

**Edinburgh College of Art**

Report and Financial Statements

For the year ended 31 July 2011

Scottish Charity Number SC009201

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## OPERATING AND FINANCIAL REVIEW

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### Edinburgh College of Art

On 1 August 2011 The Board of Governors of Edinburgh College of Art (“the College”) was wound up under Scottish Statutory Instrument No 42, The Edinburgh College of Art (Transfer)(Scotland) Order 2011. The property rights, liabilities and obligations of the College were transferred to the University Court of the University of Edinburgh. Commentary, from the Governors of the College, as detailed on page 9, on the operation of the College during 2010-2011, excluding the financial outturn, was prepared before the year end and is detailed below. The final commentary including the financial results for the year has been considered by the successor governing body, that is the Court of the University of Edinburgh, whose membership at the time of signing the financial statements is provided at page 11.

The Principal and Governors of the College believed that the merger will produce a stronger and more stable institution for students, staff and other stakeholders. There has been strong and consistent support from staff and students at both the College and the University of Edinburgh throughout the merger process. The Governors and senior staff of both the College and the University of Edinburgh have put in many hours of effort to ensure that matters have been dealt with in an orderly manner. All parties to the merger have agreed that the distinct academic character of the Edinburgh College of Art and its identity should be preserved and the parliamentary legislation requires that these undertakings are delivered.

Founded in 1907, but with a history dating back to the 18th century, Edinburgh College of Art is home to around 1,700 full-time students who enjoy a learning environment that is supportive, challenging and international in outlook. The College attracts the best students and staff, from all over the world and from all backgrounds; develops ideas, creativity, and skills that will have an international impact; brings together a broad portfolio of art and design disciplines; nurtures the cultural and economic life of Scotland through the creative practice of its staff and students; and staff, students, and alumni engage with the wider community in Edinburgh and Scotland.

2010-2011 saw the College attract the UK's highest ratio of applications to places in art and design; overseas applications were higher than ever; research performance in architecture and landscape architecture is among the best in the UK; and the College has the highest rating for quality assurance and enhancement. The College (as part of the University of Edinburgh with whom joint courses were run) was recently ranked top of the league on the University Subject Tables for 2012 for Art & Design on the Complete University Guide website. The College enjoys an enviable international reputation and, with over twenty applications for every place, is one of the most popular and successful art colleges in Europe. Student numbers in 2010-2011 were 1,882 of which 255 were overseas students.

College students and graduates are of the highest quality, regularly winning major awards across art, design, architecture and landscape architecture. As ever there have been great successes in the past year for students and graduates of the College and the following are just a few examples.

The College won a total of three of the prestigious awards announced at the Graduate Fashion Week Gala. The awards, which recognise the work of Fashion and Textiles students at colleges across the UK, were the culmination of this leading industry event celebrating the new stars of British fashion. Of those new stars, Edinburgh College of Art Fashion graduate Felix Chabluk Smith was announced as the winner of the Menswear Award, and Kyle Spires was the winner of the Karen Millen Portfolio Award. The College was also presented with the Stand Design Award.

Film and TV graduate Anna Ewert was awarded the prestigious ‘Golden Gate Award for Best Short Documentary’ at the annual San Francisco Film Festival 2011.

Rapid prototype jeweller, Farah Bandoowala has been chosen by Jerwood Visual Arts as one of four winning artists in the first Jerwood Makers Open and will create new work, which will go on display at the Jerwood Space, London in July 2011.

Winners of the 2011 BAFTA Scotland New Talent awards included a number of Screen Academy Scotland students and graduates. From Screen Academy Scotland at the College of animation graduate Anna Pearson won Best Animation for her film Out on the Tiles, and Master of Fine Art student Lou McLoughlan won Best Director for her short, Caring for Callum, which also won ‘Best Student Work’. The Best Producer award went to Naysun Alae-Carew, who produced Year 4 Film & TV student, Ryan McHenry’s film, Zombie Musical.

June 2011 saw the launch of an innovative five-year Research Partnership that brings together the National Galleries of Scotland and Tate with staff and students of the College, and the University of Edinburgh. This initiative is part of The Artist Rooms Collection, a huge gift to the nation by the art collector and dealer Anthony d'Offay, who was

## **OPERATING AND FINANCIAL REVIEW**

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awarded an Honorary Fellow of the College in 2006. The collection consists of over 1,000 works of art and represents some 33 internationally famous artists. Since 2009, the collection has been seen by nearly 14 million people throughout the United Kingdom. The new research project will enable this collection to reach and inspire new audiences across the country, with a particular focus on engaging young people with modern and contemporary art.

### **Student curriculum**

During the academic year 2010-2011 a significant amount of work has been undertaken preparing for full merger with the University of Edinburgh and the rationalisation of the academic structures undertaken during the past four years has made this integration more easily achievable. The College has worked closely with the University for several years and the academic programmes are already fully compliant with the University's overarching governance arrangements while ensuring that the pedagogical distinctiveness of education in art, architecture and design is maintained and enabled to flourish. Academically the College is in very good health as is evidenced through external review, examiners reports and in the continued success of our students and graduates. As identified above, the College continues to be highly selective with application ratios now averaging in excess of 24-1 for undergraduate programmes in Art and Design; Fashion and Illustration now reaching around 47-1.

In response to this the College developed a new approach to admissions to accommodate this significantly increased volume of applications and the College has since been recognised by the University Central Admissions System (UCAS) and SPA (Supporting Professionalism in Admissions) as a leader in this field, UCAS and SPA subsequently advising other institutions to seek advice from the College on our approach.

The Schools of Art and Design successfully completed their quinquennial Internal Review of Academic Programmes (IRAP) which is a requirement of the Quality Assurance Agency governance arrangements for Higher Education in Scotland. The joint School of Architecture and Landscape Architecture (ESALA) also had their professional body visit from the Royal Institute for British Architects (RIBA) who recommended unconditional validation of the March post-graduate programme. All of our academic programmes have now been successfully reviewed and approved for the next substantive period, giving the College a solid foundation on which to build future initiatives.

Externally the College's staff engagement with and contribution to the sector-wide theme of '21st Century Graduate Attributes' has also been recognised. Our work on Assessment and Feedback, the use of online technologies to support assessment, feedback, the organisation and administration surrounding student learning through our highly innovative ePortal and Learning Management System (LMS) and our Book of Case Studies on developing graduate attributes has attracted significant interest across Universities both here in Scotland and internationally. A number of institutions have now approached the College seeking our advice and this work will continue following merger, with the College already leading on a major research bid on behalf of the University to support the continued development of our LMS with a view to our approach being used more widely across the University.

### **Staff, students and equality and diversity**

The College complies fully with legislation and embodies best practice to promote equality of opportunity and respect for diversity. The College has a handbook for staff working with students who may (or may not have) disclosed impairments, medical conditions, or disabilities. The handbook outlines current policies, practices and procedures in place to support such students. The content of this handbook is relevant to all members of the College community, staff and students alike. The College employs a Disability Adviser.

In response to action plans laid out in the 2008-2009 disability scheme, feedback from students and staff via the feedback channel on the web/portal helped identify areas for attention. This led to the rationalisation of how the College procured and delivered disability related equipment for students. In relation to the action plans incorporated in the Equality Scheme 2009-2010, an audit carried out by human resources led to changes in the content of Diverse Possibilities training offered to all staff. 3% of staff have declared that they have a disability.

## OPERATING AND FINANCIAL REVIEW

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### Scope of the financial statements

The financial statements contained within this report reflect the results of both the Group and the College, for the year to 31 July 2011.

The financial statements of the Andrew Grant Scholarship Fund (AGSF) are included in the consolidated financial statements. AGSF is a registered Scottish Charity and files its own financial statements with the Office of the Scottish Charity Regulator.

### Results for the year

The operating surplus of £8.2million in 2010-2011 is in stark and welcome contrast to the operating deficit reported in the previous year. This improvement is, in large part, the result of the outstanding work of the Chief Operating officer, Dr PWA West, who joined the College in October 2010. Dr West rebalanced the financial basis of the College through adept management, securing the necessary reductions in expenditure and increases in income, within a very challenging timescale. This approach greatly assisted in supporting the merger process with the University of Edinburgh.

In addition to the improved financial management in the year, three exceptional items contributed to the level of the operating surplus and these are considered in turn. In 2010-2011, as a result of the approval of merger between the College and the University of Edinburgh, revenue grant funding of £8.6 million was provided, in year, by the Scottish Funding Council (SFC) in respect of the merger. As detailed in Note 2, non recurrent funding from SFC was provided as follows: £4million to permit part repayment of the College's £11.5million loan outstanding with a commercial bank; £1.7million to repay the outstanding loan (and associated lost interest) to the AGSF and £1.6million representing the conversion of previous loans from SFC to revenue grant funding. Cash previously provided by SFC to assist with severe cash flow is no longer being accounted for as outstanding loans but is shown as revenue income.

