Edinburgh College of Art

Report and Financial Statements

For the year ended 31 July 2010

Scottish Charity Number SC009201

Contents

Edinburgh College of Art

Founded in 1907, but with a history dating back to the 18th century, Edinburgh College of Art ("the College") is home to around 1,700 full-time students who enjoy a learning environment that is supportive, challenging and international in outlook.

2009-10 saw the College attract the UK's highest rate of increase in applications; overseas numbers were higher than ever; research performance in architecture and landscape architecture is among the best in the UK, and we have the highest rating for quality assurance and enhancement. The College enjoys an enviable international reputation and, with over twenty applications for every place, is one of the most popular and successful art colleges in Europe.

Our students and graduates are of the highest quality, regularly winning major awards across art, design, architecture and landscape architecture. In 2009-10 our students won an exceptional number of awards including

- British Animation Awards;
- best Scottish Short Documentary;
- the Contemporary Glass Society prize;
- best Portfolio and best Dissertation at the Landscape Institute Awards;
- the Student Award in the Jerwood Drawing Prize; and
- four students won New Talent BAFTAs 2010 and a further six students were nominated.

Our graduates have won many awards, including the Turner Prize 2010, a major commission for the Cultural Olympiad, the Aspect Prize, the Art Foundation Award 2010 in Jewellery, the 'Next' Young Designer fashion award, the Swarovski Emerging Talent Award, the Elle award for New Designer of the Year 2010, Young Scottish Designer of the Year at the Scottish Fashion Awards 2009 and 2010, and several Scottish BAFTAs.

The College's vision is one College, independent and interconnected that:

- the best students and staff, from all over the world and from all backgrounds will want to come to;
- develops ideas, creativity, and skills that will have an international impact;
- brings together a broad portfolio of art and design disciplines;
- through the creative practice of its staff and students, nurtures the cultural and economic life of Scotland; and
- staff, students, alumni and the wider community in Edinburgh and Scotland will be proud of.

In 2009 the QAA Enhancement-led Institutional review of the College was published giving an overarching confidence judgement, indicating that the College has secure arrangements for managing academic standards and for assuring and enhancing the quality of the student experience.

During academic session 2009-2010 and subsequent to the successful outcome of our QAA Enhancement Led Institutional Review, the College undertook a holistic review of its portfolio of programmes and curriculum. The purpose was to ensure that the content and structure of courses remains relevant for the needs of students and graduates in the 21st century. The Heads of Schools led the review with a small project team, and significant numbers of students and staff participated through focus group events. Some of the key issues identified include working collaboratively, working across disciplines and across College, working within an external 'real world' context and providing students with the opportunity to study different subjects via electives. The development of the joint School of Architecture with the University of Edinburgh ("the University") (ESALA) has already incorporated a number of these features and the Schools of Art and Design will modify their structure and programmes to develop these opportunities during their forthcoming quinquennial Internal Review of Academic Programmes (IRAP) in February and March this year. A key initiative for Art and Design is the development of an integrated Masters provision which will provide greater opportunities for home students to study at post-graduate level at the College.

External research income for 2009-10 was £1.03 million compared with £709,000 in the previous year, with a major grant of £1.19 million over three years from the Engineering and Physical Science Research Council for the ECA-led TOTEM project.

Student numbers in 2009-10 were 1,945 of which 228 were overseas compared with 1,793 of which 200 were overseas, in the previous year.

Edinburgh College of Art *(continued)*

In 2010, the Board of Governors approved the undertaking of discussions with the University to consider the possibility of a merger between the two institutions. Merger with the University will offer opportunities for students and staff to be at the forefront of multi-disciplinary application of design and art to traditional areas of study. It will enhance the College's ability to develop the student experience and to increase its research activities.

The benefits of merger for the College include: enhancement of academic opportunities for students through broadening the portfolio of subjects; creating innovative programmes of study and research across both institutions; access to new income streams and research support for staff and post-graduate students; and access to a wider professional support infrastructure.

The potential for utilising the combined expertise and creativity in art, design, architecture with the creativity in science, technology and informatics and medicine is extremely exciting for the College, the University and for Scotland, in the diverse and demanding world of the 21st Century.

The success of the joint initiative ESALA (the Edinburgh School of Architecture and Landscape Architecture), gives a pointer to what can be achieved. Research at ESALA rated second in the UK by volume.

History and tradition have had an important role to play in shaping the College, but since its inception as a School of Drawing in 1760, through the Trustees' Academy and up to its current form, the College has constantly adapted and evolved to meet the needs of the times and seize the opportunities. Then, as now this is primarily about the future.

Ministerial approval for the merger was received on 24 January 2011. Planning is underway to implement the merger by 1 August 2011.

Student curriculum

The College has established a rationalised academic organisational structure with the aim of creating a team-based management structure of a Head of School, supported by Associate Heads in each of the main subject areas of Art, Architecture & Landscape Architecture and Design. This enables greater degree of shared accountability for quality assurance, academic enhancement, research and strategic development. In 2010 the three School organisation was completed, including the new Edinburgh School of Architecture and Landscape Architecture with the University.

Also in 2009-10, a full curriculum review was initiated and the early consultation process included events for staff and students. These events focused upon '21st Century Graduate Attributes' and represented an opportunity for students, academic and support staff across the College to contribute directly to shaping the design, organisation, delivery and experience of education at the College. A 'Student Experience and Learning Environment Committee' was established with a focus on the strategic development of the College's learning environment, specifically in relation to the student experience.

Staff, students and equality and diversity

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

In response to action plans laid out in the 2008-09 disability scheme, feedback from students and staff via the feedback channel on the web/portal helped identify areas for attention. This led to the rationalisation of how the College procured and delivered disability related equipment for students. In relation to the action plans incorporated in the Equality Scheme 2009-10, an audit carried out by human resources led to changes in the content of Diverse Possibilities training offered to all staff. 3% of staff have declared that they have a disability.

Scope of the financial statements

The financial statements contained within this report reflect the results of both the Group and the College, for the year to 31 July 2010.

The College has two subsidiary companies: ECA (Westport) Limited which was the vehicle through which Evolution House was acquired in 2006 (with the subsequent transfer of Evolution House to the College, an application will now be made to have this company struck off in 2011). The financial statements of the Andrew Grant Scholarship Fund are also included in the consolidated financial statements. Andrew Grant Scholarship Fund is a registered Scottish Charity and files its own financial statements with the Office of the Scottish Charity Regulator.

Results for the year

The College has had another financially challenging year with an operating deficit of £12.7 million. The impact of the decision to acquire Evolution House and the loan finance associated with it, together with the level of government funding for small specialist institutions, has placed additional strain on the College's resources, particularly on its cash flow, in the current year.

Total income has increased by 4%, with increases in tuition fees and research grants and contracts. Increases in tuition fees and research grant and contract income are in line with the 2009-10 budget.

