

THE ARTS UNIVERSITY COLLEGE AT BOURNEMOUTH
(formerly The Arts Institute at Bournemouth)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2009

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GOVERNORS who served on the BOARD in 2008/09 for the whole of the year unless otherwise stated

Name	Area of Principal Expertise	Committee Membership
Nicholas Durbridge – Chairman	Legal and Business	Finance & Resources: Estates: Strategic Development: Remuneration: Search
Paul Sheppard – Vice Chairman	Accountancy	Finance & Resources: Estates Remuneration: Search
Professor Stuart Bartholomew	Principal and Chief Executive	Finance & Resources: Human Resources & Student Affairs: Remuneration: Search: Strategic Development: Estates
Claire Derry (resigned 31 July 2009)	Media	Strategic Development
Richard Dimpleby	Further & Higher Education	Human Resources & Student Affairs: Audit
Christine Finnigan (resigned 31 July 2009)	AUCB Staff Governor	Finance & Resources
Simon Gorham	Finance	Audit
Roger Gould (resigned 31 July 2009)	AUCB Staff Governor	Strategic Development
Sarah Howard (resigned 31 July 2009)	AUCBSU Student Governor	Human Resources & Student Affairs: Finance & Resources: Estates
Virginia Harvey	Human Resources	Human Resources & Student Affairs
Kay Homer	Business	Strategic Development: Audit
Carolyn Jennings	Legal	Human Resources & Student Affairs: Audit: Remuneration: Search
Roger Laughton CBE	Media & Higher Education	Strategic Development
Professor Paul Light	Higher Education	Strategic Development (appointed 1 August 2009)
Krishna Malla	AUCBSU Student Governor	Human Resources & Student Affairs: Finance & Resources: Estates
Ellie Nixon (appointed 15 September 2009)	AUCB Staff Governor	Strategic Development
Terence O'Rourke	Architecture & Planning	Finance & Resources: Estates
Julia Waite (appointed 15 September 2009)	AUCB Staff Governor	Finance & Resources: Estates
Professor Roger Wilson	Higher Education	Strategic Development: Estates

UNIVERSITY COLLEGE SECRETARY
Dr Bethan O'Neil

AUDITORS AND BANKERS

EXTERNAL AUDITORS

BDO LLP
Arcadia House
Maritime Walk
Ocean Village
Southampton
SO14 3TL

INTERNAL AUDITORS

Tenon plc
Clifton House
Bunnian Place
Basingstoke
Hampshire
RG21 7JE

BANKERS

Lloyds TSB Bank PLC
45/47 Old Christchurch Road
Bournemouth
BH1 1ED

INVESTMENT MANAGERS

Church House Investments Limited
3 Goldcroft
Yeovil
Somerset
BA21 4DQ

CORPORATE OFFICE

Fern Barrow
Wallisdown
Poole
BH12 5HH

REPORT OF THE MEMBERS OF THE BOARD

Mission Statement & Charitable Status

The University College's Mission Statement as approved by the Board states:

'The Mission of the Arts University College at Bournemouth is to provide a high quality professional environment for its staff and students, to allow them to study, research and practise arts, design and media to the highest standards, so that they can contribute to the cultural and economic development of society.'

The University College's aim to advance education qualifies as a public benefit under the Charities Commission's revised definitions and the Board is aware of the requirements of the institution as a charity.

Business review of the Year

During the year the University College consulted with governors, staff and various stakeholders to identify a suitable name for the institution as a result of achieving Taught Degree Awarding Powers in the previous financial year. The Privy Council endorsed the name 'The Arts University College at Bournemouth' in the spring, and after a thorough re-branding exercise, the new name was launched on 1st July 2009.

The University College's library subsidiary AUCB Services Limited (formerly AIB Library Limited) divested itself of all its library activities including the building, books and staff by transferring them to the parent institution at the year end. This was done in response to a request from Her Majesty's Revenue and Customs but the opportunity was also taken to rationalise the subsidiary structure and reduce the corresponding investment.

In accordance with the estate masterplan the first stage of the refurbishment of the Refectory and Student Common Areas was completed which resulted in a doubling of table covers to meet the demands of our growing student population. Work also commenced on a £2 million extension to the North Building to respond to the demand of the University College's largest course, BA Film.

In respect of higher education provision, 2,034 full time equivalent Home/EU students (2007/08: 1811) were recruited. This was an important increase as it coincided with the removal of the 10% premium for specialist institutions, which in turn required institutional growth to secure maintenance of the existing contract with HEFCE. Further education provision recruited 567 full time equivalent Home/EU students (2007/08: 558). In addition, 168 overseas students across both levels (2007/08: 154) were recruited.

The Commercial team continues to invest in International programmes which generate significant income at marginal additional cost as students study here in Bournemouth for one or two terms only. In addition bespoke courses are being developed and delivered that utilise the unoccupied campus during the summer.

The Enterprise Unit has assisted the University College in achieving significant additional funding through collaborative bids to the Economic Challenge Investment Fund which supports higher education interaction with business and provides a springboard for knowledge transfer partnership activity. This in turn has resulted in more academic staff engaged in research with the emphasis of applying it to industry.

Finances

The group generated an operating surplus before taxation of £1,616,000 (2007/08: £1,039,000), an operating surplus after taxation of £1,622,000 (2007/08: £1,037,000) and a historical cost surplus of £1,716,000 (2007/08: £1,130,000). The operating surplus includes charges relating to defined benefit pension schemes totalling £1,346,000 (2007/08 - £1,112,000).

The group has accumulated income & expenditure reserves excluding the pension reserve of £8,201,000 (2007/08: £6,230,000) and cash balances, including endowment assets, of £3,253,000 (2007/08: £1,104,000). Cash balances increased by £2,169,000 in the year (2007/08: £333,000). The cash inflow from operating activities was £4,236,000 (2007/08: £2,916,000).

Fixed asset additions for the year totalled £1,748,000 (2007/08: £4,780,000) with the largest proportion of this spent on refurbishing the Refectory and replacing the energy supply infrastructure. The balance of capital expenditure relates to the reconfiguring of space to accommodate additional students and continued investment in IT infrastructure and equipment in accordance with the University College's strategic plan.

REPORT OF THE MEMBERS OF THE BOARD (CONTINUED)

The University College has two wholly owned subsidiary companies, the details of which are as follows:

AUCB Services Ltd – was originally established in March 1997 to provide library and computer services to the University College and its users but during the financial year all library activities were transferred to the parent institution. The company continues to manage the Refectory and is a facility by which services to third parties can be delivered when required. Any profits that arise in this company are gift aided to The Arts University College at Bournemouth. In 2008/09 AUCB Services Ltd generated a small loss of £1,000 after gift aid of £235,000 (2007/08: nil after gift aid of £152,000). The company's accumulated deficit is £1,000 (2007/08: £nil); and

AUCB Enterprises Ltd (formerly AIB Enterprises Ltd) – this company was established in July 2003 to develop a building funded by the South West Regional Development Agency and to provide business incubation services to recent graduates to encourage them to stay in the local area. AUCB Enterprises Ltd has made an operating loss before taxation of £9,000 (2007/08: loss of £13,000) and the accumulated deficit of the company is £205,000.

Also consolidated within these accounts is **The Arts University College at Bournemouth Charitable Foundation** due to The Arts University College at Bournemouth being the ultimate controlling party by virtue of its dominant influence over its operating and financial policies. It had a deficit for the year of £27,000.

