



The Prince's Foundation

FOR THE BUILT ENVIRONMENT

The Prince's Foundation

(Under the working name of The Prince's Foundation for the Built Environment)

Consolidated Financial Statements

For the year ended

31 March 2006

Company number 3579567

THE PRINCE'S FOUNDATION
YEAR ENDED 31ST MARCH 2006

Company Number 3579567
Registered Charity 1069969
Directors Professor Anthony Hopwood (Chairman)
The Earl of Airlie KT GCVO
Eileen Guggenheim-Wilkinson PhD
Vivien Hepworth
Mark Hoare
Eva Rausing
Bob Rothenberg FCA
Company Secretary Stephen Rider FCIS FCMA
Chief Executive Hank Dittmar
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THE PRINCE'S FOUNDATION

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31 March 2006. This report, prepared in accordance with Section 234 of the Companies Act 1985, is also the Trustees' report required by Part VI of the Charities Act 1993.

The Directors have adopted the provisions of the "Statement of Recommended Practice – Accounting and Reporting by Charities" (revised 2005) in preparing this annual report and financial statements.

Structure, Governance and Management

The Prince's Foundation is a company limited by guarantee and a registered charity. Each member undertakes to contribute the sum of £1 towards the company's liabilities in the event of winding up.

It is governed by its Memorandum and Articles of Association, dating from incorporation in June 1998. A Board of up to 20 Directors (who are also the Trustees of the charity), appointed by HRH The Prince of Wales, governs the Foundation.

Directors are appointed on the basis of their knowledge of the built environment or their educational or business experience. The Foundation has the option to recruit from a pool of potential charity trustees maintained by a firm of recruitment consultants. Training and induction is available for new Directors. Directors are appointed for fixed terms of up to five years at the end of which they may be eligible for re-appointment.

The Board meets regularly to set the overall strategic direction of the organisation and to monitor progress of the organisation's work. Day to day management of the organisation is the responsibility of the Chief Executive and the Executive Team.

Subsidiary companies

During the year the Foundation operated Prince's Foundation Enterprises Limited (PFEL), an incorporated trading subsidiary company which was established to undertake fundraising for the Foundation in schemes that do not fall within its own Memorandum and Articles.

Subsidiary charitable companies The Prince's Drawing School and The Prince's School of Traditional Arts are run autonomously, with their own boards of Directors.

Details of the financial results for the subsidiaries are given in note 9.

Objects

The Charity's objects are as follows:

- a) the protection, preservation, improvement and revitalisation of the Built Environment;
- b) the relief of poverty of people through the provision of assistance (including financial assistance) and encouragement whilst they are being educated, instructed or trained in or whilst they are in the process of preparing for entering upon or engaging in any profession, vocation, industry, craft or trade associated with the field of the Built Environment;
- c) the support of any charity or charities or charitable purpose or purposes.

The subsidiary charities' objects are as follows:

The Princes Drawing School - the advancement of the education of the public in the arts of drawing, painting, fine art, sculpture, print making, fashion and design.

The Prince's School of Traditional Arts - the advancement of the education of the public in the practice and application of the traditional arts and architecture of Islam and other civilisations; and the promotion of the practice and appreciation of such traditional arts and architecture.

The Prince's Foundation for the Built Environment is an educational charity that seeks to improve the quality of people's lives by teaching and practicing timeless and ecological ways of planning, designing and building.

THE PRINCE'S FOUNDATION

DIRECTORS' REPORT (Continued)

We believe that if we can understand and apply time-tested principles and therefore build in a sustainable way again, we will reap improvements in public health, in livelier and safer streets, and in a more affordable lifestyle for families and individuals. We also believe that neighbourhoods exhibiting these sustainable characteristics will increase, rather than decrease, in value over time.

Through exemplar projects, an academic programme, and policy and research initiatives, we aim to influence the future development of the built environment by affecting the business strategies and long term planning of major developers, government departments and academic institutions. We believe that close scrutiny of traditional models for architecture and town planning is a sound basis for addressing the sustainability agenda.

Review of objectives and activities

The Prince's Foundation:

The Foundation adopted a five-year strategy in late 2004, and reviewed and revised that strategy in February 2006. The strategy sets a vision and a series of goals for the organisation. By 2010 The Prince's Foundation will have made a significant improvement to the quality of people's lives by disseminating its skills, techniques and ideas through:

- Having a minimum of 6 exemplar projects that demonstrate an improvement in the quality of people's lives and the practical application of The Foundation's ten fields of study.
- Having a minimum of 20 joint initiatives with UK Government and key organisations to influence existing thinking and policies.
- Having 10 collaborations with other internationally recognised centres of excellence for the built environment.
- Supporting and drawing on a scrutinised global network of 300 effective practitioners.
- Employing a unique and effective teaching model that has supported a minimum of 2,500 students.
- Raising expectations with the general public for the quality of design and building.
- A portfolio of positive press coverage of The Prince's Foundation and its work.