SFC also provided a grant of up to £1.4 million to fund the implementation of a voluntary severance and early retirement scheme in 2010-2011 and unlike the previous year's award this income is included in revenue income, to the extent that associated expenditure was incurred in the year. In 2009-10 there was also a significant write down in the value of fixed assets of £11.9million. No impairment charge is required for 2010-2011. In 2009-10 there was also an exceptional decrease in staff costs due to a one off pension credit applied to staff costs reflecting changes in actuarial assumptions in respect of future pension inflationary increases.

Taking account of the immediate impact of the various SFC grants on the reported operating surplus, the final surplus can be viewed as comprising £7.3million arising from the exceptional nature and accounting for SFC merger funding, the balance being an improved outturn against budget. The latter was achieved by improved budget setting and monitoring throughout the year, improved control over and understanding of operational costs within the College and the achievement of significant savings in staff costs through the operation of an efficient and effective voluntary severance and early retirement scheme. A key element of the 2010-2011 financial strategy was to secure annualised savings of £1million commencing in the third quarter of the financial year. This target was met and the final annualised savings of £1.6million, at a cost of £1.3million, was a significant improvement on the expectations underlying the funding provided by SFC to operate a voluntary severance and early retirement scheme.

### Revenue Income and Expenditure

The increase in revenue income in 2010-2011 of 93% compared to the previous year is largely attributable to the merger funding provided by SFC as noted earlier. The 14% increase in tuition fees between the two financial years reflects the achievement of a significant increase in the number of overseas students in 2010-11. Research grants and contracts income has remained flat between the two years although the makeup of the component contracts has changed as contracts end and new ones begin. Although other operating income has reduced compared to 2009-10, associated expenditure has also decreased and a minor increase in the contribution from some trading activities, such as the College shop has been secured in 2010-2011. Investment income has increased year on year due primarily to the receipt of interest on positive cash balances throughout 2010-11.

Staff costs of £10.3million is slightly lower than the forecast costs of £10.5million and reflects the additional savings secured from the continued operation of the voluntary severance and early retirement scheme throughout the

## **OPERATING AND FINANCIAL REVIEW**

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### **Results for the year** *(continued)*

second half of the financial year. The actual savings in base line salary costs in 2010-2011 is not immediately apparent given the £1million exceptional credit included in the 2009-10 salary cost figure.

Staff restructuring costs have increased year on year in line with the external funding provided by SFC to undertake such schemes. Other operating expenses have declined significantly by £0.6million in 2010-2011 and again this is in line with the forecast. A reduction in professional fees from £1million to £0.6million has been secured as required in the financial strategy for 2010-2011. Depreciation has also decreased compared to the previous year reflecting the continuation of a freeze on capital expenditure. As noted above there is no impairment charge required in 2010-2011.

The reduction in interest payable is reflective of the reduction in FRS 17 adjustments between the years, interest payable on the College's external bank loan being fairly constant throughout the year as the part repayment of the loan was only made at the end of July 2011.

### **Consolidated Balance Sheet**

Like the income and expenditure account there has been a significant improvement in the balance sheet at 31 July 2011, with net assets of £6.8million compared to net liabilities of £2million the previous year end. The contributors to this change stem largely from the merger funding provided by SFC, with a significant reduction in indebtedness being secured in the following areas. The College partly repaid the loan from the bank; the College repaid in full the loan from Andrew Grant Scholarship Fund and three separate loans previously provided by SFC in 2009 - 2010 were written off. As shown in the Consolidated Cash Flow Statement, net debt has decreased from £12.7million to £4.1million at 31 July 2011.

The growth in endowment assets from £2.2million to £4.1million reflects the repayment of the outstanding loan from the College to AGSF and current assets have increased largely through a growth in cash balances throughout the year. The increase in cash from £0.3million to £1.6 million is shown in the Consolidated Cash Flow Statement.

### **Creditor's payment policy**

The College's policy on paying suppliers is that payments are made in accordance with the terms and conditions agreed between the College and its suppliers, provided that all trading terms and conditions have been complied with. The College follows a policy of timely payment to suppliers, such that all invoices are settled in the month following the invoice date. As in 2010 no interest was paid under the Late Payments of Commercial Debts (Interest) Act.

### **Capital expenditure**

With the financial difficulties previously experienced by the College no new capital expenditure was planned or undertaken in the year ending 31 July 2011.

### **Investment performance**

The total value of the endowment fund increased during the year from £2.2 million to £4.1 million primarily reflecting the repayment of the outstanding loan from AGSF to the College following receipt of grant funding from SFC. The revenue income generated by this endowment was in line with the benchmark set by the College.

### **Treasury management**

The preparation of and monitoring against detailed monthly cash flows was undertaken throughout 2010/11.

### **Employee involvement**

The College places considerable value on the involvement of its employees and on good communication with them. Staff are encouraged to participate in formal and informal consultations at the College, and also through the medium of formal committees.

## **OPERATING AND FINANCIAL REVIEW**

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### **Merger between the College and the University of Edinburgh**

We would like to thank the staff of both institutions for delivering a successful merger within a challenging timescale. We would particularly like to thank Professor Ian G. Howard, as Principal of the College, for his strong academic leadership over the preceding ten years. Thanks must also go to the Scottish Government and SFC for their financial support which has allowed the merger to successfully take place. We look forward with confidence as the College's distinct character develops and thrives within the University of Edinburgh.

### **Disclosure of information to auditors**

The members of the Court of the University of Edinburgh who held office at the date of approval of this report and financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the College's auditors are unaware; each member has taken all the steps that they ought to have taken as a member to make themselves aware of any relevant audit information and to establish that the College's auditors are aware of that information.



Mr Donald Workman  
Member of the University Court

12 December 2011

## **CORPORATE GOVERNANCE STATEMENT**

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### **Introduction and Statement of Compliance**

The following statement is given to provide an understanding of the governance procedures applied by the College's Governing body (hereinafter referred to as the Board). The College was committed to exhibiting best practice in all areas of corporate governance. This summary describes the manner in which the College has applied the principles in line with the UK Corporate Governance Code published in June 2010, in so far as it applies to the higher education sector. Its purpose is to help the readers of the financial statements understand how the principles have been applied in the year ending 31 July 2011. Following merger with the University of Edinburgh on 1st August 2011, these responsibilities transferred to the University Court of the University of Edinburgh who hold office at the time of signing the report and financial statements for the year ended 31 July 2011.

### **Responsibilities of the Board**

The Board comprised lay and academic persons appointed under the Edinburgh College of Art (Scotland) Order of Council 1995, the majority of whom are non-executive. The Board was responsible for the College's strategic direction, reputation and financial wellbeing, the wellbeing of the staff and students and for establishing and maintaining high standards of academic conduct and probity.

The matters specially reserved to the Board for decision are set out in the Statutes of the College, by custom and under the Financial Memorandum with SFC. The Board held to itself the responsibilities for ongoing strategic direction of the College, approval of major developments and the receipt of regular reports from executive officers on the day to day operation of its activities.

The Board was responsible for the College's system of internal controls and for reviewing its effectiveness. Such a system was designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board discharged its responsibilities as follows:

The Board meets at least four times a year, one meeting being for the specific purpose of approving the College's strategic and operational plans. The Board considered strategic plans, annual budgets, monitors staffing, student estates and finance issues, set and approved performance measures and ensured that there was a clear definition of delegated powers and lines of accountability. (During 2010-2011 there were six meetings).

The Board had the following committees: Policy and Resources (with Finance, Estates and Health and Safety sub-committees), Audit and Risk and Chairman's (which also acted as the Remuneration and Nomination Committees). All of these committees have been constituted with terms of reference and comprise mainly lay Governors.

The Audit and Risk Committee was responsible for meeting four times annually with the external and internal auditors to discuss audit findings and to consider detailed audit reports and recommendations for the improvement of the College's systems of internal control, together with management responses and action plans. Whilst senior management attended meetings of the Audit and Risk Committee, as necessary, they were not members of the committee and the committee met with the internal and external auditors on their own for independent discussions (Three Audit and Risk Committee meetings were held in 2010-11 with an additional five meetings conducted jointly with the Finance sub-Committee). Three meetings of the University of Edinburgh Audit Committee also considered College matters in 2010-2011 and 2011-2012.

The Finance sub-committee recommended to the Board the College's financial plans and annual budgets and monitored performance in relation to the approved budgets. (Three meetings of this committee were held in 2010-11 in addition to the joint meetings referred to above).

A Redundancy Committee was established in 2010-2011, with a Board approved remit and membership. (Ten meetings of this committee were held in 2010-2011).

Details of the Corporate Governance framework following merger are provided in the Annual Reports and Financial Statements of the University of Edinburgh for the year ended 31 July 2011

## **CORPORATE GOVERNANCE STATEMENT**

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### **Risk Management and Internal Control** *(continued)*

The Board was of the view that there was an ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ended 31 July 2011. From December 2002, when the Board adopted a risk management strategy for the College, significant risks have been kept under review by the College's internal auditors who prepared an annual needs assessment report which is considered and approved by the Board. The remit of the Audit Committee was also extended to include the review of risk and particular attention was paid to the risks associated of merger with the University of Edinburgh. Through these processes, the Board aimed to embed a culture of risk management throughout the institution, to encourage staff to take ownership of risks and to control the risk management programme through monitoring techniques.