Risks and Uncertainties

The key risks facing the Arts University College are:

- **Uncertainty of funding:-** HEFCE have imposed a bar on the recruitment of additional students thus limiting opportunities for growth. In addition it is anticipated that there will be cuts in funding as the government will be endeavouring to reduce borrowings. There are fundamental changes in the funding of 14 – 19 learning as the LSC is being dismantled. This may have an impact on our Further Education funding which accounts for 12% of the University College's income.
- **International students:-** the volatility in the financial and stock markets has led to a loss of confidence which has an impact on the recruitment of international students. This may be offset to an extent by the weakening of sterling;
- **Wage inflation:-** the national pay framework resulted in a significant pay rise in Autumn 2008 which will put pressure on budgets in the years ahead. It will be important to control this area of expenditure tightly in the medium and long term;
- **Pension deficit:-** the quantified deficit on the Local Government Pension Scheme, in which 50% of the employees participate, continues to increase which may give rise to a significant increase in employer contributions at the next actuarial valuation in 2010. The University College already pays more than the recommended contribution;
- **Interest rates:-** the University College has had and continues to have an ambitious capital programme which has been funded to a large extent by borrowings thus exposing the University College to fluctuations in interest rates. This risk has been managed to some extent by arranging a mix of variable and fixed rate loans.
- **Capital projects:-** the management of large capital projects pose a risk to the University College in terms of cost overruns and delays in completion. This area is carefully managed but will always pose a risk.

In 2009/10, the University College will be developing a new strategic plan and will take account of these risks and uncertainties along with other appropriate considerations.

Key Performance Indicators

In the past year the Arts University College at Bournemouth has developed Key Performance Indicators (KPIs) to facilitate the oversight of all its business affairs at a strategic level by the Board of Governors. The critical financial KPIs that have been adopted are:

KPI	Description	Target/ Benchmark	Actual
Profitability	Historic cost surplus as %age of total income	4% min	7.5%
Staff Costs	Staff costs as a %age of income	50% max	50.2%
Liquidity	Liquid assets as days of total expenditure	30 days min	50.9 days
Borrowings	Borrowings as a %age of income	40% max	28.4%
Annual Service Cost	Annual debt servicing cost as %age of total prior year income	4% max	3.1%

REPORT OF THE MEMBERS OF THE BOARD (CONTINUED)**Key Performance Indicators (continued)**

The KPI which gives the greatest cause for concern is the staff costs ratio which has increased from 47.3% to 50.2% as a result of the national pay award last autumn. This area is being closely monitored but it is to a degree subject to national negotiations.

Financial KPIs, although important, represent only one aspect of the University College's business. A better barometer of the University College's future health is the number of applications per place which is currently in excess of 7 and compares favourably to competitor institutions. Student satisfaction, as measured by the National Student Survey, is in the top quartile with a mean score of 4.2 thereby demonstrating that the large investment in resources is producing the right results

Student achievements

HE student achievement continues to be strong, with 98% of final year Honours students successfully completing their award. 57% of graduates secured a first or upper second class degree, which represents a further slight increase against the previous two years. Data on sector-wide performance are not yet available, but the University College will continue to monitor its student achievement against sector and subject norms, and to address any concerns in a timely fashion, whilst ensuring that academic standards are rigorously upheld. Comparison against sector data from previous years indicates no cause for concern, and indeed the University College results are broadly in line with sector expectations. Retention rates of 93% show a slight fall against 2007/08, which is not unexpected given the rising overall student number, and exceed sector norms of around 90%.

Over 99% of completing full-time FE students achieved their qualification aim on their main programme of study, which is in line with previous years.

Performance indicators relating to key areas of activity are monitored internally within the University College and are also made available from time to time within sector publications.

The University College's students participate regularly in national and international competitions as well as local exhibitions and festivals. Their success in these continues to show the high quality of the student work.

The most recently published HEFCE indicators of student employability show that around 94% of the University College's graduates are in employment six months after graduation, which is well above sector benchmarks, and marks the Arts University College as having one of the most successful employability rates amongst specialist institutions.

Curriculum development and quality assurance

The University College continued to develop its higher education portfolio, and to enhance delivery and the overall student experience for all students in support of the Strategic Plan. Achievements include:

- The first year of operation with taught degree awarding powers, such that all MA, PGCE and new undergraduate students were studying on an award of the University College, and with second year Honours degree students being given a choice of awarding institution (in practice, all but 15 selected the University College). This is of particular importance given a scheduled Institutional Audit in summer 2011.
- The continued operation of the Undergraduate Curriculum Framework, with the first operation of 60-credit units which permit students to stretch themselves professionally and academically and to achieve significant outcomes. The overall Framework, with its common structure, is one mechanism which helps to secure a degree of consistency across all awards, which in turn enables the University College to assure itself of the comparability of awards, and of the high quality student experience
- The introduction of two Honours years, dedicated to the foundation degree graduates in Interior Architecture and Design, and Textiles; and the introduction of a new foundation degree in Make-up for Performance, which exceeded target enrolment in its first year of operation and is testament to careful planning and also the attractiveness of the University College as a venue for higher education study.

The University College again performed well in the National Student Survey (NSS), conducted externally on behalf of the funding councils by Ipsos-MORI UK. 83% of students indicated that they were satisfied with the quality of the course, and the University College featured in the upper quartile on five of the seven scales, or themes. This was particularly pleasing given a response rate of 81% (one of the very highest in the sector).

Part-time HE forms a minority of the University College's provision. Recruitment to this mode of study has proved extremely challenging, and it has been very difficult to secure viable cohorts. The University College offers its part-time courses at a very attractive rate, but there is no evidence of consistent and sustainable demand outside those courses which are currently offered.

REPORT OF THE MEMBERS OF THE BOARD (CONTINUED)**Curriculum development and quality assurance (continued)**

Widening Participation is now a well-established feature of activity as the University College seeks to ensure that it meets its moral obligations to encourage aspiration, and subsequently application, from groups which have not traditionally participated in higher education. The University College has prepared a Widening Participation Strategic Assessment, as required by the Funding Council, which sets out its intentions and targets for widening participation activity; and this is underpinned through the Access Agreement, which explains the bursaries and other forms of support which are available to learners from under-represented groups. Activity includes successful engagement with schools and colleges with a high proportion of non-traditional learners, with the aim of encouraging additional applications from groups with little experience of entering further or higher education in art and design.

The nationally published Performance Indicators show that the University College continues to make progress in increasing applications and enrolments from non-traditional entrants, and has indeed exceeded its targets for the year.

Staff and Student Involvement

It is extremely important to the University College that staff and students are engaged in the development of the institution. Staff and students are members of committees, including the Board of the Corporation. All staff groups are represented on the Staff Information and Consultation Group, which provides a forum for the discussion of any proposed changes to employment policies or practices; and staff are updated through regular all-staff meetings led by the Principal. Communication with staff is enhanced by an in-house staff bulletin.

Students are also engaged throughout the academic committee structure. In 2008/09, the University College introduced the inclusion of student representation on the periodic review of courses, in line with the student engagement agenda, and this has proved successful. One student representative has since been selected by the national Quality Assurance Agency (QAA) as a student auditor, and will be a member of a team undertaking an institutional audit during 2009/10.

Equality and Inclusivity

All members of the University College's community including staff, students, visitors and contractors have a responsibility to treat others fairly and respectfully regardless of the characteristics which may define their identity, such as age, disability, gender, race, religion or belief or sexual orientation. The University College is responsible for providing a working and learning environment founded on dignity, respect and equity where unfair discrimination is treated with the utmost seriousness in accordance with this scheme.