The 2005/06 financial year marked the first full year of implementing the Foundation strategy. The strategy aims to put in place a core business model of practice based learning, and during the year it:

- Undertook project engagements on three new projects that are expected to be exemplars, progressed a number of others through the design stage and opened one exemplar project at Upton in Northamptonshire.
- Negotiated new strategic partnerships / initiatives with English Partnerships, the Building Research Establishment, the British Home Builders Federation, and the King's Fund.
- Continued to build collaborations with a number of International Centres of Excellence, including the Congress for the New Urbanism, the Remaking Cities Institute, the Congress for European Urbanism, the Al Turath Foundation, and the New Zealand Ministry of the Environment.
- Offered short courses and conferences to over 600 unique attendees in 2005/06.
- Held regional conferences, released reports to the public and generated substantial discussion about urbanism and the quality of life.
- Generated positive news coverage on the BBC, in broadsheets, trade publications and the local media.

The Foundation will continue to follow the strategy in the following ways:

The Chief Executive will direct activities germane to the strategy objectives, and ensure that goals are being reached in both education and projects departments. The CE team also initiates and manages partnership working with major developers as well as research.

THE PRINCE'S FOUNDATION

DIRECTORS' REPORT (Continued)

The Director of Education is preparing a programme and staffing plan for the coming year, and will work with the new Chair and the Directors to define the model, schedule and strategic partners for a new MA programme.

The Projects Team continues to manage major projects to and beyond the Enquiry by Design stage; these include a strategic growth plan for Lincoln, a major urban extension to Plymouth, a brownfield regeneration at Coed Darcy in Wales, engagement with George Wimpey Homes at Crewkerne, Somerset and monitoring pilot projects at more advanced stages including Poundbury, with the Duchy of Cornwall, and Upton, with English Partnerships.

Explanation of the strategies for achieving the stated objectives

The Chief Executive's Office leads the organisation, manages and oversees all Departments of the organisation, and is directly responsible for key strategic partnerships, building and facilities, development, and relationships with Clarence House. The Chief Executive is responsible for developing and implementing the strategy of the organisation, which must be reviewed and approved by the Board of Trustees and the President. In developing the strategy, it is expected that the Chief executive will consult the senior management team. The Chief Executive reports to the Board of Trustees, while the senior management team report to the Chief Executive.

The **Education Department** develops policy conferences, strategic seminars and short courses that address the need to build in more sustainable ways. These aim to help design professionals, students, and the communities who live in and shape our built environment. The Education department engages in direct partnerships with key organisations that are able to sponsor individual events to benefit their own members or for goodwill.

The **Projects and Practice Department** engages in fee earning urban design and masterplanning projects pursuant of the strategic goal of six exemplar building projects by 2010, and in fulfilment of the model of practice-based learning. These are in a range of scales and settings that demonstrate timeless and ecological ways of planning, designing and building. In creating these exemplars, the team are also developing a set of tools and techniques that build upon traditional urbanism that can be subsequently taught through the education programme.

The **Design Theory Department** oversees the development and evolution of a body of intellectual capital for the Foundation. This intellectual capital will be found both in the ongoing curriculum and principles created by the Senior Fellows and built through Education and Projects and Practice, and in the identification, training and growth of a Network of Practitioners qualified to implement the principles and techniques of The Prince's Foundation.

Development is vital to the charity. In September 2005 a Development Director was recruited to increase the Foundation's fundraising streams and enable a move towards being self-sustainable.

Future activities

In 2006/7 the following initiatives programmes will be initiated or continue:

1. Strategic partnerships with the Building Research Establishment, English Partnerships and the Home Builders Federation, each with a minimum of three direct initiatives.
2. Ten education events between October and July, as well as the development of the MA programme with a significant academic partner, leading to an accredited MA course being initiated in 2007.
3. Development of projects work to include over the next few years:
 - A sustainable urban extension with a landowner dedicated to the long term as well as a new Scottish exemplar project
 - A regional spatial strategy
 - A citywide local development framework
 - Sustainable regeneration of existing suburbs, including retrofit of existing housing stock
 - Social housing estate renewal
 - A public transport oriented development around a railway station/ transport node

THE PRINCE'S FOUNDATION

DIRECTORS' REPORT (Continued)

- Rural affordable housing in a mixed use village setting
- Continued work on a town extension at Sherford (South Hams) and regeneration of Lincoln city centre

Financial results

Incoming resources for the year totalled £4,227,307 as against £3,685,062 in the previous year, with significant growth in project income, and generous grants towards the new education programme. Resources expended for the year totalled £4,017,934 compared with £3,489,688 in the preceding year, with growth in the project and education departments.

This resulted in net incoming resources of £209,373, comprising net income of £413,867 on general funds and net deficit on restricted funds of £204,494.

Two key performance indicators show that staffing costs to charitable activities grew from 14% in 2005/06 to 18% this year. This reflects an investment in the calibre of staff to fulfil the main charity's objectives. Numbers trained in educational courses and conferences rose from 448 to 600, the nominal cost for each attendee falling from £664 in 2004/05 to £541 in 2005/06.

Reserves policy

Free unrestricted reserves – that is unrestricted reserves excluding those represented by fixed assets – were in surplus at 31 March 2006 by £694,737 compared with a surplus at 31 March 2005 of £205,729. The medium-term aim of the Directors is to establish a level of unrestricted funds which will enable the organisation to operate from a financial perspective with a degree of certainty and flexibility. The fundraising strategy recognises the need to increase the proportion of funding provided on an ongoing, rather than one-off basis and to diversify the number of funding streams.