In their Annual Internal Audit Statement the internal auditors noted that in the current year there were improved control and management arrangements across several areas, particularly in the second half of 2010-2011. However these improvements could not be considered to have been embedded and established throughout 2010-2011. As such the College did not have an adequate framework of control in place in a number of areas and systems during 2010-11 although there was no direct impact of this on the 2010-11 Financial Statements. Improvements are however in place following the merger between the College and the University of Edinburgh and the application of the University of Edinburgh's corporate governance and financial management frameworks.

### **Conclusion**

The review of the effectiveness of the overall system of internal control was therefore informed by:

- the organisation's risk management framework;
- the work of Internal Audit and the Audit and Risk Committee which oversaw this activity;
- the internal control assessment framework, including the annual report of the Audit and Risk Committee to the Board of ECA;
- matters raised by external auditors in their management letter and other reports and
- reports on the hand over process and merger provided to the University of Edinburgh Audit Committee and considered during and after the accounting period.

In summary, there was an improvement in the quality of management information provided to the Governors and greater engagement with committees of the Board throughout 2010-2011. Given the number of vacancies arising on the Board during 2010-2011 swift action was taken to engage, train and develop new Board members. Preparing for merger also increased the review and challenge in respect of corporate governance and enhanced reporting has been provided to internal and external stakeholders. Transition arrangements in place in respect of the merger with the University of Edinburgh give further assurance as to the improvements in place at the time of signing the report and financial statements.

## BOARD OF GOVERNORS MEMBERSHIP

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### Board of Governors as at 31 July 2011

Details of the membership of the Board of Governors of the College at 31 July 2011 are given below. Following the merger of the College with the University of Edinburgh, details are also given of the members of the Court of the University of Edinburgh at the date of signing the report and financial statements for the year ended 31 July 2011.

### Membership of Board and Committees

#### Chairman

Mr Donald Workman, MA (Oxon)

Convenor of Chairman's Committee. Convenor of Chairman's Committee Acting as Remuneration Committee. Convenor of Chairman's Committee Acting as Nominations Committee. Convenor of Policy & Resources Committee. Member of Finance Sub-Committee

#### Ex Officio

Principal

Professor Ian G. Howard, MA, RSA

Convenor of Health & Safety Committee. Member of Policy & Resources Committee. Member of Finance Sub-Committee. Member of Estates Sub-Committee. Member of Chairman's Committee. Member of Chairman's Committee Acting as Remuneration Committee. Member of Chairman's Committee Acting as Nominations Committee

#### Chief Operating Officer

Dr Peter W. A. West DL, MA, DUniv, DPhil  
(Appointed October 2010)

Member of Finance Sub-Committee. Member of Estates Sub-Committee. Member of Chairman's Committee. Member of Chairman's Committee Acting as Remuneration Committee. Member of Chairman's Committee Acting as Nominations Committee. Member of Redundancy Committee

### Appointed by the Students' Association

#### President, Student Representation Council

Ms Francesca Miller  
(Retired June 2011)

Member of Health & Safety Sub-Committee

#### President, Student Representation Council

Ms Abigail Barr  
(Appointed July 2011)

Member of Health & Safety Sub-Committee

#### Co-opted

Professor Richard Coyne PhD MLArch BArch/ (Hons)  
ARAIA RIBA (University of Edinburgh Representative)

Professor D. Gareth Owen MA, PhD, CEng,  
FICE FSUT (Retired December 2010)

Member of Audit and Risk Committee

#### Appointed

Ms Ginnie Atkinson

Member of Estates Sub-Committee, Audit and Risk Committee and Awards and Bequests Sub-Committee

Professor Stephen Blackmore CBE, FRSE

Member of Audit and Risk Committee

(Resigned November 2010)

## **BOARD OF GOVERNORS MEMBERSHIP**

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### **Board of Governors as at 31 July 2011** *(continued)*

Professor Christine Hawley, CBE, RIBA, FRSA

Mr Donald MacDonald, CBE, MA, LLB, CA

Member of Finance Sub-Committee. Member of Redundancy Committee.

Mr Alastair Mackenzie, CBE, RIBA, MRTPI  
(Resigned December 2010)

Member of Policy & Resources Committee and Audit and Risk Committee. Convener of Estates Sub Committee

Ms Shonaig Macpherson, CBE, FRSE, DUniv

Convener of Audit and Risk Committee, Member of Chairman's Committee

Professor Ian F.Y. Marrian, MA, CA

Member of Policy and Resources Committee. Convener of Finance Sub-Committee. Member of Chairman's Committee. Member of Chairman's Committee Acting as Remuneration Committee, Member of Awards and Bequests Sub Committee

Lady Mathewson, DA (Edin)  
(Resigned December 2010)

Convener of Awards and Bequests Sub-Committee

Mr Robert B. Robertson, BSc, MSc, ARICS  
(Resigned December 2010)

Member of Awards and Bequests Sub-Committee. Member of Estates Sub-Committee. Member of Audit and Risk Committee,

Ms Lesley Watt, LLB Dip LB, CA  
(Appointed January 2011)

Member of Audit and Risk Committee

Ms Jocelyn Cunliffe MA (Hons), RIBA, RIAS,

Convener of Estates Sub Committee, Member of Awards and Bequests Sub Committee

MaPS, FRSA  
(Appointed January 2011)

Mr Eddie Frizzell BE, MA (Hons), FRSA  
(Appointed January 2011)

Member of Audit and Risk Committee

Ms Tessa Jackson OBE BA (Hons) MA  
(Appointed January 2011)

Convener of Awards and Bequests Sub-Committee

### **Elected by Staff from Academic Staff**

Academic Council Governor  
Professor Noemie Mendelle, MA BA (Hons)

Academic Staff Governor  
Ms Geraldine Prince, BA (Hons), MLitt, MPhil, FHEA  
(Retired January 2011)

Dr Juliette MacDonald, MA (Hons), FSA (Scot), PhD  
(Appointed March 2011)

### **Elected by Staff from Academic Support Staff**

Non-Academic Staff Governor  
Ms Sylvia Nicholson

## COURT OF THE UNIVERSITY OF EDINBURGH MEMBERSHIP

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### **Court Members as at 12 December 2011:**

Details of the membership of the Court of the University of Edinburgh at 12 December 2011 are given below. (Further details on the membership of the Court of the University of Edinburgh, along with details of members' attendance are detailed in University of Edinburgh Reports and Financial Statement for the year ended 31 July 2011).

### **Membership of Court and Key Committees**

#### **The Rector**

Mr I Macwhirter

Convener of Court

#### **Principal and Vice Chancellor**

Professor Sir Timothy O'Shea

Member of Finance and General Purposes Committee.  
Member of Nominations Committee. Member of  
Remuneration Committee

#### **The Chancellor's Assessor**

Sheriff Principal E F Bowen QC

#### **General Council Assessors**

Mr A Johnston

Member of Audit Committee

Professor A M Smyth

Member of Finance and General Purposes Committee.  
Member of Nominations Committee

Mrs M Tait

#### **Senatus Academicus Assessors**

Professor D J Finnegan

Dr M Aliotta

Member of Finance and General Purposes Committee

Professor J Ansell

Professor A Harmar

#### **City of Edinburgh Council Assessor**

Rt Hon G Grubb, Lord Provost

#### **Co-opted**

Professor S Monro

Vice - Convener of Court. Convener of Finance and  
General Purposes Committee. Convener of  
Nominations Committee. Convener of Remuneration  
Committee

Professor J Barbour

Member of Finance and General Purposes Committee

Mr P Budd

Member of Audit Committee

Dr C Masters

Member of Finance and General Purposes Committee.  
Member of Remuneration Committee

Mr G M Murray

Member of Finance and General Purposes Committee

Mrs E Noad

Member of Audit Committee

Ms A Richards

Convener Audit Committee. Member of Remuneration  
Committee

Mr D Workman

Member of Remuneration Committee

#### **Non- Teaching Staff Assessor**

Mr D Brook

#### **Student Members**

Mr M McPherson

Member of Finance and General Purposes Committee

Mr M Williamson

## STATEMENT OF THE RESPONSIBILITIES OF THE UNIVERSITY COURT OF THE UNIVERSITY OF EDINBURGH

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In accordance with the Edinburgh College of Art (Scotland) Order of Council 1995, the Further and Higher Education (Scotland) Acts 1992 and 2005, the Edinburgh College of Art (Transfer) (Order) 2011, the University Court of the University of Edinburgh is responsible for the administration and management of Edinburgh College of Art's ("the College's") affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for the College for the year ended 31 July 2011.

The University of Edinburgh is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed with the Scottish Funding Council and the University Court, through its designated office holder, is required to prepare financial statements for the year ended 31 July 2011 which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In preparing the financial statements, the University Court has ensured that:

- suitable accounting policies were selected and applied consistently;
- judgements and estimates were made that were reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements were prepared on the going concern basis.

The University Court has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions which the Scottish Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud; and
- secure the economical, efficient and effective management of the College's resources and expenditure.