Following discussion, the University College decided to replace its existing Disability Equality and Gender Equality Schemes and Race Equality Policy with one single Equalities Scheme, which covers all areas in which discrimination is illegal. This was encouraged by the Governors' Human Resources and Student Affairs Committee. The Scheme, which emerged after a detailed consultation process and attendance at various external events, is underpinned by a comprehensive action plan, and good progress has already been made in the first 6 months. An annual report is scheduled for April 2010.

The newly constituted Equalities Committee gave consideration to the most effective ways of consulting on equalities issues, noting that the existing forum had not proved useful. It agreed to suspend the Equalities Forum for one year whilst various other approaches were tried, with the intention that improved feedback can be secured.

Work is also continuing on Impact Assessments of all policies and procedures, using a dedicated software package commissioned by the University College and developed by Marshall ACM. All high-risk policies and procedures have now been assessed and the focus can move to those with less potential to lead to discrimination. A small expert group was also formed to review the assessment of risk, and ensure that this was consistent across the institution.

REPORT OF THE MEMBERS OF THE BOARD (CONTINUED)**Disability statement**

The University College has a Disability Statement, which sets out the following aims:

- to provide students with access to a wide range of high quality, flexible art, media and design programmes;
- to remove obstacles which might impede students' progress; and
- to provide a high level of student support to aid learning and personal / professional development.

The statement sets out specific arrangements in place to cover:

- advice and guidance available before making an application;
- possibility of confidential disclosure;
- educational support and facilities;
- assessment arrangements;
- arrangements for handling complaints and appeals;
- other educational support;
- physical access to the University College;
- cost of the service.

GOVERNORS

The Higher Education Institution was formed by the passing of the Education Reform Act 1988 and has no shareholders. Governors, therefore, own no interest in the Institution and receive no remuneration from the University College in respect of their duties as Governors other than reimbursement of reasonable expenses for travelling and subsistence.

AUDITORS

It was resolved that the audit of the financial statements would be tendered for a term of five years commencing with the accounts for the year ended 31 July 2010. The incumbent auditor BDO LLP will be invited to participate in the tender exercise.

By order of the Board of Governors

Nicholas Durbridge

Chairman of the Board of Governors

27th November 2009

CORPORATE GOVERNANCE

The Arts University College at Bournemouth was established in 1885 as a specialist art college and is now a higher education institution as defined by the Further and Higher Education Act of 1992 having been incorporated in 1993. The University College is an exempt charity for the purposes of the Charities Act 1993.

The Board consists of lay and academic Governors appointed under the Instrument and Articles of Governance of the University College. The Roles of Chairman and Vice Chairman of the Board and Principal, who is also the Chief Executive of the University College, are separated. The matters specifically reserved to the Board for decision are set out in the Instrument and Articles, by custom and in accordance with the provisions of the Financial Memorandum with the Higher Education Funding Council for England (HEFCE).

The Group is committed to exhibiting best practise in all aspects of corporate governance and follows the provisions of The Governance Code of Practice adopted by the Committee of University Chairmen's (CUC) which constitutes definitive guidance on governance within Higher Education. This statement describes the manner in which the University College has applied the principles set out in Section 1 of the Combined Code on Corporate Governance insofar as it is deemed appropriate for higher education. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The University College's Board is responsible for the University College's system of internal control and for reviewing its effectiveness. Such a system is 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 considers that there is an ongoing process for identifying, evaluating and managing the University College's significant risks, that it has been in place for the year ended 31 July 2009 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Board and that it accords with the internal control guidance on the Combined Code for directors as deemed appropriate for higher education.

The Board meets four times in each academic year and details of the membership are given on page 1. It is responsible for the strategic direction of the University College, the approval of major developments and the consideration of regular reports from Executive Officers on the operation of the business of the University College and its subsidiary and related companies.

Seven committees have been established and report to the Board. All have been formally constituted with terms of reference and membership drawn from the Board. The Board receives annually a formal report from the Chair of each Committee and copies of the draft minutes for each Committee are also included within the written reports for each Board meeting. The Committees are:

- Audit;
- Estates;
- Finance & Resources;
- Human Resources & Student Affairs;
- Remuneration;
- Search; and
- Strategic Development.

The details of membership of the Board given on page 1 show the committees on which individual Governors sit. One former Governor sits on the Audit Committee and a further former Governor on the Strategic Development Committee.

The Committees meet three times in each academic year other than Remuneration and Search, which meet as and when required.

CORPORATE GOVERNANCE (CONTINUED)**Audit**

The Audit Committee meets with the University College's internal and external auditors in attendance as appropriate. The Committee considers detailed reports together with recommendations for the improvement of the University College's system of internal control and management's responses and implementation plans. It also receives and considers reports from the Funding Councils as they affect the University College's business and monitors adherence to regulatory requirements. In addition the Annual Accounts, Risk Register and Value for Money reports are also considered at this Committee. The University College's Director of Finance & Planning normally attends all meetings of the Committee and other staff attend as necessary.

Estates

The Estates Committee advises the Board on all strategic matters pertaining to the estate at Wallisdown including IT infrastructure and on other property related matters that arise from time to time. The Committee oversees the Estates Strategy and Masterplan and is mindful of planning approval requirements and restrictions. The University College's Directors of Finance & Planning and University College Services normally attend this Committee.

Finance & Resources

The Finance & Resources Committee advises the Board on strategic financial planning and monitors the University College's financial performance. The Committee receives detailed annual capital and revenue budgets, budget updates and longer term financial forecasts on behalf of the Board and makes recommendations to the Board about approval. The University College's Director of Finance & Planning normally attends this Committee.

Human Resources & Student Affairs

The HR & Student Affairs Committee advises the Board on strategic HR planning and the University College's employment framework and monitors compliance with relevant legislation on its behalf. The Committee also ensures that the Student Union operates in a fair and democratic manner and is accountable for its finances. The University College's Directors of Academic Services and University College Services normally attend this Committee.

Remuneration

The Remuneration Committee determines the remuneration of the Principal, the Deputy Principal and the University College Secretary, following appraisal and recommendation by the Chairman of the Board.

Search

The Search Committee is responsible for ensuring that open and appropriate procedures are in place to fill vacancies and to select appropriate candidates for membership of the Board.

Strategic Development

The Strategic Development Committee monitors and advises the Board on the University College's planning, academic quality and development. The remit of the Committee also covers the University College's Mission Statement, the marketing strategy and the development of research and scholarly activity. The University College's Deputy Principal normally attends this Committee.

Risk Management

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the faculties and directorates. A risk register is maintained and is subject to continuous review. It assists management in identifying and controlling areas of greatest risk. The senior management team, the Audit Committee and the HR & Student Affairs Committee receive regular reports from Internal Audit and from the University College's Health & Safety Committee, which include recommendations for improvement where appropriate.

The Audit Committee oversees the risk register and reports to the Board on the extent of the assurance it has received on the arrangements for internal control. The HR & Student Affairs Committee also undertakes a high level review of the arrangements for Health & Safety.