Risk management

The Directors regularly consider and review, as an on-going process, the major risks to which the organisation is exposed and its control systems: with particular reference to those risks that could potentially prevent the organisation from achieving its principal objectives.

Objectives and Activities of the Subsidiaries

The Prince's Drawing School:

The Prince's Drawing School believes that anyone with talent and passion should be afforded the opportunity to learn to draw, regardless of their financial circumstances.

The School's mission is to raise, for public benefit, the standard and profile of drawing through teaching and practice. In this financial year, it achieved this through:

- A post graduate **Drawing Year** which educates 25 artists a year in drawing. They are supported by scholarships, field trips in the UK and Europe, studio space at the Tea building studios, access to tutors, classes and lectures.
- A **Public Programme**: being, public classes open to practising artists and members of the public interested in drawing.
- **Community Outreach Programme and Summer School**

The Prince's School of Traditional Arts:

During the 2005 / 06 financial year the School sought to fulfil its objects by the following activities: -

1. Education:

THE PRINCE'S FOUNDATION
DIRECTORS' REPORT (Continued)

The most significant activity for this year was the Quinquennial Review whereby the School fulfilled all the requirements of the University of Wales and obtained another five years validation of its course. The first in a series of independently run summer schools was held in August 2005. The new academic year brought in 7 new MA students, 1 MPhil and 2 PhD researchers.

2. UK Outreach and Community Education programme

The School worked in partnership with Shakespeare's Globe Education and with London primary schools in "There's Magic in the Web" and "The Tent of Peace". The School also joined hands with Shakespeare's Globe Education in celebrating "Islam Awareness Week" in November 2005 by organising four workshops for the family.

Three other outreach events in which The School participated were: Skills City on 6-9 July; Art in Action in Oxford; and the Saudi National Day in September. At all these events, exhibitions of the work of the School and demonstrations of corresponding craft were offered.

3. International Outreach Programme:

The highlights for this financial year were three major exhibitions on "The Work of The Prince's School of Traditional Arts" held at the National Building Museum in Washington, DC; The Emir Taz Palace in Cairo, Egypt and at the King Abdul Aziz Historic Centre in Riyadh, Saudi Arabia and the launching of the Cairo Programme on March 18 -21 2006. The Cairo Programme is a one-year programme in collaboration with the Egyptian Ministry of Culture.

The School is also developing a programme in Lebanon with the Safadi Foundation.

THE PRINCE'S FOUNDATION
DIRECTORS' REPORT (Continued)

Directors

The Directors (who are the Trustees of the charity and the Members of the company) who served during the year and up to the date of this report are as follows:

Professor Anthony Hopwood (Chairman from 12 May 2006) (appointed 12 May 2006)
Alan Coppin (Chairman to 12 May 2006) (retired 30 June 2006)
The Earl of Airlie KT GCVO
Eileen Guggenheim-Wilkinson PhD
Vivien Hepworth
Mark Hoare
Eva Rausing
Bob Rothenberg FCA

Statement of Directors' responsibilities

Company law requires the Directors to prepare or have prepared financial statements for each financial year which give a true and fair view of the state of the affairs of the company and of the surplus or deficit for that period. In preparing these financial statements, they are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information which has not been disclosed to the company's auditors. They have taken all the steps that they ought to have taken as directors in order to make themselves aware of any matters which would be relevant for audit purposes, and to ensure that such information has been communicated to the company's auditors.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Lindeyer Francis Ferguson as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Directors and signed on their behalf by

Professor Anthony Hopwood
Chairman
Dated: 9 November 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE PRINCE'S FOUNDATION

We have audited the financial statements of The Prince's Foundation for the year ended 31 March 2006, which comprise the Consolidated Statement of Financial Activities, Company Statement of Financial Activities, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report, including the opinion, is made solely to the charitable company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors' are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit 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 amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company'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 United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the charitable group and company as at 31 March 2006 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

Lindeyer Francis Ferguson
Chartered Accountants
Registered Auditor

9 November 2006
North House, 198 High Street
Tonbridge, Kent, TN9 1BE

**THE PRINCE'S FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
(INCLUDING INCOME AND EXPENDITURE ACCOUNT)**

<i>Year ended 31st March</i>		General Fund 2006 £	Restricted Funds 2006 £	Endowment Fund 2006 £	Total Funds 2006 £	Total Funds 2005 £
	Notes					
Incoming resources:						
Incoming Resources from generated funds	1					
Voluntary income		2,360,872	89,004	-	2,449,876	2,327,803
Activities for generating funds		199,623	-	-	199,623	114,435
Investment income		124,767	-	-	124,767	97,830
Incoming Resources from charitable activities	2					
Educational programmes		296,818	-	-	296,818	311,645
Urban programmes		1,156,223	-	-	1,156,223	819,448
Heritage programmes		-	-	-	-	13,901
Total incoming resources		4,138,303	89,004	-	4,227,307	3,685,062
Resources expended:						
Cost of generating funds		521,856	-	-	521,856	424,541
Charitable activities	3	3,166,150	293,498	-	3,459,648	3,028,301
Governance costs	4	36,430	-	-	36,430	36,846
Total resources expended	5	3,724,436	293,498	-	4,017,934	3,489,688
Net incoming (outgoing) resources	7	413,867	(204,494)	-	209,373	195,374
Balances brought forward		3,999,300	387,740	1,547,977	5,935,017	5,739,643
Balances carried forward at 31st March 2006		4,413,167	183,246	1,547,977	6,144,390	5,935,017

All incoming resources and resources expended derive from continuing activities

There are no recognised gains and losses other than those passing through the statement of financial activities.