Mr Donald Workman  
Member of the University Court

12 December 2011

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE COURT OF THE UNIVERSITY OF EDINBURGH**

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We have audited the Group and College financial statements of Edinburgh College of Art for the year ended 31 July 2011 set out on pages 15 to 42. 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).

This report is made solely to the University Court of the University of Edinburgh, as a body, in accordance with the Edinburgh College of Art (Scotland) Order of Council 1995 and The Edinburgh College of Art (Transfer) (Scotland) Order 2011. Our audit work has been undertaken so that we might state to the University Court of the University of Edinburgh those matters we are required to state to it 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 University Court of the University of Edinburgh, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the University Court of the University of Edinburgh and auditor**

As explained more fully in the Statement of Responsibilities of the University Court of the University of Edinburgh set out on page 12, the University Court of the University of Edinburgh is responsible for the preparation of the financial statements which give a true and fair view. 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's and College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the University Court of the University of Edinburgh; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and College's affairs as at 31 July 2011 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended; and
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and the Statement of Recommended Practice: accounting for further and higher education.

### **Opinion on other matters prescribed by the terms of our engagement**

In our opinion, in all material respects:

- funds from whatever source administered by the institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation, and any other terms and conditions attached to them; and
- funds provided by the Scottish Funding Council have been applied in accordance with the Financial Memorandum.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE COURT OF THE UNIVERSITY OF EDINBURGH** *(continued)*

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**Matters on which, under the terms of our engagement, we are required to report by exception**

We have nothing to report in respect of the following matters where the terms of our engagement require us to report to you if, in our opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.



**S Reid**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Saltire Court  
20 Castle Terrace  
EH1 2EG

16 December 2011

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 JULY 2011**

	Note	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
<b>Income</b>			
Funding Council Grants: Recurrent and Specific	2	9,429	9,367
Funding Council Grants: Merger	2	8,671	-
Tuition Fees and Education Contracts	3	5,588	4,910
Research Grants and Contracts	4	1,038	1,035
Other Income	5	1,295	1,488
Endowment and Investment Income	6	136	129
		<hr/>	<hr/>
Total Income		26,157	16,929
		<hr/>	<hr/>
<b>Expenditure</b>			
Staff Costs	7	10,336	9,771
Restructuring Costs		1,393	691
Other Operating Expenses	8	4,830	5,463
Depreciation	11	838	1,144
Impairment		-	11,918
Interest Payable and Other Finance Costs	9	515	658
		<hr/>	<hr/>
Total Expenditure		17,912	29,645
		<hr/>	<hr/>
Surplus/(Deficit) on continuing operations after depreciation of tangible fixed assets at cost, disposal of assets before and after tax		8,245	(12,716)
		<hr/> <hr/>	<hr/> <hr/>

Income and expenditure relates wholly to continuing operations.

There is no difference between the actual and historical cost surplus.

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 JULY 2011**

	Note	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
Surplus/ (Deficit) on Continuing Operations after Depreciation of Assets at Cost, Disposal of Assets and Tax		8,245	(12,716)
Unrealised Appreciation of Investments	12	185	282
Actuarial Gains in Respect of Pension Schemes	24	793	20
		<hr/>	<hr/>
Total Recognised Gains/ (Losses) Relating to the Year		9,223	(12,414)
		<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation</b>			
Opening Reserves and Endowments		(7,408)	5,006
Total Recognised Gains/ (Losses) Relating to the Year		9,223	(12,414)
		<hr/>	<hr/>
Closing Reserves and Endowments		1,815	(7,408)
		<hr/> <hr/>	<hr/> <hr/>

**CONSOLIDATED AND COLLEGE BALANCE SHEETS  
FOR THE YEAR ENDED 31 JULY 2011**

	Note	Consolidated		College	
		Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
<b>FIXED ASSETS</b>					
Tangible Assets	11	17,310	18,148	17,310	18,148
Endowment Assets	12	4,050	2,180	-	-
		<u>21,360</u>	<u>20,328</u>	<u>17,310</u>	<u>18,148</u>
<b>CURRENT ASSETS</b>					
Stock		84	84	84	84
Debtors	13	596	781	596	781
Cash at Bank and in Hand		1,633	353	1,633	353
		<u>2,313</u>	<u>1,218</u>	<u>2,313</u>	<u>1,218</u>
<b>CREDITORS</b>					
Amounts Falling Due Within One Year	14	(10,093)	(15,458)	(10,093)	(15,458)
		<u>(7,780)</u>	<u>(14,240)</u>	<u>(7,780)</u>	<u>(14,240)</u>
Net Current Liabilities		(7,780)	(14,240)	(7,780)	(14,240)
Total Assets Less Current Liabilities		13,580	6,088	9,530	3,908
<b>CREDITORS</b>					
Amounts Falling Due After More Than One Year	14	-	(800)	-	(2,300)
Provisions for Liabilities and Charges	15	(3,044)	(2,712)	(3,044)	(2,712)
		<u>10,536</u>	<u>2,576</u>	<u>6,486</u>	<u>(1,104)</u>
Net Assets Excluding Net Pension Liabilities		10,536	2,576	6,486	(1,104)
Net Pension Liabilities	24	(3,791)	(4,643)	(3,791)	(4,643)
		<u>6,745</u>	<u>(2,067)</u>	<u>2,695</u>	<u>(5,747)</u>
Net Assets/(Liabilities) including Net Pension Liabilities		6,745	(2,067)	2,695	(5,747)

**CONSOLIDATED AND COLLEGE BALANCE SHEETS - CONTINUED  
FOR THE YEAR ENDED 31 JULY 2011**

	Note	Consolidated		College	
		Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
DEFERRED CAPITAL GRANTS	16	4,945	5,341	4,945	5,341
RESERVES					
Permanent Endowments	17	4,050	3,680	-	-
Income and Expenditure Account Excluding Pension Reserve	18	1,541	(6,445)	1,541	(6,445)
Pension Reserve	18	(3,791)	(4,643)	(3,791)	(4,643)
Income and Expenditure Account Including Pension Reserve	18	(2,250)	(11,088)	(2,250)	(11,088)
Total Reserves and Endowments		1,800	(7,408)	(2,250)	(11,088)
TOTAL FUNDS		6,745	(2,067)	2,695	(5,747)

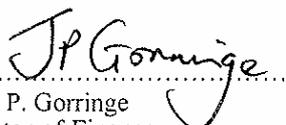
The financial statements on pages 15 to 42 were approved by the Court of the University of Edinburgh 12 December 2011 and were signed on its behalf by:



.....  
Professor Sir Timothy O'Shea  
Principal



.....  
Mr Donald Workman  
Member of the University Court



.....  
Mr J. P. Gorringe  
Director of Finance

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 JULY 2011**

	Note	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
Cash Inflow/ (Outflow) from Operating Activities	19	7,361	(568)
Returns on Investments and Servicing of Finance	20	(379)	(438)
Capital Expenditure and Financial Investment	21	-	(257)
Financing	22	(4,001)	1,600
		<hr/>	<hr/>
Increase in Cash in the Year		2,981	337
		<hr/> <hr/>	<hr/> <hr/>

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN FUNDS**

	Note	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
Increase / (Decrease) in Cash in the Year		2,981	337
Cash (Inflow)/ Outflow in Relation to Debt		4,001	(1,600)
Non-cash movements: SFC funding advances written off		1,600	-
		<hr/>	<hr/>
Movement in Net Funds in the Year		8,582	(1,263)
Net Debt at 1 August	23	(12,748)	(11,485)
		<hr/>	<hr/>
Net Debt at 31 July	23	(4,166)	(12,748)
		<hr/> <hr/>	<hr/> <hr/>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2011

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### 1. Statement of principal accounting policies and estimation techniques

The accounting policies selected follow the principles laid out in Financial Reporting Standard (FRS) 18 and have been applied consistently in dealing with items considered material in relation to the financial statements.

The financial statements have been prepared under the historical costs convention modified by the revaluation of certain fixed asset investments. They are also in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007, applicable Accounting Standards and guidance published by the Scottish Funding Council.

#### i. Basis of Consolidation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with applicable accounting standards.

The financial statements are prepared on the going concern basis, which provide that an entity will continue in operational existence for the foreseeable future.

The assets and liabilities and undertakings of Edinburgh College of Art were transferred to the University of Edinburgh on 1 August 2011. The going concern concept has been applied to the activities carried out by the College. Financial Reporting Standard 18, Accounting policies, requires financial statements to be prepared in a going concern basis if the entity is to continue in operational existence for the foreseeable future; and it sets out disclosure requirements, including where there are material uncertainties. In the public sector context, in a situation where an entity providing a service ceases to exist, but the service continues to be provided using the same assets and incurring the same liabilities, but by a different public sector body, the concept of going concern is applied to the provision of the service. This has been applied to the College's activities that have been transferred to the University.

As at 31 July the College and the group had net current liabilities of £7.8 million. This is mainly due to the £7.5 million bank loan being disclosed as a current liability due to breach of bank covenants. On 1 August 2011, the loan was renegotiated by the University. As a result, management is satisfied that this position does not impact the going concern assumption attached to the transfer of activities from the College to the University at that date.

