

NATIONAL MUSEUMS OF SCOTLAND

STATEMENT OF ACCOUNTS

For the year ended 31 March 2002

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REPORT OF THE BOARD OF TRUSTEES INCORPORATING FOREWORD

1. History of Body

The National Museums of Scotland (NMS) was set up on 1 October 1985 by the amalgamation of the National Museum of Antiquities of Scotland (NMA) and the Royal Scottish Museum (RSM). Prior to this date the NMA was a body funded by the then Scottish Office Education Department (SOED) under a separate Vote while the RSM was for funding and administrative purposes a part of SOED.

2. Statutory background

The NMS and its activities are controlled primarily by the terms of the National Heritage (Scotland) Act 1985.

3. Legal and administrative information

NMS has been granted charitable status; the charity number is SC 011130 and the principal place of business is Chambers Street, Edinburgh EH1 1JF. NMS's banker is the Royal Bank of Scotland, 6-8 George Street Edinburgh EH2 2SA. The external auditor is PricewaterhouseCoopers, under contract to Audit Scotland, 18 George Street, Edinburgh EH2 2QU. Legal advice is provided primarily by Dundas & Wilson, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN.

4. Principal functions of NMS and its activities during the year

The functions of the NMS are, as set out in section 2(1) of the 1985 Act, to:

- (a) care for, preserve and add to the objects in their collections,
- (b) secure that the objects are exhibited to and interpreted for the public,
- (c) secure that the objects are available to persons seeking to inspect them in connection with study or research,
- (d) generally promote the public's awareness, appreciation and understanding of matters agricultural, archaeological, architectural, artistic, cultural, environmental, historical, industrial, military, scientific and social both by means of the Board's collections and by such other means, including collaboration with other institutions, as they consider appropriate, and
- (e) provide education, instruction and advice and carry out research.

NMS contributes to the cultural wealth and knowledge of Scotland by:

- (a) the preservation of material and natural objects;
- (b) providing displays to illuminate for the public Scottish and international aspects of man's culture and the natural world;
- (c) encouraging research on its collections; and
- (d) providing an education service for the interpretation of its collections.

Commercial interests of NMS are promoted by the four trading subsidiaries - NMS Hospitality and Events Ltd, The Multimedia Team Ltd, NMS Retailing Ltd and NMS Publishing Ltd. The aims of the companies are, respectively:

- to exploit commercial hall hire and catering activities on behalf of NMS;
- to develop commercial and educational multi-media programmes utilising in part NMS collections and research;
- to operate the shops in Chambers Street, the National War Museum of Scotland and the Museum of Flight;
- to develop the publications activity formerly carried out by NMS itself.

The companies are wholly-owned by NMS Enterprises Ltd, a company which is controlled by the Board of NMS. On 16 August 2002 The Board resolved to wind up The Multimedia Team Ltd and to transfer the remaining businesses to NMS Enterprises Ltd.

Collectively, the companies' turnover in 2001/02 was £1.744 million (2000/01 £1.537 million) while net profit was £0.299 million (2000/01 £0.299 million). Using Gift Aid, the companies donated £0.296 million to NMS (2000/01 £0.280 million).

5. Activities in the field of research and development

During the year ended 31 March 2002, NMS staff members published 83 significant research articles and books, while the total number of publications by NMS staff was 106. During the same period, NMS staff collaborated on 108 research projects while 72 loans were made from the collections for research purposes.

6. Recent developments in NMS's activities

NMS continues to enhance its service to the public. Admission charges were removed from the Chambers Street museums with effect from 1 April 2001. This was made possible by additional grant-in-aid from the Scottish Executive Education Department for this specific purpose.

In partnership with the National Trust for Scotland, NMS has completed the Museum of Scottish Country Life at Killochside, near East Kilbride. In addition to a historic working farm, the museum includes an award-winning exhibition building devoted to the history of farming in Scotland. The complex opened to the public in July 2001.

7. Financial results and appropriations

The combined financial results and appropriations are shown in the Consolidated Income and Expenditure Account on page 6. The accounts consolidate the NMS's wholly-owned trading subsidiaries. An Income and Expenditure Account for NMS alone is included at page 10.

NMS is required to operate within the financial limits prescribed in the Financial Memorandum, and to follow the recommendations of Government Accounting. Thus NMS is generally not permitted to borrow funds, and its powers to invest are circumscribed.

The Consolidated Income and Expenditure account reports an operating surplus of £0.557 million. After the release of £0.341 million from the revaluation reserve, the retained surplus for the year amounted £0.898 million.

The trading companies made a group trading profit of £0.299 million of which £0.296 was passed to NMS under Gift Aid. The companies' liability to income tax was nil.

Receipts and expenditure during the year to 31 March 2002 (2001) were as follows:

	2002 £ million	2001 £ million
Grant-in-aid:		
-Income and Expenditure account	13.921	12.135
-Fixed asset investment	1.750	1.797
-Collection purchases	0.510	0.510
Other income:		
-Release from deferred income	3.012	2.971
-Trading companies	1.445	1.265
-Other	1.071	1.650
-Revenue-earning activities	0.003	0.020
-Grant-aided activities	0.081	0.070
-Interest income	0.053	0.065
-Other capital receipts	0.309	1.882
Expenditure:		
-Staff costs	9.306	8.936
-Other operating charges	6.241	6.384
-Depreciation and permanent diminution in value	3.482	3.294

8. The status of land and buildings

NMS holds title to properties at Granton, the Museum of Flight, Leith Custom House, the former Dental Hospital and Bristo Church. Title to the Royal Museum and the Museum of Scotland is held by Scottish Ministers. NMS has full operational use of these assets and is responsible for their upkeep and maintenance, and there has been no change in this position during the year.

9. Significant changes to fixed assets

In the period, the group acquired tangible and intangible assets at a cost of £1.945 million. The sum of £0.725 million was spent on permanent galleries, £0.409 million on buildings,

£0.321 million on equipment purchases, £0.021 million on intangible assets and £0.469 million on additions to the collections.

10. Important events which have occurred since the financial year-end

No important event has occurred since 1 April 2002 to have a material effect on these accounts.

11. Names of Board members during the year

The Trustees of the National Museums are appointed by Scottish Ministers. The following were members of the Board during the period covered by these Accounts:

Sir Robert Smith CA, FCIBS, FSA Scot (Chairman; until 31 March 2002)
Professor Tom Devine, PhD, FBA, DLitt, FRSE, FBA (until 31 March 2002)
James A.G. Fiddes, OBE, DUniv, MA, FRICS, Dip TP
Dr Lesley Glasser FRSE (until 31 March 2002)
Grenville S Johnston OBE, TD, KCSG, DL, CA
Christina Macaulay
Sir Neil McIntosh, CBE
Anne Maclean
Neena Mahal
Professor Aubrey Manning OBE, FRSE
Professor James Murray BSc ARCST, CEng, FIMechE, FIEE, FIMgt
Sir William Purves CBE, DSO (until 31 March 2002)
Dr Anna Ritchie OBE BA, PhD, FSA, FSA Scot
Ian Smith
Lord Wilson of Tillyorn GCMG KT

The following served as members of the Finance and Audit Committee (now renamed the Audit Committee) during the year: Mr. Grenville Johnston (Chairman), Sir Neil McIntosh and Sir William Purves.