CORPORATE GOVERNANCE (CONTINUED)**Internal Control**

The Board is responsible for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, whilst safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the members of the Board in the instrument and articles and the Financial Memorandum with HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The key elements of the University College's system of internal control are as follows:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- regular reviews of key performance indicators and financial results involving variance analysis reporting and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to levels set by the Board as contained within the Financial Regulations;
- the development of a risk register which highlights the key risks facing the University College in achieving its objectives;
- the Audit Committee provides an oversight of risk management and receives a report at its meetings on any movement in the major risks for the Institution identified for that year;
- the Audit Committee receives regular reports from the internal auditors expressing an opinion on the adequacy and effectiveness of the University College's system of internal control together with recommendations for improvement; and
- The Board receives regular reports from the Audit Committee concerning internal control.

The University College has appointed Tenon plc to provide internal audit services. The firm operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in May 2006. The internal auditors submit regular reports which comment on the adequacy and effectiveness of the institution's system of internal control together with recommendations for improvement.

In April 2009 the data management systems that produce student numbers in support of HE funding were audited by the HEFCE Assurance service. The audit concluded that the systems were robust and ensured the production of reliable and accurate data.

The Board's view of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

Nicholas Durbridge
Chairman of the Board of Governors
27th November 2009

Professor Stuart Bartholomew
Principal

RESPONSIBILITIES OF THE MEMBERS OF THE BOARD

In accordance with the Education Reform Act 1988 and the Instrument and Articles of Government, the Board is responsible for the administration and management of the affairs of the University College, including ensuring an effective system of internal control, and is required to present audited Financial Statements for each financial year.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University College and to enable it to ensure that the Financial Statements are prepared in accordance with the Education Reform Act 1988, the Statement of Recommended Practice: Accounting for Further and Higher Education, and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between HEFCE and the Board, the Board, through its Principal, is required to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the University College and of the surplus or deficit and cash flows for that year.

Financial Statements

In causing the Financial Statements to be prepared, the Board has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the University College will continue in operation. The Board is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the Financial Statements.

The Board has taken reasonable steps to:

- ensure that funds from HEFCE and LSC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Councils and any other conditions which the Funding Councils 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 University College and prevent and detect fraud; and
- secure the economical, efficient and effective management of the University College's resources and expenditure.

Nicholas Durbridge

Chairman of the Board of Governors

27th November 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF THE ARTS UNIVERSITY COLLEGE AT BOURNEMOUTH

We have audited the financial statements of The Arts University College Bournemouth for the year ended 31st July 2009, which comprise the Statement of Principal Accounting Policies, Consolidated Income and Expenditure Account, the Balance Sheets for the Group and the University College, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses, Note of Historical Cost Surpluses and Deficits and the related notes. These financial statements have been prepared under the accounting policies set out on therein.

Respective responsibilities of the Members of the Board and Auditors

As described in the Statement of the Members of the Board responsibilities the University College's Board is responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the Audit Code of Practice issued by the Higher Education Funding Council for England.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. We also report to you if, in our opinion, the information given in the Report of the Members of the Board is not consistent with the financial statements, the Board has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the remuneration of the Members of the Board or other transactions is not disclosed.

We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University College have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

We read the other information contained in the Report of the Members of the Board and consider whether it is consistent with the audited financial statements. The other information comprises only the Corporate Governance Statement, the Statement of the Responsibilities of the Members of the Board and the Annual Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the University College's statutes and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the University College's statutes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the University College in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the University College and the group, consistently applied and adequately disclosed.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF THE ARTS UNIVERSITY COLLEGE AT BOURNEMOUTH (CONTINUED)**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Group as at 31 July 2009 and of its surplus of income over expenditure for the year then ended;
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the University College as at 31 July 2009;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: "Accounting for Further and Higher Education Institutions";
- income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University College have been applied for the purposes for which they were received;
- income has been applied in accordance with the University College's statutes and where appropriate with the applicable Financial Memorandum with the Higher Education Funding Council for England; and
- the information given in the report of the members of the Board is consistent with the financial statements.

*BDO LLP
Chartered Accountants and Registered Auditors
Southampton*

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 JULY 2009

	Notes	2009 £'000	2008 £'000
INCOME			
Funding council grants	1	13,213	12,004
Tuition fees and education contracts	2	7,652	5,679
Other Income	3	1,878	2,080
Endowment and investment income	4	24	54
Total Income		22,767	19,817
EXPENDITURE			
Staff costs	5	11,439	9,818
Other operating expenses	6	7,801	7,126
Depreciation	10	1,522	1,403
Interest payable	7	389	431
Total Expenditure		21,151	18,778
Surplus on continuing activities after depreciation of assets at valuation and before tax		1,616	1,039
Taxation	8	(6)	2
Surplus on continuing activities for the year retained within income and expenditure account	9	1,622	1,037
All activities are continuing		<u><u> </u></u>	<u><u> </u></u>

**CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS
FOR THE YEAR ENDED 31 JULY 2009**

	Notes	2009 £'000	2008 £'000
Surplus after depreciation of assets and tax		1,622	1,037
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the relevant amount.	19	94	93
Historical cost surplus after tax		<u>1,716</u>	<u>1,130</u>

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2009**

	Notes	2009 £'000	2008 £'000
Surplus after depreciation of assets and tax		1,622	1,037
Movement on endowments	18	(27)	(8)
Actuarial loss on pension scheme	26	(1,453)	(1,043)
Total recognised gains and losses relating to the year		<u>142</u>	<u>(14)</u>
Reconciliation			
Opening reserves and endowments		8,704	8,718
Total recognised gains and losses for the year		142	(14)
Closing reserves and endowments		<u>8,846</u>	<u>8,704</u>

BALANCE SHEETS AS AT 31 JULY 2009

	Notes	Consolidated		University College	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
Fixed Assets					
Tangible Assets	10	23,847	23,623	21,540	19,835
Investments	11	-	-	792	2,410
		<u>23,847</u>	<u>23,623</u>	<u>22,332</u>	<u>22,245</u>
Endowment Asset	18	305	332	-	-
Current Assets					
Debtors	12	403	336	350	280
Cash at bank and in hand		2,948	772	2,850	731
		<u>3,351</u>	<u>1,108</u>	<u>3,200</u>	<u>1,011</u>
Creditors: amounts falling due within one year	13	<u>4,883</u>	<u>3,842</u>	<u>4,984</u>	<u>4,405</u>
Net Current Liabilities		<u>(1,532)</u>	<u>(2,734)</u>	<u>(1,784)</u>	<u>(3,394)</u>
Total assets less current liabilities		22,620	21,221	20,548	18,851
Creditors: amounts falling due after more than one year	14	6,026	6,554	6,026	6,554
Provisions for liabilities and charges	16	-	-	-	-
Net assets excluding pensions liability		16,594	14,667	14,522	12,297
Net pensions liability	26	(4,719)	(3,011)	(4,719)	(3,011)
TOTAL ASSETS LESS LIABILITIES		<u><u>11,875</u></u>	<u><u>11,656</u></u>	<u><u>9,803</u></u>	<u><u>9,286</u></u>
Deferred capital grants	17	3,029	2,952	993	732
Endowments	18	305	332	-	-
Reserves					
Income and expenditure account excluding pension reserve		8,201	6,230	8,470	6,412
Pension reserve	26	<u>(4,719)</u>	<u>(3,011)</u>	<u>(4,719)</u>	<u>(3,011)</u>
Income and expenditure account including pension reserve	20	3,482	3,219	3,751	3,401
Revaluation reserve	19	<u>5,059</u>	<u>5,153</u>	<u>5,059</u>	<u>5,153</u>
Total Reserves		<u>8,541</u>	<u>8,372</u>	<u>8,810</u>	<u>8,554</u>
TOTAL FUNDS		<u><u>11,875</u></u>	<u><u>11,656</u></u>	<u><u>9,803</u></u>	<u><u>9,286</u></u>

The financial statements on pages 14 to 35 were approved and authorised for issue by the governing body on 27th November 2009.

