FOUNDATION EAST LIMITED

(Industrial and Provident Society no. 29722R)

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2010

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For the year ended 31 March 2010

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REFERENCE AND ADMINISTRATIVE DETAILS
For the year ended 31 March 2010

Directors	David Bell Steve Clarke Thomas Cook Mark Gipson Richard Glinn Jolyon Larkman- Treasurer James Murray Peter Jones - Chair (Appointed 14/09/2009) Martyn Rouse Christopher Storey Deborah Wildridge Nicki Hayes-Singh
Secretary	Anne Ford
Chief Executive	Anne Ford
I&P Society number	29722R
Registered office	Saxon House 7 Hillside Business Park Kempson Way Bury St. Edmunds IP32 7EA
Auditors	Gotham Erskine LLP Friendly House 52 - 58 Tabernacle Street London EC2A 4NJ
Bankers	The Co-operative Bank Plc P.O. Box 101 Balloon Street Manchester M60 4EP Unity Trust Bank plc Nine Brindleyplace Birmingham B1 2HB

Status

Foundation East Limited is an Industrial and Provident Society that has exempt charitable status. The Society changed its name from Suffolk Regeneration Trust Limited on 25 January 2007.

DIRECTORS' REPORT
For the year ended 31 March 2010

The Directors are pleased to present their report and the audited financial statements for the year ended 31 March 2010.

The Directors confirm that the annual report of the Society complies with current statutory requirements, the requirements of the Rules and the provisions of the Statement of Recommended Practice (SORP) 'Accounting and Reporting by Charities' issued March 2005.

Structure, governance and management

The Society is registered under the Industrial and Provident Societies Act 1965 and is recognised by the Inland Revenue as an exempt Charity. Each member must hold a minimum of one share of £1.

The Society is governed by a Board of Directors who are all volunteers and members of the Society. The Board of Directors comprises not less than three and not more than twelve persons. Directors are subject to retirement by rotation and every year one third of Directors eligible must retire. Directors subject to retirement are those who have been longest in office and Directors may stand for re-election. The election of Directors takes place at the Annual General Meeting. A casual vacancy in the number of Directors may be filled from amongst the membership by the Directors or, if it arises at a General Meeting of the Society, by that meeting. A casual vacancy shall exist when there are fewer Directors than there were at the close of the last Annual General Meeting. Details of those serving on the Board during the year and those serving currently are shown on page 1. Any member of the Society is eligible to stand as a Director or to be co-opted as a Director. An induction programme is undertaken to equip Directors to fulfill the duties in accordance with best practice and statutory requirements.

The Board of Directors meet quarterly. Four sub-committees operate within terms of reference setting out the delegated responsibilities:-

- The Finance Committee is responsible for overseeing the financial status of the Society and for considering issues relating to financial management and performance, fundraising, budget setting and audit.

- The Property Committee oversees the development of property projects being undertaken by the Society.

- The Marketing Committee is responsible for the awareness raising and marketing activity of the society for investors, stakeholders, borrowers and tenants.

- The Loan Assessment Panel has responsibility for sanctioning and declining loan applications.

Responsibility for operational matters outside these meetings is devolved to the Chief Executive. An appropriate system for urgent action exists where, in the best interest of the Society, a decision needs to be taken outside the framework of delegation. The staff team is accountable to the Chief Executive who is charged with the responsibility of executing day-to-day operations of the Society in accordance with the policies and budgets approved by the Board.

Objects

The objects of the Society shall be to carry on for the benefit of the community the business of promoting charitable purposes by the provision of financial loans and other assistance in the following ways:

- the promotion of urban and rural regeneration in areas of social and economic deprivation;

- the relief of unemployment;
- the advancement of education, training or retraining particularly among unemployed people, and providing the unemployed with work experience;
- the provision of financial assistance, technical assistance or business advice or consultancy in order to provide training, employment and opportunities for self employment for unemployed people in cases of financial or other charitable need through help: (i) in setting up an enterprise or (ii) to existing enterprises;
- the creation of training and employment opportunities by the provision of workspace, buildings and/or land for use on favourable terms;
- the provision of housing for those who are in conditions of need and the improvement of housing provided that such power shall not extend to relieving any local authorities or other bodies of a statutory duty to provide or improve housing;
- the support of any charities or charitable purpose as the Directors in their absolute discretion see fit.

Mission

Foundation East aims to help make the East of England the enterprise capital of the UK by championing financial inclusion through providing access to fair finance for:

- local businesses
- clients of partnering housing associations
- community groups wishing to use Community Land Trusts to develop affordable housing and business premises

Our values

Foundation East's officers, members and board of directors all work in line with our agreed values:

- Honesty
- Service
- Respect
- Responsibility

DIRECTORS' REPORT
For the year ended 31 March 2010

Activities and operational review

The Directors are pleased to report that during the year the Society continued to deliver its mission in three key areas: business lending, personal lending and community land trust development. These areas of work are supported by Investment Raising – primarily targeted at capitalising the business lending activity but also pertinent to other work streams.

When planning our activities for the year, the Directors have considered the Charity Commission's guidance on public benefit and are satisfied that the Society's activities met the principles laid out in that guidance.

