

RA250

**Royal Academy of Arts
Annual Accounts
2016/2017**

Annual Accounts 2016/17

The Royal Academy of Arts

(A Company Limited by Guarantee)

Registered Charity No. 1125383

Registered Company No. 06298947

**Annual report and consolidated
financial statements
For the year ended 31 August 2017**

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Registered Charity No. 1125383
Registered Company No. 06298947

President and Council: In the financial year and at the date of signing:

President

Christopher Le Brun PRA

Council

Gordon Benson RA (appointed 4 October 2016)
Tony Bevan RA (appointed 4 October 2016)
Helen Boaden (appointed 1 November 2016)
Gus Cummins RA (appointed 4 October 2016, resigned 10 October 2017)
Anne Desmet RA
Brendan Finucane QC
Piers Gough CBE RA (resigned 10 October 2017)
Julian Heslop
Louisa Hutton RA (appointed 10 October 2017)
Suzanne Heywood (resigned 4 October 2016)
Neil Jeffries RA (appointed 4 October 2016, resigned 10 October 2017)
Chantal Joffe RA (appointed 4 October 2016, resigned 10 October 2017)
Jock McFadyen RA (resigned 4 October 2016)
Mali Morris RA (appointed 10 October 2017)
Mike Nelson RA (resigned 4 October 2016)
Hughie O'Donoghue RA (appointed 10 October 2017)
Eric Parry RA
Dr Barbara Rae CBE RA (resigned 4 October 2016)
Fiona Rae RA (appointed 10 October 2017)
David Remfry RA (resigned 10 October 2017)
Professor Ian Ritchie CBE RA (resigned 4 October 2016)
Mick Rooney RA (resigned 4 October 2016)
Rebecca Salter RA (appointed 10 October 2017)
Tim Shaw RA (appointed 4 October 2016, resigned 10 October 2017)
Conrad Shawcross RA (resigned 4 October 2016)
Yinka Shonibare RA (appointed 10 October 2017)
Bob & Roberta Smith RA (Patrick Brill)
Emma Stibbon RA (resigned 10 October 2017)
Richard Wilson RA (appointed 10 October 2017)
Bill Woodrow RA

Officers

Christopher Le Brun PRA	President
Eileen Cooper OBE RA (resigned 31 August 2017)	Keeper
Rebecca Salter RA (appointed 1 September 2017)	Keeper
Professor Chris Orr RA	Treasurer
Charles Saumarez Smith CBE	Secretary and Chief Executive

Company Secretary

Susan Gent

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Royal Academy Committees at the date of signing:

Executive Committee

Charles Saumarez Smith CBE (Chairman)
Tzo Zen Ang
Charlotte Appleyard
Eliza Bonham Carter
Will Dallimore
Stephen Grant
Carl Hitchcock
Tim Marlow
Jo Prosser

Finance Committee

Professor Chris Orr RA (Chairman)
Adam Bennett
Anne Desmet RA
Simon Friend
Ben Joseph
Charles Saumarez Smith CBE
Alice Horsley (Secretary)

Audit Committee

Julian Heslop (Chairman)
Steve Caine
Clive Humby
David Mach RA
Professor Ian Ritchie CBE RA
Rebecca Salter RA
Alice Horsley (Secretary)

Professional Advisors:

Auditors

Kingston Smith LLP
Devonshire House
60 Goswell Road
London EC1M 7AD

Bankers

Lloyds Bank Plc
4th Floor
25 Gresham Street
London EC2R 8LA

Solicitors

Macfarlanes LLP
20 Cursitor Street
London EC4A 1LT

Withers LLP
16 Old Bailey
London EC4M 7EG

Exhibitions Committee

Professor Stephen Farthing RA (Chairman)
Professor Josephine Dawn Ades CBE FBA
Brian Catling RA
Richard Deacon RA
Professor David Ekserdjian
Gary Hume RA
Tim Marlow (Secretary)
Cornelia Parker OBE RA
Alan Stanton OBE RA
Rebecca Warren RA
Professor Richard Wilson RA
President *ex officio*
Keeper *ex officio*
Treasurer *ex officio*
Secretary and Chief Executive *ex officio*

Remuneration Committee

Philip Marsden (Chairman)
John Collier
Anne Desmet RA
Peter Newhouse
Alan Stanton OBE RA
Treasurer *ex officio*
Secretary and Chief Executive *ex officio*
Alice Horsley (Secretary)

Registered Office

Burlington House
Piccadilly
London W1J 0BD

Registered Charity Number

1125383

Registered Company Number

06298947

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Constitution and charitable objectives

Constitution

The Royal Academy of Arts (“Royal Academy” or “RA” or “Academy”) was incorporated as a company limited by guarantee on 2 July 2007, company registration number 06298947, and registered as a charity on 6 August 2008, charity registration number 1125383.

The incorporated Royal Academy commenced trading on 1 September 2009 following the transfer of the net assets and undertakings from the unincorporated Royal Academy, charity registration number 212798.

The Royal Academy today continues to aspire, in the words of its eighteenth century founders, to “promote the arts of design”. It believes in learning through first-hand experience of the arts and is unique in its combination of practical work, exhibitions and learning programmes.

Its members, the Royal Academicians (“Academicians”), are painters, sculptors, architects, engravers, printmakers and draughtsman elected by their peers for their distinction as artists. There are up to 100 active Academicians (under the age of 75) who form the General Assembly and a number of senior Academicians (over the age of 75).

The Royal Academy receives no revenue support from the government or any other public body. However, the Royal Academy was awarded a Heritage Lottery Fund (“HLF”) grant of £12.7m during the year ended 31 August 2014 towards the Burlington Project (also now referred to as RA250).

The Royal Academy’s charitable objects are:

- The promotion of the arts of design
- The education of the public in the creation, enjoyment, appreciation and understanding of the arts, through exhibitions, educational programmes and debate by all charitable means as the members of Council may think fit.

Governance and management

The Royal Academy is governed by its Board of Directors or trustees, who are referred to as the Council of the Royal Academy. The Council consists of thirteen Academicians, up to three individuals who are not Academicians, and the President.

Six seats in the Council go by rotation to all the Academicians, three go to newly elected Academicians and four are elected by the General Assembly of all Academicians. Academicians serve for one year (if newly elected) or two years for their second and subsequent terms. Elected Academicians serve for two years and are able to be re-elected for a further two terms of two years. The external members of Council are elected for a period of two years and may be re-elected for two further terms of two years.

No member of Council may serve more than three consecutive terms.

The President, the Keeper and the Treasurer serve on Council *ex officio*.

Council meets monthly between October and the following July (but not in January). Changes in rules, elections, and discussion on important issues of the moment take place at General Assemblies, held three times a year. Council is responsible for approving adequate arrangements for induction and training for new Council Members.

Newly elected Council Members are:

- given a copy of the Memorandum and Articles of Association of the Royal Academy, together with the Laws and the Administrative Instructions, which together form the governing documents of the RA and set out its structure, role and responsibilities;
- given copies of the annual reports and financial management reports;
- required to sign the Roll of Obligation (Academicians only); and
- invited to attend an induction meeting conducted by the RA’s General Counsel and meet with members of the Executive Committee.

Council is aware of its requirement to provide training for trustees and there is an ongoing programme of trustee training.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Governance and management (continued)

The Secretary and Chief Executive has delegated authority for the day-to-day running of the Royal Academy and, together with the President, Keeper and Treasurer, is an Officer of the RA and attends Council meetings. The Chief Operating Officer and Artistic Director also attend Council meetings, but are not Officers or Academicians.

The Royal Academy has three wholly owned trading subsidiaries: R.A. Enterprises Limited, Burlington House Limited and RA (Arts) Limited. Although these are separate legal entities, they are regarded as part of the Royal Academy "group" for management purposes and therefore they are included in the consolidated financial statements.

The Executive Committee, comprising senior members of staff and led by the Secretary and Chief Executive, has delegated responsibility for the day-to-day running of the Royal Academy and implements policies and strategies in accordance with the Administrative Instructions issued by Council. The Secretary and Chief Executive reports to Council.

The Finance Committee, currently composed of Council Members, Academicians, Trustees of the Royal Academy Development Trust and attended by senior members of staff and external advisors, makes recommendations to Council on the finances of the Royal Academy. The remit of the Finance Committee is to advise Council on matters of a financial nature.

The Audit Committee consisting of three Academicians and three external advisors reports to General Assembly through Council. Committee members are appointed initially for three years and the Committee usually meets at least four times a year. The remit of the Audit Committee is to monitor and review the systems of internal financial control, risk management and financial reporting and to advise Council on matters arising as appropriate. The Audit Committee has the unrestricted power to enquire into any item or items of income and expenditure of the Royal Academy "group". It has the specific responsibilities to receive the annual report and consolidated financial statements, together with the auditors' report thereon, and to submit these documents to Council with the Audit Committee's comments, prior to printing and distributing their comments to all Academicians for the General Assembly. Audit Committee also reports at least once a year on the financial condition of the Royal Academy "group".

The Remuneration Committee consisting of Academicians, Trustees of the Royal Academy Development Trust and external specialist pay and benefits advisors, makes recommendations to Council. The remit of the Remuneration Committee includes responsibility for the general remuneration policy of the Royal Academy; the stipend paid to Academician Officers; the remuneration of the Secretary and Chief Executive and members of the Executive ("Key Management Personnel"); pension arrangements for Royal Academy employees; and payments made by the Royal Academy to Academicians for their services. The Committee meets at least three times a year. The remuneration policy for Key Management Personnel is expected to follow the arrangements for other staff, except in the case of exceptional performance, based on appraisals and the written recommendation of the Secretary and Chief Executive, in which case it may be regarded as appropriate to either offer a one off, non-consolidated bonus, or to make an adjustment to their salary. The Secretary and Chief Executive will make his recommendations for Key Management Personnel to the Remuneration Committee based on their performance, together with affordability and relevant market and sector rates of pay according to independent benchmarking tools.

The Royal Academy Development Trust, set up in 1981 to provide funds for the support of the Royal Academy, is separately registered as a charity with its own trustees, who are men and women of distinction from business and the wider community. As it is not controlled by the Royal Academy, its resources have not been consolidated with those of the Royal Academy.

The Friends of the Royal Academy, a separate charity with its own trustees, was incorporated as a company limited by guarantee in December 1976 to support the work of the Royal Academy. As with the Royal Academy Development Trust, it is not controlled by the Royal Academy and its resources have not been consolidated with those of the Royal Academy.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Governance and management (continued)

Another separate, independent organisation – Royal Academy America – based in New York, raises money for the Royal Academy. There is an annual joint meeting of the American and British trustees at which management briefs the trustees on developments and fundraising needs and initiatives. As with the Royal Academy Development Trust and Friends of the Royal Academy, it is not controlled by the Royal Academy and its resources have not been consolidated with those of the Royal Academy.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Royal Academy continues and that appropriate training is arranged. It is the policy of the Royal Academy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Royal Academy places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Royal Academy. This is achieved through formal and informal meetings including the regular "Show and Tell" sessions, All Staff Briefings and the internal newsletter.

Current year objectives

To enable the Royal Academy to continue to meet its charitable objectives, in February 2013, the Royal Academy devised a new Strategic Plan. We are now entering the last year of this five year plan, which culminates in our 250th anniversary year in 2018. This plan sets out to achieve five principal objectives, as follows:

1. To inspire and engage a wider public
2. To engage scholars and nurture the artists of the future
3. To establish spaces fit for a 21st century Academy
4. To realise the full potential of our members and staff
5. To fulfil our objectives and safeguard our future.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Activities, achievements and impact

Review of activities

Looking back on 2016/17, we chart our progress against these five key objectives:

1. Public engagement: To inspire and engage a wider public

The Royal Academy's exhibitions, events and digital platforms encourage audiences to discover and develop their appreciation of art and architecture.

Exhibitions

Abstract Expressionism was the first major survey in the UK of this important movement in more than half a century. Nearly 318,000 people attended the show, which included a rare, first-time loan of paintings from the Clyfford Still Museum in Denver alongside works by Jackson Pollock and Mark Rothko. The critical reception was excellent.

To mark the centenary of the Russian Revolution, the RA presented *Revolution: Russian Art 1917–1932*. The exhibition struck a fresh balance in bringing together art of the Russian avant-garde with paintings in the Socialist Realist style. The show attracted over 209,000 visitors.

The 249th *Summer Exhibition*, co-ordinated by Eileen Cooper RA in her final year as Keeper, attracted over 197,000 visitors. The wide-ranging selection included works by recent graduates of the RA Schools and for the first time, media such as performance art and spoken word.

In the Sackler Wing, Belgian artist Luc Tuymans created a show on the innovative painter James Ensor. *America after the Fall* examined American painting of the 1930s and included celebrated works such as Grant Wood's *American Gothic*. A show on Matisse opened in August 2017 and presented the objects he had in his studio alongside the paintings and sculptures in which these appeared. This show closed in November 2017, so the results of this exhibition will be recognised in the 2017/18 financial year.

Architecture programme

The architecture programme hosted lectures, debates and, for the first time, breakfast talks, held before the start of the working day. The Annual Architecture Lecture, given by pioneering Indian architect Balkrishna V. Doshi, was live-streamed on Facebook, where it was viewed 47,000 times.

Origins was a display of interventions around Burlington House, which explored the myths and starting points of architecture. *Futures Found* examined post-war planning in Britain and evaluated its success.

The RA received a major gift from the Dorfman Foundation to enhance the display of architecture and related programming.

Events and learning

During the year more than 50 artists participated in talks, discussions and workshops for the public. RA Lates drew over 4,000 participants to their distinctive offer of performance, dressing up, making and entertainment.