Signed on its behalf by:

Nicholas Durbridge

Chairman of the Board of Governors

Professor Stuart Bartholomew

Principal

Mary O'Sullivan

Director of Finance

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2009

	Notes	2009 £'000	2008 £'000
Net Cash Inflow From Operating Activities	21	4,236	2,916
Returns on investments and servicing of finance	22	(233)	(296)
Taxation		(14)	-
Capital expenditure and financial investment	23	<u>(1,470)</u>	<u>(4,662)</u>
Net Cash Inflow/(Outflow) Before Financing		2,519	(2,042)
Financing	24	(350)	2,375
Increase in cash	25	<u><u>2,169</u></u>	<u><u>333</u></u>

RECONCILIATION OF NEW CASHFLOW TO MOVEMENT IN NET DEBT

Increase in Cash	2,169	333
Repayment of Long Term Loan	350	125
New Loan	-	(2,500)
Movement in Net Debt	<u>2,519</u>	<u>(2,042)</u>
Net Debt at 1 August	<u><u>(5,985)</u></u>	(3,943)
Net Debt at 31 July	<u><u>(3,466)</u></u>	<u><u>(5,985)</u></u>

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Application

These accounting policies are applied to both the University College and its subsidiaries without exception.

Basis of preparation

These financial statements have been prepared in accordance with the statement of recommended practice (SORP): Accounting in Further and Higher Education Institutions and in accordance with applicable United Kingdom accounting standards. They conform to guidance published by the Funding Council.

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain tangible fixed assets.

Basis of Consolidation

The consolidated financial statements comprise the University College, its wholly owned subsidiaries, AUCB Library Ltd and AUCB Enterprises Ltd, and The Arts University College at Bournemouth Charitable Foundation. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group sales and profits are eliminated fully on consolidation.

The University College has control of 100% of the Arts University College at Bournemouth Charitable Foundation, a charitable company limited by guarantee. The Foundation is consolidated by virtue of dominant influence over the operating and financial policies of that company by the University College.

The consolidated Financial Statements do not include those of The Arts University College at Bournemouth Students' Union which is a separate unincorporated association. The University College has no financial interest in the Students' Union and has no control or significant influence over its policy decisions.

Recognition of income

The annual recurrent grants from HEFCE & LSC, which are intended to meet recurrent costs, are recognised in line with the latest estimates of grant receivable for an academic year.

Non recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from grants, contract and other services rendered is included to the extent of the completion of the contract or service concerned. All other income, including income from HEFCE, tuition fees and short term deposits, is credited to the income and expenditure account in the period in which it is earned.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions.

Taxation

The University College is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506 (1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the University College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University College receives no similar exemption in respect of Value Added Tax.

The University College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Deferred taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Tangible fixed assets

Assets acquired with the aid of specific grants are capitalised and depreciated in accordance with the policies set out below, with the related grant being credited to a deferred grant account and released to the income and expenditure account over the expected useful economic life of the related asset.

a. Freehold land and buildings

The University College's buildings are specialised buildings and therefore it is not appropriate to value them on the basis of open market value for commercial use. As a consequence of the Further and Higher Education Act of 1992, the freehold interest in the land and buildings occupied by the University College was transferred from Dorset County Council with effect from 1 April 1993. As at 1 February 1993 the land and buildings were valued by Connell Wilson, a firm of independent property surveyors, using the depreciated replacement cost basis. The property is recorded in the financial statements at this value, as adjusted for subsequent disposals. It is the university's policy to recognise a related revaluation reserve in respect of this property. Land and buildings acquired since incorporation are included in the balance sheet at cost. Freehold land is not depreciated.

Buildings are depreciated as follows:

Freehold buildings	-	50 years
Mobile classroom accommodation	-	4 years
Refurbishments	-	10 years

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

b. Computers, software and other equipment

Computer and other equipment costing less than £1,000 per individual item and software with a useful life of less than 18 months are written off to the income and expenditure account in the year of acquisition. All other purchases are capitalised at cost.

All equipment is depreciated on a straight line basis over its remaining useful life to the group, as follows:

Vehicles	-	5 years
Computer equipment & software	-	3 years
Other equipment	-	5 to 10 years
Furniture	-	10 years

Leased assets

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing arrangements which transfer to the University College substantially all the benefits and risks of ownership of an asset are treated as if the assets had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**Pension schemes**

Approximately half of the University College's employees participate in the Local Government Pension Scheme which is a defined benefit scheme and can be attributed to individual employees. The difference between the fair value of the assets held in this pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the University College's balance sheet as a pension scheme asset or liability as appropriate

The carrying value of any resulting pension scheme asset is restricted to the extent that the University College is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Changes to the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the University College are charged to the income and expenditure account or the statement of total recognised surpluses and deficits.

A significant number of University College employees are members of the Teachers' Pension Scheme, which is a multi-employer scheme and as the underlying share of assets and liabilities cannot be separately identified, it is treated as a defined contribution scheme. Contributions are charged to the income and expenditure account as incurred.

Maintenance of premises

The cost of routine corrective maintenance is charged to the income & expenditure account in the period in which it is incurred.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks and building societies.

NOTES TO THE ACCOUNTS

At 31 July 2009

1. FUNDING COUNCIL GRANTS	2009	2008
	£'000	£'000
Recurrent grant		
HEFCE	9,712	8,688
LSC	2,449	2,472
Specific grants		
HEFCE	906	744
LSC	5	-
Deferred Capital Grant released in Year		
HEFCE	99	72
LSC	29	14
Access Fund Administration		
HEFCE	2	2
LSC	11	12
	<u>13,213</u>	<u>12,004</u>
2. TUITION FEES AND EDUCATION CONTRACTS	2009	2008
	£'000	£'000
Higher Education UK and EU	6,128	4,253
Higher Education Non EU	1,126	1,064
Further Education UK and EU	300	266
Further Education non EU	98	96
	<u>7,652</u>	<u>5,679</u>
3. OTHER INCOME	2009	2008
	£'000	£'000
Residences, catering and conferences	693	696
Other Services Rendered	304	253
Other Income	814	1,047
Release of deferred capital grants (non funding council)	67	84
	<u>1,878</u>	<u>2,080</u>

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

4. ENDOWMENT AND INVESTMENT INCOME

	2009	2008
	£'000	£'000
Income from Endowments (Note 18)	6	13
Interest Receivable	18	41
	<u>24</u>	<u>54</u>

5. STAFF COSTS

	2009	2008
	£'000	£'000
Wages and salaries	9,394	8,161
Social Security costs	729	626
Other Pension costs: Teachers' Pension Scheme	602	562
Local Government Pension Scheme	612	469
Restructuring costs	102	-
	<u>11,439</u>	<u>9,818</u>

Average staff numbers by major category:

	Number	Number
Teaching Departments	174	164
Teaching Support Services	8	8
Library	11	13
Other Support Services	9	8
Administration and Central Services	75	77
General Education	4	3
Income Generating Activities	10	7
	<u>291</u>	<u>280</u>

Emoluments of Principal and remuneration of senior staff:

	2009	2008
	£	£
Emoluments of Principal	142,000	130,032
Employers' pension contributions (Teachers Pension Scheme)	20,022	18,335
Other benefits	6,896	5,681
	<u>168,918</u>	<u>154,048</u>

Other than the Principal there were no staff earning over £100,000 excluding employers' pension contributions, but including payments for compensation for loss of office and actuarial payments to pension schemes for early retirement.