Business Lending is the core of the Society's work. This year, like the last, continued to present significant challenges. The deepening economic crisis both nationally and globally coupled with political uncertainty has meant that the gap between those who are financially excluded and those who have access to a range of financial products and services has grown significantly. Whilst there is some evidence that banks have begun to lend a little more than they were a year ago, the society continues to receive applications from established businesses that would ordinarily have been able to raise finance through main stream providers, as well as from businesses wishing to start up.

The bad debt experience in 2008/9 was not limited to the banking sector. As would be expected, lending organisations in the sub-prime market, such as Foundation East, are even more exposed to the effects of recession and mindful of the need to ensure long term sustainability, Foundation East make a conscious decision to be more risk averse at this stage of its development. The Board and non-board members of the lending panel met and discussed ways in which the mission could be delivered whilst ensuring that the risks being taken were fully understood. New procedures were put in place, including the subscription to an in-depth credit searching facility and a "second pair of eyes" approach given to all proposals before being sent to the panel. The society does not utilise a credit scoring system but is now much better informed of the credit history of its applicants. This more rigorous approach to the appraisal process has resulted in a improved quality loan book and a lower bad and doubtful debt charge for the year.

The table below demonstrates the lending volumes experienced throughout the year.

	2010	***2009***	*2008*
Loans disbursed	36	93	20
Amount disbursed	£442,688	£1,421,917	£194,967

As would be expected during a recession the number of individuals successful in obtaining finance to start a business has dropped however Foundation East has continued to lend to those individuals whose business ideas and confidence led the society to believe that they would succeed. One such company is providing an insurance product aimed at the parents of youngsters learning to drive. The drivers obtaining their own insurance policy, rather than risk their parents exposure to the loss of their no claims bonus. The provisional driver's policy can be purchased by the month and starts to build a no claims bonus for the youngster from day one. At the other end of the risk scale is the case of a man who had been made redundant but realizing that the prospects for employment at his age and in his profession were small, decided to set up a window cleaning business. The initiative and determination shown in his business planning gave the society the confidence to take a risk in supporting him through to what is developing into a good steady business.

Post loan support is critical for start up businesses, experience showing that the most vulnerable time is during the first six months of trading. Recognising that support from the lending officer alone was not sufficient, the society introduced a mandatory coaching scheme for all start up businesses. This involves

engaging a professional business coach before the loan is released. The coach then meets with the client on a regular basis to agree set targets for the next month and is a sounding board for any issues. The aim is to coach the client to lead his/her business through recognition of the financial information generated by the businesses. The coach and lending officer work very much as a team with the best interests of the client in mind at all times.

	Start Ups		Expansion		Recovery	
All years	153	£1,587,971	70	£1,099,999	8	£70,232
2008/09	67	£898,189	26	£503,728	2	£20,000
2009/10	20	181,255	13	£232,000	3	£27,000

Through operation of the Small Firms Loan Guarantee Scheme (now re-named Enterprise Finance Guarantee) a large proportion of those investments in businesses that failed during the last 2 years has been recovered. These recovered funds have been re-lent or will be re-lent to enterprises over the coming years. The society applies a very rigorous approach to the repayment of its loan finance through engagement at the outset with the borrower, to ensure he or she is aware of the charitable aims of the society. The society adopts a persistent but at all times fair approach to its debt recovery function.

Personal Financial Inclusion activity continues through the society's housing association partners. Lending is only to those partner's' tenants, allowing the Society to continue to deliver its social inclusion mission to excluded individuals albeit on a much reduced scale. Whilst personal lending is not the society's core activity the loans it supplies offer a real alternative to borrowing from doorstep lenders.

	2010	***2009***	*2008*
Loans disbursed	9	25	63
Amount disbursed	£10,696	£22,358	£76,318

Although these personal loans are restricted to the tenants of the housing associations who finance the scheme, the Society provides the service to four housing associations spread over Suffolk and Essex, creating a benefit for a significant cross section of the public.

The personal loans were used for a variety of purposes. In some cases the loans are not for a large amount of money but do make a significant difference to the lives of the people borrowing. For example one borrower needed just £176 to pay some rent arrears before she was able to move herself and two children to more suitable accommodation. Another example is the borrower who needed £1,000 to purchase a car to transport her child to school as there was no regular bus service in her area and taxi's were the only option. The loan repayments are less than the cost of the taxi fares and the borrower is also in a much better position to seek employment now she has transport.

Community Land Trust work continues to progress. Miles Ward Court was developed from a derelict hemp works in the centre of a rural market town and now provides eight small business units let on an easy in and easy out basis. Turnover on these units remain low with new tenants being attracted by the terms and the friendly community environment developed by the community of existing unit holders and residents of the town. In June 2009 the second of the society's Community Land Trust developments was completed providing residential accommodation in the form of 2 flats and a retail unit.

Tenants of the flats must be local to the area and must have insufficient accessible resources to enable them to secure their own suitable accommodation in the private sector, either through rental or purchase. Priority is given to key workers. The flats are unique and the tenants enjoy the quirky nature of the building.