Sessions for schools included a large-scale group project to create giant abstract paintings. A-level art students could learn lino printing and submitted a record 2,400 works to the RA's Summer Exhibition Online. Overall 36,000 pupils and teachers from 600 schools attended RA visits, tours and workshops.

Wider access included workshops for the homeless, those living in precarious circumstances and people living with dementia. *The Observer* praised the RA workshops for their humanising and generous approach.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Review of activities (continued)

Digital platforms

The RA received an award from Museums and the Web for its digital content. Website content included a personality quiz that determined which Abstract Expressionist you are and a popular blog featuring the ten most parodied works of art.

A series of video introductions, *Artists in 60 Seconds*, drew over 780,000 views on *Facebook* and *YouTube*. Other films celebrated aspects of Burlington House. A demonstration on using watercolour by the President of the RA, Christopher Le Brun, became the RA's most watched video ever, with over 600,000 views on *Facebook*.

The RA ran an intensive *Wikimedia* session to train participants in how to improve the *Wikipedia* pages of female Academicians, drawing on research in the RA Library.

The *Veronica Scanner* presented the latest form of portraiture. Members of the public were scanned and three-dimensional busts of them were printed and displayed. The experiment received widespread print and radio coverage.

2. Academic engagement: To engage scholars and nurture the artists of the future

The RA Schools provides postgraduate students with an outstanding environment in which to develop their practical, theoretical and professional skills as artists. New publications and access to the RA Collection, Library and Archive are an invaluable and increasingly accessed resource for researchers and the public.

RA Schools

Out of more than 700 applicants, 16 students were admitted to the RA Schools. Alongside teaching staff, the RA Schools welcomed 55 visiting artists throughout the year for talks, seminars and studio visits. International guests included Jordan Wilson, Laura Owens and Albert Oehlen.

Virtually Real was a pop-up exhibition at which visitors could engage with virtual reality artworks created by RA Schools students. The collaboration with HTC Vive was nominated for a Best UK Arts & Culture sponsorship award. The annual RA Schools shows for second and final year students attracted 12,000 visitors.

Support for graduates now includes profiles on the RA website to give them greater prominence. The Annual Dinner and Auction, with donations from Marina Abramovic Hon RA, Frank Gehry Hon RA and others, raised £337,000 for the RA Schools.

Academic Programmes

RA Academic Programmes offered 35 courses for adults; a 30% increase over the previous year. Among those most highly rated by participants were courses on managing an artist's legacy and the valuation of art.

Academic symposia included a two-day international conference on Russian art, held in February 2017 in partnership with the Courtauld Institute of Art.

Publications

Abstract Expressionism was the year's best-selling exhibition catalogue, with over 24,000 copies sold. RA Publications also published a study of Michelangelo's *Taddei Tondo*; *Lost Futures*, a book on the waning fortunes of post-war architecture in Britain; and a number of monographs on Academicians.

The RA Magazine profiled recently elected Academicians and presented a number of debates on topical issues. Popular features included artists' responses to works of art, such as Vanessa Jackson RA on Joan Mitchell or Frank Bowling RA on Franz Kline.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Review of activities (continued)

RA Collection

New acquisitions included a large mixed-media work by Italian artist Mimmo Paladino Hon RA, ten drawings by Eileen Cooper RA, and diploma works by Academicians Brian Catling, Richard Wilson, Thomas Heatherwick and Chantal Joffe.

Conservation and research on the Collection is underway for the new Collection displays that will feature in the RA250 redevelopment of the Academy, set to open in 2018. A project to catalogue the RA's collection of historic frames was completed, as was the scanning of 10,000 new works, funded by HLF, ahead of the launch of an enhanced online presence for our Collection.

Works by Turner and Fuseli were loaned to Japan. The year's major loan saw the *Taddei Tondo* displayed at the National Gallery in an exhibition on Michelangelo and Sebastiano.

3. Spaces: To establish spaces fit for a 21st century Academy

The redevelopment of Burlington Gardens is set to transform the Royal Academy and the public's experience of it. With major support from the HLF and other generous donors, this major project has been designed to unite our two buildings, creating new and refurbished spaces for exhibitions, learning and debate.

Creating new spaces

In 2016/17, the redevelopment, which will mark the RA's 250th anniversary in 2018, moved from demolition to construction. Central elements of the new design by Sir David Chipperfield CBE RA started to take shape. The South East Extension was nearly finished and the concrete walls for the new Weston Bridge were poured. The bridge will link the two buildings for the first time, creating a larger, unified campus for the RA.

The temporary roof over Burlington Gardens was removed. The restored facade, with its statues, clock and weather vane, was unveiled in autumn 2017.

Works included upgrading roof light windows and laying oak floors for the new sun-lit Gabrielle Jungels-Winkler Galleries and fitting out the curved banks of seating for the new 250 seat lecture theatre. Progress was also made on the Collections Gallery; Weston Studio, which will show art by RA Schools students and alumni; the Ronald and Rita McAulay Gallery for contemporary work by Academicians; and the Dorfman Architecture Court.

The new art-handling suite – the first element of the RA250 project to be completed – is already in use by staff. The area includes a special lift with a weight-bearing capacity of ten tonnes to enable large-scale works of art to be moved more easily and securely.

Challenges and discoveries

Unexpected developments included the discovery of asbestos in several spaces, requiring those areas to be sealed off and the hazardous material removed. The condition of some plaster ceilings in Burlington Gardens meant these had to be remade using layers of lime-ash mortar.

Further discoveries included an 18th century water main still in use and, beneath some brown tiles, a floor of sandstone quarried at Craighleith. The floor has now been restored and integrated into the new design. These discoveries have resulted in some delays and additional expenditure in excess of the original project programme and budget.

Overall, good progress was made. Special hard-hat tours were offered to key donors and to journalists to view the project at various stages. RA staff continued to run a full programme of exhibitions and events in Burlington House. On the Sackler Landing, the exhibition *Richard Deacon RA Selects* gave a foretaste of the Collection displays to come, with a presentation of sculptures from the RA Collection from the 18th to 21st century.

The redevelopment is on schedule to open to the public in 2018.

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Review of activities (continued)

Beyond the building

The RA was a key partner in the *Mayfair Art Weekend* in July 2017, which brought together over 60 galleries. Highlights included a pop-up exhibition in Burlington Arcade, artist talks and live music. Over 2,000 people participated each day.

The RA also took part in a number of London-wide ventures, such as *Open House London* and *Open Senses*, a weekend of live events for which the RA hosted a site-specific performance in the Life Room.

4. People: To realise the full potential of our members and staff

The Academicians and staff work together to make the Royal Academy a rich, creative environment for practitioners and the public.

Royal Academicians

In October 2016, the RA welcomed Her Majesty Queen Elizabeth II to mark her 90th birthday. The Queen met Academicians, artists and supporters at the awards ceremony, as well as representatives of the Royal Academies of Dance, Dramatic Art and Music.

Sir David Adjaye OBE and Gilbert & George were elected as Academicians. Dame Paula Rego DBE was made Senior Royal Academician, and American artists Bill Viola and Kiki Smith were appointed Honorary Academicians. From September 2017, Rebecca Salter RA replaces Eileen Cooper RA as Keeper of the Royal Academy. The deaths were marked of Bernard Dunstan RA, Leonard Manasseh OBE RA, John Partridge CBE RA and Honorary Fellow Dame Jennifer Jenkins DBE.

Displays of the work of Academicians past and present included John Gibson RA, Anthony Green RA, Charles Tunnicliffe RA, Olwyn Bowey RA and Fred Cuming RA. The latest commission in the series *Terrace Wires* at St Pancras Station was by Conrad Shawcross RA, while for the Peninsula in Hong Kong, Michael Craig-Martin RA created a giant steel light bulb, the final display in a three year collaboration with the hotel.

Academicians gave strong public support to maintaining the Art History A-level, which was under threat. The decision was reversed and the course will continue to be offered.

Royal Academy staff

RA staff continue to work from Unilever House, while the redevelopment in Burlington Gardens is underway. Staff proved resourceful and resilient in continuing to offer a full programme of exhibitions and events for Friends and visitors during the construction.

Improvements to pay and conditions included enhanced maternity leave, shared parental pay and greater access to flexible working opportunities. The RA defined contribution pension schemes saw increased take-up among staff following the introduction of a new scheme, with enhanced employer contributions, in April 2016.

In September 2016, the Royal Academy of Arts Pension Scheme, a funded defined benefit scheme, closed to future accrual; with members of the scheme, still in the RA's employment, having the option to join the RA's main defined contribution pension scheme.

In April 2017 gender pay reporting legislation came into effect, which requires that employers with 250 or more employees publish statutory calculations annually, showing the pay gap (if any) between their male and female employees. As an organisation of more than 250 employees, the Royal Academy has to perform six calculations relating to gender pay, and will publish this data on its website and via the government's online reporting service before the deadline of 4 April 2018. The Royal Academy also intends to support its published data with a narrative explaining the reasons for its results and outlining actions that are being taken to address any gender pay gaps.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Review of activities (continued)

Staff development included programmes such as *Inspiring Managers* and *RA Visionaries*, a new scheme for non-management staff with leadership potential. Westminster City Council awarded the RA a *Healthy Workplace Charter* for its fitness and other health measures that support staff well-being.

Four appointments were made to the Executive Committee: Tzo Zen Ang was appointed Chief Operating Officer; Jo Prosser, Commercial Director; Stephen Grant, Director of Estates; with Carl Hitchcock, Director of Finance, also joining the Executive team.

Volunteers and training

Volunteers offered more than 10,000 hours of their time to departments across the Academy. HLF support enabled volunteering schemes to help digitise the collection and offer visitor tours of the RA. Volunteers also helped to run the RA's free artist-led Saturday workshops, *Demonstrate and Create*, at which participants can learn different artistic techniques.

With the redevelopment, the volunteering structure at the RA is evolving. 2016/17 saw the RA bid farewell to the Friends Volunteers in their current role. New roles will match more closely the skills and interests of volunteers with the work they undertake.

Training and apprenticeships included work placements in sculptural conservation and collections management.

5. Finances: To fulfil our objectives and safeguard our future

Generous support and dynamic commercial enterprises ensure the Royal Academy maintains a sound and sustainable future.

Friends and Patrons

The Friends of the Royal Academy, a separate registered charity, marked their 40th anniversary with a series of well attended events. Recruitment during *Friends Week* rose by 27%. Overall, the retention rate for Friends was over 86%, with 12,000 new Friends joining in 2016/17. The Friends donated £9.4m to the RA in the year, representing 25% of the RA's income from ongoing activities.

Of £1.4m in legacy income received in 2016/17, £1.1m was from Friends, who have left a gift to the RA in their will.

Patrons continued to join at the highest two levels; with Gold or Platinum membership accounting for 67% of new Patron revenue. The retention rate for existing Patrons was 90%.

The Summer Exhibition Preview Party had its most successful year ever. Chaired by Grayson Perry RA, the fundraising event generated £365,000 in ticket sales, with £1.1m of art sales on the night, from which the RA receives a commission.

Fundraising

For the RA's most ambitious public appeal to date, launched in May 2017, supporters were invited to "make their mark" by donating, adopting a masterpiece or naming a seat in the new lecture theatre. Nearly one third of the £3.0m goal to complete the redevelopment and support future projects at the RA was achieved by the close of the financial year.

Four new corporate sponsors supported exhibitions and projects in 2016/17: Letter One, HTC Vive, Phillips and Winsor & Newton. Returning sponsors who generously supported the RA's work included Arup, BNP Paribas, Insight Investment, JTI, Newton Investment Management and Turkishceramics.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Review of activities (continued)

Commercial enterprises

R.A. Enterprises Limited, a trading subsidiary of the RA, generated sales of £8.4m in 2016/17, including shop and e-commerce at £3.5m; and publications at £3.7m. Whilst total sales were down by 5% overall compared to the previous year, reflecting lower overall visitor numbers which were 7% down, commercial activities performed well against plan. Sales of merchandise were 6% higher than budget, while publication sales surpassed their budget by more than 21%.

Revenue from online sales of merchandise were 50% higher than the prior year.

Revenue from art sales continued to rise. By the close of the year, at nearly £0.4m, it has shown year on year growth of 240%. Works sold included selections curated by Eileen Cooper RA and David Remfry RA. The sales of *Thinks I to Myself* by Ed Ruscha Hon RA and a selection of works by Gary Hume RA generated sales of nearly £0.2m.

Revenue from Academic Programmes was £0.3m; 210% up on last year.

Revenue from art sales and Academic Programmes have both seen significant growth in 2016/17 and we plan to develop these and other commercial activities, including onsite retail and catering, as we move into the expanded campus in 2018.

Investment

A long-term £18.0m programme of plant upgrade and gallery refurbishment will be complete in 2018, with final elements seeing improvements to Gallery 9 and the Lecture Room in Burlington House.

A new electricity contract will supply the RA with renewable energy for the next two years. New lighting will see 1,500 new spot and flood lights installed, with the reduction in energy use predicted to be 80% for the new floodlights and 30% for the new spotlights.

Other measures ranged from investing in technology upgrades to key IT systems (including finance and retail) to improving the customer experience by creating better visitor facilities, adopting flexible staffing and using portable technologies.

Impact and public benefit

As we enter our 250th anniversary year, we remain committed to celebrating this significant milestone in our history, but 2018 is not the end of the journey; it is the beginning of our next 250 years of being a voice for art and artists. The re-opening of Burlington Gardens as part of our larger, unified campus is only the first step on the road to realizing the longer-term vision of the "New Royal Academy of Arts". The RA's longer term strategy, beyond 2018, is currently in development but an initial articulation of the Executive's long-term goals is as follows.