Comparative figures for 2005 have been restated to the extent necessary to implement revised disclosures resulting from the application of 2005 revision of the SORP on Accounting by Charities. The result for the year was not affected by these presentational changes.

**THE PRINCE'S FOUNDATION
STATEMENT OF FINANCIAL ACTIVITIES - COMPANY
(INCLUDING INCOME AND EXPENDITURE ACCOUNT)**

		General Fund 2006 £	Restricted Funds 2006 £	Endowment Fund 2006 £	Total Funds 2006 £	Total Funds 2005 £
<i>Year ended 31st March</i>						
	Notes					
Incoming resources:						
Incoming Resources from generated funds	1					
Voluntary income		1,265,686	12,500	-	1,278,186	1,756,762
Investment income		12,185	-	-	12,185	610
Gift Aid from subsidiary		61,080	-	-	61,080	102,226
Incoming Resources from charitable activities	2					
Educational programmes		25,497	-	-	25,497	53,587
Urban programmes		1,156,223	-	-	1,156,223	819,448
Heritage programmes		-	-	-	-	13,901
Total incoming resources		<u>2,520,671</u>	<u>12,500</u>	<u>-</u>	<u>2,533,171</u>	<u>2,746,534</u>
Resources expended:						
Cost of generating funds		399,899	-	-	399,899	388,428
Charitable activities	3	2,109,496	134,811	-	2,244,307	2,167,198
Governance costs	4	21,811	-	-	21,811	21,652
Total resources expended	5	<u>2,531,206</u>	<u>134,811</u>	<u>-</u>	<u>2,666,017</u>	<u>2,577,278</u>
Net incoming (outgoing) resources before transfers	7	(10,535)	(122,311)	-	(132,846)	169,256
Restricted reserves transferred to subsidiaries		-	-	-	-	(140,712)
Net movement in funds		<u>(10,535)</u>	<u>(122,311)</u>	<u>-</u>	<u>(132,846)</u>	<u>28,544</u>
Balances brought forward		3,963,311	256,899	1,547,977	5,768,187	5,739,643
Balances carried forward at 31st March 2006		<u>3,952,776</u>	<u>134,588</u>	<u>1,547,977</u>	<u>5,635,341</u>	<u>5,768,187</u>

All incoming resources and resources expended derive from continuing activities

There are no recognised gains and losses other than those passing through the statement of financial activities.

Comparative figures for 2005 have been restated to the extent necessary to implement revised disclosures resulting from the application of 2005 revision of the SORP on Accounting by Charities. The result for the year was not affected by these presentational changes.

**THE PRINCE'S FOUNDATION
CONSOLIDATED BALANCE SHEET AT 31ST MARCH 2006**

		GROUP		COMPANY	
		2006	2005	2006	2005
		£	£	£	£
	Notes				
Fixed assets					
Tangible assets	8	<u>3,718,430</u>	<u>3,793,571</u>	<u>3,691,877</u>	<u>3,788,278</u>
Current assets					
Stocks	10	-	3,833	-	3,833
Debtors	11	1,454,626	945,897	1,435,347	1,018,277
Bank deposit - endowment		1,547,977	1,547,977	1,547,977	1,547,977
Other cash and bank balances		<u>624,355</u>	<u>661,251</u>	<u>39,749</u>	<u>330,372</u>
		<u>3,626,958</u>	<u>3,158,958</u>	<u>3,023,073</u>	<u>2,900,459</u>
Creditors: Amounts falling due within one year	12	<u>(1,200,998)</u>	<u>(1,017,512)</u>	<u>(1,079,609)</u>	<u>(920,550)</u>
Net current assets		<u>2,425,960</u>	<u>2,141,446</u>	<u>1,943,464</u>	<u>1,979,909</u>
Net assets		<u>6,144,390</u>	<u>5,935,017</u>	<u>5,635,341</u>	<u>5,768,187</u>
Funds employed	13				
General fund		4,413,167	3,999,300	3,952,776	3,963,311
Restricted funds		183,246	387,740	134,588	256,899
Endowment fund		1,547,977	1,547,977	1,547,977	1,547,977
		<u>6,144,390</u>	<u>5,935,017</u>	<u>5,635,341</u>	<u>5,768,187</u>

The financial statements were approved by the Trustees on 9 November 2006 and signed on their behalf by