During the year staff headcount was reduced by 40, predominantly in non-academic areas. This variation against 2008-09 is reflected in the reduction in staff costs and increase in associated restructuring costs. The major increase in deprecation arises from impairment and accelerated depreciation charges. Further details on these and other items viewed as exceptional are detailed below.

The consolidated and college balance sheets, with net current liabilities and negative general reserves reflects the financial challenges faced by, and being addressed by, the College.

The financial challenges in 2009-10 included several exceptional items as detailed below:

Impairment charges

In undertaking an impairment review of Evolution House, referring for example to an independent market valuation of the College's estate, it was agreed that an impairment charge (£11 million) should be applied to bring the carrying value in the College's balance sheet into line with the anticipated recoverable amount.

To ensure that fixed assets are recorded in the financial statements at no more than their recoverable amount, an impairment review was also undertaken in respect of the conversion of an outdated work shop area in the Hunter Building into a new auditorium with the latest facilities in audio visual requirements. Planning and physical work commenced in 2007-2008 but due to financial strictures and the lack of cash, a hold was placed on this project in 2009-10. As a result the area is unusable and remains incomplete. The carrying amount of this asset was compared with its recoverable amount and, as the carrying amount was higher, the asset was written down by the application of an impairment charge of £1 million. Two external donations received for this project in July 2010, have been classified as creditors and discussions initiated in respect of their future use.

The economic life of all College land and buildings was reviewed and the policy revised. This resulted in accelerated depreciation of £300,000 in respect of the Architecture Building and Evolution House.

Results for the year *(continued)*

Banking arrangements

The College's external loan of £11.5 million with Lloyds Bank Group plc has been classified as a current liability, as the covenants in favour of the bank in relation to this loan have been breached by the College. The College has entered into discussions with the bank which has indicated that it will not recall the outstanding loan, assuming that the loans terms are satisfactorily renegotiated by 31 July 2011.

The College experienced severe cash flow shortages during the year end advances of grant, each of £500,000 were provided by the Scottish Funding Council ("SFC") each to be repaid as agreed with SFC. The total borrowed from SFC was £1.6 million. The College's overdraft facilities were also increased to £500,000 to assist with management of cash flows.

Cash management

As noted in the 2009 Report and Financial Statements, an advance of grant of £300,000 was provided by SFC in July 2009 and repaid during 2009-10. As a condition of this assistance, the College prepared a three year Financial Recovery Plan and performance against this was monitored throughout 2009-10 and continues. That Financial Recovery Plan forecast an operating deficit of £1.9 million and additional impairment costs of at least £1 million. It identified the requirement to reduce staff and other operating expenditure. SFC provided loan funding of £600,000 to reduce base salary costs.

During 2009-10 and in the current financial year, action has been taken to improve the financial position of the College. Responsibility for financial management was revised during the year with for example, external expertise being provided in updating the College's budgetary and forecasting processes. The senior management team was strengthened by the appointment of a Chief Operating Officer in October 2010, reporting to the Chairman of the Board and having direct responsibility for the financial management of the College's affairs. (With the resignation of the College Secretary in October 2010, the statutory responsibility assigned to this role, has been encompassed by this new position).

Staff costs

£1.4 million of the £2 million decrease in staff costs is due to a one-off pension credit to reflect the change in inflation assumptions from RPI to CPI. This accounting credit is not cash-based (in the short term).

Cash flow

The cash balances increased marginally in the year from £16,000 in 2009 to £353,000 in 2010. This reflects the provision of an advance of grant from SFC of £500,000 in July 2010.

Creditor's payment policy

The College's policy on paying suppliers is that payments are made in accordance with the terms and conditions agreed between the College and its suppliers, provided that all trading terms and conditions have been complied with. The College follows a policy of timely payment to suppliers, such that all invoices are settled in the month following the invoice date. As in 2009 no interest was paid under the Late Payments of Commercial Debts (Interest) Act.

Capital expenditure

With the financial difficulties experienced in 2008-09 and 2009-10, no new capital expenditure was undertaken and the capital additions shown in the balance sheet relate to final capital payments of retentions and VAT, in respect of Evolution House. Plans for the completion of a major capital project - the auditorium project were placed on hold in 2009-10.

Investment performance

The total value of the endowment fund increased during the year from £3.4 million to £3.7 million reflecting the recovery in financial markets. The revenue income generated by this endowment was in line with the benchmark set by the College.

Treasury management

The preparation of and monitoring against detailed monthly cash flows formed part of the Financial Recovery Plan and actual cash flows were closely monitored against budget. SFC and the College's bankers assisted the College with the provision of advances of grant through additional loans and overdraft facilities respectively.

Underlying financial position going forward

Given the generation of operating deficits within the College over the last three years, considerable effort has been expended in improving the budgeting and forecasting techniques applied in the College during 2009-10 for future use. A more transparent and comprehensive approach to budgeting and forecasting has been adopted.

Although a deficit budget has been approved for 2010-11, additional loan funding to further reduce the annual salary base by £1 million per annum has been provided by SFC in 2010-11. The required reduction of salary costs, through a voluntary severance and redundancy scheme, are well advanced. Building on this base, various financial scenarios of the College remaining as an independent institution have been considered by the Board of Governors and whilst not without their challenges, are considered to display the financial sustainability of the College.

Current and future developments

As noted earlier, discussions regarding a potential merger with the University have taken place throughout 2009-10. In planning for the future, regard has been taken of both the implementation of a merger and the continuation of the College as an independent institution.

The merger with the University was approved by the Scottish Ministers on 24 January 2011. Additional funding of £13.8 million is being made available to allow the merger to proceed. The College is now implementing integration plans for the merger so that it is effective on 1 August 2011. This process is being overseen by the operation management team, with members from both the College and the University. Detailed transitional and operational plans are being developed and revised to support a merger.

Long-term cash flows and financing requirements

Long-term cash flow projections have been prepared and shared with both the SFC, College bankers and the University. Adequate financing is forecast to July 2013, the position improving significantly with the repayment of various loans as part of the merger funding package.

Principal risks and uncertainties

Both opportunities and challenges are offered by the option of merger and detailed work is underway in ensuring an effective transition and integration process now that merger is approved with an implementation date of 1 August 2011.

The College is also planning for continued financial recovery and excellent services to students should it remain as an independent institution. With the reduction in public sector funding growing faster than the anticipated increase in tuition fee income (particularly overseas) considerable restructuring within the College is under consideration. Plans are also being developed in relation to the College's estate to reflect any further changes in the delivery of teaching and research services.

Employee involvement

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

Looking forward

The College has experienced severe financial difficulties and received support and funding to assist in addressing these issues in 2009-10. Stronger financial management controls and frameworks were introduced during the year. This, along with the strengthening of the management team within the College, provides assurance to the Board of Governors that the financial performance is being monitored, reported and actioned. The merger with the University will afford our students and staff great opportunities and will provide a sustainable future for the College.

The merger with the University will lead to a step-change in the already extensive interactions between the College and the University, bringing substantial benefits to students and staff, and to Scottish higher education, society and the economy. It will provide a sustainable future for the College into the 21st century.