Like most charities, the RA has a two-pronged goal: to deliver on our mission to provide a voice for art and artists, whilst at the same time securing the financial sustainability to ensure our continued relevance. Our Medium Term Plan explicitly articulates the goal to achieve an average £3.0m net income from ongoing activities (before interest, depreciation and amortisation) each year to fund the ongoing maintenance of our 2.5 acre campus and investment in technology; periodic plant upgrade and gallery refurbishment programme; and financing costs. We need to achieve similar clarity for our mission goals, as well as our financial goals.

The Executive has defined our impact goals as follows:

- ensuring that our expanding audiences have deep and enriching experiences with art at our London campus;
- focusing always on artistic excellence, and helping the wider public engage with this;
- reflecting on the diversity of the art world in our programming and in our people;

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Impact and public benefit (continued)

- being a generous, collegiate part of the art ecosystem and contributing to the debate about arts and culture with our peers in the UK and beyond.

Impact measures

The RA has begun to track and measure a variety of impact measures (as distinguished from Key Performance Indicators, which are considered separately in the Strategic Report below). These measures include those pertaining to the RA's activities across exhibitions, RA Schools, library and collections, and education; where possible, we aim to measure the delivery of our mission / impact goals numerically, as well as qualitatively and anecdotally.

The current measures will evolve as we better understand which measures are most reliable and informative, and as we introduce new means of tracking and assessing the impact we have.

Meanwhile, in implementing the stated objectives through the strategies described, the trustees confirm that they comply with their duty to have regard to the Charity Commission guidance on public benefit.

The exhibition programme presents a mix of subject matter and content to suit a range of public tastes and is complemented by a programme of activities such as lectures and workshops aimed at providing opportunities for the public to engage with the subject matter and the institution. Both our exhibition and lecture/workshop programmes, and therefore the number of people these reach, will grow significantly in 2018 into new spaces created by our redevelopment project, including the new 250 seat lecture theatre; the Collections Gallery (which will provide free public access); a new learning centre; as well as additional exhibitions and display spaces.

These programmes offer a range of opportunities for engagement and learning involving the wider community through activities for adults, students and teachers, parents and children, and community and special needs groups.

The Royal Academy's pricing policy includes opportunities for those on lower incomes to visit the Royal Academy and participate in its programmes by taking advantage of reduced ticket prices and free activities.

Strategic report

Business review

A review of the Royal Academy's activities, achievements and impact has been included in the "Activities, Achievements and Impact" section of our report above. These refer to the five key strategic objectives in the "RA Strategic Plan 2013-2018" (relating to five key areas: Public, Academic, Spaces, People and Finances/Sustainability).

Key performance indicators

Since September 2014 we have systematically tracked the following key performance indicators ("KPIs"). These have all been identified as key measures of our progress against our strategic objectives. Targets for overall audience figures and KPIs with direct financial impact (e.g., membership numbers) are embedded into our Medium Term Plan, which is updated annually. Targets for more qualitative measures (e.g. visitor experience, audience diversity) are being refined on an ongoing basis. The full set of KPIs is reported and discussed at Executive level every four months.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Key performance indicators (continued)

1. Public

- Exhibition and campus visitors. Target 1.4m visits p.a. by 2018/19 (1.1m in 2017/18)
- Digital visitors (website sessions, Facebook friends, Twitter followers)
- Visitor experience (rating of exhibition and of overall visit)
- Critical reception of exhibitions
- Audience for public learning and debate activities
- Secondary spend per visitor (retail spend and catering spend)

2. Academic

- Audience for Collections (physical displays, website visits, appointments)
- RA Schools applications (per place and from outside London/UK/Europe)

3. Spaces

- Completion of Burlington Project fundraising
- Completion of Burlington Project building works (on budget to schedule)

4. People

- Academician engagement
- Staff engagement (engagement survey, appraisal completion, turnover)

5. Finances/Sustainability

- Overall income from Friends, Patrons, Corporate and Academicians' Room memberships
- Target sustainable net income from ongoing activities (before depreciation, amortisation and interest) of £3.0m per annum by 2018/19
- Completion of the Customer Experience project with a single view of customers by 2018/19.

Financial review

Financial result for the year

The results for the current year show net expenditure of £1,301,605 (2016: net income £108,491) for core activities, being those ongoing activities directly associated with delivering the charitable objectives, and net income of £11,642,160 (2016: £21,025,911) for the Burlington Project, being the refurbishment and redevelopment of the Royal Academy's buildings and estate. Net expenditure of £1,301,605 for core activities includes £985,663 (2016: £1,048,360) of expenditure on temporary accommodation following relocation of staff during construction works for the Burlington Project; £467,824 (2016: £451,731) of interest payable; and £107,352 (2016: £50,727) of interest receivable. Excluding these temporary costs, core activities incurred net expenditure of £315,942 (2016: net income £1,156,851); and excluding net interest payable, net income of £44,530 (2016: £1,557,855).

Total net movement in funds, includes the recognition of the actuarial gain on the pension scheme totalling £6,004,000 (2016: loss £3,431,000) and net loss on investments of £438 (2016: £49,576), resulting in a surplus of £16,344,555 (2016: £17,703,402).

The ongoing activities surplus, excluding temporary accommodation costs and net interest payable, was £44,530 (2016: £1,557,855). Whilst these results were down on those of the previous year, which reflected the commercial success of the *Ai Weiwei* and *Painting the Modern Garden* exhibitions, these were ahead of the annual budget target primarily due to legacy income of £1.4m (2016: £0.1m) and the financial impact of visitor numbers in excess of plan for the *Abstract Expressionism* and *Revolution: Russian Art 1917 - 1932* exhibitions.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Financial result for the year (continued)

We continued to invest in digital strategy, including systems technology; enhancing the visitor experience; and improving the Friends membership scheme.

Off-site accommodation costs of about £1.0m at Unilever House, Blackfriars were incurred in the year; this expenditure will continue until the staff move back to Burlington Gardens in early January 2018. The £18.0m gallery plant upgrade programme will be completed in 2018.

The Royal Academy put in place a £5.0m committed revolving credit facility in May 2017 to provide the required working capital for the completion of the Burlington Project, as re-development costs are being incurred in advance of the receipt of pledged donations. The facility, which is available for a period of five years, can be drawn down in advances with a minimum value of £0.5m. Each advance is repayable after three months; at the end of the three month period the advance can either be rolled over for another three month period or repaid, with the amount then being available again for draw down. The facility was fully drawn down at the year end.

Overall, the Royal Academy's results surpassed their targets in 2016/17 and came in slightly ahead of budget, with the year's exhibition programme and wider activities delivering a surplus of £44,530. The Royal Academy is well placed to achieve the targets set in its five year Medium Term Plan. The current programme of investment in both building infrastructure and technology over the medium term is to ensure the Royal Academy is equipped not just to celebrate its 250th anniversary in 2018, but to meet its requirements in future.

Reserves

The policy of the Royal Academy is to maintain a sufficient level of free reserves to enable operating activities to be maintained, taking account of potential risks and contingencies that may arise from time to time. A formal policy on reserves was originally agreed at the meeting of Council on 4 October 2011 and approved annually thereafter which states:

The trustees have set a reserves policy which requires:

- Reserves to be maintained at a level which ensures that the Royal Academy's core activities could continue during a period of unforeseen difficulty and that current and future commitments can be honoured.
- A proportion of reserves to be maintained in a readily realisable form.
- The policy is reviewed annually by Council.

Free reserves comprise that part of the total unrestricted funds that are freely available. Arising from the most recent review, the trustees have adopted a risk-based approach to determine an appropriate level of free reserves. The trustees consider it appropriate to have free reserves sufficient to cover a period of unforeseen difficulties and consider this to be the greater of a period of three months, being the normal duration of a main gallery exhibition, such that this would allow the Royal Academy to continue running in the circumstances that an exhibition is cancelled without an alternative being viable, and a period of six months, during which the Royal Academy has less than budgeted visitor numbers, due to the impact of external factors, such as the threat of terrorism, reducing the number of visitors to London generally and the RA's campus more specifically.

The trustees have specifically considered the prospective financial impact of the key risks identified in the Royal Academy's Risk Register, including those pertaining to meeting the budget approved for the year ended 31 August 2018 and have further considered the Medium Term Plan of the Royal Academy underpinning the Strategic Plan and the long term loan funding in place. The trustees have also considered expenditures that could be deferred or avoided to mitigate the detrimental impact of unforeseen difficulties.

Based on this detailed review and analysis, the trustees consider that an appropriate level of free reserves would be in the order of £3.0m to be held by way of operating contingency at all

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Reserves (continued)

times to enable the Royal Academy to continue operating for a period of three months to cover both a fall in exhibition, trading and voluntary income and fixed operating costs (including salaries) and the prospective financial impact of other uninsured risks or six months, in the event of reduced visitor numbers due to external factors, such as the threat of terrorism.

Actual free reserves as at 31 August 2017

As at 31 August 2017, total unrestricted and non-designated funds stood at £33.2m, including £41.2m of fixed assets. Free reserves, which exclude fixed assets, are therefore in deficit by £8.0m, after taking account of the pension scheme asset of £3.0m, and are £11.0m less than the desired level of £3.0m.

The free reserves deficit of £8.0m is represented by net current assets of £0.4m less long term liabilities of £11.4m, of which £10.0m is repayable in ten equal instalments from 2035-2044; and the pension scheme asset of £3.0m.

The net current assets of £0.4m as at 31 August 2017 include £5.5m of cash at bank, and additionally the Royal Academy has access to a £3.0m overdraft facility. In view of the level of current liquid resources, the long term loan funding and short term facilities in place, which are all available for operational purposes, the trustees consider that the Royal Academy has both sufficient funding and liquidity for the foreseeable future.

As outlined above, the Royal Academy has in place a Strategic Plan to deliver the required level of surplus funds to achieve the target level of free reserves over the long term.

The trustees also take comfort from the fact that the Royal Academy Development Trust, an independent charity established under a Trust Deed dated 11 February 1981 specifically to provide support to the Royal Academy, held funds of £30.3m at 31 August 2017 in trust for the Royal Academy, of which £17.5m represents unrestricted funds, including £12.9m that is both unrestricted and not designated. These amounts are held by the Royal Academy Development Trust until these are required by the Royal Academy for specific purposes and are invested by the Royal Academy Development Trust to provide future funding for the Royal Academy.

Future plans

Our priorities for the year to come

A successful 2018 will mean that we:

- successfully occupy and animate Burlington Gardens, as part of a newly combined campus;
- programme the new campus to showcase the breadth of the Royal Academy: emphasising our unique and independent artist-led approach, and revealing areas such as the Academicians, RA Schools, learning and debate, and architecture;
- engage an expanding audience, who will visit us not only for RA250, but for many years to come.

Our vision to "reveal a living Academy" is well underway, and will be facilitated by the opening of our new combined campus in 2018. This vision is focused on shifting the general audience's perception and experience of the RA, from an exhibitions-focused venue to a multifaceted, artist-led Academy, which emphasises art practice and debate as well as display. The planned transformation represents a significant step change in terms of how we aim to serve our audiences and, in turn, how they choose to engage with the RA. This undertaking does not represent a departure for us, but rather, a deepening of our commitment to the RA's founding mission.

Over the next 12 months, alongside settling into our new campus, we will work on developing our next five year strategic plan (2019-2023). To do this, we must work to more fully understand

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Our priorities for the year to come (continued)

the impact of the trends we face as an Academy and collectively agree the best course for the RA to secure continued relevance with our audiences. It will require us to look outside the RA and to structure a robust debate about how the trends impacting the cultural sector can be leveraged or mitigated. Current trends in the sector will no doubt inform how we look to position the RA for the future.

Our working hypothesis is that the role and purpose of a traditional cultural institution will need to evolve to stay relevant. At the most basic level, we believe we will need to understand our audiences better, and deliver more bespoke programming to ever more targeted interest groups. At the same time, we will also need to defend and strengthen our core model by continuing to serve the very best programming to audiences and supporting the making of art and artists in the UK. On this basis, the Executive Committee has agreed five draft strategic priorities:

1. **Refine and defend the core** by continuing to invest in ambitious exhibitions; retaining and growing our loyal audiences; and reinvigorating funding and sponsorship revenue streams, whether through corporate or individual supporters
2. **Build a deeper understanding of our audiences and to reorient towards a more audience-centric approach** by investing in the systems, processes, and tools to ensure frictionless customer journeys
3. **Extend our offer and communicate it in a more coherent way** such that we can offer a breadth of artistic content beyond exhibitions, and market it to the right audiences at the right time
4. **Align the organisation to deliver the step-change in activity planned by this transformation** and to ensure that the organisation is working collaboratively and effectively to deliver shared goals
5. **Build financial sustainability and a disciplined focus on cost management** to ensure the continued support of the RA Schools and other charitable activities, across exhibitions, library and education; to allow for a greater degree of risk-taking in our creative programming; and to address the increased cost of operations associated with delivering the expanded campus offering.

Delivering these objectives will imply a significant shift in our ways of working and our organisational culture. It is important to stress that this is not a revolution but an evolution. The re-opening of Burlington Gardens is only the first step on the road to realising the longer term vision of the "New Royal Academy of Arts", as it enters the next 250 years of making, exhibiting and debating art.

Principal risks and uncertainties and risk management

Council, advised by the Executive Committee and other specialist committees, evaluate and monitor risks and ensure systems and controls are subject to regular review. Where appropriate, mitigating actions and improvements are put in place by the Executive Committee.

All risks identified are recorded in the Risk Register, which is maintained on an ongoing basis and not only includes details of all risks considered but also provides a mechanism for assessing and monitoring those risks, detailing the Executive Committee member responsible and the actions taken to mitigate the risk.