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

6. OTHER OPERATING EXPENSES	2009	2008
	£'000	£'000
Teaching Departments	1,847	1,722
Teaching Support Services	588	598
Other Support Services	119	82
Administration and Central Services	1,695	1,396
General Education Expenditure	554	894
Premises Costs	1,218	1,025
Planned Maintenance	864	643
Grants to Students Union	60	57
Other Income Generating Activities	187	120
External Auditors' Remuneration - Audit Fees	17	17
External Auditors' Remuneration - Other Fees	2	2
Internal Auditors' Remuneration - Audit Fees	16	30
Operating Lease Rentals Plant/Machinery	60	37
Operating Lease Rentals Land & Buildings	86	59
Catering and Residencies	488	431
Loss on Disposal of fixed assets	-	13
	<u>7,801</u>	<u>7,126</u>
7. INTEREST PAYABLE	2009	2008
	£'000	£'000
Loans not wholly repayable within five years	257	350
Pension finance costs	132	81
	<u>389</u>	<u>431</u>
8. TAXATION	2009	2008
	£'000	£'000
United Kingdom corporation tax		
Corporation tax charge for the year at 28.0% (2008: 20.33%)	3	11
Provision of deferred taxation	(9)	(9)
	<u>(6)</u>	<u>2</u>
9. SURPLUS ON CONTINUING OPERATIONS FOR THE PERIOD	2009	2008
	£'000	£'000
The surplus on continuing operations for the period is made up as follows:		
University College's surplus for the period	1,424	906
Surplus generated by AUCB Services Limited and transferred to the University College under gift aid	235	152
Retained by AUCB Services Limited	(1)	-
Retained by AUCB Enterprises Limited	(9)	(13)
Retained by AUCB Charitable Foundation Limited	(27)	(8)
	<u>1,622</u>	<u>1,037</u>

The University College and Charitable Foundation are exempt charities and therefore no tax has been charged on its income. The disclosure above relates solely to its subsidiary companies, AUCB Services Limited and AUCB Enterprises Limited.

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

10. TANGIBLE ASSETS**Consolidated**

	Freehold Land and Buildings £'000	Assets under Construction £'000	Computer Equipment £'000	Other Equipment £'000	Total £'000
At 1 August 2008					
At valuation	6,015	-	-	-	6,015
At cost	18,692	387	2,295	3,353	24,727
Additions	251	538	463	496	1,748
Disposals	-	-	-	(5)	(5)
Transfer	388	(388)	-	-	-
At 31 July 2009	<u>25,346</u>	<u>537</u>	<u>2,758</u>	<u>3,844</u>	<u>32,485</u>
Depreciation					
At 1 August 2008	3,404	-	1,733	1,982	7,119
Provided during period	726	-	338	458	1,522
Disposals	-	-	-	(3)	(3)
At 31 July 2009	<u>4,130</u>	<u>-</u>	<u>2,071</u>	<u>2,437</u>	<u>8,638</u>
Net book value at 31 July 2009	<u>21,216</u>	<u>537</u>	<u>687</u>	<u>1,407</u>	<u>23,847</u>
Net book value at 31 July 2008	<u>21,303</u>	<u>387</u>	<u>562</u>	<u>1,371</u>	<u>23,623</u>
Inherited	5,059	-	-	-	5,059
Financed by Capital Grant	2,495	-	67	111	2,673
Other	13,662	537	620	1,296	16,115
At 31 July 2009	<u>21,216</u>	<u>537</u>	<u>687</u>	<u>1,407</u>	<u>23,847</u>
Inherited	5,152	-	-	-	5,152
Financed by Capital Grant	2,553	-	52	173	2,778
Other	13,598	387	480	1,228	15,693
At 31 July 2008	<u>21,303</u>	<u>387</u>	<u>532</u>	<u>1,401</u>	<u>23,623</u>

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

10. TANGIBLE ASSETS (CONTINUED)**University College**

	Freehold Land and Buildings £'000	Assets under Construction £'000	Computer Equipment £'000	Other Equipment £'000	Total £'000
At 1 August 2008					
At valuation	6,015	-	-	-	6,015
At cost	14,345	387	1,622	2,920	19,274
Additions	1,408	538	451	637	3,034
Disposals	-	-	-	(5)	(5)
Transfer	388	(388)	-	-	-
At 31 July 2009	<u>22,156</u>	<u>537</u>	<u>2,073</u>	<u>3,552</u>	<u>28,318</u>
Depreciation					
At 1 August 2008	2,660	-	1,087	1,707	5,454
Provided during period	606	-	322	399	1,327
Disposals	-	-	-	(3)	(3)
At 31 July 2009	<u>3,266</u>	<u>-</u>	<u>1,409</u>	<u>2,103</u>	<u>6,778</u>
Net book value at 31 July 2009	<u>18,890</u>	<u>537</u>	<u>664</u>	<u>1,449</u>	<u>21,540</u>
Net book value at 31 July 2008	<u>17,700</u>	<u>387</u>	<u>535</u>	<u>1,213</u>	<u>19,835</u>

Buildings have been acquired with the assistance of capital grants from HEFCE which are deemed to be financed from exchequer funds. Were these assets to be sold, the University College may be liable, under the terms of the financial memorandum with HEFCE, to surrender the written down value of the capital grants being £2,020,073, from the sale proceeds. However £924,479 has been deferred awaiting completion of the new North Extension.

11. INVESTMENTS

	University College	
	2009	2008
	£'000	£'000
Investments in Subsidiaries at Cost	<u>792</u>	<u>2,410</u>

Subsidiary Undertakings

The University College owns 100% of the issued ordinary £1 shares of AUCB Services Ltd and AUCB Enterprises Ltd, both companies incorporated in England and Wales. As at 31 July 2009 the library staff and assets were transferred to the University College and this was effected by a reduction in its investment in AUCB Services Ltd matched by a corresponding reduction in its share capital.

The principal activity of AUCB Services Ltd has been to provide library and learning resource services to the University College and its students. In future it will lease the refectory and provide other services as required. AUCB Enterprises Ltd provides business incubation units for new graduates in the region.

The University College has incorporated The Arts University College at Bournemouth Charitable Foundation, a company limited by guarantee. The trustees of the company are also members or associates of the Board and they have agreed to pay up to £10 towards costs and liabilities should the company be dissolved. The object of the company is the advancement of education principally within the subject areas of art, design, media and the performing arts. The University College endowments have been transferred to this company.

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

12. DEBTORS

	Consolidated		University College	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Trade debtors	180	143	163	121
Other debtors	50	37	41	16
Prepayments and accrued income	153	145	146	143
Deferred taxation	20	11	-	-
	<u>403</u>	<u>336</u>	<u>350</u>	<u>280</u>

13. CREDITORS: amounts falling due within one year

	Consolidated		University College	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Trade creditors	1,174	892	1,169	886
Other taxation and social security	378	352	375	352
Other creditors	375	225	396	238
Accruals and deferred income	2,401	2,046	2,316	1,965
Corporation tax	-	11	-	-
Amounts due to subsidiary companies	-	-	173	648
Amounts owed to Funding Councils	125	64	125	64
Bank loan (Note 15)	430	252	430	252
	<u>4,883</u>	<u>3,842</u>	<u>4,984</u>	<u>4,405</u>

14. CREDITORS: amounts falling due after more than one year

	Consolidated		University College	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Long term bank loan (Note 15)	<u>6,026</u>	<u>6,554</u>	<u>6,026</u>	<u>6,554</u>

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

15. ANALYSIS OF BORROWINGS

	Consolidated and University College	
	2009	2008
	£'000	£'000
In one year or less	430	252
Between one and two years	441	267
Between two and five years	2,366	1,920
In more than five years	3,219	4,367
	<u>6,456</u>	<u>6,806</u>

The group has three principal loans to fund the development of its estate.