Professor Anthony Hopwood

THE PRINCE'S FOUNDATION

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2006

	2006	2005
	£	£
Reconciliation of changes in resources to net cash inflow (outflow) from operating activities		
Net incoming resources for the year	209,373	195,374
Depreciation and disposals	153,227	168,756
Decrease in stocks	3,833	4,135
Increase in creditors	91,420	231,625
(Increase) / decrease in debtors	<u>(508,729)</u>	<u>98,648</u>
Net cash inflow (outflow) from operating activities	(50,876)	698,538
Investing activities		
Purchase of tangible fixed assets	<u>(78,086)</u>	<u>(80,893)</u>
Increase (decrease) in cash and cash equivalents	(128,962)	617,645
Balance brought forward	<u>2,147,021</u>	<u>1,529,376</u>
Cash and cash equivalents carried forward	<u><u>2,018,059</u></u>	<u><u>2,147,021</u></u>

Analysis of changes in net funds

	1 April 2005	Cash Flow	31 March 2006
	£	£	£
Net Cash:			
Cash at bank and in hand	661,251	(36,896)	624,355
Bank overdraft	(62,207)	(92,066)	(154,273)
	<u>599,044</u>	<u>(128,962)</u>	<u>470,082</u>
Bank deposit - endowment fund	1,547,977	-	1,547,977
Net funds	<u><u>2,147,021</u></u>	<u><u>(128,962)</u></u>	<u><u>2,018,059</u></u>

THE PRINCE'S FOUNDATION

STATEMENT OF ACCOUNTING POLICIES - continued

Accounting convention

The financial statements have been prepared under the historical cost convention in accordance with the Statement of Recommended Practice - Accounting by Charities (revised in 2005). The accounts also comply with the requirements of the Companies Act and relevant Accounting and Reporting Standards.

Basis of consolidation

These financial statements consolidate the financial statements as at 31st March 2006 of Prince's Foundation Enterprises Limited (which raises funds for the benefit of The Prince's Foundation), The Prince's School of Traditional Arts and The Prince's Drawing School.

Income recognition

All incoming resources are included in the statement of financial activities when the charity is entitled to the income and the amount can be quantified with reasonable accuracy. The following policies are applied to particular categories of income:

Incoming resources from generated funds

General grants and donations are accounted for when receivable. Earmarked donations are accounted for as restricted funds and matched against the related expenditure.

Income from grants is recognised on an accruals basis to the extent that grants are for services to be provided over a specified period, or if the grants are conditional upon the delivery of a specified level of service. Grants to which the charity is not yet entitled under these circumstances are accounted for as deferred income.

It has not been considered possible to quantify the value of donated services and facilities, or the value of services provided by volunteers, and these have not been included in the financial statements.

Income from events is recognised when the event takes place.

Income from fund-raising trading is recognised when receivable, using normal commercial accounting principles.

Investment income is recognised when receivable.

Incoming resources from charitable activities

Incoming resources from charitable activities are recognised on an accruals basis, as the related services are supplied over a period.

Resources expended

All expenditure is included on an accruals basis.

Resources expended are analysed between the following headings:

Costs of generating funds	representing the costs of fundraising and communications work.
Charitable activities	representing the direct costs of the operational charitable programmes, and the costs incurred by corporate service teams to support operational programmes.
Governance costs	representing the costs of managing the company as a legal entity.

Where expenditure can not be directly allocated to one of the above headings, it is apportioned based on an estimate of staff time and building use attributable to each of the headings.

THE PRINCE'S FOUNDATION

STATEMENT OF ACCOUNTING POLICIES - continued

Depreciation

Depreciation is calculated on a straight line basis so as to write off the cost of an asset over the shorter of its estimated useful economic life or the underlying lease period.

Office equipment, fixtures & fittings are depreciated at various rates between 10% and 33.3%.

The freehold buildings are depreciated over 50 years. There is no depreciation of the freehold site.

Following an impairment review in 2002, a freehold property was written down to its market value by making a provision for permanent diminution in value. The trustees have not adopted a policy of revaluation under FRS 15.

Foreign currencies

Bank deposits in foreign currencies are translated at the exchange rate applying at the balance sheet date.

Value Added Tax

The activities of the Charity have led to it being partially exempt for VAT purposes. Irrecoverable VAT is included in Support costs.

Pensions

The Foundation contributes to individuals' personal pension schemes. Pension costs are charged to the profit and loss account as payable.

The Prince's Foundation also participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustee on the advice of the actuary. In the intervening years, the actuary reviews the progress of the scheme.

It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme.

Fund accounting

The Prince's Foundation maintains three types of fund:

General unrestricted funds are those which can be used in accordance with its charitable objects at the discretion of the trustees.

Restricted funds are donations, sponsorship or grants given for a specific piece of work or area of activity. The restricted funds are:

Education: relates to grants, donations and sponsorship received to provide craft scholarships by the charities.

Urban programme: relates to grants received from Porcelanosa for the Chief Executive to use in progressing urban programmes.

Miscellaneous programmes: relates to income received for the development of the charity's website.

Endowment funds are those given subject to the requirement that they are held permanently by the organisation. Income generated from endowment funds is used (for education) in accordance with the terms of the endowment fund.