The Risk Register is formulated by the Executive Committee and is formally reviewed by the Audit Committee on an annual basis. Each risk is given a ranking score, based on impact and likelihood. The highest scoring risks are reviewed by Council and are given the highest priority in terms of management focus and mitigating actions are put into place. The Risk Register also provides the basis for an ongoing programme of Internal Audit reviews, the findings of which are reported to the quarterly Audit Committee meetings.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Principal risks and uncertainties and risk management (continued)

The highest scoring risks include the risk of major building works disrupting the public programmes; the possibility of plant failure in the galleries; loss or damage to artworks; late changes to the exhibition programme resulting in additional costs and/or reduced revenues; and a reduction in the Friends' donation to the Royal Academy arising from diminished Friends' membership revenue. External risks include the impact of "Brexit" across a number of areas, including sponsorship and foreign exchange exposure, in particular with regard to exhibition costs, and the impact of the terrorism threat on the number of visitors to the Royal Academy's exhibition programme.

These risks are all subject to immediate management consideration to provide mitigation. Mitigation steps include project governance and contingency planning in respect of major building works; completion of the plant upgrade programme, together with planned preventative maintenance; security and working practices in place, together with disaster recovery and business continuity planning and procedures; continued review and improvement to the Friends visitor experience and periodic Friends membership pricing reviews; and diversification and hedging strategies for sponsorship and foreign exchange risk respectively.

The Royal Academy of Arts Trustees' Report For the year ended 31 August 2017

Statement of trustees' responsibilities

The trustees or members of Council (who are also directors of the Royal Academy for the purpose of company law) are responsible for preparing the trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business; and
- observe the methods and principles in the Charities SORP.

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

Audit information

So far as each of the trustees at the time the trustees' report is approved is aware:

- there is no relevant information of which the auditors are unaware; and
- they have taken all relevant steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

A resolution to re-appoint Kingston Smith LLP as the Royal Academy's auditors will be put to the forthcoming General Assembly.

On behalf of the Council



Christopher Le Brun PRA
President



Professor Chris Orr RA
Treasurer

5 December 2017

Date The Royal Academy of Arts
Burlington House
Piccadilly
London W1J 0BD

Independent Auditors' Report to the Trustees of The Royal Academy of Arts

We have audited the financial statements of The Royal Academy of Arts for the year ended 31 August 2017 which comprise the Group Statement of Financial Activities, the Group and Parent Charitable Company Balance Sheets, the Group Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard Applicable in the UK and Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 August 2017 and of the group's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the charitable company and charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditors' report thereon. The trustees are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

Independent Auditors' Report to the Trustees of The Royal Academy of Arts

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the trustees' annual report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the trustees' annual report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and parent charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the trustees' annual report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- the parent charitable company has not kept adequate and sufficient accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of trustees

As explained more fully in the statement of trustees' responsibilities set out on page 20, the trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group and parent charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the group or parent charitable company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

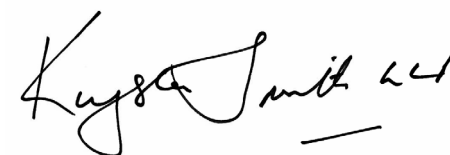
Independent Auditors' Report to the Trustees of The Royal Academy of Arts

Auditors' responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs (UK) we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the group and parent charitable company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- conclude on the appropriateness of the trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and parent charitable company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group or parent charitable company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit report.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Nicholas Brooks (Senior Statutory Auditor)
for and on behalf of Kingston Smith LLP

5 December 2017

Date *Devonshire House*
60 Goswell Road
London EC1M 7AD

The Royal Academy of Arts

Consolidated Statement of Financial Activities

For the year ended 31 August 2017

	Note	Ongoing activities		Burlington Project			Total 2017	Total 2016
		Unrestricted funds 2017	Designated funds 2017	Restricted funds 2017	Designated funds 2017	Restricted funds 2017		
		£	£	£	£	£	£	£
Income from:								
Donations and legacies								
General donations from RADT*		-	-	238,927	-	-	238,927	214,510
Other donations from RADT*:								
Burlington Project		-	-	-	-	-	-	12,820,171
Cataloguing project		-	-	39,279	-	-	39,279	35,498
Other projects		-	-	563,241	-	-	563,241	477,276
Donations from Friends of the RA		9,323,060	50,000	-	-	-	9,373,060	9,598,376
Other donations	5	3,843,475	88,039	1,901,153	1,726,406	3,310,556	10,869,629	9,465,660
Grant income	6	-	-	147,996	-	7,110,471	7,258,467	2,517,512
Charitable activities								
Exhibitions		6,566,158	-	-	-	-	6,566,158	8,074,203
Schools		48,174	-	-	-	-	48,174	41,403
Library		25,381	-	-	-	-	25,381	69,055
Education		503,679	-	-	-	-	503,679	370,160
Other trading activities								
Income from trading subsidiaries	7	11,599,715	-	-	-	-	11,599,715	11,383,072
Sponsorship, rent and other receipts		2,431,071	-	-	-	-	2,431,071	3,128,591
Investments								
Bank interest		107,352	-	-	91,400	-	198,752	186,242
Dividends		591	-	-	-	-	591	762
Total income		34,448,656	138,039	2,890,596	1,817,806	10,421,027	49,716,124	58,382,491
Expenditure on:								
Raising funds								
Fundraising and publicity	9	(8,734,361)	-	-	-	-	(8,734,361)	(8,448,176)
Fundraising trading	7	(7,388,123)	-	-	-	-	(7,388,123)	(6,419,618)
Charitable activities	10	(19,114,827)	-	(2,535,460)	-	-	(21,650,287)	(20,937,600)
Other								
Project management		-	-	-	(431,501)	-	(431,501)	(248,459)
Temporary accommodation		(985,663)	-	-	(164,734)	-	(1,150,397)	(1,117,606)
Donation to RADT*		-	-	(20,462)	-	-	(20,462)	(27,054)
Total expenditure		(36,222,974)	-	(2,555,922)	(596,235)	-	(39,375,131)	(37,198,513)
Net losses on investments	19	-	-	-	(438)	-	(438)	(49,576)
Net income / (expenditure)	11	(1,774,318)	138,039	334,674	1,221,133	10,421,027	10,340,555	21,134,402
Remeasurement of net defined benefit pension asset	28	6,004,000	-	-	-	-	6,004,000	(3,431,000)
Net movement in funds		4,229,682	138,039	334,674	1,221,133	10,421,027	16,344,555	17,703,402
Total funds brought forward		28,929,023	-	110,538	4,132,551	27,349,473	60,521,585	42,818,183
Total funds carried forward		33,158,705	138,039	445,212	5,353,684	37,770,500	76,866,140	60,521,585

All gains and losses arising in the year are included in the Statement of Financial Activities and derive from continuing activities.

* RADT denotes Royal Academy Development Trust

The Royal Academy of Arts Balance Sheets As at 31 August 2017

	Note	Group		Royal Academy	
		2017	2016	2017	2016
		£	£	£	£
Fixed assets					
Heritage assets	16	391,000	46,000	391,000	46,000
Intangible assets	17	422,643	138,714	281,525	117,593
6 Burlington Gardens	18.c	14,470,064	14,470,064	14,470,064	14,470,064
Other tangible fixed assets	18.a, b	71,429,236	42,852,837	71,427,152	42,843,081
Investments	19	-	35,657	108	35,765
Total fixed assets		86,712,943	57,543,272	86,569,849	57,512,503
Current assets					
Stock	20	998,545	1,140,575	-	33,548
Debtors	21	6,297,544	4,782,057	6,058,301	4,724,348
Cash and cash equivalents		8,546,504	20,959,483	8,480,677	20,864,565
Total current assets		15,842,593	26,882,115	14,538,978	25,622,461
Creditors - amounts falling due within one year	22	(17,217,673)	(8,681,479)	(15,777,764)	(7,397,856)
Net current (liabilities) / assets		(1,375,080)	18,200,636	(1,238,786)	18,224,605
Total assets less current liabilities		85,337,863	75,743,908	85,331,063	75,737,108
Creditors - amounts falling due after more than one year	23	(11,480,723)	(11,700,323)	(11,480,723)	(11,700,323)
Net assets excluding pension asset / liability		73,857,140	64,043,585	73,850,340	64,036,785
Defined benefit pension scheme asset / (liability)	28	3,009,000	(3,522,000)	3,009,000	(3,522,000)
Total net assets		76,866,140	60,521,585	76,859,340	60,514,785
The funds of the charity:					
Restricted funds	25	38,215,712	27,460,011	38,215,712	27,460,011
Unrestricted funds:					
Burlington Project (designated)	25	5,353,684	4,132,551	5,353,684	4,132,551
General funds (designated)	25	138,039	-	138,039	-
General funds	25	30,149,705	32,451,023	30,142,905	32,444,223
Pension reserve	25	3,009,000	(3,522,000)	3,009,000	(3,522,000)
Total unrestricted funds		38,650,428	33,061,574	38,643,628	33,054,774
Total charity funds		76,866,140	60,521,585	76,859,340	60,514,785

Approved and authorised for issue by the President and Council of The Royal Academy of Arts on 5 December 2017

Christopher Le Brun PRA
President

Professor Chris Orr RA
Treasurer

Registered Company No. 06298947

The Royal Academy of Arts Consolidated Cash Flow Statement For the year ended 31 August 2017

	Note	2017	2016
		£	£
Net cash provided by operating activities	27	14,515,881	23,521,238
Cash flows from investing activities			
Interest paid		(467,824)	(451,731)
Interest received		198,752	186,242
Payments to acquire heritage assets	16	(10,000)	-
Payments to acquire tangible fixed assets	18.a	(31,045,232)	(20,132,553)
Payments to acquire intangible fixed assets	17.a	(420,175)	-
Proceeds from investment disposals	19	35,219	1,697,918
Net cash used in investing activities		(31,709,260)	(18,700,124)
Cash flows from financing activities			
Drawdown on revolving credit facility		5,000,000	-
Bank loans and hire purchase repayments		(219,600)	(232,579)
Net cash used in financing activities		4,780,400	(232,579)
Net change in cash and cash equivalents		(12,412,979)	4,588,535
Cash and cash equivalents at the beginning of the year		20,959,483	16,370,948
Cash and cash equivalents at the end of the year		8,546,504	20,959,483
Analysis of cash and cash equivalents:			
Cash at bank and in hand		8,546,504	20,959,483
Total cash and cash equivalents		8,546,504	20,959,483

The Royal Academy of Arts

Notes to the financial statements

For the year ended 31 August 2017

1 . General information

The Royal Academy of Arts ("Royal Academy") and its subsidiaries (together "the Group") continues to aspire to promote the arts of design and educate the public in the creation, appreciation and enjoyment of arts. The registered office is Burlington House, Piccadilly, London.

The Royal Academy is a company limited by guarantee and a registered charity and incorporated in England and Wales.

2 . Summary of significant accounting policies

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investments to market value and in compliance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Charities Act 2011.

The financial statements are prepared in sterling which is the functional currency of the Group. Monetary amounts in these financial statements are rounded to the nearest pound.

The Royal Academy is a Public Benefit Entity as defined by FRS 102.

a. Basis of preparation

The financial statements have been prepared on a going concern basis.

The consolidated financial statements comprise the financial statements of the Royal Academy and its three trading subsidiaries: RA (Arts) Limited, Burlington House Limited and R.A. Enterprises Limited made up to 31 August 2017. The total income and expenditure of these entities is shown in the Statement of Financial Activities ("SOFA") and the detailed results are disclosed in note 7 of the financial statements. The statements are consolidated on a line by line basis.

The Royal Academy has taken advantage of the exemption in section 408 of the Companies Act 2006 from disclosing its individual SOFA. The Royal Academy only surplus (net movement in funds) was £2,759,903 (2016: £3,141,572).

The principal accounting policies applied in the preparation of these financial statements are set out in the notes below. These policies have been consistently applied to all the years presented, unless otherwise stated.

b. Going concern

The trustees consider that there are no material uncertainties about the Group's ability to continue as a going concern. Whilst the Group has net current liabilities of £1.4m as at the year end, the Group has cash at bank of £8.5m and current liabilities include £5.0m drawn on a committed revolving credit facility, which can, if required, be rolled forward after each three month interest period to May 2022. The Group also has access to a £3.0m overdraft facility. In view of the level of current liquid resources, the long term loan funding and short term facilities in place the trustees consider that the Group has both sufficient funding and liquidity for the foreseeable future.

In addition the Royal Academy Development Trust, an independent charity established to specifically provide support to the Royal Academy, held funds of £30.3m at the year end in trust for the Royal Academy, of which £17.5m are unrestricted, including £12.9m that is both unrestricted and not designated.

There are no material uncertainties affecting the current year's financial statements.

c. Funds structure

Where there is a legal restriction on the purpose to which a fund may be put, the fund is classified as a restricted fund.

Restricted funds are those where the donor has provided for the donation to be spent in furtherance of a specified charitable purpose.

Those funds which are not restricted income funds, are unrestricted income funds which are sub analysed between designated funds, where Council have set aside amounts to be used for specific purposes or which reflect the non-binding wishes of donors; and unrestricted funds, which are used at the trustees' discretion in furtherance of the general objectives of the Royal Academy, including the general fund which represents the Group's reserves. The major funds held in each of these categories are disclosed in note 25.

