allowances awarded by the School.

The London Estate investment properties were professionally valued as at 31 July 2006. This open market valuation was prepared by Farebrother, Chartered Surveyors, (with an allowance being made for certain restrictions which apply to the Estate under an agreement between Rugby School and the London Borough of Camden). Having taken advice from the valuer, the Governors formed the opinion that based on increased rental returns the estimated value of the Estate was approximately £25 million as at 31 July 2007.

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The Estate is wholly owned by Rugby School. However, under the terms of the Rugby Lower School (Transfer) Act 1906 and of the Rugby School Act 1922, and as recorded in Note 9, one fifth of the annual net income from this Estate is paid to Lawrence Sheriff School in Rugby.

Special Funds comprise some 95 different funds, the income and capital from which is restricted for specific purposes such as scholarships, grants and prizes. With the approval of the Charities Commission, there is a pooling system under which investments belonging to its Special Funds are pooled.

There are no individual investments greater than 5% of the total value.

14. DEBTORS

	Parent Charity		Consolidated	
	2007	2006	2007	2006
	£000	£000	£000	£000
Trade debtors	515	488	525	531
Other debtors	1,139	1,623	1,238	1,684
Inter-company balances	358	638	-	-
Prepayments and accrued income	145	178	153	178
	<u>2,157</u>	<u>2,927</u>	<u>1,916</u>	<u>2,393</u>

15. CREDITORS: due within one year

	Parent Charity		Consolidated	
	2007	2006	2007	2006
	£000	£000	£000	£000
Trade creditors	708	357	1,062	463
Taxation and social security	291	284	71	302
Other creditors	645	966	552	967
Accruals and deferred income	1,768	1,049	1,912	1,054
Advance fees (note 17)	592	532	592	532
OFT settlement (note 18)	15	25	15	25
	<u>4,019</u>	<u>3,213</u>	<u>4,204</u>	<u>3,343</u>

16. CREDITORS: amounts due after more than one year

	Parent Charity		Consolidated	
	2007	2006	2007	2006
	£000	£000	£000	£000
Other creditors :				
Advance fees (note 17)	911	662	911	662
Entrance fees and final term deposits	988	699	988	699
OFT settlement (note 18)	46	61	46	61
	<u>1,945</u>	<u>1,422</u>	<u>1,945</u>	<u>1,422</u>

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17. ADVANCE FEE PAYMENTS

Parents may enter into a contract to pay to the School up to the equivalent of seven years' tuition fees in advance. The money may be returned subject to specific conditions. Assuming pupils will enter and remain at the School, advance fees will be applied as follows:

	2007	2006
	£000	£000
After 5 years	23	6
Between 2 to 5 years	514	321
Between 1 to 2 years	374	335
	<u>911</u>	<u>662</u>
Within 1 year (note 15)	592	532
Balance at 31 July	<u>1,503</u>	<u>1,194</u>

The balance represents the accrued liability under the contracts. The movements during the year were:

	£000
Balance at 1 August 2006	1,194
New contracts	1,137
Amounts accrued to contracts	58
	<u>2,389</u>
Amounts utilised in payment of fees to the School	(810)
Capital repaid	(76)
Balance at 31 July 2007	<u>1,503</u>

The movement of income during the year was:

	2007	2006
	£000	£000
Investment income	89	53
Amounts accrued to contracts	(58)	(43)
(Losses)/ gains on investments: realised	(1)	-
(Losses)/ gains on investments: unrealised	(22)	(24)
Net (deficit)/surplus for the year	<u>8</u>	<u>(14)</u>
Transfer to general unrestricted funds	-	-
Deficit as at 1 August	(17)	(3)
Deficit as at 31 July	<u>(9)</u>	<u>(17)</u>

18. OTHER CREDITORS

Other creditors include £61,000 in respect of the Schools Competition Act Settlement Trust. These amounts are payable over the next five years as follows:

	2007	2006
	£000	£000
Between 2 to 5 years	31	46
Between 1 to 2 years	15	15
Due between 1 to 5 years (note 16)	<u>46</u>	<u>61</u>
Within 1 year (note 15)	15	25
Balance at 31 July	<u>61</u>	<u>86</u>

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19. PENSION SCHEMES

(a) Teachers' Pension Defined Benefits Scheme

The School participates in the Teachers' Pension Scheme (England and Wales) ("the Scheme"), for its teaching staff. This is a multi-employer defined benefits pension scheme and it is not possible or appropriate to identify the assets and liabilities of the Scheme which are attributable to the School.