The Staff Committee (now renamed the Personnel and Remuneration Committee) of the Board of Trustees considers senior staff remuneration issues. The following were members of the Committee during the year: Sir Robert Smith, Professor Tom Devine, Sir Neil McIntosh and Professor James Murray.

12. Appointment of auditors

The firm of PricewaterhouseCoopers has been appointed external auditor by Audit Scotland.

13. Disabled Employees

The NMS adopts a positive attitude towards the employment of disabled persons both in recruitment and in the provision of suitable working conditions. Every encouragement is given to disabled staff to develop their skills.

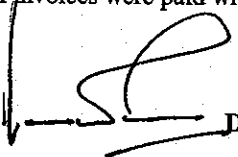
14. Employee Consultation

The Management of NMS communicates with staff representatives on the various Trade Unions both directly and through the mechanism of the Whitley Council and its Sub-Committees. Staff information is distributed by way of notices, circulars and meetings.

15. Prompt Payment Code

NMS's payment policy is to comply with Government accounting rules, which stipulate that payments to suppliers must be made within 30 days of receipt of invoice. A random sample of invoices taken during 2001/02 showed that, on average, NMS paid suppliers 16 days after receipt of invoice, and that 95% of invoices were paid within 30 days of receipt.

CHAIRMAN



DATE 6.2.02

STATEMENT OF BOARD'S AND DIRECTOR'S RESPONSIBILITIES

Under schedule 1, section 9 of the National Heritage (Scotland) Act 1985, the Board of NMS is required to prepare in accordance with best commercial practice a statement of accounts for each financial year in the form and on the basis determined by Scottish Ministers. The accounts are prepared on an accruals basis and must show a true and fair view of the state of affairs of NMS and of NMS consolidated with NMS Enterprises Ltd. (the group) at the year end, and of the income and expenditure and cash flows of the group for the financial year.

In preparing the accounts the Board is required to:

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make estimates and judgements on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the group will continue in operation.

The Accountable Officer for the Scottish Executive Education Department has designated the Director of the National Museums of Scotland as Accountable Officer for NMS. His or her relevant responsibilities as Accountable Officer, including his or her responsibility for the propriety and regularity of the public finances for which he or she is

answerable and for the keeping of proper records, are set out in the financial memorandum of the National Museums of Scotland, the letter of appointment to the Director and the Memorandum to Accountable Officers issued by the Principal Accountable Officer.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

As Accountable Officer of the National Museums of Scotland, I have responsibility for maintaining a sound system of internal control that supports the achievement of NMS's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

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.

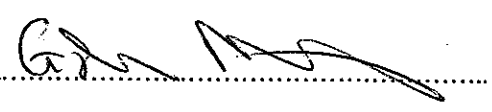
The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of NMS's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them effectively, efficiently and economically. This process has been in place for the year ended 31 March 2002 and up to the date of approval of the Statement of Accounts and accords with Treasury guidance.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. During the year NMS established the following processes:

- Regular reports by internal audit, to standards defined in the Government Internal Audit Manual, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of NMS's system of internal control together with recommendations for improvement;
- A regular programme of workshops to identify and keep up to date the record of risks facing the organisation;
- Implementation of a robust prioritisation methodology based on risk ranking;
- Production of an organisation-wide risk register;
- establishment of key performance indicators;
- as appropriate, formal project management disciplines.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers in NMS 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.

DIRECTOR



Independent Auditors' report

To the members of National Museums of Scotland, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements which comprise the income and expenditure account, balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes under the Public Finance and Accountability (Scotland) Act 2000. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of the Board, the Director-General and Auditor

As described in the Statement of the Board's and Director's Responsibilities, the Board and the Director are responsible for the preparation of the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers and for ensuring the regularity of financial transactions. The Board and the Director are also responsible for the preparation of the other contents of the Annual Report. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder and whether, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the National Museums of Scotland has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Report of the Trustees and consider whether it is consistent with the audited financial statements. We consider the implications for my report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on the system of internal control complies with Scottish Executive guidance on statements on the system of internal control. We report if the statement does not comply with the guidance, or if the statement is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

Basis of audit opinions

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland,

which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board and Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Board's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Financial statements

In our opinion the financial statements give a true and fair view of the state of affairs of the National Museums of Scotland at 31 March 2002 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.

Regularity

In our opinion, in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers
Erskine House
68-73 Queen Street
Edinburgh

October 2002

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Income and Expenditure Account for the year ended 31 March 2002

	Notes	Continuing activities	
		2002	2001
Income		£000	£000
Grant-in-aid received	2	13,921	12,135
Net surplus from revenue-earning activities	3	3	20
Gross income from grant-aided activities	4	81	70
Release from deferred grants and capital donations	17,18	3,012	2,971
Other income	5	1,071	1,650
Bank interest		53	65
Income received by NMS subsidiaries	25	<u>1,445</u>	<u>1,265</u>
		<u>19,586</u>	<u>18,176</u>
Expenditure			
Staff costs	6	9,306	8,936
Other operating charges	7	6,241	6,384
Depreciation and permanent diminution in value	1c, 9, 11	<u>3,482</u>	<u>3,294</u>
		<u>19,029</u>	<u>18,614</u>
Operating surplus/(deficit)		557	(438)
Notional cost of capital	27	<u>(5,985)</u>	<u>(5,803)</u>
Deficit for the year before taxation	28	<u>(5,428)</u>	<u>(6,241)</u>
Taxation	1h	<u>0</u>	<u>0</u>
Deficit for the year after taxation		<u>(5,428)</u>	<u>(6,241)</u>
Reversal of notional cost of capital	27	5,985	5,803
Release from revaluation reserve	21	<u>341</u>	<u>288</u>
Retained surplus/(deficit) for the year		<u>898</u>	<u>(150)</u>
Transfer to/(from) General Fund	19	565	(170)
Transfer to Board Reserve	20	330	0
NMS Enterprises Ltd		<u>3</u>	<u>20</u>
		<u>898</u>	<u>(150)</u>

The notes on pages 12 to 29 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 March 2002