Transfers between funds represents the funds transferred between restricted funds to the general unrestricted fund on completion of the project and the restriction being satisfied.

d. Burlington House

The Royal Academy holds a 999 year lease on Burlington House, of which almost 850 years remain, title to which is vested in the Secretary of State for the Department of Communities and Local Government. The rent of the property is nominal but it is the responsibility of the Royal Academy to maintain the property in a sound condition. The property is inalienable in that its ownership reverts to the Government if it is no longer used by the Royal Academy. The property works carried out on the galleries, Schools and Library are principally to maintain the fabric in its original condition and ensure an adequate environment for the exhibits. As the value of these works is part of the fabric of the building and cannot be realised, these are not recognised in the balance sheet except in the case of building improvements as detailed in the fixed assets and depreciation policy described below.

e. Heritage assets

The Royal Academy holds a collection of works of art, which consists of paintings, sculptures and prints, together with a library of books acquired by the Royal Academy by donation, bequest and from members on election to the Royal Academy ("Diploma Works").

The trustees do not consider that reliable cost or valuation information can be obtained for the vast majority of heritage assets held by the Royal Academy. In particular, the Diploma Works have an intrinsic value to the Royal Academy collection as an embodiment of the development of the Royal Academy as an institution. The manner in which they are given to the Royal Academy makes the valuation of these items very subjective, such that a reliable value cannot be arrived at. Furthermore, the cost of valuing the entire collection would be onerous compared with the benefit derived by users of the financial statements in assessing the Royal Academy's stewardship of these assets.

As such, the Royal Academy does not recognise these assets on its balance sheet other than acquisitions made since 1 April 2010 with a value of £10,000 or more. These are reported at cost where the asset is purchased or at the curator's best estimate of current value where the asset is donated. Such assets are not depreciated but are reviewed for impairment in the event of physical deterioration. Any impairment in the value of an asset is treated as charitable expenditure in the year in which it arises.

Expenditure which is required to preserve or prevent further deterioration of the collection is recognised in the SOFA when it is incurred.

The Royal Academy of Arts

Notes to the financial statements

For the year ended 31 August 2017 (continued)

2. Summary of significant accounting policies (continued)

f. Foreign currency

Investment transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are retranslated at the rate ruling at the balance sheet date.

g. Intangible assets

Computer software and website development costs are stated at cost less accumulated amortisation and impairment losses. These are amortised over their estimated useful life, of three years, on a straight line basis. Amortisation is charged to expenditure on raising funds in the SOFA.

h. Tangible assets

Expenditure on building improvements, new machinery and equipment is capitalised as fixed assets and stated at cost less accumulated depreciation. The Royal Academy applies a £1,000 threshold to the capitalisation of fixed assets. Depreciation is charged at the following rates on a straight line basis:

Building improvements	5 to 25 years
Computers	over 3 years
Office fixtures and fittings	3 to 10 years
Plant and equipment	5 to 10 years
Motor vehicles	over 3 years

Short leasehold property improvements are depreciated over the period of the lease.

Freehold property has been capitalised and included in fixed assets at cost. Depreciation has not been provided after taking into account the value of the land, the residual value of the property and the estimated useful life of the asset. The property is reviewed annually for any potential impairment.

No depreciation is charged on assets in course of construction. Where assets are constructed as part of a project for which specific identifiable assets are brought into service before the overall project is completed, such assets will be transferred from assets in course of construction to building improvements or fixtures, fittings and equipment as appropriate and depreciated from the date these are placed in service.

i. Operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the SOFA on a straight line basis over the period of the lease.

Incentives received to enter into operating leases are credited to the SOFA to reduce the lease expense, on a straight line basis over the period of the lease.

j. Finance leases

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at commencement of the lease as assets at their fair value, and are depreciated over their useful life. Any interest element of the rental obligations are charged to the SOFA over the period of the lease.

Incentives received to enter into a finance lease reduce the fair value of the asset.

k. Stock

Stock principally consists of shop and e-commerce products and is valued at the lower of cost and net realisable value. In the case of artworks provided by an artist these items are recognised in the financial statements at their anticipated sales price, less anticipated cost of sales and any subsequent impairment.

l. Income

Income, which is stated net of VAT where applicable, and intra-group transactions, consists of box office takings, sponsorship, donations and grants.

Income received for an activity taking place in a subsequent period is deferred to that period in accordance with FRS 102, except where that income relates to an exhibition where the accounting policy outlined below is followed.

i. Exhibitions

The results of exhibitions are recognised in the financial statements of the year in which the majority of the exhibition takes place. Costs incurred and income received, including sponsorship income, in connection with forthcoming exhibitions are deferred at the balance sheet date. If a decision is made not to proceed with an exhibition, the costs are written off.

ii. Donated services

Where an artist has donated their services, for example, in the creation of artworks or artworks themselves, to be sold alongside an exhibition, the donated services or artworks are recognised in the financial statements in accordance with the policy for exhibitions income disclosed above.

Other donated services are recognised when these have been delivered.

iii. Patrons

Patrons income is recognised in the financial statements on a cash received basis.

iv. Grants

For performance related grants, income entitlement is considered to be conditional upon the meeting of conditions imposed by the grant. Income is therefore recognised in the financial statements to the extent that the Royal Academy has demonstrably met any grant conditions imposed.

Non-performance related grants are recognised when there is evidence of entitlement, receipt is probable (more likely than not) and its amount can be measured reliably.

The Royal Academy of Arts

Notes to the financial statements

For the year ended 31 August 2017 (continued)

2. Summary of significant accounting policies (continued)

I. Income (continued)

v. Donations

Donations and related Gift Aid are accounted for when these are received. If donations are specifically in connection with a future event, these are restricted; if specifically in connection with a future exhibition, these are deferred.

vi. Trading subsidiary income

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of discounts and VAT. Turnover is recognised at the point of sale for goods and when services have been delivered. Subscriptions are accounted for in the period in which membership commences.

m. Legacies

Legacies are accounted for as income where there is clear entitlement; the amounts can be measured accurately; and there is reasonable probability of receipt.

Receipt is probable when:

- Confirmation has been received from the representatives of the estate(s) that probate has been granted; and
- The executors have established there are sufficient assets in the estate to pay the legacy; and
- All conditions attached to the legacy have been fulfilled or are within the charity's control.

Measurement is based on the value listed in the will for pecuniary gifts, provided the estate has sufficient funds, and on the estate accounts for residuary gifts.

n. Expenditure

Expenditure is accounted for on an accruals basis.

Expenditure on raising funds consist of costs of trading subsidiaries, fundraising and publicity expenditure. These include the direct costs of the Development department, including the running costs of sponsorship, fundraising and events, together with a share of the support costs of the Royal Academy.

Charitable activities include all costs related to the main purpose of the Royal Academy and include: direct costs of exhibitions and the associated education programme; running the Royal Academy Schools; and the conservation of the permanent collection and the Library.

Support costs are the costs of departments which are shared by the various activities of the Royal Academy: Finance, Human Resources, Information Technology, Facilities and governance costs. These costs are allocated to activities on a basis that is appropriate to the nature of the expenditure and have therefore been allocated over headcount.

o. Employee benefits

The Royal Academy provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

i. Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii. Defined benefit pension plan

The Royal Academy of Arts Pension Scheme ("the Scheme"), a defined benefit pension scheme, closed to future accrual on 30 September 2016. The Scheme is being accounted for under Section 28 of FRS 102, with the annually calculated surplus or deficit on the funding of the Scheme shown in the financial statements as an unrestricted fund, which is added to or deducted from unrestricted funds in the balance sheet. The trustees of the Scheme believe that the Scheme currently meets the minimum funding requirements. The assets of the Scheme are held completely independently from the Royal Academy.

The liability and expense related to the Scheme are allocated entirely to the unrestricted ongoing activities of the Group.

iii. Defined contribution pension plans

The Royal Academy operates two defined contribution plans for its employees. The contributions are recognised as an expense when these are due. Amounts not paid are shown in accruals in the balance sheet.

iv. Annual bonus plan

The Group operates an annual bonus scheme for permanent and fixed term contract employees. An expense is recognised in the SOFA when the Group has a constructive obligation to make payments under the plan as a result of past performance and a reliable estimate of the obligation can be made.

v. Termination payments

Termination benefits are payable when employment is terminated by the Royal Academy before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Royal Academy recognises termination benefits when it is demonstrably committed to either (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

p. Administered funds

Investments held by the administered funds are stated at market value at the balance sheet date. Dividend income from investments is recognised on an accruals basis.

q. Investments

Listed investments are stated at market value at the year end. The market value of securities is based on the bid market quotation on the relevant stock exchange and investments that are held in units are stated at the average of the unit bid and offer prices. Unlisted investments are stated at cost as no market value is available. The SOFA includes any realised or unrealised gain or loss during the year. Investment income, including the related tax credit, and interest on bank and short-term deposits are accounted for on a receivable basis.

The Royal Academy of Arts

Notes to the financial statements

For the year ended 31 August 2017 (continued)

2. Summary of significant accounting policies (continued)

r. Financial instruments

Financial instruments are recognised in the Royal Academy's balance sheet when it becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Royal Academy after deducting all of its liabilities.

i. Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost less any impairment.

ii. Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the SOFA.

Trade debtors and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "debtors". Debtors are measured at amortised cost less any impairment.

iii. Impairment of financial assets

Financial assets, other than those held at fair value through the SOFA, are assessed for indicators of impairment at each reporting end date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in the SOFA.

iv. Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

v. Basic financial liabilities

Basic financial liabilities, including trade and other payables and bank loans are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are classified as current liabilities if payment is due within one year or less. If not, these are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost.

vi. Other financial liabilities

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the SOFA in finance costs or finance income as appropriate. Hedge accounting is not currently applied.

3. Critical accounting judgments and estimation uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Useful economic lives of tangible and intangible assets

The annual depreciation and amortisation charge for fixed assets is sensitive to changes in the estimated useful economic lives of the assets. The useful economic lives are re-assessed annually. These are amended where necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 17 and 18 for the carrying value of assets and note 2.g and 2.h for the useful economic lives.

b. Impairment of debtors

The Royal Academy makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

c. Defined benefit pension scheme asset / liability

The determination of the assumptions used in calculating the defined benefit pension scheme asset / liability is the responsibility of the trustees of the Royal Academy, with delegated authority to the Director of Finance. The assumptions are set with regard to advice given by the scheme actuary.

The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)

4. Prior year comparatives by type of fund

The SOFA provides prior year comparatives in total; this note provides prior period comparatives for each of the types of funds.

	Ongoing activities		Burlington Project		Total 2016
	Unrestricted funds 2016	Restricted funds 2016	Designated funds 2016	Restricted funds 2016	
	£	£	£	£	£
Income from:					
Donations and legacies					
General donations from RADT*	-	214,510	-	-	214,510
Other donations from RADT*:					
Burlington Project	-	-	-	12,820,171	12,820,171
Cataloguing project	-	35,498	-	-	35,498
Other projects	-	477,276	-	-	477,276
Donations from Friends of the Royal Academy	9,598,376	-	-	-	9,598,376
Other donations	2,404,933	1,071,363	1,802,114	4,187,250	9,465,660
Grant income	50,239	19,131	-	2,448,142	2,517,512
Charitable activities					
Exhibitions	8,074,203	-	-	-	8,074,203
Schools	41,403	-	-	-	41,403
Library	69,055	-	-	-	69,055
Education	370,160	-	-	-	370,160
Other trading activities					
Income from trading subsidiaries	11,383,072	-	-	-	11,383,072
Sponsorship, rent and other receipts	3,128,591	-	-	-	3,128,591
Investments					
Bank interest	50,727	-	135,515	-	186,242
Dividends	762	-	-	-	762
Total income	35,171,521	1,817,778	1,937,629	19,455,563	58,382,491
Expenditure on:					
Raising funds					
Fundraising and publicity	(8,448,176)	-	-	-	(8,448,176)
Fundraising trading	(6,419,618)	-	-	-	(6,419,618)
Charitable activities	(19,192,330)	(1,745,270)	-	-	(20,937,600)
Other					
Project management	-	-	(248,459)	-	(248,459)
Temporary accommodation	(1,048,360)	-	(69,246)	-	(1,117,606)
Donation to RADT*	-	(27,054)	-	-	(27,054)
Total expenditure	(35,108,484)	(1,772,324)	(317,705)	-	(37,198,513)
Net losses on investments	-	-	(49,576)	-	(49,576)
Net income	63,037	45,454	1,570,348	19,455,563	21,134,402
Transfers between funds	4,740,353	-	(18,547)	(4,721,806)	-
Remeasurement of net defined benefit liability	(3,431,000)	-	-	-	(3,431,000)
Net movement in funds	1,372,390	45,454	1,551,801	14,733,757	17,703,402
Total funds brought forward	27,556,633	65,084	2,580,750	12,615,716	42,818,183
Total funds carried forward	28,929,023	110,538	4,132,551	27,349,473	60,521,585

* RADT denotes Royal Academy Development Trust

The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)

5. Income from other donations

	Unrestricted funds	Designated funds	Restricted funds	Total 2017	Total 2016
	£	£	£	£	£
Exhibitions	125,198	-	647,915	773,113	525,295
Schools	78,852	88,039	435,569	602,460	451,542
Library	22,392	-	360,900	383,292	81,837
Education	36,025	-	221,671	257,696	235,245
General - plant upgrade	1,577,420	-	-	1,577,420	1,035,094
General - other	751,734	-	235,098	986,832	1,094,610
Burlington Project	-	1,696,406	3,210,556	4,906,962	5,989,364
Legacies	1,251,854	30,000	100,000	1,381,854	52,673
Total	3,843,475	1,814,445	5,211,709	10,869,629	9,465,660

6. Income from grant income

	Unrestricted funds	Designated funds	Restricted funds	Total 2017	Total 2016
	£	£	£	£	£
Library	-	-	5,450	5,450	-
General - plant upgrade	-	-	-	-	50,239
General - other	-	-	142,546	142,546	19,131
Burlington Project	-	-	7,110,471	7,110,471	2,448,142
Total	-	-	7,258,467	7,258,467	2,517,512

**The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)**

7. Results from subsidiaries

The Royal Academy has three wholly owned trading subsidiaries: R.A. Enterprises Limited, which operates a shop and mail order business, a restaurant and cafés, a publications and art sales business and commercial learning; RA (Arts) Limited, which provides entertainment services to the corporate sector; and Burlington House Limited, which raises funds from the corporate sector and individuals through ticketed events. These companies donate their distributable profits to the Royal Academy. The registered offices of all subsidiaries is Burlington House, Piccadilly, London. A summary of their trading results is shown below. Audited financial statements for these subsidiaries are filed annually with the Registrar of Companies.