We would like to extend thanks to all staff for their hard work and dedication in these challenging times. We would also like to extend our thanks to the following Governors who have left the Board of Governors:
Professor Blackmore, Professor Forbes, Professor MacGregor, Mr McKenzie, Lady Mathewson, Professor Owen and Mr Robertson. We also welcome the following Governors who have recently joined the Board: Ms J Cunliffe, Mr E Frizzell CB MA(Hons) FRSA, Ms T Jackson, Ms L Watt LLB Dip LP CA, and Dr P West.

Disclosure of information to auditors

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

Donald Workman, Chair of the Board of Governors

Professor Ian Howard, Principal

Dr Peter West, Chief Operating Officer

21 March 2011

The following statement is given to provide an understanding of the governance procedures applied by the College's Governing body (hereinafter referred to as the Board). The College is committed to exhibiting best practice in all areas of corporate governance. This summary describes the manner in which the College has applied the principles in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in 2006 and the Turnbull Committee (Turnbull Guidance). Its purpose is to help the readers of the financial statements understand how the principles have been applied.

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

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

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

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ended 31 July 2010 and up to the date of approval of the Report and Financial Statements. This process is regularly reviewed by the Board and accords with the internal control guidance for Directors on the Combined Code as amended by the British Universities Finance Directors Group.

From December 2002, when the Board adopted a risk management strategy for the College, significant risks have been kept under review by the College's internal auditors who prepare an annual needs assessment report which is considered and approved by the Board. Through this process, the Board aims to embed a culture of risk management throughout the institution, to encourage staff to take ownership of risks and to control the risk management programme through monitoring techniques in accordance with the internal control guidance for Directors on the Combined Code as amended by the British Universities Finance Directors group.

The Board discharge its responsibilities as follows:

- The Board meets at least four times a year, one meeting being for the specific purpose of approving the College's strategic and operational plans. The Board considers strategic plans, annual budgets, monitors staffing, student estates and finance issues, sets and approves performance measures and ensure that there is a clear definition of delegated powers and lines of accountability. (During 2009-10 there were six meetings).

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

- The Audit and Risk Committee is responsible for meeting four times annually with the external and internal auditors to discuss audit findings and to consider detailed audit reports and recommendations for the improvement of the College's systems of internal control, together with management responses and action plans. Whilst senior management attend meetings of the Audit and Risk Committee, as necessary, they are not members of the committee and the committee meets with the internal and external auditors on their own for independent discussions (Six Audit and Risk Committee meetings were held in 2009-10 with an additional four joint meetings with the Finance Sub-Committee).

- The Finance sub-committee recommends to the Board the College's financial plans and annual budgets and monitors performance in relation to the approved budgets. (Seven meetings of this committee were held in 2009-10 in addition to two meetings of the Policy and Resources Committee during 2009-10).

- The Awards and Bequest sub-committee reports to the Finance Sub-Committee.

During the course of 2009-10 the Governors identified various weaknesses in its system of internal control and action was taken by augmenting the senior management team with additional financial management skills. This was confirmed by internal audit in their annual report. In addition to more frequent committee meetings, as noted above, a review of internal systems and processes, (as detailed below), was undertaken and actions taken.

- clear definitions of the responsibilities of, and the authority delegated to, the Board of Governors and the executive;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income and expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for the approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to detailed appraisal and review according to approval levels set by the Board of Management;
- comprehensive financial regulations, detailing financial controls and procedures;
- a professional internal audit service whose annual programme is approved by the Audit and Risk Committee and who provide the Audit and Risk Committee with a report on the internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including financial control.

The internal auditors concluded that "On the basis of work undertaken in relation to the year ended 31 July 2011 … did not have an adequate framework of control".

My review of the effectiveness of the overall system of internal control is therefore informed by:

- the organisation's risk management framework;
- the work of internal audit and the Audit and Risk Committee which oversees this activity;
- the internal control assessment framework, including the report of the Audit and Risk Committee to the Board; and
- matters raised by external auditors in their management letter and other reports.

In summary, as a result of the Governors' actions, there has been an improvement in the quality of management information provided to the Governors and greater engagement with committees of the Board. The Governors are committed to continuing the improvements in its system of internal control introduced in 2010.

Professor Ian Howard
Principal

21 March 2011

Board of Governors as at 21 March 2011

Details of the membership of the Board of Governors throughout 2009-10 and up to the date of signing the Financial Statements are given below:

Membership of Board and Committees

Chairman

Mr Donald Workman, MA (Oxon)	Chairman/Convenor of Chairman's Committee. Chairman/Convenor of Chairman's Committee Acting as Remuneration Committee. Chairman/Convenor of Chairman's Committee Acting as Nominations Committee. Convenor of Policy & Resources Committee. Member of Finance Sub-Committee

Ex Officio

Principal Professor Ian G. Howard, MA, RSA	Convenor of Health & Safety Committee. Member of Policy & Resources Committee. Member of Finance Sub-Committee. Member of Estates Sub-Committee. Member of Chairman's Committee. Member of Chairman's Committee Acting as Remuneration Committee. Member of Chairman's Committee Acting as Nominations Committee

Vice Principal

Professor Brent D MacGregor, BA, MA, DPhil (Retired February 2010)	Member of Policy and Resources Committee

Chief Operating Officer

Dr P W A West Dl, MA, DUniv, DPhil
(Appointed October 2010)

Appointed by the Students' Association

President, Student Representation Council

Mr Jake Rosby (Retired July 2009)	Member of Health & Safety Sub-Committee

President, Student Representation Council

Ms Francesca Miller (Appointed July 2010)	Member of Health & Safety Sub-Committee

Co-opted

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

Professor D. Gareth Owen MA, PhD, CEng, FICE FSUT (retired December 2010)	Member of Audit and Risk Committee

Appointed

Ms Ginnie Atkinson	Member of Estates Sub-Committee and Audit and Risk Committee
Professor Stephen Blackmore CBE, FRSE (Resigned November 2010)	Member of Audit and Risk Committee

Board of Governors as at 21 March 2011 *(continued)*

Professor Christine Hawley, CBE, RIBA, FRSA	
Mr Donald MacDonald, CBE, MA, LLB, CA	Member of Finance Sub-Committee
Mr Alastair Mackenzie, CBE, RIBA, MRTPI (Resigned December 2010)	Member of Policy & Resources Committee and Audit and Risk Committee. Convener of Estates Sub Committee
Ms Shonaig Macpherson, CBE, FRSE, DUniv	Convener of Audit and Risk Committee, Member of Chairman's Committee
Professor Ian F.Y.Marrian, MA, CA	Member of Policy & Resources Committee. Convener of Finance Sub-Committee. Member of Chairman's Committee. Member of Chairman's Committee Acting as Remuneration Committee.
Lady Mathewson, DA (Edin) (Resigned December 2010)	Convener of Awards & Bequests Sub-Committee
Mr Robert B. Robertson, BSc, MSc, ARICS (Resigned December 2010)	Member of Awards & Bequests Sub-Committee Estates Sub-Committee Audit and Risk Committee, Nominations Committee