		2002	2001
	Notes	£000	£000
Deficit retained for the year		(5,428)	(6,241)
Reversal of notional cost of capital		5,985	5,803
Unrealised gain on revaluation of fixed assets	9, 21	<u>1,774</u>	<u>4,235</u>
Total recognised gains and losses during the year		<u>2,331</u>	<u>3,797</u>

The notes on pages 12 to 29 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Balance Sheet as at 31 March 2002

		2002	2001
	Notes	£000	£000
Fixed Assets			
Tangible assets	9	116,768	117,016
Collections	10	469	-
Intangible assets	11	16	-
Investments	12	<u>1</u>	<u>1</u>
		117,254	117,017
Current Assets			
Stocks	13	318	332
Debtors	14	677	580
Cash at bank and in hand	15	<u>1,510</u>	<u>883</u>
		2,505	1,795
Current Liabilities			
Creditors: Amounts falling due within one year	16	<u>999</u>	<u>1,977</u>
Net Current assets/(liabilities)		<u>1,506</u>	<u>(182)</u>
Total Assets Less Current Liabilities		118,760	116,835
Creditors: Amounts falling due after more than one year	16	<u>103</u>	<u>179</u>
Total Net Assets		<u>118,657</u>	<u>116,656</u>
Financed by:			
Accruals and Deferred Income			
Deferred government grants	17	58,857	58,862
Capital Reserve	18	<u>16,449</u>	<u>16,928</u>
		75,306	75,790
Capital and Reserves			
Unrestricted funds:			
General Fund	19	446	(119)
Board Reserve Fund	20	1,376	1,046
NMS Enterprises Ltd		9	6
		<u>1,831</u>	<u>933</u>
Restricted funds:			
Revaluation reserve	21	41,362	39,929
Purchase Fund	22	<u>158</u>	<u>4</u>
		<u>41,520</u>	<u>39,933</u>
		<u>118,657</u>	<u>116,656</u>



Accountable Officer

31/10/2002

Date

The notes on pages 12 to 29 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Cash Flow Statement for the year ended 31 March 2002

		2002	2001
	Notes	£000	£000
Net cash outflow from operating activities	23	<u>(163)</u>	<u>(2,974)</u>
Returns on Investments:			
Interest received		<u>53</u>	<u>65</u>
Capital expenditure and financial investment:			
Payments from purchase fund	22	(545)	(639)
Payments to acquire tangible and intangible fixed assets	9,11	<u>(1,476)</u>	<u>(2,565)</u>
Total capital expenditure and financial investment		<u>(2,021)</u>	<u>(3,204)</u>
Cash outflow before financing		(2,131)	(6,113)
Financing:			
Government grants	17	1,750	1,812
Capital receipts	18	309	1,882
Purchase fund	22	<u>699</u>	<u>632</u>
		<u>2,758</u>	<u>4,326</u>
Increase/(decrease) in cash in the period	23	<u>627</u>	<u>(1,787)</u>

The notes on pages 12 to 29 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Income and Expenditure Account for the year ended 31 March 2002

		Continuing activities	
		2002	2001
	Notes	£000	£000
Income			
Grant-in-aid received	2	13,921	12,135
Net surplus from revenue-earning activities	3	3	20
Gross income from grant-aided activities	4	81	70
Release from deferred grants and capital donations	17,18	3,012	2,971
Bank interest		44	65
Other income	5	<u>1,367</u>	<u>1,930</u>
		<u>18,428</u>	<u>17,191</u>
Expenditure			
Staff costs	6	8,656	8,325
Other operating charges	7	5,766	6,054
Depreciation and permanent diminution in value	1c, 9, 11	<u>3,452</u>	<u>3,270</u>
		<u>17,874</u>	<u>17,649</u>
Operating surplus/(deficit)		554	(458)
Notional cost of capital	27	<u>(5,985)</u>	<u>(5,803)</u>
Deficit after charging notional costs		<u>(5,431)</u>	<u>(6,261)</u>
Reversal of notional cost of capital		5,985	5,803
Release from revaluation reserve	21	<u>341</u>	<u>288</u>
		<u>895</u>	<u>(170)</u>
Transfer to/(from) General Fund	19	565	(170)
Transfer to Board Reserve	20	<u>330</u>	<u>0</u>
		<u>895</u>	<u>(170)</u>

The notes on pages 12 to 29 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Balance Sheet as at 31 March 2002

		2002	2001
		£000	£000
Fixed Assets			
Tangible assets	9	116,713	116,955
Collections	10	469	0
Intangible assets	11	16	0
Investment in subsidiary	12	<u>63</u>	<u>63</u>
		<u>117,261</u>	<u>117,018</u>
Current Assets			
Stocks	13	7	19
Debtors:			
-Receivable within 12 months	14	979	1,064
-Receivable after 12 months	14	88	88
Cash at bank and in hand	15	<u>1,247</u>	<u>455</u>
		<u>2,321</u>	<u>1,626</u>
Current Liabilities			
Creditors: Amounts falling due within one year	16	<u>831</u>	<u>1,815</u>
Net Current assests/(liabilities)		<u>1,490</u>	<u>(189)</u>
Total Assets Less Current Liabilities		118,751	116,829
Creditors: Amounts falling due after more than one year	16	<u>103</u>	<u>179</u>
Total Net Assets		<u>118,648</u>	<u>116,650</u>
Financed by:			
Accruals and Deferred Income			
Deferred government grants	17	58,857	58,862
Capital Reserve	18	<u>16,449</u>	<u>16,928</u>
		<u>75,306</u>	<u>75,790</u>
Capital and Reserves			
Unrestricted funds:			
General Fund	19	446	(119)
Board Reserve Fund	20	<u>1,376</u>	<u>1,046</u>
		<u>1,822</u>	<u>927</u>
Restricted funds:			
Revaluation reserve	21	41,362	39,929
Purchase Fund	22	<u>158</u>	<u>4</u>
		<u>41,520</u>	<u>39,933</u>
		<u>118,648</u>	<u>116,650</u>



31/10/2002

Accountable Officer

Date

The notes on pages 12 to 29 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts have been prepared under the historical cost convention modified by the revaluation of fixed assets and stocks and by the inclusion of notional costs and are in accordance with directions given by Scottish Ministers in accordance with the National Heritage (Scotland) Act 1985. The Accounts Direction is reproduced as an appendix to the accounts.

Without limiting the information given, the accounts meet the requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as they are appropriate. They also comply with SORP2, the Statement of Recommended Practice on the preparation of accounts of charitable organisations.

(b) Basis of Consolidation

The accounts consolidate those of the National Museums of Scotland (NMS) and its subsidiary companies, NMS Enterprises Ltd, NMS Retail Ltd, NMS Publishing Ltd, NMS Hospitality and Events Ltd and The Multimedia Company Ltd for the year ended 31 March 2002.