The society is very keen to further develop the Community Land Trust model and held an awareness raising event in Thetford in February 2010. The event was extremely well attended, with delegates ranging from potential projects to councils wishing to dispose of assets to the community. The society has however not been in a position to develop its work in this area as extensively as it would have liked as a dedicated personnel resource is needed. The society continues to seek funding for this key role.

These Community Land Trust projects have a significant benefit to the public, helping to generate jobs and affordable housing in areas of social and economic deprivation.

Fund raising activity

Foundation East is a mutual society and seeks investment in the form of shares from individuals and corporates. The society is also accredited to offer Community Investment Tax Relief to its investors so long as the investment remains in the society for a minimum of 5 years. Despite the attractive tax relief of 5% per annum for up to 5 years on the investment, the society has struggled to attract many investors in the year and in an attempt to understand why this is, it held an event in Cambridge, inviting along social entrepreneurs, Independent Financial Advisors and business owners who the society felt would provide honest feedback and answers to the question “why invest?”. The feedback was varied but the key messages were that the investors sought local investment in their own communities rather than spread across the region and that they wished to get involved with the society as well as providing their capital. The society is grateful for this valuable input. It has very recently embarked on a high profile Public Relations campaign aimed at raising awareness of the society and the good work it does for the region, both on a local and national scale.

As the East of England Development Agency’s (EEDA) chosen partner to deliver the Government’s Small Loans for Business Programme, the society’s performance is measured by the number of loans is makes and the number of jobs its finance has helped to either save or create. In the year under review the society did not achieve all of the targets set by EEDA. The society did however achieve the following results:-

	2010	***2009***	*2008*
Jobs created	29	219	32
Jobs saved	42.5	139	10

The society has engaged in detailed discussions with EEDA, examining the reasons for the shortfall. Despite this underperformance the society continues to work towards the achievement of the final targets set out in the 5 year contact. The society is grateful to the team at EEDA for their continued support.

Changes in governance.

Jim Murray, one of the founding members of the society and chair of Foundation East since its formation in 2003 stood down from the role of chair in September 2009. Jim remains on the board and his encouragement and contribution to the continued success and development of the society is very much appreciated. The society is pleased to report that Peter Jones, a retired actuary, agreed to join the Board and was appointed to the position of Chair in September 2009. During the year there have been several changes in the roles of chairs to the various committees. Jolyon Larkman has taken on the role as Chair of the Finance Committee and Steve Clarke as Chair of the Property Committee. The society thanks both Martyn Rouse and Chris Storey, the previous holders of these roles for their past endeavors and for their continued support of the new incumbents.

DIRECTORS' REPORT
For the year ended 31 March 2010

The Staff Team
The society is grateful to the hard work, determination and professionalism of its staff. Despite the difficult and at times tough decisions they have had to make over the year they have worked diligently, and continue to deliver the society's mission though strict adherence to its value and ethos. We are pleased to report here that the staff team will be growing in the coming year, with the addition of a new Loans Officer to further develop its work in Hertfordshire and Bedfordshire.

Risk management
The society is pleased to report that it has put in place a Risk Register. Tier 1 (Critical Impact Risks) was completed and adopted by the society in September 2009. An element of the register is reviewed at each quarterly board meeting and control measures to match the organisation's risk appetite are put in place. Work will continue of Tiers 2 and 3 (Significant impact and Operational impact) over the course of the coming year.

Financial review
Incoming resources of £608k are almost 50% less than in 2009. The majority of this is attributable to a much lower level of capital funding for both the lending and the CLT activities. In the case of lending EEDA has already made the capital payments for the 5 year period of the contract and on the CLT side the final payment in connection with the Chediston Street development was also received during the year.

Interest earned on the loan book was 18% higher than in 2009 which is partially the result of improving yields. In addition rental income was 49% higher than in 2009, with Miles Ward Court fully let and Chediston Street starting to come on stream. Operating costs at £333k were 21% lower with significant savings being made in the areas of staff costs, mileage, travel & subsistence allowances and advertising and marketing.

A significant contributor to the net income before transfers is a 52% reduction in bad debt charges. This follows from the decision to take an aggressive approach to the loan write off in the previous year following a too rapid expansion of the loan book. It also reflects an improvement in the credit quality of more recent loans.

The final figure for the net movement in funds (-£153k) is the result of taking the impairment loss on the Chediston Street property following its completion. It was always intended that the value of the property would be open market value. Miles Ward Court has been dealt with in the same way in the previous year. The impairment figure for Chediston Street was struck following receipt of a professional valuation by local property valuers, Durrants.

It is the society's aim to have a general reserve figure equivalent to three months operating costs. It has not been possible to achieve this in the year to 31 March 2010 but it is hoped that continuing better performance of the loan book will permit an increase in the general reserve in the next few years.

The Society receives revenue income from its loan books. Other sources of income include project grants and philanthropic donations. Grants for specific purposes are shown in the accounts as restricted funds and the Board of Directors is responsible for ensuring grants are spent for the purpose for which they are given. The Society is a membership organisation and receives member investment.