The group has a £1,500,000 loan with a fixed rate of 5.515% for a period of five years and is repayable at 31 July 2012. The year end balance was £1,450,649. It is secured by means of a negative pledge.

On 1 October 2001, the group began a staged drawdown of a loan of £1,690,000 repayable by instalments between October 2002 and October 2025. This loan is based on a negative pledge against the Institute's student residences and the interest rate fixed at 5.365% and repayable by instalments over a term of 15 years. The year end balance was £1,284,178 .

The remaining loan is charged at a variable rate of central bank base rate plus a margin of 0.28%. The loan is repayable over a 25 year term. The group has given a negative pledge to the bank in respect of this loan. The year end balance was £3,720,925.

16. PROVISION FOR LIABILITIES AND CHARGES

	Consolidated	
	2009	2008
	£'000	£'000
Deferred Taxation		
At 1 August	(11)	(2)
Credit to the income and expenditure account (Note 8)	(9)	(9)
Transferred to debtors (Note 12)	20	11
At 31 July	<u>-</u>	<u>-</u>
Deferred Taxation provided in the financial statements is as follows:		
Tax effect off timing differences because of:		
Capital allowances in excess of depreciation	(21)	4
Short term timing differences	1	(15)
At 31 July	<u>(20)</u>	<u>(11)</u>

17. DEFERRED CAPITAL GRANTS

	Buildings	Equipment	Total
	£'000	£'000	£'000
Consolidated			
At 1 August 2008	2,683	269	2,952
Additions	205	68	273
Released to Income and Expenditure	(94)	(102)	(196)
At 31 July 2009	<u>2,794</u>	<u>235</u>	<u>3,029</u>
University College			
At 1 August 2008	545	187	732
Additions	205	67	272
Transfer from AUCB Services Limited	111	-	111
Released to Income and Expenditure	(44)	(78)	(122)
At 31 July 2009	<u>817</u>	<u>176</u>	<u>993</u>

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

18. ENDOWMENTS

	Consolidated	
	2009	2008
	£'000	£'000
At 1 August	332	340
Additions	3	7
Income for year	6	13
Expenditure for year	(36)	(28)
At 31 July	<u>305</u>	<u>332</u>
Attributed as follows:		
Investments at Market Value	263	283
Cash	42	49
	<u>305</u>	<u>332</u>
	2009	2008
	£'000	£'000
Representing:		
Prize Funds	30	33
Course Funds	275	299
At 31 July	<u>305</u>	<u>332</u>

19. REVALUATION RESERVE

	Consolidated and	
	University College	
	2009	2008
	£'000	£'000
At 1 August	5,153	5,246
Transfer to the Income and Expenditure Account (Note 20)		
Depreciation for period on revalued inherited assets	(94)	(93)
At 31 July	<u>5,059</u>	<u>5,153</u>

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

20. INCOME AND EXPENDITURE ACCOUNT	Consolidated	
	2009	2008
	£'000	£'000
At 1 August	3,219	3,132
Transfers from revaluation reserve (Note 19)	94	93
Retained surplus for the period	1,622	1,037
Actuarial loss on pension scheme liability	(1,453)	(1,043)
At 31 July	<u>3,482</u>	<u>3,219</u>

	University College	
	2009	2008
	£'000	£'000
At 1 August	3,401	3,293
Transfers from revaluation reserve (Note 19)	94	93
Retained surplus for the period	1,709	1,058
Actuarial loss on pension scheme liability	(1,453)	(1,043)
At 31 July	<u>3,751</u>	<u>3,401</u>

21. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASHFLOW FROM OPERATING ACTIVITIES	2009	2008
	£'000	£'000
	Surplus on continuing operations after depreciation of assets	1,622
Difference between pension charge and cash contribution	123	51
Deferred grants released to income	(196)	(170)
Depreciation	1,522	1,403
(Increase)/decrease in debtors	(58)	62
Loss on disposal of fixed assets	-	13
Increase in creditors	867	152
Movement in deferred taxation	(9)	(9)
Interest receivable	(24)	(54)
Interest payable including pension finance costs	389	431
Net Cash Inflow from Operating Activities	<u>4,236</u>	<u>2,916</u>

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

22. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2009	2008
	£'000	£'000
Interest Received	24	54
Interest Paid	<u>(257)</u>	<u>(350)</u>
Returns on Investments and Servicing of Finance	<u>(233)</u>	<u>(296)</u>

23. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2009	2008
	£'000	£'000
Purchase of Fixed Assets	(1,748)	(4,780)
Proceeds on disposal of fixed assets	2	-
Net Deferred Capital Grants received	273	111
Endowment Funds received	<u>3</u>	<u>7</u>
	<u>(1,470)</u>	<u>(4,662)</u>

24. FINANCING

	2009	2008
	£'000	£'000
New loan	-	2,500
Capital repayments	<u>(350)</u>	<u>(125)</u>
	<u>(350)</u>	<u>2,375</u>

25. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August	Non-Cash	Cash Flow	At 31 July
	2008	Movements	£'000	2009
	£'000	£'000	£'000	£'000
Cash	772	-	2,176	2,948
Endowment Cash	49	-	(7)	42
	<u>821</u>	<u>-</u>	<u>2,169</u>	<u>2,990</u>
Debt due within one year	(252)	(430)	252	(430)
Debt due after one year	<u>(6,554)</u>	<u>430</u>	<u>98</u>	<u>(6,026)</u>
	<u>(5,985)</u>	<u>-</u>	<u>2,519</u>	<u>(3,466)</u>

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

26. PENSIONS AND SIMILAR OBLIGATIONS**Consolidated and University College**

The group's employees belong to two principal pension schemes, the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme (TPS). Both schemes are defined benefit schemes.

The total pension cost for the group was:	2009	2008
	£'000	£'000
Teachers Pension Scheme	602	562
Local Government Pension Scheme	612	469
	<u>1,214</u>	<u>1031</u>

Local Government Pension Scheme

LGPS is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the LGPS actuary reviews the progress of the LGSS scheme.

For LGPS, the actuary has indicated that the resources of the scheme are likely, in the normal courses of events, to meet the liabilities as they fall due at the level specified by the LGPS Regulations. The contribution payable by the employer was increased to 14.1% of pensionable salaries from August 2007. The employees contribute 6%.

Under the definitions set out in FRS 17, the LGPS is a multi-employer defined benefit pension scheme. In the case of the LGPS, the actuary of the scheme has identified the Institution's share of its assets and liabilities as at 31 July 2009.

The pension scheme assets are held in a separate Trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation. The trustees are responsible for setting the investment strategy for the Scheme after consultation with professional advisers.