The National Museums of Scotland Charitable Trust ("The Charitable Trust") exists to assist NMS and other bodies or persons in the furtherance of museum-related activities. NMS cannot exercise control over the Charitable Trust, and the accounts of the Charitable Trust are not consolidated with those of NMS.

(c) Tangible Fixed Assets and Depreciation

Title to most of the NMS estate is held in the name of Scottish Ministers. Nevertheless, on the direction of Scottish Ministers, all land and buildings administered by the Board are valued every five years by a professional valuer and revalued annually using appropriate indices and included in the Balance Sheet. The method of valuation for specialised properties, that is land and buildings for which there is effectively no market, is depreciated replacement cost. Other properties are valued at open market value for existing use. Equipment is valued at current replacement cost less depreciation.

Depreciation is not provided on land or on buildings under construction, while depreciation is provided in equal annual instalments on the current cost of all other tangible fixed assets over their estimated useful lives, or the expected remaining useful lives of revalued assets. These are principally:

Equipment	4 years to 7 years
Vehicles	7 years
Buildings	19 years to 72 years
Permanent galleries	15 years

Items costing less than £2000 are written off in the year of purchase. Historic assets, such as the Royal Museum of Scotland, are included in the Balance Sheet at depreciated replacement cost, and are revalued professionally every five years.

NMS's collections acquired prior to 1 April 2001 are excluded from the Balance Sheet. Objects purchased since 1 April 2001 are included in the Balance Sheet at cost. See also notes 1(p), 10 and 22.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

1. ACCOUNTING POLICIES (continued)

(d) Intangible Assets

Intangible assets are valued at their purchase price less depreciation. Depreciation is calculated to write off the assets in equal annual instalments over their useful economic lives.

(e) Government Grants

The revenue portion of the annual grant-in-aid is credited to income in the year in which it is received. Any portion relating to capital expenditure is credited to the deferred government grants account, which is written down over the expected useful lives of the assets acquired.

(f) Stocks

Stocks are stated at the lower of cost or net replacement cost (or historical cost if this is not materially different) and net realisable value.

(g) Board Reserve Fund

The net proceeds derived from revenue-earning activities, donations and other sources, excluding Grant-in-Aid, may be taken to the Board Reserve Fund. These funds shall be used at the Board's discretion.

(h) Taxation

The Board of NMS has been granted charitable status by the Inland Revenue. Non-recoverable Value Added Tax (VAT) arising from expenditure is charged to the Income and Expenditure Account.

In 2001/02 the subsidiary companies paid £296,067 by Gift Aid to NMS, thereby eliminating any liability of the subsidiaries to Corporation Tax in that year.

(i) Notional Costs

In accordance with accounting requirements, the Income and Expenditure Accounts include notional costs to reflect the full costs of NMS's activities. The calculation of the notional cost of capital is explained in note 27.

(j) Capital Receipts

Donations, Lottery and other non-government receipts, which are applied to capital expenditure, are credited to the Capital Reserve and are amortised over the expected useful lives of the assets acquired and released to the Income and Expenditure Account over the corresponding period.

(k) Other Receipts

Donations are recognised in the financial statements only when received. Except for capital receipts described above, incoming resources are recognised as income on receipt.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

1. ACCOUNTING POLICIES (continued)

(l) Investments

Investments in subsidiary companies represent the value at cost of assets transferred to the companies at the time of incorporation.

(m) Foreign exchange gains and losses

Amounts held in foreign currency are translated to the Sterling equivalent at the Balance Sheet date. Gains and losses on translation are taken to the Income and Expenditure Account.

(n) Finance leases and operating leases

NMS did not hold any finance lease during 2001/02. Various operating leases exist, principally for the rental of computer equipment over a three-year period. Such equipment is not included in the balance sheet.

(o) Non-recoverable VAT

Non-recoverable VAT is recorded as an expense as it is incurred and is attributed to the activity on which it was incurred.

(p) Collections acquisitions

Objects forming part of NMS's collections as a 1 April 2001 are not included in the balance sheet. Objects purchased since 1 April 2001 are included in the balance sheet at cost. Depreciation is not charged.

(q) Changes in accounting policy

Other than the treatment of expenditure incurred in the acquisition of artefacts referred to at (p) above, there has been no change in accounting policies since last year.

(r) Pension contributions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme and is unfunded and largely non-contributory. NMS recognises the expected cost of providing pensions on a systematic and rational basis over the period during which NMS benefits from employees' services by payment to the PCSPS of amounts calculated on an accruals basis. Liability for payment of future benefits is a charge on the PCSPS.

(s) Grants to outside bodies

NMS makes limited sums available to outside bodies whose objectives coincide with those of NMS, or if the work will result in additions to NMS's collections.

(t) Funds structure

Grant-in-aid received for collections purchases cannot be applied to any other purpose. The incoming resource is recorded as a restricted fund.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

2. GOVERNMENT GRANT-IN-AID

(See Notes 1(e), 17 & 22)

	Group and NMS	
	2002 £000s	2001 £000s
Grant-in-Aid received		
Running Costs	14,367	12,732
Major Capital	<u>1,304</u>	<u>1,200</u>
	15,671	13,932
Purchase Grant	<u>510</u>	<u>510</u>
Total received during year	<u>16,181</u>	<u>14,442</u>
Allocated to:		
Income and Expenditure account	13,921	12,135
Deferred Government Grants For capital expenditure Note 17	1,750	1,797
Purchase Fund Note 22	<u>510</u>	<u>510</u>
	<u>16,181</u>	<u>14,442</u>

3. NMS REVENUE-EARNING ACTIVITIES

	Group	
	2002 £000	2001 £000
Sales	26	33
Cost of Sales	<u>23</u>	<u>13</u>
Gross profit	<u>3</u>	<u>20</u>

Stock values were reviewed at 31 March 2002 resulting in provisions to bring the valuations into line with the market.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

4. GRANT-AIDED ACTIVITIES

	Group	
	2002 £000	2001 £000
Rental of facilities etc	<u>81</u>	<u>70</u>

5. OTHER INCOME

	Group		NMS	
	2002 £000	2001 £000	2002 £000	2001 £000
Provision of Services:				
- Curatorial	60	40	60	40
- Conservation	19	33	19	33
- Documentation	33	66	33	66
- Membership scheme	61	77	61	77
- Other	95	95	95	95
Entrance Charges	195	544	195	544
Gift Aid from subsidiary companies	-	-	296	280
NMS Charitable Trust	57	77	57	77
Misc Sponsorship	106	207	106	207
Misc Grants	286	234	286	234
Other	<u>159</u>	<u>277</u>	<u>159</u>	<u>277</u>
	<u>1,071</u>	<u>1,650</u>	<u>1,367</u>	<u>1,930</u>

Entrance charges were removed from the Museums in Chambers Street on 1 April 2001, made possible by additional grant in aid for the purpose provided by the Scottish Executive Education Department. Entrance charges were retained at other museums.