Future plans
The society will continue to face many challenges over the coming year, raising capital, reducing delinquency in its loan book and building CLT assets but challenge brings opportunity and we look forward

to another exciting and enterprising year. We will be working on a new 5 year strategic plan to ensure that the company becomes a sustainable organisation, ideally placed to deliver its mission into the next decade and beyond. Implementation of the strategy will involve the development of new products to meet the needs of customers identified in a recent survey.

The society has begun to collate the data it needs to enable it to report on a Social Return on Investment (SROI) and will be using a model developed by the New Economics Foundation. The model has been developed in conjunction with the Cabinet Office for the Third Sector. There are many things which we value, as societies and individuals, which cannot be easily captured in economic terms. Most decision making in the private, public and third sectors however are based solely on costs and price. Social Return on Investment (SROI) is an analytic tool for measuring and accounting for a much broader concept of value. It incorporates social, environmental and economic costs and benefits into decision making, providing a fuller picture of how value is created or destroyed. SROI is able to assign a monetary figure to the social and environmental value which is created. By bringing social and environmental value into decision making this framework for measuring and accounting will enable a much broader concept of value to be established. The society expects to be able to report on its SROI over the course of the coming year.

Responsibilities of Directors

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Industrial and Provident Society Act 1965 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the surplus or deficit of the Society for the period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002. They have general responsibility for taking reasonable steps to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT
For the year ended 31 March 2010

Auditors
The Society's auditors, Gotham Erskine LLP, have indicated their willingness to continue in office and offer themselves for re-appointment.

This report was approved and authorised for issue by the Directors on 21 July 2010 and signed on its behalf by:

Peter Jones
Chair

Independent auditors' report to Foundation East Limited

We have audited the financial statements of Foundation East Limited for the year ended 31 March 2010 which comprise the Statement of Financial Activities, the Balance Sheet and the related Notes. These financial statements have been prepared under the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (effective April 2008).

This report is made solely to the Society in accordance with Section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to it 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 Society, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Director and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Directors' Responsibilities.

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 Industrial and Provident Societies Acts 1965 to 2002. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the Society 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 Directors' Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society'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 applicable to Smaller Entities, of the state of the Society's affairs as at 31 March 2010 and of its deficit for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002.

Gotham Erskine LLP
Chartered Accountants & Statutory Auditors
Friendly House
52 - 58 Tabernacle Street
London EC2A 4NJ Date:

STATEMENT OF FINANCIAL ACTIVITIES
For the year ended 31 March 2010

			Unrestricted Funds					
	Note	Restricted Funds 2010 £	Loan Capital 2010 £	Fixed Asset Fund 2010 £	Property Fund 2010 £	General Reserve 2010 £	Total Funds 2010 £	*Total Funds 2009 £*
INCOME								
Grant income								
Revenue grants for property activities	2	-	-	-	-	-	-	*25,000*
Capital grants for property activities	3	**29,626**	-	-	-	-	**29,626**	*183,255*
Revenue grants for lending activities	4	**154,154**	-	-	-	-	**154,154**	*173,039*
Capital grants for lending activities	5	**255,000**	-	-	-	-	**255,000**	*647,325*
Interest from loans		-	-	-	-	**131,863**	**131,863**	*111,733*
Loan arrangement fees		-	-	-	-	**10,548**	**10,548**	*28,955*
Rental income		-	-	-	-	**23,042**	**23,042**	*15,463*
Investment income		-	-	-	-	**3,674**	**3,674**	*26,311*
TOTAL INCOMING RESOURCES		**438,780**	-	-	-	**169,127**	**607,907**	*1,211,081*
RESOURCES EXPENDED								
Operating activities - lending and property development								
Operational costs	6	**204,154**	-	**6,955**	**6,578**	**114,933**	**332,620**	*422,394*
Bad and doubtful debts	13	**120,172**	**46,553**	-	-	**43,168**	**209,893**	*434,021*
Governance	7	-	-	-	-	**38,944**	**38,944**	*29,723*
TOTAL RESOURCES EXPENDED		**324,326**	**46,553**	**6,955**	**6,578**	**197,045**	**581,457**	*886,138*
Net income/(expenditure) before transfers		**114,454**	**(46,553)**	**(6,955)**	**(6,578)**	**(27,918)**	**26,450**	*324,943*
Transfers between funds	19	**(26,072)**	**(6,533)**	**3,817**	**33,444**	**(4,656)**	-	-
Net (outgoing)/incoming resources after transfers		**88,382**	**(53,086)**	**(3,138)**	**26,866**	**(32,574)**	**26,450**	*324,943*
Impairment loss on property	10	-	-	-	**(179,540)**	-	**(179,540)**	*(377,272)*
NET MOVEMENT IN FUNDS		**88,382**	**(53,086)**	**(3,138)**	**(152,674)**	**(32,574)**	**(153,090)**	*(52,329)*
TOTAL FUNDS AT 1 APRIL 2009		*1,408,832*	*259,703*	*21,471*	*496,582*	*70,230*	*2,256,818*	*2,309,147*
TOTAL FUNDS AT 31 MARCH 2010		**£ 1,497,214**	**£ 206,617**	**£ 18,333**	**£ 343,908**	**£ 37,656**	**£ 2,103,728**	*£ 2,256,818*