The material assumptions used by the actuary at 31 July 2009 were:

	2009	2008
	%	%
Price increases	3.6	3.9
Salary increases	5.1	5.4
Pension increases	3.6	3.9
Discount rate	6.0	6.4

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

	2009	2008
	years	years
<i>Pensioners</i>		
Males	20.84	20.84
Females	23.86	23.86
<i>Non-pensioners</i>		
Males	21.79	21.79
Females	24.80	24.80

NOTES TO THE ACCOUNTS (CONTINUED)
at 31 July 2009

26. PENSIONS AND SIMILAR OBLIGATIONS - continued

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

	Long term rate of return expected at 31-Jul-09 %	Value at 31-Jul-09 £'000	Long term rate of return expected at 31-Jul-08 %	Value at 31-Jul-08 £'000	Long term rate of return expected at 31-Jul-07 %	Value at 31-Jul-07 £'000
Equities	8.3	3,551	8.6	2,825	7.8	3,116
Gilts	5.3	620	5.6	1,089	4.8	898
Property	7.8	351	8.1	497	7.3	587
Other Bonds	8.3	258	8.6	352	5.8	347
Cash	3.0	388	5.0	577	5.8	226
Total market value of assets		5,168		5,340		5,174

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period. The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield respectively at the relevant date. The return on equities, absolute return funds and property is then assumed to be a margin above gilt yields.

	2009 £'000	2008 £'000
Actual return on Scheme assets	<u>(816)</u>	<u>(400)</u>

The following amounts at 31 July 2009 were measured in accordance with the requirements of FRS17.

Analysis of the amount shown in the balance sheet

	2009 £'000	2008 £'000
The Institution's estimated asset share		
Present value of the institution's scheme liabilities	5,168 (9,887)	5,340 (8,351)
Deficit in the Scheme - Net pension liability	<u>(4,719)</u>	<u>(3,011)</u>

Analysis of the amount charged to operating surplus

	2009 £'000	2008 £'000
Current service cost	612	442
Past service cost	-	27
Total operating charge	<u>612</u>	<u>469</u>

**Analysis of the amount that is credited to other finance
income/charged to interest payable**

	2009 £'000	2008 £'000
Expected return on pension scheme assets	(427)	(336)
Interest on pension scheme liabilities	559	417
Net return	<u>132</u>	<u>81</u>

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

26. PENSIONS AND SIMILAR OBLIGATIONS - continued

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)	2009 £'000	2008 £'000			
Actual return less expected return on pension scheme assets	(1,243)	(736)			
Experience gains and losses	-	155			
Changes in assumptions underlying the present value of the scheme liabilities	(210)	(416)			
Change in asset valuation	-	(46)			
Actuarial (loss) recognised in STRGL	<u>(1,453)</u>	<u>(1,043)</u>			
Cumulative amount of losses recognised in the STRGL	<u>(2,301)</u>	<u>(848)</u>			
Analysis of the movements in the present value of the scheme liabilities	2009 £'000	2008 £'000			
At beginning of the year	8,351	7,006			
Current service cost	612	442			
Employee Contributions	239	187			
Past service costs	-	27			
Benefits paid	(84)	(42)			
Interest costs	559	417			
Actuarial loss	210	314			
At end of the year	<u>9,887</u>	<u>8,351</u>			
Analysis of movement in the market value of the scheme assets	2009 £'000	2008 £'000			
At beginning of the year	5,340	5,174			
Total Contributions	728	601			
Benefits paid	(84)	(42)			
Change of asset valuation	-	(46)			
Expected return on assets	427	336			
Actuarial (loss)/gain	(1,243)	(683)			
At end of the year	<u>5,168</u>	<u>5,340</u>			
<i>Five year history</i>	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Present value of the plan liabilities	(9,887)	(8,351)	(7,006)	(7,053)	(5,907)
Fair value of the plan assets	<u>5,168</u>	<u>5,340</u>	<u>5,174</u>	<u>4,310</u>	<u>3,485</u>
(Deficit)/surplus on the pension plans	<u>(4,719)</u>	<u>(3,011)</u>	<u>(1,832)</u>	<u>(2,743)</u>	<u>(2,422)</u>
<i>Experience adjustments arising on:</i>					
Plan liabilities	-	103	-	-	385
Plan assets	<u>(1,243)</u>	<u>(683)</u>	<u>116</u>	<u>159</u>	<u>444</u>

The University College's best estimate of the contributions expected to be paid in the year beginning on the 1 August 2009 is £518,000.

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

26. PENSIONS AND SIMILAR OBLIGATIONS (CONTINUED)**Teachers' Pension Scheme**

Under the definitions set out in Financial Reporting Standard 17 - Retirement Benefits, the Teachers' Pension Scheme (TPS) is a multi-employer pension scheme. As the TPS is underwritten by central government and the University College has no future obligation to make contributions to the scheme, this is effectively a defined contribution scheme in so far as it affects the University College. As a result, contributions to this scheme are accounted for as if the scheme was a defined contribution scheme.

The University College has set out below the information available on the Scheme and the implications for the University College in terms of the anticipated contribution rates.

The employers' contribution rates for the University College's academic staff were 14.1% of pensionable salaries from 1 August 2008 to 31 July 2009.

The TPS is a statutory, contributory, unfunded, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 1997, as amended. Contributions are credited to the Exchequer on a "pay as you go" basis under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purposes of determining contribution rates.

The last valuation of the TPS related to the period 1 April 2001 to 31 March 2004. The Government Actuary's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

As from 1 January 2008, and as part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution has been assessed at 19.75%, plus a supplementary contribution rate of 0.75% (to balance assets and liabilities as required by the regulations within 15 years); a Standard Contribution Rate (SCR) of 20.5%. This translates into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement has also introduced, effective for the first time from the 2008 valuation, a 14% cap on employer contributions payable.

The 2006 interim actuarial review, published in June 2007, did not recommend any changes to the SCR and concluded, as at 31 March 2006, and using the above assumptions, that the Scheme's total liabilities amounted to £176,600 million.

A copy of the Government Actuary's 2004 valuation report and 2006 interim valuation report can be found on the TeacherNet website at www.teachernet.gov.uk/pensions.

27. CAPITAL COMMITMENTS

The group had joint outstanding capital commitments of £2,031,985 as at 31 July 2009 (2008: £489,544). The balance is for work to be undertaken on the North Building Extension and during the Summer 2009 recess.

NOTES TO THE ACCOUNTS (CONTINUED)

At 31 July 2009

28. FINANCIAL COMMITMENTS**Consolidated and University College**

	2009	2008
	£'000	£'000
Annual commitments under non-cancellable operating leases		
Plant/Machinery		
In one year or less	63	23
Between one and two years	<u>36</u>	<u>9</u>
Land & Buildings		
In one year or less	9	-
Between two and five years	<u>69</u>	<u>66</u>

29. POST BALANCE SHEET EVENTS

There are no material post balance sheet events.

30. RELATED PARTY TRANSACTIONS

Due to the nature of the University College's operations and the composition of the Governing Board, so are drawn from local public and private sector organisations; it is inevitable that transactions will take place with organisations in which a member of the Governing Board may have an interest. All transactions involving organisations in which a member of the Governing Board may have an interest are conducted at arm's length and in accordance with the University College's financial regulations and normal procurement procedures. No transactions were identified which should be reported under Financial Reporting Standard 8 - Related Party Disclosures.

31. ACCESS FUNDS

	2009	2008
	£'000	£'000
As at 1 August	9	25
Funding council grants	298	333
Repaid to funding councils	(9)	(25)
Interest	1	1
Total income	<u>299</u>	<u>334</u>
Disbursed to students	(255)	(312)
Administration	(12)	(13)
As at 31 July	<u>32</u>	<u>9</u>