In addition to the sums listed above which were credited to income, NMS received £0.31m from other sources which was credited to the Capital Reserve (note 18).

6. EMPLOYEES

Staff costs during the year:

	Group		NMS	
	2002 £000	2001 £000	2002 £000	2001 £000
Salaries	7,791	7,257	7,222	6,725
Social Security Costs	501	516	457	470
Pension Costs	937	888	900	855
Early Retirement	<u>77</u>	<u>275</u>	<u>77</u>	<u>275</u>
Total	<u>9,306</u>	<u>8,936</u>	<u>8,656</u>	<u>8,325</u>

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

6. EMPLOYEES (continued)

Pension benefits are provided through the Principal Civil Service Pension Scheme. This is a statutory scheme which provides benefits on a 'final salary' basis at normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to 3 years' pension is payable on retirement. Members pay contributions of 1½ % of pensionable earnings. Pensions increase in payment in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at the rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced for widow(er) pensions.

Pension contributions are paid to the Paymaster General at rates determined by the Government Actuary and advised by the Treasury. For 2001/02, these rates were 12% to 18.5% (2000/01: same).

No remuneration was paid to members of the Board of Trustees during 2001/2002 (2000/01 - nil). During 2001/2002 NMS paid a total of £2,943 in reimbursement of expenses to 5 Trustees, while in 2000/01 a total of £3,371 was reimbursed to 6 Trustees. No benefits in kind were paid to senior staff or to trustees during the year.

Money purchase pension contributions were not paid in respect of staff earning more than £50,000. Retirement benefits accrued under the PCSPS to 425 staff during 2001/02 (2001/02 412 staff), while benefits accrued under a money purchase scheme to 13 staff during 2001/02 (2000/01 13 staff)

Remuneration and pension costs of senior management during the year were:

		2002	2001	Accrued annual pension payable at age 60 31 March 2002	Increase in accrued pension since 31 March 2001 (1)
	Age	Remuneration £000	Remuneration £000	£000	£000
Mark Jones <i>(Director until 30 April 2001)</i>	51	6	65	23	2
Dale Idiens <i>(acting Director from 1 May to 24 February 2002)</i>	60	66	60	28	1
Gordon Rintoul <i>(Director from 25 Feb 2002)</i>	47	9	-	-	-

(1) The increase in accrued pension is discounted for the effect of inflation. NMS no longer has responsibility for the accrued pension rights of Mark Jones.

Benefits in kind, other than a largely contribution-free pension, were not receivable by any staff during the year.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

6. EMPLOYEES (continued)

Other employee costs:

Emoluments (£000s)	Number of Employees	
	2002	2001
50-60	4	4
60-70	-	1
70-80	-	-

The average full-time equivalent number of employees was:

	Group		NMS	
	2002	2001	2002	2001
Curatorial	112	112	112	112
Collection Services	38	34	38	34
Technical Services	74	72	74	72
Public Affairs (including Visitor Services)	143	141	143	141
Administration	<u>56</u>	<u>56</u>	<u>28</u>	<u>28</u>
	<u>423</u>	<u>415</u>	<u>395</u>	<u>387</u>

Comparative staff numbers for 2001 have been restated using a calculation consistent with 2002.

7. OTHER OPERATING CHARGES

	Group		NMS	
	2002 £000	2001 £000	2002 £000	2001 £000
Expenses Board Members	12	16	12	16
Expenses – staff Administration	200	232	200	232
expenses	602	745	458	594
Internal audit	11	10	11	10
Other external charges	2,257	2,004	1,930	1,829
Fuel and utilities	571	637	571	637
Rents and rates	242	243	242	243
Furniture and Furnishings	23	72	23	72
Repairs and renewals	2,255	2,384	2,255	2,384
Operating leases	53	28	53	28
Audit Fee	<u>15</u>	<u>13</u>	<u>11</u>	<u>9</u>
	<u>6,241</u>	<u>6,384</u>	<u>5,766</u>	<u>6,054</u>

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

8. CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

(see note 1(t))

	Unrestricted Funds 2002 £000	Restricted Funds 2002 £000	Totals	
			2002 £000	2001 £000
Incoming resources				
Grant-in-Aid	15,671	510	16,181	14,442
Other government grants	-	-	-	15
Other income	1,208	189	1,397	1,927
Trading subsidiaries	1,445	-	1,445	1,265
Capital receipts	-	-	-	1,385
Heritage Lottery Fund	<u>309</u>	<u>-</u>	<u>309</u>	<u>497</u>
Total incoming resources	<u>18,633</u>	<u>699</u>	<u>19,332</u>	<u>19,531</u>
Resources expended				
Fundraising	460	-	460	378
Curatorial	4,390	-	4,390	4,510
Conservation & Documentation Services	1,422	-	1,422	1,228
Exhibitions	4,741	-	4,741	4,273
Security	1,162	-	1,162	1,217
Administration	2,404	-	2,404	2,486
Trading subsidiaries	1,146	-	1,146	1,245
Estates and Buildings	3,275	-	3,275	3,569
Grants to outside bodies	29	-	29	21
Fieldwork and Acquisitions	<u>-</u>	<u>545</u>	<u>545</u>	<u>640</u>
Total resources expended	<u>19,029</u>	<u>545</u>	<u>19,574</u>	<u>19,567</u>
Net outgoing resources				
before revaluation and collections capitalisation	(396)	154	(242)	(36)
Revaluation of fixed assets	-	1,774	1,774	4,550
Capitalisation of collections purchases	469	-	469	-
Release from revaluation reserve	341	(341)	-	-
Net movement in funds	414	1,587	2,001	4,514
Total funds brought forward	<u>76,723</u>	<u>39,933</u>	<u>116,656</u>	<u>112,142</u>
Total funds carried forward	<u>77,137</u>	<u>41,520</u>	<u>118,657</u>	<u>116,656</u>
Total fund balances comprise:				
Fixed assets	75,892	41,362	117,254	117,017
Current assets/(liabilities)	1,348	158	1,506	(182)
Creditors due after more than one year	<u>(103)</u>	<u>-</u>	<u>(103)</u>	<u>(179)</u>
	<u>77,137</u>	<u>41,520</u>	<u>118,657</u>	<u>116,656</u>

Costs of generating funds are defined as the salaries, operating costs and attributable overheads of the Development department.

Depreciation has been allocated to activities in proportion to the staff numbers involved.

In furtherance of NMS's aims in 2001/02, grants were paid in support of the European Ethnological Research Centre (£21k), and in support of an archaeological excavation at Saqqara, Egypt (£8k).