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

Ms Jocelyn Cunliffe MA (Hons), RIBA, RIAS, MaPS, FRSA
(appointed January 2011)

Mr Eddie Frizzell CB, MA (Hons), FRSA
(appointed January 2011)

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

Elected by Staff from Academic Staff

Academic Council Governor
Professor Karen Forbes, BA
(Retired December 2009)

Professor Noemie Mendelle, MA BA (Hons)
(Appointed January 2010)

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

Elected by Staff from Academic Support Staff

Non-Academic Staff Governor
Ms Sylvia Nicholson

STATEMENT OF THE RESPONSIBILITIES OF THE BOARD OF GOVERNORS

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

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

In preparing the financial statements, the Board of Governors has ensured that:

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

The Board of Governors has taken reasonable steps to:

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BOARD OF GOVERNORS OF EDINBURGH COLLEGE OF ART

We have audited the Consolidated and College financial statements of Edinburgh College of Art for the year ended 31 July 2010 set out on pages 15 to 41. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the Board of Governors of Edinburgh College of Art, as a body, in accordance with the Edinburgh College of Art (Scotland) Order of Council 1995. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to it in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board of Governors and Auditors

The responsibilities of the Board of Governors for preparing the Operating and Financial Review and the financial statements in accordance with the Accounts Direction issued by the Scottish Funding Council, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities of the Board of Governors included on page 12.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Further and Higher Education (Scotland) Acts 1992 and 2005 and, where appropriate, with the Financial Memorandum with the Scottish Funding Council. We also report to you whether in our opinion the Operating and Financial Review is not consistent with the financial statements.

In addition, we report to you if, in our opinion, the College has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained within the Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board of Governors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Consolidated and College's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Consolidated and College's affairs as at 31 July 2010 and of the Consolidated deficit of expenditure over income for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the College during the year ended 31 July 2010 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the Edinburgh College of Art (Scotland) Order of Council 1995 and the Further and Higher Education (Scotland) Acts 1992 and 2005 and, where appropriate, with the Financial Memorandum with the Scottish Funding Council.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note one to the financial statements concerning the College's ability to continue as a going concern. The College has breached certain of its loan covenants and accordingly the loan is now repayable in full on demand. The College is in the process of securing a merger with the University of Edinburgh, which is subject to parliamentary approval. It is intended that the university court of the University of Edinburgh will renegotiate the College's loan with the bank as part of the merger process. These matters, as more fully explained in note one, indicate the existence of a material uncertainty that may cast significant doubt on the College's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the College was unable to continue as a going concern.

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

21 March 2011

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 JULY 2010

	Note	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Income			
Funding Council Grants	2	9,367	9,541
Tuition Fees / Education Contracts	3	4,910	4,438
Research Grants and Contracts	4	1,035	709
Other Income	5	1,488	1,392
Investment Income	6	129	121
Total Income		16,929	16,201
Expenditure			
Staff Costs	7	9,771	11,863
Restructuring Costs		691	231
Other Operating Expenses	8	5,463	4,431
Depreciation	11	1,144	1,007
Impairment	11	11,918	-
Interest Payable	9	658	800
Total Expenditure		29,645	18,332
Deficit on continuing operations after depreciation of tangible fixed assets at cost		(12,716)	(2,131)
Deficit on continuing operations after depreciation of tangible fixed Assets at cost, disposal of assets before and after tax		(12,716)	(2,131)

Income and expenditure relates wholly to continuing operations.

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

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2010

	Note	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Deficit on Continuing Operations after Depreciation of Assets at Cost, Disposal of Assets and Tax		(12,716)	(2,131)
Unrealised Appreciation/ (Depreciation) of Investments	12	282	(184)
Actuarial Gain / (Loss) in Respect of Pension Schemes	24	20	(3,681)
Total Recognised Losses Relating to the Year		(12,414)	(5,996)

Reconciliation

Opening Reserves and Endowments	5,006	11,002
Total Recognised (Losses) / Gains Relating to the Year	(12,414)	(5,996)
Closing Reserves and Endowments	(7,408)	5,006

CONSOLIDATED AND COLLEGE BALANCE SHEETS
FOR THE YEAR ENDED 31 JULY 2010

		Consolidated		College	
		£000 Year Ended 31 July 2010	£000 Year Ended 31 July 2009	£000 Year Ended 31 July 2010	£000 Year Ended 31 July 2009
	Note	**£000**	**£000**	**£000**	**£000**
FIXED ASSETS					
Tangible Assets	11	18,148	30,778	18,148	30,778
Endowment Asset Investments	12	2,180	1,898	-	-
		20,328	32,676	18,148	30,778
CURRENT ASSETS					
Stock		84	65	84	65
Debtors	13	781	609	781	609
Cash at Bank and in Hand		353	16	353	16
		1,218	690	1,218	690
CREDITORS					
Amounts Falling Due Within One Year	14	(15,458)	(2,719)	(15,458)	(2,719)
Net Current Liabilities		(14,240)	(2,029)	(14,240)	(2,029)
Total Assets Less Current Liabilities		6,088	30,647	3,908	28,749
CREDITORS					
Amounts Falling Due After More Than One Year	14	(800)	(11,501)	(2,300)	(13,001)
Provisions for Liabilities and Charges	15	(2,712)	(2,755)	(2,712)	(2,755)
Net Assets Excluding Net Pension Liabilities		2,576	16,391	(1,104)	12,993
Net Pension Liabilities	24	(4,643)	(5,878)	(4,643)	(5,878)
Net Assets including Net Pension Liabilities		(2,067)	10,513	(5,747)	7,115

		Consolidated		College	
	Note	**£000 Year Ended 31 July 2010 £000**	**£000 Year Ended 31 July 2009 £000**	**£000 Year Ended 31 July 2010 £000**	**£000 Year Ended 31 July 2009 £000**
DEFERRED CAPITAL GRANTS	16	5,341	5,507	5,341	5,507
RESERVES					
Permanent Endowments	17	3,680	3,398	-	-
Income and Expenditure Account Excluding Pension Reserve	18	(6,445)	7,486	(6,445)	7,486
Pension Reserve	18	(4,643)	(5,878)	(4,643)	(5,878)
Income and Expenditure Account Including Pension Reserve	18	(11,088)	1,608	(11,088)	1,608
Total Reserves and Endowments		(7,408)	5,006	(11,088)	1,608
TOTAL FUNDS		(2,067)	10,513	(5,747)	7,115

The financial statements on pages 15 to 41 were approved by the Board of Governors on 21 March 2011 and were signed on its behalf by:

…………………………………………..
Donald Workman, Chairman of the Board

…………………………………
Professor Ian Howard, Principal

……………………………………
Peter West, Chief Operating Officer

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2010

	Note	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Cash (Outflow)/Inflow from Operating Activities	19	(568)	529
Returns on Investments and Servicing of Finance	20	(438)	(741)
Capital Expenditure and Financial Investment	21	(257)	83
Financing	22	1,600	(253)
Increase / (Decrease) in Cash in the Year		337	(382)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN FUNDS

	Note	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Increase / (Decrease) in Cash in the Year		337	(382)
Cash (Inflow)/ Outflow in Relation to Financing		(1,600)	253
Movement in Net Funds in the Year		(1,263)	(129)
Net Debt at 1 August	23	(11,485)	(11,356)
Net Debt at 31 July	23	(12,748)	(11,485)

1. Statement of Principal Accounting Policies

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

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

Basis of preparation

The factors surrounding the College and consolidated financial position and future financial performance are set out in the operating and financial review on pages 2 to 7.