The consolidated financial statements consolidate the financial statements of the College and all subsidiary undertakings for the financial year to 31 July 2011. Details of the subsidiary undertakings are provided in Note 30.

The consolidated financial statements do not include those of the College's Students Association as it is a separate entity in which the College has no financial interest and no control or significant influence over policy decisions.

#### ii. Recognition of Income

All income from funding council grants is disclosed separately and annual "block" funding awards are recognised in the year of receipt.

Fee income is stated gross and credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Specific grants for special purposes are accounted for on an accruals basis and included in income to the extent of the expenditure incurred in the year. Grants for specific buildings and equipment are deferred to the extent that the related expenditure is capitalised and written off over the useful life of the fixed asset.

Income from restricted donations and research grants and contracts is included to the extent of the expenditure incurred in the year, together with any related contributions towards infrastructure costs.

Income from specific endowments is credited to the Income and Expenditure Account on a receivable basis and any income in excess of that applied to the specific purposes is transferred to the accumulated income of those endowment funds as disclosed in the Balance Sheet.

All income from short term deposits and general endowment assets investments is credited to the Income and Expenditure Account on a receivable basis.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2011

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### **1. Statement of principal accounting policies and estimation techniques** *(continued)*

Income from sale of goods or services is credited to the Income and Expenditure account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Income from general fund raising and donations received supporting the general purposes of the College or individual Schools are recognised in the year it is receivable.

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of total recognised gains and losses.

### **iii. Research and Development Expenditure**

Income from research grants and contracts is included to the extent that related expenditure is incurred by the College on its own behalf is written off in the year incurred with the exception of any equipment that is capitalised in line with the College's accounting policy.

### **iv. Leases**

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased asset at the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are written off over each lease term to give a constant rate of charge on the remaining balance of the obligation

Rental costs under operating leases are charged to expenditure in equal amounts over the period of the lease.

### **v. Land and Buildings**

Land and buildings are stated at cost less depreciation and, where appropriate, any provisions for estimated losses on disposal.

Land, which is held freehold, is not depreciated as it is considered to have an indefinite useful life. Buildings are depreciated over their expected useful lives ranging from 5 to 100 years and leasehold land over the life of the lease. Alterations and additions to buildings are depreciated over the expected useful life of the work carried out.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Buildings under construction are accounted for at cost, based on the value of architect's certificates and other direct costs incurred to 31 July. The buildings are not depreciated until they are brought into use.

Buildings which are acquired with the aid of specific grants are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to the income and expenditure account over the expected useful lives of the buildings.

### **vi. Heritage Assets**

The College holds four collections the College Collection, the Cast Collection, the Drawing and Painting Collection and the Silversmithing and jewellery Collection. These collections were donated or bequeathed to the College and are defined as heritage assets. Further details of these collections are given in note 11.

Due to the varied nature of these assets and the lack of comparable market values it is not considered practical to obtain a meaning full valuation of heritage assets. The College therefore does not recognise these assets on its balance sheet or show a depreciation charge in the Income and Expenditure Account. Any costs relating to the restoration or renovation of these assets is included in the Income and Expenditure Account in the year in which it is incurred.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2011

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### 1. Statement of principal accounting policies and estimation techniques *(continued)*

#### vii. Repairs and Maintenance

The cost of long term and routine corrective maintenance is charged to the income and expenditure account as incurred.

#### viii. Equipment

Equipment, including computers and software, costing less than £15,000 per individual item is expensed in the income and expenditure account in the year of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated in annual instalments over its expected useful life. Expected useful lives for asset categories are as follows:

Plant & Machinery	10 years
Fixtures, Fittings & Furniture	7 - 25 years
Teaching & Research Equipment	5 years
Computer Equipment	3 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

#### ix. Investments

Endowment Asset investments are included in the balance sheet at market value.

Unrealised gains or losses representing the difference between investment book cost and market value are taken to the endowment reserve. Realised gains or losses on the sale of investments are reflected in the income and expenditure account in the year of disposal.

#### x. Endowments

Restricted permanent endowments are those where the capital is retained on a permanent basis and the interest is expended for the purpose specified by the donor.

#### xi. Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

#### xii. Cash Flows and Liquid Resources

Cash flows comprise increases and decreases in cash. Cash includes cash in hand, cash at bank and deposits repayable on demand. Deposits are repayable on demand if they are available within 24 hours without penalty.

#### xiii. Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2011

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### 1. Statement of principal accounting policies and estimation techniques *(continued)*

#### xiv. Taxation Status

The College is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. Subsidiary companies are liable to corporation tax. The College is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs.

Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

#### xvi. Pension Accounting Policy

The College is a member of the Lothian Pension Fund (LPF) which is a defined benefit plan. The assets of this plan are held in separate trustee administered funds. The defined benefit plan's assets are measured using market values. Pension plan liabilities are measured by an actuary using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the College's defined benefit pension plans expected to arise from employee service in the period is charged to operating profit. The expected return on the plan's assets and the increase during the period in the present value of the plan's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. The pension plan's surpluses to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet. Independent actuaries provide a valuation of the College's share of the underlying assets and liabilities and these have been incorporated in the financial statements using FRS17. The College also participates in the Scottish Teachers Superannuation Scheme (STSS) pension scheme which is a multi-employer scheme. The College is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis, and therefore, as required by FRS17 'Retirement Benefits', accounts for this scheme as if it were a defined contribution scheme. The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. Retirement benefits for employees of the College are provided by the Scottish Teachers Superannuation Scheme (STSS) and the Lothian Pension Fund (LPF). For employee purposes, these are defined benefit schemes and are contracted out of the State Earnings Related Pension Scheme.

#### xvii. Provisions

Provisions are recognised when the institution has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### xviii. Estimation techniques

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. Actual results could differ from these estimates. Estimates are used principally when accounting for provision for doubtful debts and provisions for liabilities and charges.

#### xiv. Comparatives

In compliance with FRS 28 - Corresponding Amounts, prior year figures, including the statements of total recognised gains and losses and cash flows, have been adjusted where required in order that they are comparable with the amount shown in respect of the current financial year. None of the reclassifications have an impact on the deficit, net cash inflow or net total recognised gains and losses for the year ended 31 July 2011 or net assets as at 31 July 2010.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

2.	<b>Funding council</b>	
grants	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
<b>Recurrent Grant from SFC</b>		
Teaching	7,210	7,210
Research	1,232	1,356
<b>Specific Grants from SFC</b>		
Infrastructure Support Grants	334	433
Other	257	27
<b>Merger Funding Grants from SFC</b>		
Funding to part repay bank loan	4,000	-
Funding to repay loan from Andrew Grant Scholarship Fund	1,700	-
Conversion of SFC loans to grants	1,600	-
Funding for voluntary severance and early retirement	1,323	-
Other	48	-
<b>Deferred Capital Grants Released in Year</b>		
Buildings	237	197
Equipment	159	144
	-----	-----
	18,100	9,367
	=====	=====

Specific Grants from Scottish Funding Council (SFC) includes £334,000 (2010; £433,000) of contribution towards the financing costs of a building.

**3. Tuition fees and education contracts**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Full Time Students – Home and EU	2,372	2,651
Full Time Students – Overseas	2,704	1,855
Part Time Fees	102	101
Short Course Fees	410	303
	-----	-----
	5,588	4,910
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

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**4. Research grants and contracts**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
UK Government	315	331
Research Council	606	567
European Commission	78	49
Charities	19	74
Other Grants Contracts	20	-
Industry	-	14
	<u>1,038</u>	<u>1,035</u>

**5. Other income**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Residences, Catering and Conferences	137	221
Other Services Rendered	879	915
Other Income	279	352
	<u>1,295</u>	<u>1,488</u>

**6. Endowment and investment income**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Endowment Income Receivable	113	125
Other Interest Receivable	23	4
	<u>136</u>	<u>129</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**7. Staff costs**

	<b>Year Ended 31 July 2011</b>	<b>Year Ended 31 July 2010</b>
Average Staff Numbers by Major Category:	<b>Number</b>	<b>Number</b>
Academic	76	81
Research	14	15
Technical	29	40
Administrative	72	76
Other, Including Clerical and Manual	30	43
	<hr/>	<hr/>
	221	255
	<hr/> <hr/>	<hr/> <hr/>
<b>Staff costs for the above</b>		
Wages and Salaries	8,586	9,128
Social Security Costs	655	818
Net Pension Costs / (Credit) (note 24)	1,095	(175)
	<hr/>	<hr/>
	10,336	9,771
	<hr/> <hr/>	<hr/> <hr/>
<i>Analysed between:</i>		
Academic	4,775	4,973
Research	682	666
Technical	1,255	1,215
Administrative	2,593	1,557
Other, Including Clerical and Manual	1,031	1,360
	<hr/>	<hr/>
	10,336	9,771
	<hr/> <hr/>	<hr/> <hr/>
Emoluments of the Principal	125	125
	<hr/> <hr/>	<hr/> <hr/>

The emoluments of the Principal exclude employer's pension contributions of £18,682 (2009-10: £18,682).