Administrative costs are defined as the staff and operational costs of the Directorate, and the Finance, Personnel, IT and Public Affairs departments.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002

9. FIXED ASSETS

(See note 1(c))

Group	Buildings	Permanent Galleries	Equipment	Totals
Cost or valuation	£000	£000	£000	£000
1 April 2001	103,924	20,505	4,107	128,536
Adjustment			(59)	(59)
Additions	409	725	321	1,455
Revaluations	<u>2,598</u>	<u>(479)</u>	<u>(645)</u>	<u>1,474</u>
31 March 2002	<u>106,931</u>	<u>20,751</u>	<u>3,724</u>	<u>131,406</u>
Depreciation				
1 April 2001	4,535	3,540	3,445	11,520
Adjustment			(59)	(59)
Charge for year	1,653	1,382	265	3,300
Revaluations	<u>302</u>	<u>43</u>	<u>(468)</u>	<u>(123)</u>
31 March 2002	<u>6,490</u>	<u>4,965</u>	<u>3,183</u>	<u>14,638</u>
Net Book Value				
31 March 2002	<u>100,441</u>	<u>15,786</u>	<u>541</u>	<u>116,768</u>
1 April 2001	<u>99,389</u>	<u>16,965</u>	<u>662</u>	<u>117,016</u>
NMS				
Buildings		Permanent Galleries	Equipment	Totals
Cost or valuation	£000	£000	£000	£000
1 April 2001	103,924	20,505	3,936	128,365
Additions	409	725	297	1,431
Revaluations	<u>2,598</u>	<u>(479)</u>	<u>(645)</u>	<u>1,474</u>
31 March 2002	<u>106,931</u>	<u>20,751</u>	<u>3,588</u>	<u>131,270</u>
Depreciation				
1 April 2001	4,535	3,540	3,335	11,410
Charge for year	1,653	1,382	235	3,270
Revaluations	<u>302</u>	<u>43</u>	<u>(468)</u>	<u>(123)</u>
31 March 2002	<u>6,490</u>	<u>4,965</u>	<u>3,102</u>	<u>14,557</u>
Net Book Value				
31 March 2002	<u>100,441</u>	<u>15,786</u>	<u>486</u>	<u>116,713</u>
1 April 2001	<u>99,389</u>	<u>16,965</u>	<u>601</u>	<u>116,955</u>

The adjustment to cost and accumulated depreciation of equipment refers to the disposal of assets in a prior year by a subsidiary company.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

9. FIXED ASSETS (continued)

To comply with the requirements of "Executive NDPBs Annual Reports and Accounts Guidance," Scottish Ministers directed NMS to include its fixed assets at their value to the business by reference to current costs for the year ended 31 March 1998. This replaced the previous requirement to include assets at historical cost. Accordingly, NMS instructed the Valuation Office, an executive agency of the Inland Revenue, to undertake a valuation of the estates and other assets. The more specialised buildings were valued at depreciated replacement cost while the remainder were valued at open market value. Equipment was valued at current replacement cost using appropriate indices. The valuations were obtained as at 31 March 1998 and have been revised in subsequent years using appropriate indices. As NMS is unable to dispose of the properties and apply the proceeds for charitable purposes, the revaluation reserve in respect of the land and buildings is treated as a restricted fund under the charities SORP. In respect of the revalued properties, historic cost records are available only for the Museum of Flight.

NMS is unaware of any fixed asset that has become impaired and accordingly has not carried out an impairment review.

10. COLLECTIONS

(see note 1p)

NMS and its predecessor bodies have acquired objects for the collections over the previous two centuries. The collections cover geological, archaeological, scientific, engineering, artistic, historic and cultural subjects. Treasury guidance requires NMS to capitalise the cost of artefacts acquired since 1 April 2001. Artefacts acquired in the centuries prior to 1 April 2001 are excluded because reliable cost information is not available. NMS considers that valuation of the 3 million objects in the collections would be impracticable.

	Group	
	2002	2001
	£000	£000
1 April 2001	-	-
Additions	<u>469</u>	-
31 March 2002	<u>469</u>	-

11. INTANGIBLE ASSETS

	Group	
	2002	2001
	£000	£000
1 April 2001	-	-
Software acquired during year	<u>21</u>	-
31 March 2002	<u>21</u>	-
Depreciation:		
1 April 2001	-	-
Charge for the year	<u>5</u>	-
31 March 2002	<u>5</u>	-
Net Book Value:		
31 March 2002	<u>16</u>	-
1 April 2001	-	-

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

12. INVESTMENTS

	Group		NMS	
	2002 £000	2001 £000	2002 £000	2001 £000
Opening balance 1 April	1	1	63	63
Capital contribution	-	-	-	-
Closing balance 31 March	<u>1</u>	<u>1</u>	<u>63</u>	<u>63</u>

NMS Publishing Ltd, a wholly-owned subsidiary of NMS, holds 600 ordinary shares of £1 each in the Scottish Book Source. The investment by NMS of £63k is the value of stock-in-trade transferred to NMS Publishing Ltd. on incorporation and recorded as a Capital reserve in that subsidiary's Balance Sheet.

13. STOCKS
(see Note 1(f))

	Group		NMS	
	2002 £000	2001 £000	2002 £000	2001 £000
Stocks held for resale	<u>318</u>	<u>332</u>	<u>7</u>	<u>19</u>

The current cost value of stocks is not materially different from historical cost and, accordingly, no adjustment has been made to reflect current cost.

14. DEBTORS

	Group		NMS	
	2002 £000	2001 £000	2002 £000	2001 £000
Receivable within 1 year:				
Prepayments	99	63	99	63
Season Ticket Advances	20	15	20	15
Trade debtors	458	346	130	133
Less: provision for amounts not recoverable	(23)	(70)	(23)	(70)
Subsidiaries	-	-	630	697
VAT recoverable	<u>123</u>	<u>226</u>	<u>123</u>	<u>226</u>
	<u>677</u>	<u>580</u>	<u>979</u>	<u>1,064</u>
Receivable after more than 1 year:				
Loan to NMS Retail Ltd	-	-	88	88

NMS Retail Ltd operates shops in Chambers Street, the National War Museum of Scotland and at the Museum of Flight. In order to assist its operations, NMS has made available to NMS Retail Ltd an interest-free loan of £87,500. There is no schedule for repayment of the amount

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

15. CASH AT BANK AND IN HAND

	Group		NMS	
	2002 £000	2001 £000	2002 £000	2001 £000
Cash and commercial accounts	1,500	868	1,237	440
Paymaster General account	<u>10</u>	<u>15</u>	<u>10</u>	<u>15</u>
	<u>1,510</u>	<u>883</u>	<u>1,247</u>	<u>455</u>

16. CREDITORS

	Group		NMS	
	2002 £000	2001 £000	2002 £000	2001 £000
Amounts falling due within one year:				
Trade creditors	244	498	76	336
Other creditors	90	88	90	88
Accruals	622	1,349	622	1,349
Deferred income	<u>43</u>	<u>42</u>	<u>43</u>	<u>42</u>
	<u>999</u>	<u>1,977</u>	<u>831</u>	<u>1,815</u>
Amounts falling due after more than one year:				
-Early retirement deferred costs	<u>103</u>	<u>179</u>	<u>103</u>	<u>179</u>

Early retirement deferred costs are the unfunded future payments, which the Group will make to employees who have taken early retirement up to 31 March 2002.