The annexed notes form part of these financial statements

BALANCE SHEET
As at 31 March 2010

	Notes		2010		2009
		£	£	£	£
FIXED ASSETS					
Property assets	10		**404,560**		*562,582*
Other tangible assets	11		**18,333**		*21,471*
Investments	12		**250**		*250*
			423,143		*584,303*
CURRENT ASSETS					
Loans	13	**911,151**		*1,134,119*	
Debtors	14	**64,117**		*406,459*	
Cash at bank and in hand	15	**1,866,776**		*1,385,106*	
		2,842,044		*2,925,684*	
CREDITORS: amounts falling due within one year	16	**(282,107)**		*(371,419)*	
NET CURRENT ASSETS			**2,559,937**		*2,554,265*
TOTAL ASSETS LESS CURRENT LIABILITIES			**2,983,080**		*3,138,568*
CREDITORS: amounts falling due after one year	17		**(810,652)**		*(816,000)*
NET ASSETS			**£ 2,172,428**		*£ 2,322,568*
CAPITAL AND RESERVES					
Share capital	18		**68,700**		*65,750*
Funds:	19				
Restricted funds		**1,497,214**		*1,408,832*	
Unrestricted funds:					
Loan capital		**206,617**		259,703	
Fixed asset fund		**18,333**		21,471	
Property fund		**343,908**		496,582	
General reserve		**37,656**		*70,230*	
Total funds			**2,103,728**		2,256,818
			£ 2,172,428		*£ 2,322,568*

The financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008). They were approved, and authorised for issue, by the Directors on 21 July 2010 and signed on their behalf by:-

_____ PETER JONES, Chair

_____ JOLYON LARKMAN, Treasurer

_____ ANNE FORD, Secretary

The annexed notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

1. ACCOUNTING POLICIES

Basis of preparation of financial statements
The financial statements have been prepared under the historical cost convention, applicable accounting standards and the Financial Reporting Standard for Smaller Entities (effective April 2008). Since the Society has exempt charitable status, the accounts have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities" published in 2005.

The effects of events relating to the year ended 31 March 2010 which occurred before the date of approval of the financial statements by the Board of Directors has been included in the financial statements to the extent required to show a true and fair view of the state of affairs at 31 March 2010 and the results for the year ended on that date.

Company status
Foundation East Limited is an Industrial and Provident Society with exempt charitable status.

Fund accounting
Restricted funds are funds which are to be used in accordance with specific restrictions imposed by funders which have been raised by the Society for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements. Statutory grants which are given as contributions towards the Society's core services are treated as unrestricted.

Designated funds comprise unrestricted funds that have been set aside by the Board of Directors for particular purposes. The aim and use of each designated fund is set out in the notes to the financial statements.

The General fund is the balance of unrestricted funds which are available for use at the discretion of the Board of Directors in furtherance of the general objects of the Society and which have not been designated for other purposes.

Incoming resources
All incoming resources are included in the Statement of Financial Activities when the Society is legally entitled to the income and the amount can be quantified with reasonable accuracy.

Resources expended
All expenditure is accounted for on an accruals basis and has been included under expense categories that aggregate all costs for allocation to activities. Governance costs include the costs of servicing Directors' meetings, audit and strategic planning. Irrecoverable VAT is charged against the category of resources expended for which it was incurred.

Tangible fixed assets and depreciation
All assets costing more than £500 are capitalised.

Properties under construction are shown at cost.Once completed the properties then undergo an impairment review to ensure that they are shown at no more than recoverable value. Completed properties are revalued every five years, with an interim valuation carried out in the third year of that five year cycle. Completed properties are reviewed for impairment on an annual basis, by comparing their carrying value with their recoverable amount.

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold land	-	indefinite (not depreciated)
Buildings	-	50 years
Furniture/fittings	-	10 years
Office equipment	-	5 years
Computer equipment	-	4 years

Loans and provisions
On an ongoing basis loan balances are reviewed and those that are no longer considered to be recoverable are written off. Where there is any doubt about the recoverability of a loan, an assessment is made of the amount that is considered at risk, and the probability of default, in order to arrive at a provision for doubtful debts.

Operating leases
Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the Statement of Financial Activities as incurred.

Pensions
The Society operates a defined contribution pension scheme. Contributions are charged to the Statement of Financial Activities as they become payable in accordance with the rules of the scheme.