Remuneration of other Higher Paid Staff (Excluding Employers' National Insurance, Pension Contributions and Compensation Payments)

	<b>Year Ended 31 July 2011 Number</b>	<b>Year Ended 31 July 2010 Number</b>
£70,000 - £79,999	-	-
£80,000 - £89,999	1	2
£90,000 - £99,999	-	-
£100,000- £109,999	-	-
£110,000- £119,999	-	-
£120,000 - £129,999	1	1

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**7. Staff Costs (continued)**

**Compensation for loss of office**

There were no compensation arrangements to any individual staff that exceeded £100,000 during the year. Payment in compensation for loss of office were payable to two senior member of staff earning in excess of £70,000 as detailed below.

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Payment for enhanced pension benefits	63	96
Payment in respect of loss of office	80	30
	——	——
	143	126
	=====	=====

Compensation payments were approved by the Chief Operating Officer and the Chairman of the Board of Governors after consultation with the Scottish Funding Council.

Severance costs include £77,000 (2009-10: nil) in respect of staff employed in the College's Students Association.

**8. Other operating expenses**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Teaching departments	872	740
Teaching support services	265	338
Research grants and contracts	267	336
Administration and central services	1,692	2,338
Premises costs	88	87
Planned maintenance	752	791
Other income generating activities	309	243
Catering operations	107	92
Other expenses	478	498
	——	——
	4,830	5,463
	=====	=====

Other Operating Expenses Include:

Auditors' Remuneration relating to the current financial year for the Group:

External Audit – College Audit Services	33	92
External Audit – Audit Services Andrew Grant Scholarship Fund	7	15
External Audit – College Non Audit Services	9	5
Internal Auditors Remuneration	44	53

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**9. Interest payable and other finance costs**

	<b>Year Ended 31 July 2011</b>	<b>Year Ended 31 July 2010</b>
Loan Interest	494	442
Interest on Pension Scheme Liability	21	216
	<u>515</u>	<u>658</u>

**10. Analysis of expenditure by activity**

	<b>2010-11</b>				
	<b>Staff and Restructuring Costs £000</b>	<b>Other Operating Expenses £000</b>	<b>Depreciation and Impairment £000</b>	<b>Interest Payable £000</b>	<b>Total £000</b>
Teaching departments	6,044	872	64	-	6,980
Teaching support services	565	265	57	-	887
Research grants and contracts	358	267	-	-	625
Administration and central services	3,382	1,692	141	21	5,236
Premises costs	532	88	574	494	1,688
Planned maintenance	252	752	-	-	1,004
Other income generating activities	151	309	1	-	461
Catering operations	121	107	1	-	229
Other expenses	324	478	-	-	802
	<u>11,729</u>	<u>4,830</u>	<u>838</u>	<u>515</u>	<u>17,912</u>

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
<i>The depreciation charge has been funded by:</i>		
Deferred Capital Grants Released (Note 16)	396	341
General Income	442	803
	<u>838</u>	<u>1,144</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**11. Tangible assets (Consolidated and College)**

	<b>Freehold Land £000</b>	<b>Freehold Buildings £000</b>	<b>Fixtures &amp; Fittings £000</b>	<b>Equipment £000</b>	<b>Total £000</b>
<b>Cost</b>					
At 1 August 2010	3,438	24,791	4,491	4,265	36,985
At 31 July 2011	3,438	24,791	4,491	4,265	36,985
<b>Depreciation</b>					
At 1 August 2010	(1,277)	(11,434)	(2,440)	(3,686)	(18,837)
Charge for Year	-	(418)	(242)	(178)	(838)
At 31 July 2011	(1,277)	(11,852)	(2,682)	(3,864)	(19,675)
<b>Net Book Value</b>					
At 31 July 2011	2,161	12,939	1,809	401	17,310
At 1 August 2010	2,161	13,357	2,051	579	18,148

Buildings with a net book value of £4.208 million and cost of £5.352 million have been funded by Treasury sources. Should these particular buildings be sold, the College would have either to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum of the Scottish Funding Council.

**Heritage Assets**

The College holds the following four collections that are viewed as heritage assets in line with Financial Reporting Standard 30. These collections are: the College Collection, the Cast Collection, the Drawing and Painting Collection and the Silversmithing and Jewellery Collection. Due to the varied nature of these assets and the lack of comparable market values it is not considered practical to obtain a meaningful valuation of heritage assets. There were no additions or disposals from these collections during the year and none of the Collections are included in the balance sheet at 31 July 2011.

The College Collection was acquired by gift or purchase and has one hundred and fifty items including silver, glass, ceramics, furniture, rare books, 120 paintings, sculptures, and historical objects. Rare books are stored in the library, including antiquarian books and portfolios of plates. The Collection is historically significant as it is illustrative of printed materials acquired to support 19th and 20th century art, design and architecture teaching in Edinburgh. The Library also holds a modern collection of examples of artists' books which were collected to support teaching and research into this form of work. This Collection is displayed and stored in the main building, has been catalogued and photographed and was independently valued at £0.5 million in 2006. The cost of obtaining an updated valuation was not considered to be commensurate with the value to users of the financial statements of this information.

The Cast Collection comprises of one hundred and eighty one 18th century plaster casts which were acquired by gift and purchase. There are plaster casts of Antique, Renaissance and Gothic Statues, bas reliefs and architectural casts. The casts have been on public display since 1911 and are currently on display in an A Listed building. These casts were originally for teaching students of the Trustees' Academy, and subsequently at the College for teaching and drawing of the ideal human form. These casts, which are being restored, have been photographed, but no independent valuation undertaken. The Drawing & Painting Collection within the School of Art comprises four

main elements: over one thousand retained student works from 1945 to 1995; which have been photographed and are stored off site; a natural History Collection; a wardrobe collection and artists' donations. The Silversmithing and

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2011

### 11. Tangible assets (Consolidated and College) (Continued)

Jewellery Collection within the School of Design comprises of three elements: a natural history collection, retained student drawings and a small jewellery collection of less than thirty items. The Edinburgh College of Art Collections Acquisition and Disposal Policy, approved by the Board of Governors on 30 June 2008, provides further details on these assets.

### 12. Endowment assets (Consolidated)

	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
Balance at 1 August	2,165	1,898
Net appreciation	185	282
Additions	1,700	-
	-----	-----
<b>As at 31 July</b>	<b>4,050</b>	<b>2,180</b>
	=====	=====
<b>Represented by:</b>		
Unit Trust investments	2,344	2,174
Bank Balances	1,706	6
	-----	-----
<b>As at 31 July</b>	<b>4,050</b>	<b>2,180</b>
	=====	=====

Income from Endowment Assets is spent by the Andrew Grant Scholarship Fund through the provision of awards to College students.

### Investment Book Value

	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
Unit Trust Investments at Cost	2,205	2,205
	=====	=====

Endowment Assets compromise funds relating to the Andrew Grant Scholarship Fund (registered charity no. SC001097), which provides scholarships and travel bursaries to the College's students.

The College has no endowment assets (2010: £nil).

### 13. Debtors (Consolidated and College)

	Year Ended 31 July 2011 £000	Year Ended 31 July 2010 £000
<i>Amounts Falling Due Within One Year:</i>		
Trade Debtors	104	180
Student Debtors	146	172
Prepayments and Accrued Income	346	429
	-----	-----

596 781

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**14. Creditors (Consolidated and College)**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
<i>Amounts Falling Due Within One Year:</i>		
Trade Creditors	613	545
Other Creditors	-	14
Social Security and Other Taxation Payable	338	366
Accruals and Deferred Income	1,642	2,232
SFC Loans	-	800
Bank Loan	7,500	11,501
	10,093	15,458
	10,093	15,458
<i>Amounts Falling Due After More Than One Year:</i>		
SFC Loans	-	800
	-	800
	-	800

The bank loan has a fixed interest element and a variable interest element based on LIBOR.

<b>College</b>	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
<i>Amounts Falling Due Within One Year:</i>		
Trade Creditors	613	545
Other Creditors and Deposits	-	14
Social Security and Other Taxation Payable	338	366
Accruals and Deferred Income	1,642	2,232
SFC Loans	-	800
Bank Loan	7,500	11,501
	10,093	15,458
	10,093	15,458
<i>Amounts Falling Due After More Than One Year:</i>		
Bank Loan	-	-
SFC Loans	-	800
Loan from subsidiary	-	1,500
	-	2,300
	-	2,300

**Loans are repayable as follows:**

In one year or less	7,500	12,301
Between one and two years	-	500
Between two and five years	-	1,100
In five years or more	-	700
	7,500	14,601
	7,500	14,601

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

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**15. Provisions for liabilities and charges (Consolidated and College)**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Opening Balance as at 1 August	2,712	2,755
Provided in year	539	161
Utilised in year	(207)	(204)
	<hr/>	<hr/>
Closing Balance as at 31 July	3,044	2,712
	<hr/> <hr/>	<hr/> <hr/>

As part of an early retirement initiative in the 1990s, the College granted certain enhancements to the pension rights of employees accepting early retirement. These enhanced pensions extend beyond the normal pension rights arising from the funded pension schemes, which have been detailed in Note 24.