Merger with the University of Edinburgh ("the University")
During 2009-10, and since the financial year end on 31 July 2010, the board of governors has progressed merger discussions with the University. Following approval by the board and the court of the University, the Cabinet Secretary for Education and Lifelong Learning, on 24 January 2011, approved the merger of the two institutions. This approval is subject to parliamentary approval, which had not been obtained at the date of approval of these financial statements, but must be obtained in advance of 1 August 2011 (the anticipated date of merger) and therefore within five months of the date of approval of these financial statements. The board understands that, on the basis that the Cabinet Secretary has approved the merger, parliamentary approval does not present a significant risk or uncertainty.

Long-term financing
The College has bank loans of £11.5 million, on which certain financial covenants apply. These covenants are tested annually on the basis of audited financial statements. As at 31 July 2010, on the basis of draft financial statements, the College was in breach of certain of its covenants on the loan and its lenders have confirmed their agreement of this assessment. Under the terms of the facility agreement, the covenant breach results in the loan becoming repayable on demand and, as a result, bank loans of £11.5 million have been reclassified from creditors due after one year to creditors due within one year at 31 July 2010. Subsequent to the year end, the bank has confirmed that it will take no action to recall the loan provided that:

- no other breach of the facility occurs or is continuing; and
- the facility is renegotiated not later than 1 August 2011.

The College's financial position is such that, were covenants to be formally tested in the future, they would continue to be breached. However, the bank has confirmed that, in keeping with the terms of the original facility, it will not test covenants until the next annual assessment date of 31 July 2011, based on audited financial statements.

As part of the merger preparation process, the board of the College has agreed with the University court that the University court is responsible for renegotiating the loan with the bank. At the date of approval of these financial statements, formal negotiations have not yet begun with the lenders, although they are fully aware of the merger process and the University's intention to refinance the loan by 1 August 2011. Approval of the parliament is required. Application for approval has been submitted and it is anticipated that such approval will be received by 22 March 2011 and therefore within five months of the date of approval of these financial statements.

Going concern
On the basis that the board anticipates parliamentary approval of the merger will be given and that the University court will be able to renegotiate the College's loan with the bank on terms acceptable to both parties, the board believes that the going concern assumption remains appropriate and has prepared these financial statements on that basis.

However, there can be no certainty in relation to these matters and the fact that the College's loan is repayable on demand and must be renegotiated with the bank on terms acceptable to both the University and the bank, represents a material uncertainty that may cast significant doubt on the College's ability to continue as a going concern and, therefore, its ability to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1. Statement of Principal Accounting Policies *(continued)*

i. Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the College and all subsidiary undertakings for the financial year to 31 July 2010. Details of the subsidiary undertakings are provided in Note 32.

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

ii. Recognition of Income

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

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

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

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

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

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

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

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

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

iii. Research and Development Expenditure

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

iv. Leases

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

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

1. Statement of Principal Accounting Policies *(continued)*

v. Land and Buildings

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

Land, which is held freehold, is not depreciated as it is considered to have an indefinite useful life. Buildings are depreciated over their expected useful lives ranging from 5 to 100 years and leasehold land over the life of the lease. Alternations and additions to buildings are depreciated over the expected useful life of the work carried out. The impact of changes in asset lives in the year ended 31 July 2010 is disclosed in note 11.

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

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

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

vi. Repairs and Maintenance

The College has a long-term maintenance plan, which forms the basis of the ongoing maintenance of the estate. The cost of long term and routine corrective maintenance is charged to the income and expenditure account as incurred.

vii. Equipment

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

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

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

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

viii. Investments

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

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

ix. Endowments

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

1. Statement of Principal Accounting Policies *(continued)*

x. Stocks

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

xi. Cash Flows and Liquid Resources

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

xii. Foreign Currency Translation

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

xiii. Taxation Status

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

xiv. Pension Accounting Policy

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

xv. Provisions

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

1. Statement of Principal Accounting Policies *(continued)*

xvi. Comparatives

In compliance with FRS 28 - Corresponding Amounts, prior year figures, including the statements of total recognised gains and losses and cash flows and the balance sheets, have been adjusted where required in order that they are comparable with the amount shown in respect of the current financial year. None of the reclassifications have an impact on the deficit, net cash inflow or net total recognised gains and losses for the year ended 31 July 2009 or net assets as at 31 July 2009.

2. Funding Council Grants

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Recurrent Grant from SFC		
Teaching	7,210	6,841
Research	1,356	1,233
Specific Grants from SFC		
Funding for Increased STSS Contributions	-	41
Infrastructure Support Grants	433	694
Other	27	560
Deferred Capital Grants Released in Year		
Buildings	197	54
Equipment	144	118
	9,367	9,541

Deferred Capital Grants released in Year includes £433,000 (2009 £513,000) of SFC funds to contribute towards the financing costs of a building.

3. Tuition Fees and Education Contracts

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Full Time Students – Home and EU	2,651	2,464
Full Time Students – Overseas	1,855	1,494
Part Time Fees	101	59
Short Course Fees	303	421
Total Fees Paid by or on Behalf of Individual Students	4,910	4,438

4. Research Grants and Contracts

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
UK Government	331	343
Research Council	567	297
European Commission	49	48
UK Based Charities	74	17
Other Grants Contracts	-	3
UK Industry	14	1
	1,035	709

5. Other Income

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Residences, Catering and Conferences	221	229
Other Services Rendered	915	710
Other Income	352	453
	1,488	1,392

6. Endowment & Investment Income

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Endowment Income Receivable	125	114
Other Interest Receivable	4	7
	129	121

7. Staff Costs

	Year Ended 31 July 2010	Year Ended 31 July 2009
Average Staff Numbers by Major Category:	**Number**	**Number**
Academic	81	83
Research	15	19
Technical	40	50
Administrative	76	86
Other, Including Clerical and Manual	43	58
	255	295

Staff Costs for the Above

	Year Ended 31 July 2010	Year Ended 31 July 2009
Wages and Salaries	8,553	9,312
Voluntary Severance	691	232
Social Security Costs	702	719
Net Pension (Credit) / Costs (note 24)	(175)	1,600
	9,771	11,863
Analysed between:		
Academic	4,363	5,061
Research	584	812
Technical	1,066	1,151
Administrative	2,565	3,353
Other, Including Clerical and Manual	1,193	1,486
	9,771	11,863
Emoluments of Principal	125	125

The emoluments of the Principal exclude employer's pension contributions of £18,682 (*2008-09: £17,511*).