17. DEFERRED GOVERNMENT GRANTS
(See Notes 1(e) and 2)

	Group	
	2002 £000	2001 £000
Opening Balance 1 April	58,862	58,686
Grant-in-aid received for capital expenditure	1,750	1,797
Other Government grants	-	15
Released in year	<u>(1,755)</u>	<u>(1,636)</u>
Closing balance 31 March	<u>58,857</u>	<u>58,862</u>

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

18. CAPITAL RESERVE

(see note 1(j))

	Group	
	2002	2001
	£000	
Balance at 1 April	16,928	16,381
Amounts received from NMS Charitable Trust	-	1,385
HLF Grants	309	497
Capitalisation of collection purchases	469	-
Released in year	<u>(1,257)</u>	<u>(1,335)</u>
	<u>16,449</u>	<u>16,928</u>

19. GENERAL FUND

	NMS	
	2002	2001
	£000	
Balance at 1 April	(119)	51
Surplus/(deficit) for the year	895	(170)
Transfer to Board Reserve	<u>(330)</u>	<u>-</u>
Balance at 31 March	<u>446</u>	<u>(119)</u>

Balances in the general fund relate solely to NMS itself.

20. BOARD RESERVE FUND

	Group			
	2002	2002	2002	2001
	£000			
	Revenue	Capital	Total	
Balance at 1 April	440	606	1,046	1,046
Transfer from Income and Expenditure Account	<u>330</u>	<u>-</u>	<u>330</u>	<u>-</u>
Balance at 31 March	<u>770</u>	<u>606</u>	<u>1,376</u>	<u>1,046</u>

NMS is permitted to credit to the Board Reserve Fund sums earned through its own revenue-raising activities.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

21. REVALUATION RESERVE

	NMS	
	2002 £000	2001 £000
Balance at 1 April	39,929	35,982
Revaluation of buildings and equipment, net of backlog depreciation	1,774	4,235
Release to Income & Expenditure Account	<u>(341)</u>	<u>(288)</u>
Balance at 31 March	<u>41,362</u>	<u>39,929</u>

The revaluation reserve was created following the revaluation of the land and buildings occupied by NMS. As NMS is unable to dispose of the properties and apply the proceeds for charitable purposes, the revaluation reserve is treated as a restricted fund under the Charities Statement of Recommended Practice.

22. PURCHASE FUND

(see note 2)

	Group	
	2002 £000	2001 £000
Income		
Balance at 1 April	4	11
Scottish Executive Education Dept	510	510
Other contributions	<u>189</u>	<u>122</u>
	703	643
Expenditure		
Purchases	468	600
Fieldwork etc	<u>77</u>	<u>39</u>
	<u>545</u>	<u>639</u>
Balance at 31 March	<u>158</u>	<u>4</u>

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

23. RECONCILIATION OF OPERATING DEFICIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Group	
	2002	2001
	£000	£000
Operating surplus/(deficit)	557	(438)
Interest received	(53)	(65)
Depreciation and permanent diminution in value	3,482	3,294
Transfer from deferred Government Grant and Capital reserve	(3,012)	(2,971)
Decrease/(increase) in stocks	14	(68)
(Increase) in debtors	(97)	(122)
(Decrease) in creditors	<u>(1,054)</u>	<u>(2,604)</u>
Net cash (outflow) from operating activities	<u>(163)</u>	<u>(2,974)</u>

Analysis of changes in net funds in the year

NMS has no current asset investment and no net borrowing or finance lease obligation, and accordingly the Group net funds as defined in Financial Reporting Standard 1 (revised) are equal to its cash balance. The movement in the cash balance during the year was as follows:

	Group	
	2002	2001
	£000	£000
Opening cash balance	883	2,670
Change in year	<u>627</u>	<u>(1,787)</u>
Closing cash balance	<u>1,510</u>	<u>883</u>

24. CAPITAL COMMITMENTS

	Group	
	2002	2001
	£000	£000
Contracted but not provided for in the accounts	45	666

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

25. SUBSIDIARY COMPANIES

NMS regards the following companies as wholly-owned subsidiaries:

	Total share capital and reserves £000	Profit/(loss) for the year £000
NMS Enterprises Ltd	-	Dormant
NMS Publishing Ltd	43	(1)
NMS Retail Ltd	11	2
NMS Hospitality and Events Ltd	6	3
The MultiMedia Team Ltd	12	(1)

All the companies are registered in Scotland and have been set up to promote and develop NMS's commercial activities.

The results of the subsidiaries were as follows:

	2002 £000	2001 £000
Turnover	1,744	1,537
Less: intra-group sales	299	272
Cost of sales	485	454
Staff costs	389	340
Operating charges	242	148
Gift Aid to NMS	296	280
Depreciation	<u>30</u>	<u>24</u>
Net profit/(loss)	3	19
Taxation	-	-
Profit after tax	<u>3</u>	<u>19</u>

26. RELATED PARTY TRANSACTIONS

The National Museums of Scotland is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Executive Education Department (SEED) which is regarded as a related party. During the year NMS has had various material transactions with SEED. None of the Trustees, members of key management staff or other related parties has entered into any material transaction with NMS during the year.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

26. RELATED PARTY TRANSACTIONS (continued)

The National Museums of Scotland Charitable Trust ("NMSCT") exists, inter alia, to advance education in matters agricultural, archaeological, architectural, cultural, environmental, historical, industrial, military, scientific, and social. During the year the following trustees of NMS were also trustees of NMSCT: Sir Robert Smith, Professor James Murray and Dr Anna Ritchie. NMS received £86k in grants and donations from NMSCT during the year (2001 £1.151 million).

27. COST OF CAPITAL

Notional interest is based on the following balances in respect of grant-aided activities at a rate of 6% applied to the average balance during the year.

	2002 £000	2001 £000
General fund	446	(119)
Deferred government grant	58,857	58,862
Purchase fund	158	4
Revaluation reserve	<u>41,362</u>	<u>39,929</u>
	<u>100,823</u>	<u>98,676</u>
 Average balance during the year	 <u>99,750</u>	 <u>96,709</u>
 Notional interest at 6%	 <u>5,985</u>	 <u>5,803</u>

Guidance on appropriate rates is contained in the booklet "Executive non-departmental public bodies: annual reports and accounts guidance". The rate of 6% is suggested as being appropriate to NDPBs which are not engaged in activities which compete directly with the private sector.