2. REVENUE GRANT INCOME FOR PROPERTY ACTIVITES

		2010		*2009*
		£		*£*
East of England Development Agency - Bungay feasibility		**-**		*15,000*
Lankelly Chase Foundation		**-**		*10,000*
	£	**Nil**	*£*	*25,000*

3. CAPITAL GRANTS FOR PROPERTY ACTIVITIES

		2010		*2009*
		£		*£*
East of England Development Agency - 154 Chediston Street	**£**	**29,626**	*£*	*183,255*

The Society received a capital grant in the year towards its redevelopment of 154 Chediston Street. Further details of the Society's property projects are described in Note 10.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

4. REVENUE GRANTS FOR LENDING ACTIVITIES

	2010 £	2009 £
Havebury Housing	**3,465**	*1,000*
Cambridgeshire Business Limited	**20,000**	*-*
Suffolk Housing Society	**4,423**	*639*
Colne Housing Society	**4,690**	*800*
East of England Development Agency	**100,000**	*110,000*
Norwich City Council (Local Enterprise Growth Initiative)	**21,576**	*60,600*
	£ 154,154	*£ 173,039*

5. CAPITAL GRANTS FOR LENDING ACTIVITIES

	2010 £	2009 £
East of England Development Agency	**250,000**	*350,000*
Havebury Housing	**5,000**	*5,000*
Norwich City Council (Local Enterprise Growth Initiative)	**-**	*60,000*
Colne Housing Society	**-**	*4,200*
Cambridgeshire Business	**-**	*300,000*
Essex County Council	**-**	*9,000*
Colchester Borough Homes	**-**	*5,000*
Grant Repayable to European Commission	**-**	*(85,875)*
	£ 255,000	*£ 647,325*

The Society received capital grants to provide loans to businesses and individuals.

The negative income shown in 2009 represents capital grant funding for lending activities received from the European Commission which was not disbursed. The amount is to be returned to the funder in due course (see Note 16).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

6. OPERATIONAL COSTS

	2010 £	2009 £
Staff costs (see Note 8)	**198,907**	*259,460*
Temporary staff and recruitment	**-**	*8,371*
Staff training and welfare	**5,689**	*2,667*
Rent	**13,023**	*12,184*
Hospitality and refreshment	**2,186**	*4,066*
Telephone and postage	**5,377**	*7,088*
Insurance	**4,929**	*3,486*
Property depreciation	**6,578**	*-*
Depreciation of other tangible fixed assets (see Note 11)	**6,955**	*7,976*
Mileage allowance and other travel and subsistence costs	**15,678**	*36,633*
Consumables	**4,536**	*4,320*
Equipment and IT	**12,283**	*16,706*
Advertising and marketing	**11,574**	*18,647*
Loan arrangement fees and bank charges	**1,135**	*13,168*
Conference and seminar fees	**2,643**	*-*
Loss on disposal of fixed assets	**1,526**	*-*
Subscriptions and memberships	**4,519**	*1,973*
Website	**586**	*1,034*
Legal fees	**1,591**	*7,379*
Professional and consultancy fees	**26,589**	*17,382*
Other fees payable to auditor, grant audits and general advice	**1,175**	*2,350*
Property servicing costs	**8,534**	*7,257*
Trading bad debts	**-**	*5,167*
Interest payable on Unity Trust bank loan	**18,854**	*-*
Interest payable on Adventure Capital Fund loan	**4,194**	*4,230*
Other expenses	**3,667**	*1,764*
	362,728	*443,308*
Allocated to governance costs	**(30,108)**	*(20,914)*
	£ 332,620	*£ 422,394*

Operational costs consist of the day to day running costs of the Society. Operational costs have been allocated to governance costs according to Management's best estimates of how staff time has been spent on these activities (see Note 7).

7. GOVERNANCE COSTS

	2010 £	2009 £
Audit fees	**8,836**	*8,809*
Allocated from operational costs (see Note 6)	**30,108**	*20,914*
	£ 38,944	*£ 29,723*

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

8. STAFF NUMBERS AND COSTS

	2010 £	2009 £
Salaries	167,807	222,733
Social security costs	17,875	21,114
Pension costs	13,225	15,613
	£ 198,907	£ 259,460

The average weekly number of employees, calculated as full time equivalents, during the period was: 5.3 (2009 - 7.1)

No employees received remuneration greater than £60,000. (2009: one employee received remuneration between £60,000 and £70,000).

9. DIRECTORS

During the year, no Director received any remuneration (2009 - £NIL). However as described in Note 23, some of the Directors provide services to the Society in a professional, arms length capacity. Four members of the Board received reimbursement of expenses for travel amounting to £645 (2009 - two members of the board: £321).

10. PROPERTY ASSETS

	Miles Ward Court £	154 Chediston Street £	Total £
Valuation or cost			
At 1 April 2009	215,000	347,582	562,582
Additions	-	28,096	28,096
Deficit on revaluation	-	(179,540)	(179,540)
At 31 March 2010	£ 215,000	£ 196,138	£ 411,138
Depreciation			
At 1 April 2009	-	-	-
Charge for the year	3,440	3,138	6,578
At 31 March 2010	£ 3,440	£ 3,138	£ 6,578
Net book value			
At 1 April 2009	£ 215,000	£ 347,582	£ 562,582
At 31 March 2010	£ 211,560	£ 193,000	£ 404,560

The Society received a capital grant from the East of England Development Agency for 154 Chediston Street which stipulates that the funder will have a legal charge over the property until 2015. The cost has been written down in the year to the Trustees' estimate of recoverable value.