Profit and Loss	Total		R.A. Enterprises Ltd		RA (Arts) Ltd		Burlington House Ltd	
	2017	2017	2016	2017	2016	2017	2016	
	£	£	£	£	£	£	£	
Turnover	11,599,715	8,432,991	8,916,800	2,092,756	1,865,547	1,073,968	600,725	
Cost of sales	(4,337,615)	(3,492,824)	(3,156,433)	(111,005)	(63,477)	(733,786)	(335,002)	
Administrative expenses	(3,050,508)	(2,611,662)	(2,460,021)	(327,861)	(316,421)	(110,985)	(88,264)	
Total expenses	(7,388,123)	(6,104,486)	(5,616,454)	(438,866)	(379,898)	(844,771)	(423,266)	
Net result	4,211,592	2,328,505	3,300,346	1,653,890	1,485,649	229,197	177,459	
Gift Aid donation	(4,211,592)	(2,328,505)	(3,300,346)	(1,653,890)	(1,485,649)	(229,197)	(177,459)	

No charge to taxation will arise as the Gift Aid donation will be paid within nine months of the end of the financial year.

Balance Sheet	Total		R.A. Enterprises Ltd		RA (Arts) Ltd		Burlington House Ltd	
	2017	2017	2016	2017	2016	2017	2016	
	£	£	£	£	£	£	£	
Fixed assets								
Intangible fixed assets	141,119	141,119	21,121	-	-	-	-	
Tangible fixed assets	2,085	2,085	9,756	-	-	-	-	
Total fixed assets	143,204	143,204	30,877	-	-	-	-	
Current assets								
Stock	728,545	728,545	837,027	-	-	-	-	
Debtors	1,641,842	971,656	884,474	487,280	350,340	182,906	72,694	
Cash and cash equivalents	59,259	58,959	64,629	300	25,242	-	25,030	
Total current assets	2,429,646	1,759,160	1,786,130	487,580	375,582	182,906	97,724	
Current liabilities								
Creditors - amounts falling due within one year	(2,572,742)	(1,902,360)	(1,817,003)	(487,576)	(375,578)	(182,806)	(97,624)	
Net current assets / (liabilities)	(143,096)	(143,200)	(30,873)	4	4	100	100	
Total assets less total liabilities	108	4	4	4	4	100	100	
Capital and reserves								
Called up share capital	108	4	4	4	4	100	100	
Equity shareholders' funds	108	4	4	4	4	100	100	

**The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)**

8. Support costs

	Finance	IT	Personnel	Facilities	Governance	Total
	£	£	£	£	£	£
Exhibitions	1,175,738	551,743	223,413	1,279,689	273,183	3,503,766
Schools	216,583	101,637	41,155	235,732	50,323	645,430
Library	278,464	130,676	52,914	303,084	64,701	829,839
Education	355,815	166,975	67,612	387,274	82,674	1,060,350
Fundraising and publicity	1,144,798	537,223	217,534	1,246,013	265,994	3,411,562
2017 total	3,171,398	1,488,254	602,628	3,451,792	736,875	9,450,947
2016 total	3,127,274	1,634,929	610,750	3,477,820	766,593	9,617,366

The decrease in support costs principally relates to lower IT expenditure due to reduced headcount following an internal reorganisation (see also note 14).

9. Fundraising and publicity

	2017	2016
	£	£
Direct fundraising costs	2,385,837	2,398,870
Direct publicity costs	2,936,962	2,731,033
Support costs (note 8)	3,411,562	3,318,273
Total	8,734,361	8,448,176

10. Charitable activities

	Direct costs	Support costs	Total 2017	Total 2016
	£	£	£	£
Exhibitions	11,301,604	3,503,766	14,805,370	14,487,832
Schools	1,359,152	645,430	2,004,582	2,069,828
Library	1,506,872	829,839	2,336,711	1,970,685
Intellectual property expenditure	24,267	-	24,267	18,454
Education	1,419,007	1,060,350	2,479,357	2,390,801
Total	15,610,902	6,039,385	21,650,287	20,937,600

(note 8)

Exhibitions expenditure includes the direct costs of mounting all loan exhibitions and the Summer Exhibition and all associated costs, such as curatorial staff, art handling, security, press and box office.

The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)

11. Net income / (expenditure)

This is stated after charging:

	2017	2016
	£	£
Amortisation	136,246	233,854
Depreciation	2,460,414	2,152,021
Auditors' remuneration:		
External auditors		
Audit services - group undertakings	69,112	60,236
Audit services - defined benefit pension scheme	11,400	9,500
Other services	8,174	10,400
Interest payable and similar charges	467,824	451,731

External auditors other services relate to tax compliance and other advice.

The total lease expenditure incurred in the year was £1,171,306 (2016: £1,155,202). This includes £985,663 (2016: £1,048,360) in exceptional rent incurred due to staff relocation during the Burlington Project redevelopment.

12. Role of volunteers

Like all charities, the Royal Academy, uses a team of volunteers. In 2017 the Royal Academy engaged 196 (2016: 145) volunteers across both its Learning and Collections departments.

In accordance with the SORP, due to the absence of any reliable measurement basis, the contribution of these volunteers is not recognised in the financial statements.

13. Officers' and Council members' remuneration

Officers' remuneration, excluding pension contributions, is as follows:

	2017	2016
	£	£
President	70,000	70,000
Keeper	50,000	50,000
Secretary and Chief Executive	198,636	199,800
Treasurer	40,000	40,000
Total	358,636	359,800

Remuneration for officers is set by the Remuneration Committee.

Three officers received pension contributions totalling £29,728 (2016: £69,080).

Council members are only reimbursed for expenses incurred in the performance of their duties, except for those individuals who are remunerated for their duties as officers. Three (2016: three) trustees received reimbursed expenditure of:

	2017	2016
	£	£
Travel	3,868	6,153
Other	3,840	9,586
Total	7,708	15,739

Trustee indemnity insurance costs for the year totalled £14,787 (2016: £11,990).

The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)

14. Staff costs

	2017	2016
	£	£
Salaries and wages	12,710,848	12,606,718
Social security costs	1,218,617	1,259,928
Redundancy and termination payments	94,548	67,275
Pension contributions - defined contribution schemes	806,573	416,864
Pension service cost - defined benefit scheme	115,000	441,000
Total	14,945,586	14,791,785

Staff costs include payroll for temporary as well as permanent staff. The small increase in salaries and wages includes the impact of an increase in full-time equivalent employees; the annual pay increase; and a slight reduction in average salary. The Group closed its defined benefit scheme to future accrual on 30 September 2016, with members moving to a defined contribution scheme. This, combined with more generous contribution levels from April 2016 and increased employee take-up, has led to the increase in pension contributions for the defined contribution schemes.

Redundancy and termination payments made in the year relate to voluntary redundancies in exchange for these benefits (2016: same).

The key management personnel of the Royal Academy, and Group, comprise the Executive Committee, trustees and Officers. Total remuneration of key management personnel during the year was £1,368,221 (2016: £1,223,978). Pension contributions were £105,630 (2016: £142,795).

The number of employees, including officers, whose remuneration exceeded £60,000, is shown below:

	2017	2016
Band:	No.	No.
£60,000 to £69,999	9	8
£70,000 to £79,999	4	2
£80,000 to £89,999	-	1
£90,000 to £99,999	-	1
£100,000 to £109,999	-	2
£110,000 to £119,999	4	2
£170,000 to £179,999	-	1
£180,000 to £189,999	1	1
£190,000 to £199,999	1	1

Pension contributions for the above employees were £181,274 (2016: £231,055).

The average number of permanent employees and of full-time equivalent ("FTE") permanent employees, including officers, during the year was:

	Headcount		FTE	
	2017	2016	2017	2016
	No.	No.	No.	No.
Charitable activities	130	124	119	114
Fundraising and publicity	74	67	71	64
Trading activities	45	45	38	38
Governance	7	6	7	6
Support	82	87	80	85
Total	338	329	315	307

The number of part-time staff employed by the Royal Academy varies throughout the year, depending on the exhibition programme.

Following an internal reorganisation five staff were moved from the category "support" to "fundraising and publicity".

The Royal Academy of Arts

Notes to the financial statements

For the year ended 31 August 2017 (continued)

15. Taxation

The Royal Academy has suffered no tax charge, as it is not subject to UK corporation tax on its charitable activities.

16. Heritage assets

The Royal Academy holds assets that fall under the definition of "Heritage Assets". These fall into three broad collections: The Works of Art Collection, The Royal Academy Library and The Royal Academy Archive. Each of these is considered in turn, below.

All items in these collections are available to view by appointment. Items are also from time to time included in exhibitions at the Royal Academy, as well as being loaned out to other exhibitors.

The Works of Art Collection

The Works of Art Collection consists of works of art and other objects of historic, artistic or associational significance owned by the Royal Academy, namely: paintings, sculpture (including medals, dies, cameos, and intaglio gems); drawings; artists' sketchbooks; individually issued prints; photographs; plaster casts (including pastes of gems); historic skeletons relating to teaching in the Schools; objects of memorabilia, including artists' tools and materials; historic silver and silver-plate; historic items of furniture; picture frames; and certain fittings and fixtures within Burlington House. The Royal Academy holds around 950 paintings in its permanent collection and over 25,000 prints and drawings.

The majority of works and objects in the collections date from the foundation of the Royal Academy in 1768 to the present day. Exceptions include the *Taddei Tondo*, the only marble by Michelangelo in the UK; early copies after the Old Masters, such as those by Giampietrino, Rosso Fiorentino and Sir James Thornhill; as well as some prints and drawings.

The core of The Works of Art Collection is the Diploma Works. These are given by Academicians on election to the institution and are predominantly by British artists and architects. Other works of art were purchased, bequeathed or given to the Royal Academy and range from drawings to plaster casts and from photographs to paintings. There is also a collection of silver given to the Royal Academy by Academicians, which is of historical importance to the Royal Academy.

The Royal Academy Library (Special Books Collection)

The Library comprises the Historic Books Collection dating from the 16th century to approximately 1920, and the Special Illustrated Books Collection.

The Royal Academy Archive

The Archive holds papers and documents and copies of electronic correspondence relating to the institution's history as well as artists' letters and archives. The Archive also includes photographic prints, transparencies, glass slides and negatives, films and videotapes which relate to the history and activities of the institution. More information about the Royal Academy's collection is available at www.racollection.org.uk.

Capitalisation of the collections

In the opinion of the trustees, reliable information on cost or value is not available for the Royal Academy permanent collection. This is owing to the lack of reliable information on purchase cost; the lack of comparable market values; the diverse nature of the objects; and the volume of items held.

The collections have a significant intrinsic value relating to the way they provide a unique insight into the development of art and the study of art over the past 250 years. The manner in which items are given by Academicians makes valuation of these items difficult as there is no original cost to the item. In addition there is an intrinsic value to the collections as an embodiment of the development of the Royal Academy as an institution, which would also be far too subjective and unique to place any reliable value upon.

For this reason, the permanent collection, large proportions of which were gifted to the Royal Academy at nil cost, are incomparable in nature and are not recognised as assets in the Royal Academy's balance sheet.

Acquisitions and disposals

Diploma Works are proposed by newly elected members and accessioned into the collection following approval of Council. The approval of non-diploma works (by purchase, bequest or donation) is by the Head of Collections, in consultation with the relevant curator. If the acquisition is more than £5,000 in value, a case for accessioning must be made by the Head of Collections to the Collections and Library Committee. All acquisitions are reported annually to the Collections and Library Committee by the Head of Collections. The list is subsequently submitted to Council as part of an annual report and the Head of Collections attends Council to discuss any matters arising from the report.

Disposals will only take place in accordance with the Acquisitions and Disposal Policy. No disposals were made in the year.

Objects will only be deaccessioned by way of exchange (in the case of Diploma Works) or if there is irreparable damage to or total loss of an object.

In the financial year, Diploma Works were presented by four Academicians being Brian Catling RA, Thomas Heatherwick RA, Richard Wilson RA and Chantal Joffe RA.

Gifts made to the Royal Academy in the current financial year included one mixed media work by Mimmo Paladino Hon RA, valued at £335,000. This has been recognised in the balance sheet and will be reviewed annually for impairment. Valuations are based on the value provided by the artist where available or the best estimate of value by the internal Royal Academy curators. Other gifts this year included a collection of drawings, portfolios and sketchbooks by Sir Hugh Casson PRA presented by his family and ten drawings by Eileen Cooper RA, presented by the artist.

The Acquisitions and Disposals Policy is available for review on the Royal Academy's website www.royalacademy.org.uk.

Preservation

The Royal Academy is committed to the preservation of its collections. It aims to ensure the longest possible life of the collections. This includes security, financial, environmental, storage and staffing that all help to preserve the collections for posterity.

Works of art are ordinarily stored and displayed in conditioned spaces. Some sculpture is stored in spaces without environmental controls; however these have proven to be naturally stable environments. The Royal Academy complies as closely as it is able with BS 5454:2000 "Recommendations for the Storage and Exhibition of Archival Documents 7.3" for the storage of its archives. Some items are held off-site in specialist warehouses.