Remuneration of other Higher Paid Staff (Excluding Employers' NI and Pension Contributions)

	Year Ended 31 July 2010 Number	Year Ended 31 July 2009 Number
£70,000 - £79,999	-	1
£80,000 - £89,999	2	2
£90,000 - £99,999	-	-
£100,000- £110,000	-	-
£110,000- £120,000	-	-

7. Staff Costs *(continued)*

Compensation for Loss of Office

Payment in compensation for loss of office exceeding £100,000 was payable to one senior member of staff earning in excess of £70,000. This payment was made under the terms of the Voluntary Severance Scheme operating in the College in 2009-10.

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Payment for enhanced pension benefits	96	-
Other payments in respect of loss of office	30	-
	126	-

8. Other Operating Expenses

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Teaching departments	740	546
Teaching support services	338	300
Research grants and contracts	336	392
Administration and central services	2,338	1,584
Premises costs	87	83
Planned maintenance	791	775
Other income generating activities	243	239
Catering operations	92	137
Other expenses	498	375
	5,463	4,431

Other Operating Expenses Include:
Auditors' Remuneration relating to the current financial year for the Group:

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

£7,600 was paid to the College’s external auditors in respect of their audit of ECA (West Port) Limited for the year ended 31 July 2009. This company was dormant in the year ended 31 July 2010 and did not require an audit.

9. Interest Payable

	Year Ended 31 July 2010	Year Ended 31 July 2009
On Bank Loans Repaid During the Year	442	513
Other Interest Payable	-	235
Net Pension Finance Cost	216	52
	658	800

10. Analysis of Expenditure by Activity

2009-2010

	Staff and Restructuring Costs	Other Operating Expenses	Depreciation and Impairment	Interest Payable	Total
	£'000	£'000	£'000	£'000	£'000
Teaching departments	5,438	740	65	-	6,243
Teaching support services	550	338	108	-	996
Research grants and contracts	373	336	4	-	713
Administration and central services	2,900	2,338	126	217	5,581
Premises costs	877	87	12,757	441	14,162
Planned maintenance	0	791	-	-	791
Other income generating activities	191	243	1	-	435
Catering operations	133	92	1	-	226
Other expenses	-	498	-	-	498
Total Expenditure	10,462	5,463	13,062	658	29,645

	Year Ended 31 July 2010	Year Ended 31 July 2009
The depreciation charge has been funded by:		
Deferred Capital Grants Released (Note 16)	341	172
General Income	803	835
	1,144	1,007

11. Tangible Assets (Consolidated and College)

	Freehold Land £000	Freehold Buildings £000	Fixtures & Fittings £000	Equipment £000	Total £000
Cost					
At 1 August 2009	3,438	24,635	4,390	4,090	36,553
Additions	-	156	101	175	432
At 31 July 2010	3,438	24,791	4,491	4,265	36,985
Depreciation					
At 1 August 2009	-	(1,177)	(1,217)	(3,381)	(5,775)
Charge for Year	-	(575)	(264)	(305)	(1,144)
Impairment	(1,277)	(9,682)	(959)	-	(11,918)
At 31 July 2010	(1,277)	(11,434)	(2,440)	(3,686)	(18,837)
Net Book Value					
At 31 July 2009	3,438	23,458	3,173	709	30,778
At 1 August 2010	2,161	13,357	2,051	579	18,148

Buildings with a net book value of £4.446 million and cost of £5.352 million have been funded by Treasury sources. Should these particular buildings be sold, the College would have either to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum of the Scottish Funding Council.

Impairment charges of £11.9 million are in respect of Evolution House and the auditorium within the College's main building.

The useful economic life of College buildings was reviewed and reduced from 100 years to 50 and 5 years for Evolution House and the Hunter Building, respectively. The additional depreciation charge in the year was £13,000 and £177,000 respectively.

Heritage Assets

The College holds the following four collections that are viewed as heritage assets in line with Financial Reporting Standard 30. These collections are: the College Collection, the Cast Collection, the Drawing and Painting Collection and the Silversmithing and Jewellery Collection. There were no additions or disposals from these collections during the year and none of the Collections are included in the balance sheet at 31 July 2010.

The College Collection was acquired by gift or purchase and has one hundred and fifty items including silver, glass, ceramics, furniture, rare books, 120 paintings, sculptures, and historical objects. Rare books are stored in the library, including antiquarian books and portfolios of plates. The Collection is historically significant as it is illustrative of printed materials acquired to support 19th and 20th century art, design and architecture teaching in Edinburgh. The Library also holds a modern collection of examples of artists books which were collected to support teaching and research into this form of work. This Collection is displayed and stored in the main building, has been catalogued and photographed and was independently valued at £0.5 million in 2006.

11. Tangible Assets (Consolidated and College) *(continued)*

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

The Drawing & Painting Collection within the School of Art comprises four main elements: over one thousand retained student works from 1945 to 1995; which have been photographed and are stored off site; a natural History Collection; a wardrobe collection and artists' donations. The Silversmithing and Jewellery Collection within the School of Design comprises of three elements: a natural history collection, retained student drawings and a small jewellery collection of less than thirty items.

The Edinburgh College of Art Collections Acquisition and Disposal Policy, approved by the Board of Governors on 30 June 2008, provides further details on these assets and can be provided on request.

12. Endowment Assets (Consolidated)

	Year Ended 31 July 2010 £000	**Year Ended 31 July 2009 £000**
Balance at 1 August	1,898	2,082
Net appreciation / (depreciation)	282	(184)
As at 31 July	**2,180**	**1,898**
Represented by:		
Unit Trust investments	2,174	1,891
Bank Balances	6	7
As at 31 July	**2,180**	**1,898**

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

Investment Book Value

	Year Ended 31 July 2010 £000	**Year Ended 31 July 2009 £000**
Unit Trust Investments at Cost	**2,205**	**2,206**

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

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

13. Debtors

Amounts Falling Due Within One Year:	**Year Ended 31 July 2010 £000**	**Year Ended 31 July 2009 £000**
Trade Debtors	180	231
Student Debtors	172	216
Prepayments and Accrued Income	429	162
	781	609

14. Creditors

Consolidated *Amounts Falling Due Within One Year:*	**Year Ended 31 July 2010 £000**	**Year Ended 31 July 2009 £000**
Trade Creditors	545	564
Other Creditors and Deposits	14	143
Social Security and Other Taxation Payable	366	731
Accruals and Deferred Income	2,232	1,281
SFC Loan	800	-
Bank Loan	11,501	-
	15,458	2,719
Amounts Falling Due After More Than One Year:		
Bank Loan	-	11,501
SFC Loan	800	-
Loan from subsidiary	-	-
	800	11,501
Loans are repayable as follows:		
In one year or less	12,301	-
Between one and two years	300	-
Between two and five years	500	-
In five years or more	-	11,501
	13,101	11,501