THE PRINCE'S FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

1 Incoming Resources from generated funds

GROUP	General Fund 2006 £	Restricted Funds 2006 £	Total Funds 2006 £	Total Funds 2005 £
Voluntary income				
Grants and Donations for:				
General purposes of the charity	953,939	-	953,939	751,482
Educational programmes	1,375,186	89,004	1,464,190	941,041
Urban programmes	31,747	-	31,747	585,280
Heritage programmes	-	-	-	50,000
<i>Total Voluntary Income</i>	<u>2,360,872</u>	<u>89,004</u>	<u>2,449,876</u>	<u>2,327,803</u>
Activities for generating funds:				
Events	98,540	-	98,540	-
Fund-raising trading	101,083	-	101,083	114,435
<i>Total activities for generating funds</i>	<u>199,623</u>	<u>-</u>	<u>199,623</u>	<u>114,435</u>
Investment income:				
Endowment funding	88,697	-	88,697	89,791
Interest received	36,070	-	36,070	8,039
<i>Total Investment Income</i>	<u>124,767</u>	<u>-</u>	<u>124,767</u>	<u>97,830</u>
<i>Total incoming resources from generated funds</i>	<u>2,685,262</u>	<u>89,004</u>	<u>2,774,266</u>	<u>2,540,068</u>
CHARITY				
Voluntary income				
Grants and Donations for:				
General purposes of the charity	953,939	-	953,939	751,482
Educational programmes	280,000	12,500	292,500	370,000
Urban programmes	31,747	-	31,747	585,280
Heritage programmes	-	-	-	50,000
<i>Total Voluntary Income</i>	<u>1,265,686</u>	<u>12,500</u>	<u>1,278,186</u>	<u>1,756,762</u>
Investment income:				
Interest received	12,185	-	12,185	610
<i>Total Investment Income</i>	<u>12,185</u>	<u>-</u>	<u>12,185</u>	<u>610</u>
Gift Aid from subsidiary	<u>61,080</u>	<u>-</u>	<u>61,080</u>	<u>102,226</u>
<i>Total incoming resources from generated funds</i>	<u>1,338,951</u>	<u>12,500</u>	<u>1,351,451</u>	<u>1,859,598</u>

THE PRINCE'S FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

2 Incoming Resources from charitable activities

	General Fund	Restricted Funds	Total Funds	Total Funds
	2006	2006	2006	2005
	£	£	£	£
GROUP				
Income generated by:				
Educational programmes	296,818	-	296,818	311,645
Urban programmes	1,156,223	-	1,156,223	819,448
Heritage programmes	-	-	-	13,901
<i>Total incoming resources from charitable activities</i>	<u>1,453,041</u>	<u>-</u>	<u>1,453,041</u>	<u>1,144,994</u>
CHARITY				
Income generated by:				
Educational programmes	25,497	-	25,497	53,587
Urban programmes	1,156,223	-	1,156,223	819,448
Heritage programmes	-	-	-	13,901
<i>Total incoming resources from charitable activities</i>	<u>1,181,720</u>	<u>-</u>	<u>1,181,720</u>	<u>886,936</u>

3 Costs of charitable activities

	General Fund	Restricted Funds	Total Funds	Total Funds
	2006	2006	2006	2005
	£	£	£	£
GROUP				
Educational programmes	1,259,712	193,498	1,453,210	1,102,817
Urban programmes	1,053,557	100,000	1,153,557	1,069,568
Heritage programmes	-	-	-	96,065
Allocated support costs (below)	852,881	-	852,881	759,851
<i>Total cost of charitable activities</i>	<u>3,166,150</u>	<u>293,498</u>	<u>3,459,648</u>	<u>3,028,301</u>
Support costs (group)				
Staff costs	463,776	-	463,776	349,626
Other costs	89,034	-	89,034	134,859
Premises	158,828	-	158,828	97,253
Depreciation	141,243	-	141,243	160,451
Interest paid	-	-	-	17,662
	<u>852,881</u>	<u>-</u>	<u>852,881</u>	<u>759,851</u>
CHARITY				
Educational programmes	289,599	34,811	324,410	297,488
Urban programmes	1,053,557	100,000	1,153,557	1,069,568
Heritage programmes	-	-	-	96,065
Allocated support costs (below)	766,340	-	766,340	704,077
<i>Total cost of charitable activities</i>	<u>2,109,496</u>	<u>134,811</u>	<u>2,244,307</u>	<u>2,167,198</u>
Support costs (charity)				
Staff costs	405,922	-	405,922	311,533
Other costs	70,777	-	70,777	125,448
Premises	158,828	-	158,828	97,253
Depreciation	130,813	-	130,813	157,805
Interest paid	-	-	-	12,038
	<u>766,340</u>	<u>-</u>	<u>766,340</u>	<u>704,077</u>