For the works of art, most conservators employed by the Royal Academy are on the ICON Conservation Register. For other areas of the collections, a variety of conservation experts are consulted.

Collections management

The Works of Art Collection, Special Books Collection and Archive are catalogued in a series of discrete but interconnected databases, each fully conforming to their relevant professional standards, i.e. Spectrum for museum objects; AACR2 and MARC21 for books and ISAD(G) for archives. The three databases are linked to a series of shared authority files and thesauri against which terms such as personal names, corporate names, materials and techniques, and production roles must be validated. This ensures consistency in data entry and in data searches.

The Collection, Library and Archive are designated as collections of national importance as awarded by the Arts Council in 2011. In order to meet the stringent requirements for this award, an extensive list of procedures and policies for the management of the collection, informed by nationally and internationally recognised standards, were approved by Council. These documents can be consulted in the Collections' Office.

The Royal Academy of Arts

Notes to the financial statements

For the year ended 31 August 2017 (continued)

16. Heritage assets (continued)

Analysis of heritage assets (Group and Royal Academy)	Works of art	
	2017	2016
	£	£
Carrying amount at 1 September	46,000	-
Purchases	10,000	-
Gifts	335,000	46,000
Carrying amount at 31 August	391,000	46,000

17. Intangible fixed assets

Intangible assets include the Royal Academy's website and intranet development costs, core system software and R.A. Enterprises Limited's Epos, e-commerce and stock management software. Additions during the year of £420,175 (2016: £nil) relate to the development of an intranet and the cost of upgrading the Royal Academy's finance system and R.A. Enterprises Limited's Epos, e-commerce and stock management software. No amortisation has been charged on the additions for the year because the intranet development and upgrades were still in progress at the year end and the existing software is still in service. The assets are carried at £422,643 (2016: £138,714) and have a remaining amortisation period of between 1 and 3 years (2016: 1 to 2 years). There are no other individually material intangible assets.

a. Group	Software
	£
Cost	
At 31 August 2016	837,747
Additions	420,175
At 31 August 2017	1,257,922
Amortisation	
At 31 August 2016	699,033
Charge for the year	136,246
At 31 August 2017	835,279
Net book value	
At 31 August 2017	422,643
At 31 August 2016	138,714
b. Royal Academy	Software
	£
Cost	
At 31 August 2016	588,785
Additions	287,540
At 31 August 2017	876,325
Amortisation	
At 31 August 2016	471,192
Charge for the year	123,608
At 31 August 2017	594,800
Net book value	
At 31 August 2017	281,525
At 31 August 2016	117,593

The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)

18. Tangible fixed assets

a. Group	Building improvements	Assets in course of construction	Motor vehicles	Fixtures, fittings and equipment	Total
	£	£	£	£	£
Cost					
At 31 August 2016	15,208,800	22,147,379	36,944	13,518,480	50,911,603
Additions	397,009	30,249,216	-	399,007	31,045,232
Disposals	(39,349)	-	-	(114,983)	(154,332)
At 31 August 2017	15,566,460	52,396,595	36,944	13,802,504	81,802,503
Depreciation					
At 31 August 2016	2,749,159	-	24,027	5,285,580	8,058,766
Disposals	(39,349)	-	-	(106,564)	(145,913)
Charge for the year	927,066	-	5,000	1,528,348	2,460,414
At 31 August 2017	3,636,876	-	29,027	6,707,364	10,373,267
Net book value					
At 31 August 2017	11,929,584	52,396,595	7,917	7,095,140	71,429,236
At 31 August 2016	12,459,641	22,147,379	12,917	8,232,900	42,852,837

b. Royal Academy	Building improvements	Assets in course of construction	Motor vehicles	Fixtures, fittings and equipment	Total
	£	£	£	£	£
Cost					
At 31 August 2016	14,946,389	22,147,379	36,944	13,006,835	50,137,547
Additions	397,009	30,249,216	-	397,916	31,044,141
Disposals	(39,349)	-	-	(19,286)	(58,635)
At 31 August 2017	15,304,049	52,396,595	36,944	13,385,465	81,123,053
Depreciation					
At 31 August 2016	2,486,755	-	24,027	4,783,684	7,294,466
Disposals	(39,349)	-	-	(19,286)	(58,635)
Charge for the year	927,066	-	5,000	1,528,004	2,460,070
At 31 August 2017	3,374,472	-	29,027	6,292,402	9,695,901
Net book value					
At 31 August 2017	11,929,577	52,396,595	7,917	7,093,063	71,427,152
At 31 August 2016	12,459,634	22,147,379	12,917	8,223,151	42,843,081

c. 6 Burlington Gardens (Freehold property)	Group		Royal Academy	
	2017	2016	2017	2016
	£	£	£	£
Balance as at 31 August	14,470,064	14,470,064	14,470,064	14,470,064

In the opinion of the trustees, based on a valuation as at 31 August 2017 by an independent third party, the current open market value of the Royal Academy's interest in 6 Burlington Gardens exceeds the book value by approximately £49.4m. The Royal Academy would have no liability to taxation if the asset was sold at open market value.

The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)

19. Investments

	Group		Royal Academy	
	2017	2016	2017	2016
	£	£	£	£
Investments at market value	-	35,657	-	35,657
Investments in subsidiaries at cost	-	-	108	108
Total	-	35,657	108	35,765

The Royal Academy beneficially owns all of the called up share capital of RA (Arts) Limited (02836364), R.A. Enterprises Limited (01666333) and Burlington House Limited (02216104), each of which is registered in England and Wales.

Movement in market value of investments:	2017		2016	
	£	£	£	£
Market value of investments at 1 September		35,657		1,783,151
Disposals		(35,219)		(1,697,918)
Realised / unrealised losses		(438)		(49,576)
Market value of investments at 31 August		-		35,657

20. Stock

	Group		Royal Academy	
	2017	2016	2017	2016
	£	£	£	£
Finished goods and goods for resale	728,545	870,575	-	33,548
Artist donated artworks for resale	270,000	270,000	-	-
Total	998,545	1,140,575	-	33,548

21. Debtors

	Group		Royal Academy	
	2017	2016	2017	2016
	£	£	£	£
Trade debtors	2,077,744	1,253,207	900,761	576,082
Royal Academy related entities	-	-	1,286,483	1,177,009
Taxation and social security	1,487,719	1,095,552	1,487,719	1,095,552
Staff loans	55,100	45,167	55,100	45,167
Sundry debtors	1,451,266	1,476,299	1,291,601	1,222,054
Prepayments and deferred expenditure	1,225,715	911,832	1,036,637	608,484
Total	6,297,544	4,782,057	6,058,301	4,724,348

The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)

22. Creditors - amounts falling due within one year

	Group		Royal Academy	
	2017	2016	2017	2016
	£	£	£	£
Bank loan	219,600	219,600	219,600	219,600
Revolving credit facility	5,000,000	-	5,000,000	-
Trade creditors	2,517,912	2,360,126	2,107,277	2,067,706
Royal Academy related entities	-	-	107,526	64,106
The Friends of the Royal Academy	157,955	247,702	157,499	237,922
Royal Academy Development Trust	275,703	121,347	77,230	27,049
Taxation and social security	461,351	557,614	334,403	354,668
Sundry creditors	1,585,391	589,652	1,486,809	587,451
Accruals	4,282,740	3,073,227	4,113,778	2,771,495
Deferred income (i)	2,717,021	1,512,211	2,173,642	1,067,859
Total	17,217,673	8,681,479	15,777,664	7,397,856

A revolving credit facility of £5.0m was taken out in May 2017 to manage working capital requirements in relation to the Burlington Project. The facility is available for a period of five years and can be drawn down in advances with a minimum value of £0.5m. Each advance is repayable after three months; at the end of the three month period the advance can either be rolled over for another three month period or repaid.

i. Deferred income in 2017 includes ticket sales and sponsorship income for exhibitions in the next financial year, including Jasper Johns, Charles I, Matisse and Dali / Duchamp; and income for Ai Weiwei flowers and catalogues donated still to be sold and is analysed as follows:

	Brought forward	Amount added	Amount released	Carried forward
	£	£	£	£
Deferred income	1,512,211	2,447,021	(1,242,211)	2,717,021

23. Creditors - amounts falling due after more than one year

	Group		Royal Academy	
	2017	2016	2017	2016
	£	£	£	£
Bank loan	1,480,723	1,700,323	1,480,723	1,700,323
Unsecured loan	10,000,000	10,000,000	10,000,000	10,000,000
Total	11,480,723	11,700,323	11,480,723	11,700,323

Creditors include amounts not wholly repayable within 5 years as follows:

Unsecured loan	10,000,000	10,000,000	10,000,000	10,000,000
Bank loan repayable by instalments	602,323	602,323	602,323	602,323
Total	10,602,323	10,602,323	10,602,323	10,602,323

The bank loan was taken out in 2009 and is repayable in instalments by 2025. Interest of £34,236 (2016: £31,305) was charged in the year.

In December 2014, the company entered into an unsecured £10.0m loan facility agreement. This amount was advanced in December 2014 and is repayable in ten instalments of £1.0m each from 2034 until 2043, and has a fixed rate of interest of 4.21% pa. This facility is being used to fund exceptional operating costs during the Burlington Project construction phase and the continuing plant upgrade/renewal programme for conditioning the Burlington House galleries. Interest of £421,000 (2016: £421,000) was charged in the year. The company remains compliant with its various loan covenants.

The Royal Academy of Arts
Notes to the financial statements
For the year ended 31 August 2017 (continued)

24. Analysis of net assets by fund

a. Group	Restricted		Designated		Unrestricted		Total
	Burlington Project	Other Funds	Burlington Project	General funds	General funds	Pension reserve	
	£	£	£	£	£	£	£
Heritage assets	-	391,000	-	-	-	-	391,000
Intangible assets	-	-	-	-	422,643	-	422,643
Tangible assets	45,112,342	-	-	-	40,786,958	-	85,899,300
Current assets	28,792	54,212	5,353,684	138,039	10,267,866	-	15,842,593
Current liabilities	(7,370,634)	-	-	-	(9,847,039)	-	(17,217,673)
Long term liabilities	-	-	-	-	(11,480,723)	-	(11,480,723)
Pension asset	-	-	-	-	-	3,009,000	3,009,000
Total	37,770,500	445,212	5,353,684	138,039	30,149,705	3,009,000	76,866,140

b. Royal Academy	Restricted		Designated		Unrestricted		Total
	Burlington Project	Other Funds	Burlington Project	General funds	General funds	Pension reserve	
	£	£	£	£	£	£	£
Investments	-	-	-	-	108	-	108
Heritage assets	-	391,000	-	-	-	-	391,000
Intangible assets	-	-	-	-	281,525	-	281,525
Tangible assets	45,112,342	-	-	-	40,784,874	-	85,897,216
Current assets	28,792	54,212	5,353,684	138,039	8,964,251	-	14,538,978
Current liabilities	(7,370,634)	-	-	-	(8,407,130)	-	(15,777,764)
Long term liabilities	-	-	-	-	(11,480,723)	-	(11,480,723)
Pension asset	-	-	-	-	-	3,009,000	3,009,000
Total	37,770,500	445,212	5,353,684	138,039	30,142,905	3,009,000	76,859,340

25. Analysis of funds

a. Group	Opening funds	Transfers	Income	Expenditure	Revaluation	Closing funds
	£	£	£	£	£	£
Restricted funds:						
Other funds	110,538	-	2,890,596	(2,555,922)	-	445,212
Burlington Project	27,349,473	-	10,421,027	-	-	37,770,500
Total restricted funds	27,460,011	-	13,311,623	(2,555,922)	-	38,215,712
Unrestricted funds:						
Burlington Project (designated)	4,132,551	-	1,817,368	(596,235)	-	5,353,684
General funds (designated)	-	-	138,039	-	-	138,039
General funds	32,451,023	(527,000)	34,448,656	(36,222,974)	-	30,149,705
Pension reserve	(3,522,000)	527,000	-	-	6,004,000	3,009,000
Total unrestricted funds	33,061,574	-	36,404,063	(36,819,209)	6,004,000	38,650,428
Total funds	60,521,585	-	49,715,686	(39,375,131)	6,004,000	76,866,140

The Royal Academy of Arts Notes to the financial statements For the year ended 31 August 2017 (continued)

25. Analysis of funds (continued)

b. Royal Academy	Opening funds	Transfers	Income	Expenditure	Revaluation	Closing funds
	£	£	£	£	£	£
Restricted funds:						
Other funds	110,538	-	2,890,596	(2,555,922)	-	445,212
Burlington Project	27,349,473	-	10,421,027	-	-	37,770,500
Total restricted funds	27,460,011	-	13,311,623	(2,555,922)	-	38,215,712
Unrestricted funds:						
Burlington Project (designated)	4,132,551	-	1,817,368	(596,235)	-	5,353,684
General funds (designated)	-	-	138,039	-	-	138,039
General funds	32,444,223	(527,000)	34,448,656	(36,222,974)	-	30,142,905
Pension reserve	(3,522,000)	527,000	-	-	6,004,000	3,009,000
Total unrestricted funds	33,054,774	-	36,404,063	(36,819,209)	6,004,000	38,643,628
Total funds	60,514,785	-	49,715,686	(39,375,131)	6,004,000	76,859,340

Restricted funds include the development of the Burlington Project, which is due for completion in 2018. The restricted funds will be transferred to unrestricted funds on completion of each phase of the project. Currently this is represented as assets in the course of construction in note 18 and will be transferred to building improvements or fixtures, fittings and equipment from the date these are placed in service.