The funding agreement with Go East stipulates that the grant can be clawed back if Miles Ward Court is sold or its use changed before 2028.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

11. OTHER TANGIBLE FIXED ASSETS

	Computer equipment £	Fixtures & Fittings £	Office equipment £	Total £
Cost				
At 1 April 2009	**37,073**	**15,080**	**7,426**	**59,579**
Additions	**989**	**4,355**	**-**	**5,344**
Disposals	**-**	**(1,580)**	**(3,104)**	**(4,684)**
At 31 March 2010	**38,062**	**17,855**	**4,322**	**60,239**
Depreciation				
At 1 April 2009	**27,836**	**5,198**	**5,074**	**38,108**
Charge for the year	**4,575**	**1,786**	**594**	**6,955**
On disposals	**-**	**(764)**	**(2,393)**	**(3,157)**
At 31 March 2010	**32,411**	**6,220**	**3,275**	**41,906**
Net book value				
At 31 March 2009	*£ 9,237*	*£ 9,882*	*£ 2,352*	*£ 21,471*
At 31 March 2010	**£ 5,651**	**£ 11,635**	**£ 1,047**	**£ 18,333**

12. INVESTMENTS

	2010 £	2009 £
Shares in Wessex Reinvestment Trust	**£ 250**	*£ 250*

The above investments are valued at historic cost.

13. LOANS

	2010 £	2009 £
Capital Loan balance		
At 1 April 2009	**1,481,856**	*519,768*
Loans disbursed in the year	**453,384**	*1,444,275*
Loans repaid in the year	**(202,128)**	*(177,450)*
Loans written off in the year	**(537,657)**	*(304,737)*
Capital Loan Balance as at 31 March 2010	**1,195,455**	*1,481,856*
Less: Provision for doubtful debts		
At 1 April 2009	**(347,737)**	*(113,982)*
Reduction/(increase) in provision during the year financial year	**63,433**	*(233,755)*
Provision for doubtful debts as at 31 March 2010	**(284,304)**	*(347,737)*
	£ 911,151	*£ 1,134,119*

At the year end £335,890 of the loan balance was receivable in one year (2009: 493,952)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

	2010 £	2009 £
Bad debt expenditure		
Loans written off in the year	**537,657**	*304,737*
Loans previously written off and subsequently recovered (see below)	**(264,331)**	*(104,471)*
(Decrease) / increase in provision during the year financial year	**(63,433)**	*233,755*
	£ 209,893	*£ 434,021*

Loans previously written off and subsequently recovered includes amount received from third party guarantors, which are not included as part of "loans repaid in the year".

14. DEBTORS

Due within one year	2010 £	2009 £
Grant debtors	**6,420**	*370,511*
Income receivable from Small Firms Loan Guarantee scheme	**51,064**	*28,935*
Prepayments	**6,633**	*7,013*
	£ 64,117	*£ 406,459*

15. CASH AT BANK AND IN HAND

As described in Note 17, £750,000 was held on deposit by Unity Trust bank as loan security.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £	2009 £
Trade creditors	**2,607**	*182,297*
Salary owed to third party agents	**47,198**	*69,256*
Accruals	**10,010**	*12,350*
Deferred income	**133,152**	*20,000*
Grant repayable to European Commission (see Note 5)	**85,875**	*85,875*
Rent deposits	**1,981**	*1,641*
Loan from the Adventure Capital Fund	**1,284**	*-*
	£ 282,107	*£ 371,419*

	2010 £	2009 £
Deferred grant income		
Balance at 1 April 2009	**20,000**	*120,600*
Amount released to incoming resources	**(20,000)**	*(120,600)*
Amount deferred in the year	**133,152**	*20,000*
Balance at 31 March 2010	**£ 133,152**	*£ 20,000*

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

17. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2010 £	2009 £
Loan from Unity Bank	**750,000**	*750,000*
Loan from the Adventure Capital Fund	**60,652**	*66,000*
	£ 810,652	*£ 816,000*

The Adventure Capital Fund awarded the Society £99,000 towards the cost of developing Miles Ward Court (as described in Note 10 and Note 19). £66,000 of this award is in the form of a long-term loan. £33,000 was provided as a grant. Interest is payable on the loan at 6% per annum. The contract also provides for a 2 year capital holiday. The long term loan has been secured on the building.

The Society has been offered a total facility of £1,295,000 from the Unity Trust Bank, the facility is to be used to fund the Society's loan making activities. The Loan is not repayable for the first 60 months, but interest is payable at 2% over the Bank's Base Rate. At the year end £750,000 had been drawn down from the facility. The long term loan security held by the Bank is not limited to, but includes, an assignment over the debtor book relating to the entire client loans portfolio. At the year end £750,000 was also held on deposit by Unity Trust bank as loan security. This is included with in Cash at bank and in hand.

18. SHARE CAPITAL

	2010 £	2009 £
Ordinary shares of £1 each	**39,000**	38,650
CITR ordinary shares of £1 each	**29,700**	27,100
	£ 68,700	£ 65,750

Movement in share capital

	2010 £	2009 £
At 1 April 2009	**65,750**	62,650
Shares issued	**2,950**	3,100
At 31 March 2010	**£ 68,700**	£ 65,750

None of these shares are entitled to dividends.