**THE PRINCE'S FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS**

4 Governance costs	General Fund 2006 £	Restricted Funds 2006 £	Total Funds 2006 £	Total Funds 2005 £
GROUP				
Cost of meetings	3,488	-	3,488	4,517
Legal and professional fees	12,042	-	12,042	14,329
Audit fees	20,900	-	20,900	18,000
	<u>36,430</u>	<u>-</u>	<u>36,430</u>	<u>36,846</u>
CHARITY				
Cost of meetings	3,488	-	3,488	4,517
Legal and professional fees	5,823	-	5,823	7,135
Audit fees	12,500	-	12,500	10,000
	<u>21,811</u>	<u>-</u>	<u>21,811</u>	<u>21,652</u>
5 Total resources expended				
	Staff costs £	Depreciation £	Other costs £	Total £
GROUP				
Cost of fund-raising trading	-	-	46,160	46,160
Other costs of generating funds	239,564	6,885	229,247	475,696
Educational programmes	628,372	15,529	819,739	1,463,640
Urban programmes	706,457	-	447,100	1,153,557
Programme support	437,958	130,813	273,680	842,451
Governance costs	-	-	36,430	36,430
	<u>2,012,351</u>	<u>153,227</u>	<u>1,852,356</u>	<u>4,017,934</u>
CHARITY				
Cost of generating funds	239,564	6,885	153,450	399,899
Educational programmes	188,784	-	135,626	324,410
Urban programmes	706,457	-	447,100	1,153,557
Programme support	405,922	130,813	229,605	766,340
Governance costs	-	-	21,811	21,811
	<u>1,540,727</u>	<u>137,698</u>	<u>987,592</u>	<u>2,666,017</u>

THE PRINCE'S FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

6 Staff costs	2006	2005
	£	£
Wages and salaries	1,637,062	1,370,827
National Insurance	171,484	144,977
Pension costs	<u>80,660</u>	<u>96,421</u>
<i>Direct costs</i>	1,889,206	1,612,225
Recruitment and training costs	<u>123,145</u>	<u>127,861</u>
	<u><u>2,012,351</u></u>	<u><u>1,740,086</u></u>

Emoluments (excluding pension contributions) to employees in excess of £60,000 were in the following ranges:

£60,001 - £70,000	-	2
£70,001 - £80,000	2	1
£80,001 - £90,000	1	-
£110,001 - £120,000	1	-

Pension costs for those higher paid staff (as detailed above) were as follows:

£	27,032	£	27,047
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The number of employees to whom retirement benefits are accruing under money purchase schemes is:

22	17
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The average number of employees during the year, analysed by function, was:

Educational programmes	20	27
Urban programmes	19	13
Heritage programmes	-	2
Programme support	9	9
Fund-raising and communications	3	3
Management and administration	<u>2</u>	<u>3</u>
	<u><u>53</u></u>	<u><u>57</u></u>

7 Net incoming (outgoing) resources for the year

	2006	2005
	£	£
This is stated after charging:		
Trustees' (directors') emoluments	-	-
Trustees' expenses	3,488	4,517
Auditors' remuneration:		
For audit services	20,900	18,000
For other services	8,720	7,470
Depreciation	<u>153,227</u>	<u>168,756</u>

Trustees are eligible to be reimbursed for travel and incidental expenses incurred in the performance of their duties. In the year, 2 trustees (2005 - 2) claimed such expenses.

**THE PRINCE'S FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS**

8 Tangible fixed assets

GROUP	Freehold Property £	Equipment, fixtures & fittings £	Total £
Cost			
At 1 April 2005	5,759,871	752,385	6,512,256
Additions at cost	-	78,086	78,086
At 31 March 2006	<u>5,759,871</u>	<u>830,471</u>	<u>6,590,342</u>
Accumulated depreciation			
At 1 April 2005	2,184,171	534,514	2,718,685
Charge for the year	48,100	105,127	153,227
At 31 March 2006	<u>2,232,271</u>	<u>639,641</u>	<u>2,871,912</u>
Net book value			
At 31 March 2006	3,527,600	190,830	3,718,430
At 31 March 2005	<u>3,575,700</u>	<u>217,871</u>	<u>3,793,571</u>
COMPANY			
Cost			
At 1 April 2005	5,759,871	744,446	6,504,317
Additions at cost	-	41,297	41,297
At 31 March 2006	<u>5,759,871</u>	<u>785,743</u>	<u>6,545,614</u>
Accumulated depreciation			
At 1 April 2005	2,184,171	531,868	2,716,039
Charge for the year	48,100	89,598	137,698
At 31 March 2006	<u>2,232,271</u>	<u>621,466</u>	<u>2,853,737</u>
Net book value			
At 31 March 2006	3,527,600	164,277	3,691,877
At 31 March 2005	<u>3,575,700</u>	<u>212,578</u>	<u>3,788,278</u>

**THE PRINCE'S FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS**

9 Holdings in subsidiaries

The Prince's Foundation holds a 100% interest in each of the following subsidiaries, all incorporated in the United Kingdom:

Prince's Foundation Enterprises Limited, whose business is fund-raising.

The Prince's School of Traditional Arts, whose business is operating a school of traditional arts.

The Prince's Drawing School, whose business is operating a drawing school.