Other restricted funds include donations of £841,447 (2016: £727,284) received from the Royal Academy Development Trust, other donations of £1,901,153 (2016: £1,071,363) and grants of £147,996 (2016: £19,131) received for specific and general activities as disclosed in notes 5 and 6 respectively. Any unused funds received from the Royal Academy Development Trust in the year have been donated back to the Royal Academy Development Trust. The remaining balance in restricted funds relates to the Swanston bequest (£49,128 (2016: £59,454)), the ongoing Library project (£5,084 (2016: £5,084)) and heritage assets (£391,000 (2016: £46,000)).

The Swanston bequest was established in 2014 from a legacy of £60,000. The bequest is being used for curating and publishing costs associated with the *Taddei Tondo*.

The Burlington Project designated funds are being drawn down as works on the Burlington Project are undertaken; the funds are expected to be fully utilised on completion of the project in 2018.

The general designated funds relate to a legacy of £88,039 received in the year designated by Council in support of the study and research in art and architecture to the Royal Academy Schools; and a legacy of £50,000, designated towards the Royal Academy's public appeal which reflects the non-binding wishes of the donor. It is anticipated that the former will be spent over a period of five years, the latter within one year.

No assets (2016: £4,721,806) were transferred to building improvements during the year, as no specific identifiable assets have been brought into service on the Burlington Project since completion of the new art handling suite in 2016. In 2016 computer equipment of £18,547 purchased for the temporary accommodation was put into service (2017: £nil).

26. Administered funds

The Royal Academy has six funds which have not been consolidated within the financial statements of the Royal Academy, on the basis that while the Royal Academy is administering the funds, it is not the ultimate beneficiary. However, as the funds are administered by the Royal Academy, these have been disclosed separately below for information.

These funds consist of the following:

Frampton Fund
Agnes Ethel MacKay Fund
Jack Goldhill Sculpture Fund
Charles Wollaston Award Fund
Pitchforth Scholarship Fund
Sir John Reeves Ellerman Fund

	2017	2016
	£	£
Income from investments	67,924	36,987
Expenditure	(52,817)	(56,516)
Net gains / (losses) on investments	343,260	(73,767)
Net income / (expenditure)	358,367	(93,296)
Total funds brought forward	3,576,185	3,669,481
Total funds carried forward	3,934,552	3,576,185

Represented by:

Investments	3,772,734	3,439,474
Cash at bank	113,744	122,978
Debtors	72,191	31,313
Creditors	(24,117)	(17,580)
Total funds	3,934,552	3,576,185

The Royal Academy of Arts Notes to the financial statements For the year ended 31 August 2017 (continued)

27. Reconciliation of net income to net cash inflow from operating activities

	2017	2016
	£	£
Net income	10,340,555	21,134,402
Heritage asset gifts	(335,000)	(46,000)
Amortisation of intangible assets	136,246	233,854
Depreciation of tangible assets	2,460,414	2,152,021
Loss on disposal of tangible assets	8,419	53,728
Current pension service costs	115,000	441,000
Pension contributions paid	(642,000)	(778,000)
Decrease in stock	142,030	609,275
Increase in debtors	(1,515,487)	(1,581,097)
Increase in creditors	3,536,194	986,990
Interest paid	467,824	451,731
Interest received	(198,752)	(186,242)
Net losses on investments	438	49,576
Net cash provided by operating activities	14,515,881	23,521,238

28. Pension costs

The Royal Academy, together with its subsidiary undertakings, participates in a funded defined benefit pension scheme, operated by the Royal Academy of Arts Pension Scheme (the "Scheme"), providing benefit based on final pensionable salary. The assets of the Scheme are held independently from those of the Royal Academy.

The Scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to the members' final salary at retirement and their length of service up to the date on which the Scheme closed to future accrual, being 30 September 2016. The Scheme is a registered scheme under UK legislation and is not contracted out of the State Sector Pension.

The Scheme is subject to the scheme funding requirements outlined in UK legislation.

The Scheme was established from 3 January 1985 under trust and is governed by the Scheme's definitive trust deed and rules dated 31 March 1998. The trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy.

A full actuarial valuation of the Scheme was carried out as at 31 August 2016 and has been updated to 31 August 2017 by a qualified independent actuary.

The value of the liabilities at the reporting date have been estimated by updating the results of the actuarial valuation as at 31 August 2016 to allow for the passage of time, actual inflation experience, benefits paid out of the Scheme and changes in actuarial assumptions over the period from 31 August 2016 to 31 August 2017.

Since June 2006 the Scheme has been closed to new members and closed to future accrual on 30 September 2016.

The major assumptions used by the actuary were (in nominal terms) as follows:	2017	2016
Discount rate	2.50%	2.10%
Inflation assumption (RPI)	3.30%	2.90%
Inflation assumption (CPI)	2.30%	1.90%
Rate of increase in salaries	3.30%	2.90%
Pension increases for service accrued:		
Pre 6 April 1997	2.40%	2.30%
6 April 1997 to 30 September 2006	3.20%	2.80%
Post 30 September 2006	2.10%	2.00%
Assumed life expectancies on retirement at age 60 are:		
Retiring in 2020 - Males	26.9	27.2
Retiring in 2020 - Females	28.9	29.5
Retiring in 2040 - Males	28.5	28.7
Retiring in 2040 - Females	30.5	31.1

The assumptions used in determining the overall expected return of the Scheme's assets have been set with reference to yields available on government bonds and appropriate risk margins.

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For the year ended 31 August 2017 (continued)

28. Pension costs (continued)

The assets in the Scheme were:	2017	2016
	£	£
Equities or equivalent	31,143,000	29,665,000
Corporate bonds	2,920,000	3,493,000
Cash	1,284,000	763,000
LDI funds	5,842,000	3,337,000
Commodities	364,000	-
Fair value of Scheme assets	41,553,000	37,258,000
Present value of funded obligations	(38,544,000)	(40,780,000)
Surplus / (deficit) in funded Scheme	3,009,000	(3,522,000)
Net asset / (liability) in balance sheet	3,009,000	(3,522,000)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:	2017	2016
	£	£
Benefit obligation at beginning of year	40,780,000	31,124,000
Current service cost	48,000	439,000
Interest cost	846,000	1,170,000
Contributions by Scheme participants	7,000	88,000
Actuarial (gains) / losses	(2,163,000)	8,765,000
Benefits paid	(974,000)	(806,000)
Benefit obligation at end of year	38,544,000	40,780,000

Reconciliation of opening and closing balances of the fair value of Scheme assets:	2017	2016
	£	£
Fair value of Scheme assets at beginning of year	37,258,000	30,696,000
Interest income on Scheme assets	779,000	1,168,000
Return on assets, excluding interest income	3,841,000	5,334,000
Contributions by employer	642,000	778,000
Contributions by Scheme participants	7,000	88,000
Benefits paid	(974,000)	(806,000)
Fair value of Scheme assets at end of year	41,553,000	37,258,000

The amounts recognised in the SOFA:	2017	2016
	£	£
Service cost - including current service costs, past service costs and settlements	48,000	439,000
Net interest on the net defined benefit liability	67,000	2,000
Total expense	115,000	441,000

Remeasurement of the net defined benefit asset / (liability):	2017	2016
	£	£
Actuarial (gains) / losses on the liabilities	(2,163,000)	8,765,000
Return on assets, excluding interest income	(3,841,000)	(5,334,000)
Total remeasurement of the net defined benefit asset / (liability)	(6,004,000)	3,431,000

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Notes to the financial statements
For the year ended 31 August 2017 (continued)

29. Authorised and contracted capital expenditure

a. Group	Total project cost	Assets in service	Assets in course of construction	Authorised but not contracted for	Contracted for	Unauthorised
	£	£	£	£	£	£
Plant upgrades	17,986,205	11,631,683	5,728,641	352,479	273,402	-
Minor projects	5,356,924	2,764,598	1,517,597	804,000	270,729	-
Burlington Project - Phase I	53,595,000	4,728,040	43,846,389	-	5,020,571	-
Burlington Project - Phase II	15,000,000	-	920,188	-	11,125	14,068,687
Other Burlington Projects:						
Senate Rooms	250,000	-	157,850	92,150	-	-
Additional office space	700,000	-	136,986	551,281	11,733	-
Collections Display	802,000	-	88,944	693,847	19,209	-
Total	93,690,129	19,124,321	52,396,595	2,493,757	5,606,769	14,068,687

b. Royal Academy	Total project cost	Assets in service	Assets in course of construction	Authorised but not contracted for	Contracted for	Unauthorised
	£	£	£	£	£	£
Plant upgrades	17,986,205	11,631,683	5,728,641	352,479	273,402	-
Minor projects	5,055,731	2,643,315	1,517,597	804,000	90,819	-
Burlington Project - Phase I	53,595,000	4,728,040	43,846,389	-	5,020,571	-
Burlington Project - Phase II	15,000,000	-	920,188	-	11,125	14,068,687
Other Burlington Projects:						
Senate Rooms	250,000	-	157,850	92,150	-	-
Additional office space	700,000	-	136,986	551,281	11,733	-
Collections Display	802,000	-	88,944	693,847	19,209	-
Total	93,388,936	19,003,038	52,396,595	2,493,757	5,426,859	14,068,687

Burlington Project - Phase II which is the redevelopment of the Royal Academy Schools is currently at an early design stage. Total costs of this phase are estimated at £15.0m but further expenditure on this has not been authorised pending further design work and capital fundraising.

30. Contingent liabilities

The Royal Academy and its subsidiaries had no contingent liabilities as at 31 August 2017 (2016: none).

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Notes to the financial statements

For the year ended 31 August 2017 (continued)

31. Financial commitments

At 31 August total commitments under operating leases were as follows:

a. Group	Land and buildings	Other	Total 2017	Land and buildings	Other	Total 2016
	£	£	£	£	£	£
Under one year	145,748	379,324	525,072	817,657	311,986	1,129,643
Two to five years	194,620	1,381,605	1,576,225	272,940	1,235,263	1,508,203
Over five years	-	774,247	774,247	-	1,074,247	1,074,247
Total	340,368	2,535,176	2,875,544	1,090,597	2,621,496	3,712,093

b. Royal Academy	Land and buildings	Other	Total 2017	Land and buildings	Other	Total 2016
	£	£	£	£	£	£
Under one year	145,748	325,126	470,874	817,657	311,986	1,129,643
Two to five years	194,620	1,224,919	1,419,539	272,940	1,235,263	1,508,203
Over five years	-	774,247	774,247	-	1,074,247	1,074,248
Total	340,368	2,324,293	2,664,661	1,090,597	2,621,496	3,712,093

32. Financial instruments

The financial statements include the following financial instruments at 31 August:

	Group		Royal Academy	
	2017	2016	2017	2016
	£	£	£	£
Financial assets measured at amortised cost	5,661,854	4,027,880	4,434,706	3,596,394
Financial liabilities measured at amortised cost	16,557,213	8,971,780	15,376,996	8,043,035
Financial assets measured at fair value	-	35,657	108	35,765

33. Related party transactions

Those in positions of authority within the Group, including trustees, Council members and directors, use facilities of the Group on the same terms as other Academicians, Friends, Patrons or external customers. This includes access to exhibitions, purchases from shops, Summer Exhibition, and auctions, and also the use of catering facilities. For the year ended 31 August 2017, all transactions with related parties are considered within the scope of normal transactions.

Income of £2,328,505 (2016: £3,300,346) was received from R.A. Enterprises Limited, being a donation of 100% of their net income for the year. In addition, R.A. Enterprises Limited was recharged salaries of £1,831,458 (2016: £1,854,275) and recharged to the Royal Academy expenditure of £197,020 (2016: £309,359). At the year end, £1,045,705 (2016: £968,543) was owed and included within the Royal Academy's debtors.

Income of £229,197 (2016: £177,459) was received from Burlington House Limited, being a donation of 100% of their net income for the year. In addition, Burlington House Limited recharged expenses of £173,910 (2016: £105,553). At the year end, £107,526 (2016: £64,106) was outstanding and included within the Royal Academy's creditors.

Income of £1,653,890 (2016: £1,485,649) was received from RA (Arts) Limited, being a donation of 100% of their net income for the year. In addition, RA (Arts) Limited was recharged salaries of £164,873 (2016: £180,694) and recharged to the Royal Academy expenses of £335,734 (2016: £274,699). At the year end, £240,778 (2016: £208,466) was owed and included within the Royal Academy's debtors.

Income of £9,373,060 (2016: £9,598,376) was received from The Friends of the Royal Academy, being a donation of 100% of their net income for the year. In addition, The Friends of the Royal Academy reimbursed salary and other expenses recharged of £534,659 (2016: £476,127). At the year end, £157,499 (2016: £237,922) was outstanding and included within creditors.

In order to optimise cash management efficiency, the current accounts of the Royal Academy, its subsidiary undertakings and The Friends of the Royal Academy are pooled, such that overnight all cleared debit and credit balances on the current accounts of these entities are set off into a single Royal Academy account. The debtor and creditor balances between each of the entities in this pooling group at the year end in part reflects this pooling arrangement.

During the year, the Royal Academy received income of £841,447 (2016: £13,547,455) from the Royal Academy Development Trust consisting of donations made to support various campaigns and projects undertaken. Expenditure of £20,462 (2016: £27,054) relates to the donation of funds to be held in investments by the Royal Academy Development Trust, designated for the Royal Academy. At the year end, £77,230 (2016: £27,049) was outstanding and included within the Royal Academy's creditors.

The trustees donated a total of £20,000 (2016: £10,000) to the Royal Academy during the year. Of these amounts £20,000 (2016: £nil) was donated towards the Burlington Project and £nil (2016: £10,000) was free from any conditions.

The Royal Academy of Arts is transforming itself for its 250th birthday. In Spring 2018, we will open new spaces and free displays that will enable us to promote the appreciation, understanding and practice of art as never before.