The latest actuarial valuation of the Scheme by the Government Actuary issued in October 2006 relating to the period 1 April 2001 to 31 March 2004 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) exceeded the value of the Scheme's assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) by 2.0%.

From 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution has been assessed at 19.75%, with a supplementary contribution of 0.75% to balance the Scheme's assets and liabilities within 15 years as required by the regulations. This translates into an employer contribution rate of 14.1% and an employee contribution rate of 6.4%. The cost-sharing agreement has also introduced - effective for the first time from the 2008 valuation - a 14% cap on employer contributions payable.

The pension charge for the year includes contributions payable to the scheme of £640,000 (2006: £615,000).

(b) Rugby School Pension and Life Assurance Scheme for Non Teaching Staff

Composition of the Scheme

The School operates a defined benefit pension scheme, the Rugby School Pension and Life Assurance Scheme for Non-Teaching Staff (1973). This is an approved funded pension scheme. The assets of the Scheme are held separately from the assets of the School in trustee administered funds. The Scheme closed to future accrual on 5 April 2006. Contributions to the Scheme are assessed in accordance with the advice of a qualified actuary.

Actuarial valuation

A full actuarial valuation was carried out at 6 April 2006 and updated to 31 July 2007 by a qualified actuary. Following the valuation on 6 April 2006, a new schedule of contributions has been agreed between the School and the Trustees to pay £275,000 per annum for 10 years.

The major assumptions used by the actuary were:

	At 31 July 2007	At 31 July 2006	At 31 July 2005
Rate of increase in salaries	n/a	n/a	4.30%
Rate of increase in pensions payment	5.00%	5.00%	5.00%
Discount rate	5.85%	5.20%	5.10%
Inflation Assumption	3.20%	3.10%	2.80%

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The assets in the Scheme and the expected rate of return were:

	Long-term rate of return expected at 31 July 2007	Market Value at 31 July 2007	Long-term rate of return expected at 31 July 2006	Market Value at 31 July 2006	Long term rate of return expected at 31 July 2005	Market Value at 31 July 2005
		£000		£000		£000
Equities	8.50%	1,471	7.8%	1,255	8.0%	1,223
Bonds	5.00%	1,551	4.3%	1,427	4.5%	1,288
Cash	5.00%	55	4.3%	134	4.5%	102
Total market value of assets		3,077		2,816		2,613
Present value of scheme liabilities		3,684		4,177		3,733
(Deficit)/ surplus in the scheme		(607)		(1,361)		(1,120)

The following amounts have been recognised under the requirements of FRS 17.

Analysis of the amount charged to net incoming resources:

	31 July 2007	31 July 2006	31 July 2005
	£000	£000	£000
Current service cost	0	174	237
Past service cost	0	0	0
Curtailment (gain) loss	0	(258)	0
Total Operating charge	0	(84)	237

Analysis of the amount credited to other finance income:

	31 July 2007	31 July 2006	31 July 2005
	£000	£000	£000
Expected return on pension scheme assets	167	159	134
Interest on pension scheme liabilities	(213)	(186)	(180)
Other finance income	(46)	(27)	(46)

Analysis of actuarial gains and losses:

	31 July 2007	31 July 2006	31 July 2005
	£000	£000	£000
Actual return less expected return on scheme assets	(13)	122	371
Experience gains and losses arising on the scheme liabilities	9	52	(4)
Changes to assumption underlying the present value of the scheme liabilities	528	(725)	(437)
Actuarial gain / (loss)	524	(551)	(70)

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Movement in balance sheet deficit during the year:

	31 July 2007 £000	31 July 2006 £000	31 July 2005 £000
Deficit in scheme at 1 August	(1,361)	(1,120)	(991)
Movement in the year:			
Current service cost	0	(174)	(237)
Contributions	276	253	224
Past Service cost	0	0	0
Curtailments gain / (loss)	0	258	0
Other finance income	(46)	(27)	(46)
Other income	0	0	0
Actuarial gain/(loss)	524	(551)	(70)
Deficit in scheme at 31 July	<u>(607)</u>	<u>(1,361)</u>	<u>(1,120)</u>

History of experience gains and losses:

	2007 £000	2006 £000	2005 £000	2004 £000	2003 £000
Actual less expected return on scheme assets	(13)	122	371	(110)	(92)
Percentage of scheme assets	0%	4%	14%	-5%	-5%
Experience gains/(losses) on the liabilities	9	52	(4)	13	(129)
Percentage of present value of scheme liabilities	0%	1%	0%	0%	-4%
Actuarial gain/(loss)	524	(551)	(70)	(30)	(548)
Percentage of present value of scheme liabilities	14%	-13%	-2%	-1%	-19%

Contributions

The charge for the year is £46,000 (2006: £141,000).

(c) Rugby School Group Stakeholder Pension Scheme for Non Teaching Staff

From 1 October 1997 to 30 September 2001, Rugby School operated a defined contribution pension scheme for certain non-teaching staff. The pension cost charge represented contributions payable by the School to the fund; these contributions matched those of the employees up to a maximum of 5%.

With effect from the 1 October 2001, the scheme was replaced by the Rugby School Group Stakeholder Pension Scheme. The School contributes double the employee contributions up to a maximum of 12% of pensionable pay. Employer contributions totalling £185,000 (2006-£145,000) were paid in respect of this pension scheme for the year.

The assets of both schemes are held separately from the School in independently administered funds.

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20. ANALYSIS OF NET ASSETS

The net assets are held for the various funds and advance fees as follows:

	Endowed Funds £000	Restricted Funds £000	Unrestricted Funds £000	Advance Fees £000	Total £000
Parent Charity					
Fixed Assets	-	-	24,873	-	24,873
Investments	26,467	12,887	-	1,335	40,689
Net Current Assets/ (Liabilities)	813	(455)	2,390	(432)	2,316
Long Term Liabilities	-	-	(1,640)	(912)	(2,552)
	<u>27,280</u>	<u>12,432</u>	<u>25,623</u>	<u>(9)</u>	<u>65,326</u>
 Consolidated					
Fixed Assets	-	-	24,873	-	24,873
Investments	26,467	13,624	-	1,335	41,426
Net Current Assets / (Liabilities)	813	(351)	2,390	(432)	2,420
Long Term Liabilities	-	-	(1,640)	(912)	(2,552)
	<u>27,280</u>	<u>13,273</u>	<u>25,623</u>	<u>(9)</u>	<u>66,167</u>

21. RESERVE FOR REPAIRS, REHABILITATION AND RECONSTRUCTION

	2007 £000	2006 £000
As at 1 August	314	390
Transfer from net income resources	-	(76)
As at 31 July	<u>314</u>	<u>314</u>

In accordance with an Order made by the Minister of Education on 15 January 1963, the Governing Body may transfer funds into a Reserve Fund for the reconstruction and development of the real property of the Foundation at Holborn (the London Estate).

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22. ENDOWED FUNDS

	Balance at 1 August 2006 £000	Incoming funds £000	Amounts expended and transfers £000	Investment gains £000	Balance at 31 July 2007 £000
Parent Charity and Consolidated					
London Estates	23,848	3,008	(3,008)	2,665	26,513
Arnold Foundation	710	-	-	57	767
	<u>24,558</u>	<u>3,008</u>	<u>(3,008)</u>	<u>2,722</u>	<u>27,280</u>

London Estates

The London Estate consists principally of property in London bequeathed by the School's founder, Lawrence Sheriff. This permanent endowment yields commercial and residential rental income and, after accounting for the costs of its maintenance and administration, one fifth of the remaining surplus (plus one fifth of the income from certain non-property investments) is paid to Lawrence Sheriff School, a neighbouring secondary school originally established by the Governing Body of Rugby School and now operating in the state sector. Of the four fifths which remains, the primary use is to fund foundations and scholarships. Any remaining balance is unrestricted in use, but in practice is applied to finance capital projects which are of long-term benefit, or accumulated for the same uses in future years.