Summarised financial results for the year ended 31 March 2006:

	The Prince's Drawing School £	The Prince's School of Traditional Arts £	Prince's Foundation Enterprises Limited £
Turnover	731,615	853,185	83,868
Expenses	(693,443)	(658,474)	-
Investment income	5,545	107,037	-
	<u>43,717</u>	<u>301,748</u>	<u>83,868</u>
Net surplus			
Donated under Gift Aid	-	-	(83,868)
Reserves brought forward	71,502	92,082	-
Reserves at 31st March 2006	<u>115,219</u>	<u>393,830</u>	<u>-</u>

10 Stocks

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Books held for resale	<u>-</u>	<u>3,833</u>	<u>-</u>	<u>3,833</u>

11 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Debtors for projects and events	1,338,506	874,685	1,326,032	805,096
Balance due from subsidiary	-	-	76,987	178,685
Prepayments and accrued income	103,112	71,212	31,988	34,496
Other debtors	13,008	-	340	-
	<u>1,454,626</u>	<u>945,897</u>	<u>1,435,347</u>	<u>1,018,277</u>

THE PRINCE'S FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS

12 Creditors - Amounts falling due within one year	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank overdraft	154,273	62,207	154,273	62,207
Trade creditors	147,118	180,359	133,102	140,368
Tax and social security	154,488	82,344	154,488	82,344
Accruals	169,827	155,523	153,331	130,050
Deferred income	538,880	479,115	477,400	450,630
Other creditors	36,412	57,964	7,015	54,951
	<u>1,200,998</u>	<u>1,017,512</u>	<u>1,079,609</u>	<u>920,550</u>

The bank overdraft is secured by a legal charge over the charity's freehold property.

Deferred Income	Group	Company
	£	£
Deferred from the previous period	479,115	450,630
Released during the year	(390,715)	(362,230)
<i>Arising during the year:</i>		
Fees	121,480	60,000
Sponsorship	7,500	7,500
Donations	321,500	321,500
	<u>538,880</u>	<u>477,400</u>

13 Funds employed	Brought forward	Incoming resources	Outgoing Resources	Carried forward
GROUP	£	£	£	£
Restricted funds:				
Education	160,907	89,004	(193,498)	56,413
Urban programme	200,000	-	(100,000)	100,000
Miscellaneous programmes	26,833	-	-	26,833
Total restricted funds	<u>387,740</u>	<u>89,004</u>	<u>(293,498)</u>	<u>183,246</u>
Endowment Fund	1,547,977	-	-	1,547,977
General fund	3,999,300	4,138,303	(3,724,436)	4,413,167
Total funds	<u>5,935,017</u>	<u>4,227,307</u>	<u>(4,017,934)</u>	<u>6,144,390</u>
CHARITY				
Restricted funds:				
Education	30,066	12,500	(34,811)	7,755
Urban programme	200,000	-	(100,000)	100,000
Miscellaneous programmes	26,833	-	-	26,833
Total restricted funds	<u>256,899</u>	<u>12,500</u>	<u>(134,811)</u>	<u>134,588</u>
Endowment Fund	1,547,977	-	-	1,547,977
General fund	3,963,311	2,520,671	(2,531,206)	3,952,776
Total funds	<u>5,768,187</u>	<u>2,533,171</u>	<u>(2,666,017)</u>	<u>5,635,341</u>

The endowment fund has been set up to support the Foundation's Visual Islamic and Traditional Arts educational programme; interest received from the fund is applied towards that programme. More details on restricted funds may be found in the Statement of Accounting Policies

**THE PRINCE'S FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS**

14 Analysis of net assets between funds	Tangible fixed assets	Net current assets	Total
GROUP	£	£	£
Endowment Fund	-	1,547,977	1,547,977
Restricted funds	-	183,246	183,246
	<u>-</u>	<u>1,731,223</u>	<u>1,731,223</u>
Unrestricted funds	3,718,430	694,737	4,413,167
	<u>3,718,430</u>	<u>2,425,960</u>	<u>6,144,390</u>
CHARITY			
Endowment Fund	-	1,547,977	1,547,977
Restricted funds	-	183,246	183,246
	<u>-</u>	<u>1,731,223</u>	<u>1,731,223</u>
Unrestricted funds	3,718,430	694,737	4,413,167
	<u>3,718,430</u>	<u>2,425,960</u>	<u>6,144,390</u>

15 Pensions

The Prince's Foundation contributes to individuals' personal pension schemes, which are thus accounted for as defined contribution pension schemes.

The Prince's Foundation also participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trust.

The cost recognised within the surplus/deficit for the year in the statement of financial activities is equal to the contributions payable to each of these pensions schemes during the period.

Contributions payable during the period were as follows:

	2006	2005
	£	£
Defined contributions personal pension schemes	76,087	89,612
Universities Superannuation scheme	4,573	6,809
	<u>80,660</u>	<u>96,421</u>

16 Capital commitments

There are no significant capital commitments.

17 Related party transactions

The Trustees of The Prince's Foundation are appointed by HRH The Prince of Wales.

During the year, the Prince's Foundation received donations from the following charities, which are considered to be related parties:

The Prince of Wales's Charitable Foundation	£250,000 (2005 £342,000)
The Prince of Wales Foundation, an American charity	£237,568 (2005 £131,961)

The Foundation holds legal title to 19-22 Charlotte Road, Shoreditch. The Prince's Drawing School and The Prince's School of Traditional Arts enjoy the right to occupy a third of the building rent-free. It has been proposed that this arrangement will be formalised and discussions are in progress.