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

14. Creditors *(continued)*

College	**Year Ended 31 July 2010 £000**	**Year Ended 31 July 2009 £000**
Amounts Falling Due Within One Year:		
Trade Creditors	545	564
Other Creditors and Deposits	14	143
Social Security and Other Taxation Payable	366	731
Accruals and Deferred Income	2,232	1,281
SFC Loan	800	-
Bank Loan	11,501	-
	15,458	2,719
Amounts Falling Due After More Than One Year:		
Bank Loan	-	11,501
SFC Loan	800	-
Loan from subsidiary	1,500	1,500
	2,300	13,001
Loans are repayable as follows:		
In one year or less	12,301	-
Between one and two years	500	-
Between two and five years	1,100	1,500
In five years or more	700	11,501
	14,601	13,001

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

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

	Year Ended 31 July 2010 £000	**Year Ended 31 July 2009 £000**
Opening Balance as at 1 August	2,755	2,579
Provided in year	161	373
Utilised in year	(204)	(197)
Closing Balance as at 31 July	2,712	2,755

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

16. Deferred capital grants (Consolidated and College)

	Funding Council £000	Other Grants and Benefactions £000	Total £000
At 1 August 2009			
Buildings	4,500	143	4,643
Equipment	864	-	864
Total	5,364	143	5,507
Cash Received			
Buildings	-	-	-
Equipment	175	-	175
Total	175	-	175
Released to Income and Expenditure			
Buildings	54	143	197
Equipment	144	-	144
Total	198	143	341
At 31 July 2010			
Buildings	4,446	-	4,446
Equipment	895	-	895
Total	5,341	-	5,341

17. Endowment Funds (Consolidated)

	Restricted Permanent Endowments £000	Restricted Expendable Endowments £000	Total £000
At 1 August 2008	3,582	-	3,582
Unrealised gain/ (loss) in the year	(184)	-	(184)
Income for the year	122	-	122
Expenditure for the year	(122)	-	(122)
At 31 July 2009	**3,398**	**-**	**3,398**
At 1 August 2009	3,398	-	3,398
Unrealised gain/ (loss) in the year	282	-	282
Income for the year	197	-	197
Expenditure for the year	(197)	-	(197)
At 31 July 2010	**3,680**	**-**	**3,680**

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

18. Income and expenditure account (Consolidated and College)

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Income and Expenditure Account Reserve		
Balance at 1 August	7,486	9,603
Deficit in year	(12,716)	(2,131)
Transfer (to) / from Pension Reserve	(1,215)	14
At 31 July	(6,445)	7,486

Pension reserve (Consolidated and College)

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Pensions at 1 August	(5,878)	(2,183)
Current service cost	(716)	(532)
Employers contributions	765	732
Unfunded contributions	15	16
Past service gain / (costs)	1,367	(178)
Interest cost	(1,253)	(1,184)
Net return on assets	1,037	1,132
Actuarial gains / (losses)	20	(3,681)
At 31 July	(4,643)	(5,878)

Reconciliation of movements in the income and expenditure reserve (Consolidated and College)

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Balance at 1 August	1,608	7,420
Deficit in year	(12,716)	(2,131)
Actuarial gains/(losses)	20	(3,681)
At 31 July	(11,088)	1,608

19. Consolidated Reconciliation of operating deficit to net cash from operating activities

	Note	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Operating Deficit		(12,716)	(2,131)
Impairment charge on Tangible Fixed Assets		11,918	-
Net Pension (gain) / costs less contributions payable		(1,215)	14
Depreciation	11	1,144	1,007
Released Deferred Capital Grants	16	(341)	(172)
Interest Payable		442	748
Interest Receivable		(4)	(7)
(Increase) / decrease in Stocks		(19)	11
(Increase) / decrease in Debtors		(172)	183
Increase in Creditors		438	700
(Decrease) / increase in Provisions		(43)	176
Net Cash (Outflow)/inflow from Operating Activities		(568)	529

20. Consolidated Return of investments and servicing of finance

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Interest received	4	7
Interest paid	(442)	(748)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(438)	(741)

21. Consolidated Capital expenditure and financial investments

Purchase of Tangible Fixed Assets	(432)	(786)
Deferred Capital Grants Received	175	869
Net Cash Outflow from Capital Expenditure and Financial Investment	(257)	83

22. Consolidated Analysis of changes in financing during the year

SFC Loan	1,600	-
Repayments of Amounts Borrowed	-	(253)
Net Cash Inflow / (Outflow) from Financing	1,600	(253)

23. Consolidated Analysis of changes in net funds

	At 1 August 2009 £000	Cash Flows £000	Non-cash Flows £'000	At 31 July 2010 £000
Cash at Bank and in Hand	16	337	-	353
Total	16	337	-	353
Loans due within one year	-	(800)	(11,501)	(12,301)
Loans due after one year	(11,501)	(800)	11,501	(800)
Change in Net Debt	**(11,485)**	**(1,263)**	**-**	**(12,748)**

24. Pension schemes (Consolidated and College)

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

The total pension charge was (note 7):

	Year Ended 31 July 2010 £000	**Year Ended 31 July 2009 £000**
STSS Contributions Payable	476	890
LGPS Credit to the Income and Expenditure Account	(651)	710
Total	(175)	1,600

The gross LGPS pension charge, before past service gains and losses, was £716,000 (*2009: £582,000*).

The Local Government Pension Scheme (LGPS)

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

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

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

An actuarial valuation as at 31 July 2010 for FRS17 purposes was carried out by a qualified independent actuary. The major assumptions used by the actuary were:

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

24. **Pension schemes** *(continued)*

Financial Assumptions	**Year Ended 31 July 2010 %**	**Year Ended 31 July 2009 %**
Pension Increase	2.9	3.7
Salary Increase Rate	4.9	5.2
Expected Return on Assets	6.7	6.9
Discounted Rate	5.4	6.0

Mortality Assumptions

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

	Male	**Female**
Current pensioners	20.8 years	24.1 years
Future pensioners	22.3 years	25.7 years

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

	Year Ended 31 July 2010		**Year Ended 31 July 2009**	
	Long Term Rate of Return %	**Value** £000	**Long Term Rate of Return** %	**Value** £000
Equities	7.3	13,209	7.3	11,856
Bonds	4.8	1,564	5.3	1,334
Property	5.3	1,738	5.3	1,334
Cash	4.4	869	4.3	296
		17,380		14,820

The following amounts at 31 July 2010 were measured in accordance with the requirements of FRS17:

	Year Ended 31 July 2010 £000	**Year Ended 31 July 2009 £000**
Fair Value of Employer Assets	17,380	14,820
Present Value of Funded Obligations	(21,805)	(20,460)
Present Value of Unfunded Obligations	(218)	(238)
Net Liability	(4,643)	(5,878)