Arnold Foundation

The Arnold Foundation Endowed Fund is monies given as permanent endowment funds to provide future income for the provision of scholarships and bursaries to Rugby School.

23. RESTRICTED FUNDS

	Balance at 1 August 2006 £000	Incoming funds £000	Amounts expended and transfers £000	Investment gains £000	Balance at 31 July 2007 £000
Parent Charity					
Common Investment Fund	6,285	270	(476)	504	6,583
Lewis Benefaction Fund	3,933	142	(142)	325	4,258
Arnold Foundation	1,450	570	(516)	87	1,591
	<u>11,668</u>	<u>982</u>	<u>(1,134)</u>	<u>916</u>	<u>12,432</u>
Consolidated					
War Memorial	777	30	-	34	841
General Charitable Trust	-	6	(6)	-	-
	<u>12,445</u>	<u>1,018</u>	<u>(1,140)</u>	<u>950</u>	<u>13,273</u>

Common Investment Fund

The Common Investment Fund consists of numerous funds, the income and capital being restricted for specific purposes. With the approval of the Charities Commission, there is a pooling system under which investments belonging to its restricted fund are pooled. The majority of the funds are restricted for the provision of scholarships, bursaries and prizes.

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Lewis Benefaction Fund

The Lewis Benefaction Fund is restricted for the provision of scholarships and bursaries.

Arnold Foundation

The Arnold Foundation fund is the unexpended balance of gifts and legacies made to the Arnold Foundation and held as a restricted fund by the School. The fund's principal aim is to raise monies for scholarships and bursaries, widening access to Rugby School, so that more talented people may benefit from an education at Rugby, irrespective of their parents' ability to pay the fees. Funds are also donated to the Foundation to improve the School's facilities.

	£000
Expended by the School in the year to 31 July 2007 in accordance with the wishes of the donors:	
Scholarships and bursaries	378
Macready Theatre	138
	<u>516</u>
Unexpended balance of gifts and legacies as at 31 July 2007:	
Given without restriction but held as restricted funds until their utilisation for a particular purpose is approved by the Governing Body	704
Restricted by the donors for:	
Scholarships and bursaries	861
Music	11
Performing & Creative Arts	9
Sport	3
Kilbracken boarding house	2
Science	1
	<u>1,591</u>

War Memorial Fund

The War Memorial Fund makes awards to help the children of Old Rugbeians, who are in need of financial assistance, to attend or to remain at Rugby School.

General Charitable Trust

The Trust receives income from covenants and legacies which were established prior to the existence of the Arnold Foundation. The income is gifted to the School, usually to assist with specific capital projects.

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24. UNRESTRICTED FUNDS

	Balance at 1 August 2006 £000	Incoming funds £000	Amounts expended and transfers £000	Investment gains £000	Balance at 31 July 2007 £000
School and Consolidated					
School operations	24,746	17,873	(16,375)	(23)	26,221
Pension reserve	(1,361)	276	(46)	524	(607)
	<u>23,385</u>	<u>18,149</u>	<u>(16,421)</u>	<u>501</u>	<u>25,614</u>

25. TRANSFERS BETWEEN FUNDS

	Parent Charity £000	RSE £000	Endowed London Estate £000	Special Funds £000	Other Funds £000
Gifts applied by the School to projects specified by donors	204	-	-	(198)	(6)
Arnold Foundation fundraising costs met by the School	(228)	-	-	-	228
Restricted income invested in Special Funds	-	-	-	491	(491)
	<u>(24)</u>	<u>-</u>	<u>-</u>	<u>293</u>	<u>(269)</u>
Net surplus for the year transferred for charitable use by the School	1,283	(140)	(1,143)	-	-
Total	<u>1,259</u>	<u>(140)</u>	<u>(1,143)</u>	<u>293</u>	<u>(269)</u>

26. RELATED PARTY TRANSACTIONS

The children of staff and Governors may attend the School, subject to the normal entry procedures. In such cases, Governors pay School fees at the standard rates, but staff members receive a discount.