**16. Deferred capital grants (Consolidated and College)**

	<b>Funding Council £000</b>
At 1 August 2010	
Buildings	4,446
Equipment	895
	<hr/>
Total	5,341
	<hr/> <hr/>
Cash Received	
Buildings	-
Equipment	-
	<hr/>
Total	-
	<hr/> <hr/>
Released to Income and Expenditure	
Buildings	237
Equipment	159
	<hr/>
Total	396
	<hr/> <hr/>
At 31 July 2011	
Buildings	4,209
Equipment	736
	<hr/>
Total	4,945
	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**17. Endowment funds (Consolidated)**

	<b>Restricted Permanent Endowments £000</b>
At 1 August 2009	3,398
Unrealised gain/ (loss) in the year	282
Income for the year	197
Expenditure for the year	(197)
	<hr/>
<b>At 31 July 2010</b>	<b>3,680</b>
	<hr/> <hr/>
At 1 August 2010	3,680
Unrealised gain/ (loss) in the year	185
Income for the year	380
Expenditure for the year	(195)
	<hr/>
<b>At 31 July 2011</b>	<b>4,050</b>
	<hr/> <hr/>

The College has no endowment funds (2009: *£nil*).

**18. Income and expenditure account (Consolidated and College)**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Income and Expenditure Account Reserve		
Balance at 1 August	(6,445)	7,486
Surplus/ (Deficit) in year	8,245	(12,716)
Transfer (to) / from Pension Reserve	(59)	(1,215)
Transfer (to) AGSF	(200)	-
	<hr/>	<hr/>
At 31 July	1,541	(6,445)
	<hr/> <hr/>	<hr/> <hr/>
<b>Pension reserve (Consolidated and College)</b>		
Pensions at 1 August	(4,643)	(5,878)
Current service cost	(589)	(716)
Employers contributions	813	765
Unfunded contributions	15	15
Past service gain / (costs)	(139)	1,367
Interest cost	(1,198)	(1,253)
Net return on assets	1,177	1,037
Actuarial gains / (losses)	793	20
(Losses)/Gains on Curtailment	(20)	-
	<hr/>	<hr/>
At 31 July	(3,791)	(4,643)
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**18. Income and expenditure account (Consolidated and College) (continued)**

**Reconciliation of movements in the income and expenditure reserve**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Balance at 1 August	(11,088)	1,608
Surplus/ (Deficit) in year	8,245	(12,716)
Actuarial gains	793	20
Transfer to Andrew Grant Scholarship Fund (AGSF)	(200)	-
	<hr/>	<hr/>
At 31 July	(2,250)	(11,088)
	<hr/> <hr/>	<hr/> <hr/>

**19. Consolidated reconciliation of operating deficit to net cash from operating activities**

	<b>Note</b>	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Operating Surplus/ (Deficit)		8,245	(12,716)
Impairment charge on Tangible Fixed Assets		-	11,918
Net Pension (gain) / costs less contributions payable		(59)	(1,215)
Depreciation	11	838	1,144
Released Deferred Capital Grants	16	(396)	(341)
Interest Payable		515	442
Interest Receivable		(136)	(4)
(Increase) / decrease in Stocks		-	(19)
(Increase) / decrease in Debtors		185	(172)
Increase / (decrease) in Creditors		(563)	438
Increase / (decrease) in Provisions		332	(43)
SFC funding advances written off		(1,600)	-
		<hr/>	<hr/>
Net Cash (Outflow)/inflow from Operating Activities		7,361	(568)
		<hr/> <hr/>	<hr/> <hr/>

To ease cash flow difficulties in 2009-2010, SFC provided three tranches of advance payment of recurrent grants, with agreed repayment profiles for these loans. During 2010-11 these loans were converted to grants and the liability for repayment was extinguished in the year following the receipt of the cash. This non cash entry is described above as SFC funding advances written off.

**20. Consolidated return of investments and servicing of finance**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Interest received	136	4
Interest paid	(515)	(442)
	<hr/>	<hr/>
Net Cash Outflow from Returns on Investments and Servicing of Finance	(379)	(438)
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**21. Consolidated capital expenditure and financial investment**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Purchase of Tangible Fixed Assets	-	(432)
Deferred Capital Grants Received	-	175
	<hr/>	<hr/>
Net Cash Outflow from Capital Expenditure and Financial Investment	-	(257)
	<hr/> <hr/>	<hr/> <hr/>

**22. Consolidated analysis of changes in financing during the year**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
SFC Loans	1,400	1,600
SFC Loans Converted to Income	(1,400)	-
Repayments of Amounts Borrowed	(4,001)	-
	<hr/>	<hr/>
Net Cash Inflow / (Outflow) from Financing	(4,001)	1,600
	<hr/> <hr/>	<hr/> <hr/>

**23. Consolidated analysis of changes in net funds**

	<b>At 1 August 2010 £000</b>	<b>Cash Flows £000</b>	<b>Non-cash Flows £000</b>	<b>At 31 July 2011 £000</b>
Cash at Bank and in Hand	353	1,281	-	1,634
Endowment assets: cash balances held by Andrew Grant Scholarship Fund	-	1,700	-	1,700
	<hr/>	<hr/>	<hr/>	<hr/>
Total	353	2,981	-	3,334
Loans due within one year	(12,301)	4,001	800	(7,500)
Loans due after one year	(800)	-	800	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Change in Net Debt</b>	<b>(12,748)</b>	<b>6,982</b>	<b>1,600</b>	<b>(4,166)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

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**24. Pension schemes (Consolidated and College)**

The College provides pensions for the majority of its employees by means of membership of external pension schemes. The principal schemes are the Scottish Teachers' Superannuation Scheme (STSS), administered by the Scottish Public Pension Agency and the Local Government Pension Scheme (LGPS), administered by Lothian Pension Fund.

The total pension charge was (note 7):

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
STSS Contributions Payable	515	476
LGPS Charge/ (Credit) to the Income and Expenditure Account	580	(651)
	<hr/>	<hr/>
Total	1,095	(175)
	<hr/> <hr/>	<hr/> <hr/>

The gross LGPS pension charge, before past service gains and losses, was £441,000 (2010: £716,000).

**The Local Government Pension Scheme (LGPS)**

The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended. Lothian Pension Fund on the advice of the actuaries determines the rate of contributions payable. Lothian Pension Fund holds its LGPS assets in a separate fund. Under the scheme, benefits are based on a final pensionable salary for non-academic and other employees.

Within the Lothian Pension Fund, employer liabilities are based on the individual member profile for each employer. Assets have been tracked for each employer since 2002. Prior to 2002 assets were not tracked individually and the allocation was pro-rata based on the liability profile. It is recognised that the decision and methodology used to apportion the assets as at 2002 was to some extent arbitrary but going forward the approach seems consistent and reliable.

The scheme recently notified employers of their separate contribution rates calculated to reflect their experience profile and address the contribution shortfall within 15 years.

The College has been required to increase its level of employers' contribution to the LGPS to make good its share of the actuarial deficiency relating to current and former employees. The difference in the regular pension cost for current employees is considered immaterial and the additional contributions treated as part of the regular pension cost.

An actuarial valuation as at 31 July 2011 for FRS17 purposes was carried out by a qualified independent actuary. Hymans Robertson, The major assumptions used by the actuary were:

<b>Financial Assumptions</b>	<b>Year Ended 31 July 2011 %</b>	<b>Year Ended 31 July 2010 %</b>
Pension Increase	2.7	2.9
Salary Increase Rate	5.0	4.9
Expected Return on Assets	6.5	6.7
Discounted Rate	5.3	5.4

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

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**24. Pension schemes (Consolidated and College) (continued)**

**Mortality Assumptions**

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations at age 65 are summarised below:

	<u>Male</u>	<u>Female</u>
Current pensioners	20.8 years	24.1 years
Future pensioners	22.3 years	25.7 years

**Financial Assumptions**

	<b>Year Ended 31 July 2011</b>	<b>Year Ended 31 July 2010</b>
	%	%
Pension Increase	2.7	2.9
Salary Increase Rate	5.0	4.9
Expected Return on Assets	6.5	6.7
Discounted Rate	5.3	5.4

**Mortality Assumptions**

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations at age 65 are summarised below:

	<u>Male</u>	<u>Female</u>
Current pensioners	20.8 years	24.1 years
Future pensioners	22.3 years	25.7 years

The assets in the scheme and the expected rate of return by category were:

	<b>Year Ended 31 July 2011</b>		<b>Year Ended 31 July 2010</b>	
	<b>Long Term Rate of Return %</b>	<b>Value £000</b>	<b>Long Term Rate of Return %</b>	<b>Value £000</b>
Equities	7.0	15,596	7.3	13,209
Bonds	4.6	1,777	4.8	1,564
Property	5.1	1,974	5.3	1,738
Cash	4.0	395	4.4	869
		-----		-----
		19,742		17,380
		=====		=====

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**24. Pension schemes (Consolidated and College) (continued)**

The following amounts at 31 July 2011 were measured in accordance with the requirements of FRS17:

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Fair Value of Employer Assets	19,742	17,380
Present Value of Funded Obligations	(23,308)	(21,805)
Present Value of Unfunded Obligations	(225)	(218)
	<hr/>	<hr/>
Net Liability	(3,791)	(4,643)
	<hr/> <hr/>	<hr/> <hr/>

The total movement in the net deficit in the year is made up as follows:

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
<b>Surplus / (Deficit) in the Scheme at Beginning of Year</b>	(4,643)	(5,878)
Movement in Year:		
Current Service Costs	(589)	(716)
Employer Contributions	813	765
Unfunded contributions	15	15
Past Service Gains / (Costs)	(139)	1,367
Interest Costs	(1,198)	(1,253)
Net Return on Assets	1,177	1,037
Actuarial Gains / (Losses)	793	20
(Losses)/Gains on Curtailment	(20)	-
	<hr/>	<hr/>
Actuarial Surplus / (Deficit) in the Scheme at End of Year	(3,791)	(4,643)
	<hr/> <hr/>	<hr/> <hr/>
<b>Analysis of the Movement in the Fair Value of Scheme Assets</b>		
Opening Balance	17,380	14,820
Expected Return on Assets	1,177	1,037
Contributions by Members	204	250
Contributions by Employer	813	765
Contributions in Respect of Unfunded Benefits	15	15
Actuarial (Gains) / Losses	787	1,106
Unfunded Benefits Paid	(15)	(15)
Benefits Paid	(619)	(598)
	<hr/>	<hr/>
Closing Balance	19,742	17,380
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**24. Pension schemes (Consolidated and College) (continued)**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
<b>Analysis of the Movement in the Present Value of Scheme Obligations</b>		
Opening Balance	(22,023)	(20,698)
Current Service Cost	(589)	(716)
Interest Cost	(1,198)	(1,253)
Contributions by Members	(204)	(250)
Actuarial (Losses)	6	(1,086)
Past Service Costs / (Gains)	(139)	1,367
Estimated Unfunded Benefits Paid	15	15
Estimated Benefits Paid	619	598
(Losses)/Gains on Curtailment	(20)	-
	-----	-----
Closing Balance	(23,533)	(22,023)
	-----	-----
<b>Net Pension Liability</b>	<b>(3,791)</b>	<b>(4,643)</b>
	=====	=====
	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
<b>Analysis of Amounts Charged to Consolidated Income and Expenditure Account</b>		
Analysis of Amount Charged to Staff Costs Within Operating Deficit:		
Current Service Cost	(589)	(716)
Past Service Gain / (Cost)	(139)	1,367
Losses / (Gains) on Curtailments and Settlements	(20)	-
	-----	-----
	748	651
	=====	=====
Analysis of Amounts Charged to Interest Payable:		
Interest Cost	(1,198)	(1,253)
Expected Return on Employer Assets	1,177	1,037
	-----	-----
	(21)	(216)
	=====	=====
<b>Analysis of Amounts Recognised in Statement of Total Recognised Gains and Losses (STRGL)</b>		
Actuarial Gains / (Losses)	793	20
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**24. Pension schemes (Consolidated and College) (continued)**

**History of Experienced Gains and Losses**

The history of the plans for the current and prior periods is as follows:

*Balance sheet*

	<b>31 July 2011</b>	31 July 2010	31 July 2009	31 July 2008	31 July 2007
	<b>£000</b>	£000	£000	£000	£000
Present value of scheme liabilities	<b>(23,533)</b>	(22,023)	(20,698)	(17,522)	(17,354)
Fair value of scheme assets	<b>19,742</b>	17,380	14,820	15,339	16,366
Deficit	<b>(3,791)</b>	(4,643)	(5,878)	(2,183)	(988)

*Experience adjustments*

	<b>31 July 2011</b>	31 July 2010	31 July 2009	31 July 2008	31 July 2007
	<b>£000/%</b>	£000/%	£000/%	£000/%	£000/%
Experience gains / (losses) on scheme liabilities:					
Amount	<b>(11)</b>	23	423	-	5
As a percentage of scheme liabilities	<b>0.0%</b>	0.1%	2.0%	0.0%	0.1%
Experience gains / (losses) on scheme assets:					
Amount	<b>787</b>	1,106	(2,016)	(2,678)	789
As a percentage of scheme assets	<b>4.0%</b>	6.4%	13.6%	17.5%	4.8%

**Scottish Teachers Superannuation Scheme**

The scheme (STSS) is an unfunded multi employer defined benefit scheme. It is accepted that the treatment can be as a defined contribution scheme as the College is unable to identify its share of the underlying assets and liabilities of the scheme.

An actuarial valuation was carried out at 31st March 2005. The results of this valuation were rolled forward to give a liability of £24.37 billion at 31st March 2010. As the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the schemes actuary at a level to meet the cost of pensions as they accrue.

The 2005 actuarial valuation date was carried out using an approach known as 'superannuation contributions adjusted for past experience' (SCAPE). Using SCAPE, with effect from 1st April 2001, the notional investments will earn a real rate of return (in excess of price increases) specified by the Government Actuary. In addition, the Teachers Superannuation (Scotland) Amendment Act 2003 states that, for the purposes of the actuarial review as at 31st March 2005, the balance in the account at that date shall be such that the value of the scheme's assets equals the value of the scheme's liabilities.

Mortality for existing & deferred members	PA92 tables rated down 1.5 years for males and 0.5 years for females
Mortality for existing pensioners	PMA 92 tables rated down 1 year for males

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

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**24. Pension schemes (Consolidated and College) (continued)**

The assumptions used in rolling forward the valuation at 31st March 2010 are shown in the table below.

	Valuation
Gross rate of return	4.6%
Real rate of return in excess of prices	1.8%
Real rate of return in excess of earnings	0.3%
Mortality for new members	PA92 tables rated down 2 years for males and 1 years for females
The assumed life expectancy at age 60 of existing pensioners is 25.5 years for men and 27.5 years for women.	

The pension costs to the College in respect of STSS for the year ended 31 July 2011 were £515,000 (2010: £476,000).

**25. Capital commitments (Consolidated and College)**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Commitments Contracted at 31 July	-	-
	<u>          </u>	<u>          </u>

**26. Related party transactions**

All Governors of the Board are required to complete a register of interests to record any areas of potential conflict with the interests of the College. A register of interest is maintained for the Governors of the College. £53,940 (2009; £7,875) was received by the College from SDI Productions Ltd in respect of research funding.

**27. Operating leases**

	<b>Year Ended 31 July 2011 £000</b>	<b>Year Ended 31 July 2010 £000</b>
Operating leases commitments for equipment hire:		
Expiring within one year	5	12
Expiring between two and five years	48	48
	<u>          </u>	<u>          </u>
At 31 July	53	60
	<u>          </u>	<u>          </u>

**28. Post balance sheet events**

On 1 August 2011 the College merged its activities with those of the University of Edinburgh. At that date all assets, liabilities and activities of the College were transferred to the University and the College was wound up.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

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**29. Childcare Fund (CF) and Hardship Fund (HF)**

	Year Ended 31 July 2011		Year Ended 31 July 2010	
	£000	£000	£000	£000
	CF	HF	CF	HF
Funds Brought Forward from Previous Year	-	1	1	-
Funds Received in Year	29	89	18	72
Virements	(2)	2	-	-
Expenditure	(27)	(88)	(19)	(71)
Clawback	-	(3)	-	-
	—	—	—	—
Funds Carried Forward as at 31 July 2011	-	1	-	1
	==	==	==	==

The Childcare and Hardship Funds are available solely for students and are provided by Students Award Agency Scotland. The College acts only as a paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

**30. Basis of consolidated financial statements**

These financial statements consolidate the financial statements of the College and the Andrew Grant Scholarship Fund. The address of its principal place of business being 74 Lauriston Place, Edinburgh, EH3 9DF. Intra-group transactions are eliminated on consolidation.

The College has effective control over the operations of the Andrew Grant Scholarship Fund and consolidates its results within the financial statements of the College, in line with UK GAAP. During the year ended 31 July 2011, the Andrew Grant Scholarship Fund recorded a surplus before other recognised gains of £200,000 (2010: £nil) and a net surplus of £384, 000 (2010: £282,000).

## PROFESSIONAL ADVISORS

Professional Advisors are detailed below:

1. **External Auditors**  
KPMG LLP  
20 Castle Terrace  
Edinburgh  
EH1 2EG
  
2. **Lawyers**  
Anderson Strathern LLP  
1 Rutland Court  
Edinburgh  
EH3 8EY  
  
Morton Fraser LLP  
Quartermile 2  
2 Lister Square  
Edinburgh  
EH3 9GL
  
3. **Investment Managers**  
Baillie Gifford & Co.  
Calton Square  
1 Greenside Row  
Edinburgh  
EH1 3AN
  
4. **Bank**  
Bank of Scotland  
3 Earl Grey Street  
Edinburgh  
EH3 9BN
  
5. **Internal Auditors**  
Deloitte LLP  
20 Castle Terrace  
Edinburgh  
EH1 2DB

The financial statements of the College can be accessed at: <http://www.ed.ac.uk/schools-departments/finance/about/financial-statements>