24. Pension schemes *(continued)*

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

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Surplus / (Deficit) in the Scheme at Beginning of Year	(5,878)	(2,183)
Movement in Year:		
Current Service Costs	(716)	(532)
Employer Contributions	765	732
Unfunded contributions	15	16
Past Service Gains / (Costs)	1,367	(178)
Interest Costs	(1,253)	(1,184)
Net Return on Assets	1,037	1,132
Actuarial Gains / (Losses)	20	(3,681)
Actuarial Surplus / (Deficit) in the Scheme at End of Year	(4,643)	(5,878)

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Analysis of the Movement in the Fair Value of Scheme Assets		
Opening Balance	14,820	15,339
Expected Return on Assets	1,037	1,132
Contributions by Members	250	216
Contributions by Employer	765	732
Contributions in Respect of Unfunded Benefits	15	16
Actuarial (Gains) / Losses	1,106	(2,016)
Unfunded Benefits Paid	(15)	(16)
Benefits Paid	(598)	(583)
Closing Balance	17,380	14,820

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Analysis of the Movement in the Present Value of Scheme Obligations		
Opening Balance	(20,698)	(17,522)
Current Service Cost	(716)	(532)
Interest Cost	(1,253)	(1,184)
Contributions by Members	(250)	(216)
Actuarial (Losses)	(1,086)	(1,665)
Past Service Costs / (Gains)	1,367	(178)
Estimated Unfunded Benefits Paid	15	16
Estimated Benefits Paid	598	583
Closing Balance	(22,023)	(20,698)
Net Pension Liability	(4,643)	(5,878)

24. Pension schemes *(continued)*

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Analysis of Amounts Charged to Consolidated Income and Expenditure Account		
Analysis of Amount Charged to Staff Costs Within Operating Deficit:		
Current Service Cost	(716)	(532)
Past Service Gain / (Cost)	1,367	(178)
Losses / (Gains) on Curtailments and Settlements	-	-
	651	(710)
Analysis of Amounts Charged to Interest Payable:		
Interest Cost	(1,253)	(1,184)
Expected Return on Employer Assets	1,037	1,132
	(216)	(52)
Analysis of Amounts Recognised in Statement of Total Recognised Gains and Losses (STRGL)		
Actuarial Gains / (Losses)	20	(3,681)

History of Experienced Gains and Losses

	31 July 2010 £000	31 July 2009 £000
Difference between the Expected and Actual Return on Scheme Assets:		
Amount	1,016	(2,016)
Percentage of Scheme Assets	%	(13.6%)
Experience Gains / (Losses) Arising on Scheme Assets:		
Amount	1,016	(2,016)
Percentage of Scheme Assets	%	13.6%
Actuarial Gains / (Losses) Recognised in Statement of Total Recognised Gains and Losses:		
Amount	20	(5,383)
Percentage of Present Value of Scheme Assets / (Liabilities)	%	(36.3%)

In its June 2010 budget, the UK government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The College has considered the Lothian Pension Fund scheme rules and associated members' literature and has concluded that, this change is a change in benefits and so has recognised the resulting credit in the Income and Expenditure Account.

24. Pension schemes *(continued)*

Scottish Teachers Superannuation Scheme

The College participates in the Scottish Teachers Superannuation Scheme (STSS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). STSS operates on a notionally funded basis. The latest actuarial valuation of the scheme was at 31st March 2005 and was carried out using the prospective benefit method.

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

The assumptions used (to which the valuation results were particularly sensitive) are shown in the table below.

	Valuation
Gross rate of return	6.5%
Real rate of return in excess of prices	3.5%
Real rate of return in excess of earnings	2.0%
Rate of real earnings growth	1.5%
Mortality for new members	PA92 tables rated down 2 years for males and 1 years for females
Mortality for existing & deferred members	PA92 tables rated down 1.5 years for males and 0.5 years for females
Mortality for existing pensioners	PMA 92 tables rated down 1 year for males

The assumed life expectancy at age 60 of existing pensioners is 25.5 years for men and 27.5 years for women.

At the valuation date, the value of the assets of the scheme was £18.5 million and the present value of liabilities was £19.5 million, indicating a deficit of £1 million. Included within the scheme's assets were notional investments of £13 million held in the SCAPE account.

The institution contribution rate required for future service benefits at the date of the valuation was 14.9% of pensionable salaries and, on the advice of the actuary, it was agreed to increase the institution contribution rate by 1.4% to 14.9% as from 1st April 2009.

Surpluses or deficits which arise at future valuations may impact on the College's future contribution commitment. A deficit may require additional funding in the form of higher contributions, whereas a surplus could be used to reduce contribution requirements.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Rate of mortality	Active members of the scheme live for 1 year more or 1 year less	Standard contribution rate increases / decreases by 0.25%

The next formal triennial valuation is due as at 31st March 2009.

The pension costs to the College in respect of STSS for the year ended 31 July 2010 were £476,000 (*2009: £890,000*).

25. Capital commitments

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Commitments Contracted at 31 July	-	81

26. Related party transactions

All Governors of the Board are required to complete a register of interests to record any areas of potential conflict with the interests of the College. A register of interest is maintained for the Governors of the College and no material related party transactions were reported during the year.

27. Operating leases

	Year Ended 31 July 2010 £000	Year Ended 31 July 2009 £000
Operating leases commitments for equipment hire:		
Expiring within one year	-	-
Expiring between two and five years	115	195
At 31 July	115	195

28. Post balance sheet events

Since the end of the financial year to 31 July 2010 there have been no significant post balance sheet events which would lead to adjustment or require further disclosure within these financial statements.

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

	Year Ended 31 July 2010		Year Ended 31 July 2009	
	£000	£000	£000	£000
	CF	HF	CF	HF
Funds Brought Forward from Previous Year	1	-	-	-
Funds Received in Year	18	72	21	77
Expenditure	(19)	(71)	(20)	(77)
Funds Carried Forward as at 31 July 2010	-	1	1	-

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

30. **Basis of consolidated financial statements**

These financial statements consolidate the financial statements of the College, its subsidiary ECA (Westport) Limited and the Andrew Grant Scholarship Fund. Intra-group transactions are eliminated on consolidation.

The College has effective control over the operations of the Andrew Grant Scholarship Fund and consolidates its results within the financial statements of the College, in line with UK GAAP. During the year ended 31 July 2010, the Andrew Grant Scholarship Fund recorded a surplus before realised and unrealised gains / losses of £nil (*2009: £nil*) and a net surplus / (deficit) of £282,000 (*2009: (£184,000)*).

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Professional Advisors are detailed below:

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5. **Internal Auditors**
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A copy of the statutory financial statements for this and prior years can be obtained by contacting:

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Telephone No: 0131 221 6000
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The financial statements can also be accessed via our website: www.eca.ac.uk/foi