28. LOSS AFTER NOTIONAL COSTS

In accordance with requirements, the loss for the year is stated after charging the notional cost capital (see note 27). As there is no matching funding of this notional cost, the loss for the year after notional costs is not indicative of the financial result for the year.

The result for the year is as follows:

	Group and NMS	
	2002	2001
	£000	£000
Surplus/(deficit) before notional costs	557	(438)
Notional cost of capital (note 27)	<u>(5,985)</u>	<u>(5,803)</u>
Deficit after notional costs	<u>(5,428)</u>	<u>(6,241)</u>

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2002

29. NATIONAL FUND FOR ACQUISITIONS

NMS administers on behalf of Scottish Ministers the National Fund for Acquisitions (NFA). Funds held by NMS for the NFA are not available for NMS's purposes and are not included in the Balance Sheet. Separate accounting arrangements are made for the fund.

	2002	2001
	£000	£000
Balance at 1 April	229	247
Grant received	200	200
Disbursements	<u>(188)</u>	<u>(218)</u>
Balance at 31 March	<u>241</u>	<u>229</u>

30. LEASES

NMS operates computer equipment under rental agreements. Future rental commitments at 31 March were as follows:

	Group	
	2002	2001
	£000	£000
Payable within one year	<u>59</u>	<u>39</u>
Payable after one year	<u>58</u>	<u>43</u>

31. CONTINGENT LIABILITY

A claim is being prepared by the building contractor at the Museum of Scottish Country Life. NMS is jointly liable with the National Trust for Scotland for settling any claim awarded in favour of the contractor. The amount of the claim has not yet been determined.



National Museums of Scotland

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of paragraph 9(3) of Schedule 1 to the National Heritage (Scotland) Act 1985, hereby give the following direction.
2. The statement of accounts which it is the duty of the National Museums of Scotland to prepare in respect of the financial year ended 31 March 2001 and in respect of any subsequent financial year, shall comprise:
 - 2.1 a foreword;
 - 2.2 an income and expenditure account;
 - 2.3 a balance sheet;
 - 2.4 a cash flow statement;
 - 2.5 a statement of total recognised gains and losses;
 - 2.6 a statement of accountable officer's responsibilities; and
 - 2.7 a statement on the system of internal financial control.

including such notes as may be necessary for the purposes referred to in the following paragraphs.

3. The statement of accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the end of the financial year. Subject to this requirement, the accounts shall be prepared in accordance with:
 - 3.1 the accounting and disclosure requirements of the Companies Act for the time being in force; and
 - 3.2 generally accepted accounting practice in the UK, including accounting standards issued or adopted by the Accounting Standards Board and statements of recommended practice issued by the Charity Commission; and
 - 3.3 guidance which Scottish Ministers may issue from time to time in respect of accounts which are required to give a true and fair view;
 - 3.4 the accounting and disclosure requirements given in "Government Accounting" and in "Executive NDPBs: Annual Reports and Accounts Guidance", as amended or augmented from time to time; and
 - 3.5 the disclosure requirements contained in the "Fees and Charges Guide", (in particular those relating to the need for appropriate segmental information for services or forms of service provided);

insofar as these are appropriate to the National Museums of Scotland and are in force for the financial year for which the statement of accounts is to be prepared.

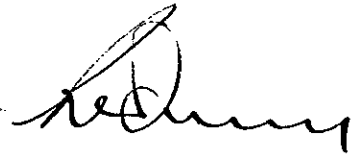
4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 attached.

5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:

5.1 fixed assets at their value to the business by reference to current costs; and

5.2 stocks valued at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

6. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 1 August 2000 is hereby revoked.

A handwritten signature in black ink, appearing to be 'A. D. Murray', is written over a faint, illegible printed name.

Signed by the authority of the Scottish Ministers

Dated

. 2/03/01.

SCHEDULE 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply.
2. The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the equivalent information relating to the National Museums of Scotland shall be contained in the foreword.
3. When preparing its income and expenditure account the National Museums of Scotland shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
4. When preparing its balance sheet the National Museums of Scotland shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.
5. The National Museums of Scotland is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act.
6. The foreword and balance sheet shall be signed and dated by the National Museums of Scotland's Accountable Officer.

Accounting Standards

7. The National Museums of Scotland is not required to include a note showing historical cost profits and losses as described in FRS3.
8. The National Museums of Scotland shall not adopt the Financial Reporting Standard for Smaller Entities.

SCHEDULE 2

ADDITIONAL DISCLOSURE REQUIREMENTS

1. The foreword shall, *inter alia*:
 - 1.1 state that the statement of accounts have been prepared in a form directed by the Scottish Ministers in accordance with paragraph 9(3) of Schedule 1 to the National Heritage (Scotland) Act 1985;
 - 1.2 include a brief history of the National Museums of Scotland and its statutory background;
 - 1.3 include a statement of Board members' and the Accountable Officer's responsibilities in relation to the preparation of the annual accounts.
2. The income and expenditure account shall show, on the face of the account, *inter alia*:
 - 2.1 the total amount of grants received for revenue expenditure;
 - 2.2 the net surplus or deficit on revenue earning activities;
 - 2.3 the gross income from grant-aided activities (excluding grants);
 - 2.4 any other income, detailed as appropriate (alternatively this may be shown in a note to the accounts);
 - 2.5 the surplus or deficit arising from normal operations;
 - 2.6 taxation;
 - 2.7 the net surplus or deficit; and
 - 2.8 the amounts transferred to or from Reserve Funds.
3. The balance sheet shall show, on the face of the account, *inter alia*:
 - 3.1 the balance on the general fund – this being all funds not attributable to 3.2, 3.3 and 3.4 below;
 - 3.2 the balance on the reserve fund – this being the funds which shall be used at the board's discretion;
 - 3.3 the balance on the purchase fund – this being the funds specifically made available for the purchase of collections; and
 - 3.4 the balance on the deferred income account – this being grant-in-aid for capital expenditure not yet passed through the income and expenditure account.
4. The notes to the accounts shall include:
 - 4.1 an analysis of the income and expenditure relating to the revenue earning activities;
 - 4.2 a summary of all grant-in-aid received from SEED;
 - 4.3 an analysis of "other operating charges" over appropriate subjective headings (bad debts, audit fees, leasing charges, travel, subsistence and hospitality costs for staff and board members should be separately identified); and
 - 4.4 details of any key corporate financial targets set by the Scottish Ministers together with an indication of the performance achieved.