The Ordinary shares are redeemable at par subject to a 3 month notice period. The shareholders are Members of the Society and have voting rights at general meetings. CITR ordinary shares are issued to the public and attract Community Investment Tax Relief.

The Ordinary shares and CITR shares rank equally, other than the right to withdraw. CITR ordinary shares can generally only be withdrawn after a period of 5 years from the date of issue.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

19. SUMMARY OF FUNDS

	Brought Forward £	Incoming Resources £	Resources Expended £	Impairment of property and transfers £	Carried Forward £
SUMMARY OF FUNDS					
Restricted funds	1,408,832	438,780	(324,326)	(26,072)	1,497,214
Unrestricted funds:					
Loan capital	259,703	-	(46,553)	(6,533)	206,617
Other unrestricted funds					
Fixed asset fund	21,471	-	(6,955)	3,817	18,333
Property fund	496,582	-	(6,578)	(146,096)	343,908
General fund	70,230	169,127	(197,045)	(4,656)	37,656
	£ 2,256,818	£ 607,907	£ (581,457)	£ (179,540)	£ 2,103,728

Restricted funds (see below) are funds which are to be used in accordance with specific restrictions imposed by funders and which have been raised by the Society for particular purposes.

The Loan capital fund is a designated fund. Where funding agreements do not place an ongoing restriction on the use of loan capital fund once the Society has made an initial loan to an individual or business, the loan capital is transferred from restricted funds to the Society's own reserves at the point a loan has been distributed. The Society has ring fenced this recycled loan capital into a designated fund, which will be used to make further loans to businesses and individuals, as the original loans are repaid. The Society may change the use of these funds at its discretion.

The Fixed Asset fund represents the value of non-property fixed assets, which are not readily available for the Society to spend.

The Property Development fund represents the net book value of the Society's properties, (see Note 10), less the £60,652 long term loan obtained to help finance them (see Note 17).

RESTRICTED FUNDS	Brought Forward £	Incoming Resources £	Resources Expended £	Transfers £	Carried Forward £
Property activities:					
Capital grants	-	29,626	-	(29,626)	-
Lending activities:					
Capital grants for making loans	1,358,832	255,000	(120,172)	3,554	1,497,214
Revenue grants	50,000	154,154	(204,154)	-	-
	£ 1,408,832	£ 438,780	£ (324,326)	£ (26,072)	£ 1,497,214

Transfers out of the Capital grant fund includes £29,626 of restricted income spent in the year on property development - because there is no ongoing restriction on the property assets the value has been moved to the unrestricted property development fund. £3,554 has been transferred from restricted funds to the Society's unrestricted reserves as a deduction from a loan making reserve to cover the costs of administering the scheme.

The Society received the final tranche of its grant from the East of England Development Agency, towards the development of 154 Cheddiston Street. This amount has been spent and transferred from restricted funds to the property development fund, since there is no ongoing restriction to the property's use.

As detailed in Note 5, £255,000 was provided to the Society by a variety of funders to allow loans to be made to businesses and individuals. Often contracts do not place an ongoing restriction on the use of the loan capital once the Society has made an initial loan. If this is the case the loan capital is transferred to the Society's own fund at the point an individual or business is granted a loan. The Society has ringfenced this recycled loan capital in to a separate unrestricted fund, and uses this reserve to make further loans to businesses and individuals. Resources expended represents loans written off and the provision for doubtful debts.

LOAN CAPITAL FUND	Brought Forward £	Incoming Resources £	Resources Expended £	Transfers £	Carried Forward £
Undistributed recycled loan capital	-	-	-	41,322	41,322
Loans made to businesses and individuals	259,703	-	(46,553)	(47,855)	165,295
	£ 259,703	£ Nil	£ (46,553)	£ (6,533)	£ 206,617

20. ANALYSIS OF NET ASSETS BETWEEN FUNDS

	Fixed assets £	Loans £	Other net current assets £	Creditors due after one year £	Total £
Share capital	-	-	68,700	-	68,700
Restricted funds	-	354,586	1,142,628	-	1,497,214
Loan capital	-	165,295	41,322	-	206,617
Fixed asset fund	18,333	-	-	-	18,333
Property development fund	404,560	-	-	(60,652)	343,908
General fund	250	391,270	396,136	(750,000)	37,656
	£ 423,143	£ 911,151	£ 1,648,786	£ (810,652)	£ 2,172,428

21. COMMITMENTS

The Society has a commitment under its office premises lease, which expires on 31 March 2012, of £12,656 increasing each year by 5.6%.

The Society has an annual commitment of £648 under its photocopier lease, which expires on 5 May 2013.

22. CONTINGENT LIABILITIES

The Society has received £150,000 from the European Commission, which was given initially as a long term loan. Repayment of the loan is at the funder's discretion and capital money unspent by 31 December 2008 totalling £85,875 has been included as a creditor on the basis that the Society anticipates having to return this (please see Note 16). There is uncertainity how the funder will choose to treat the element of grant which was used by the Society to make loans and the Society does not expect to be able to retain the funds indefinitely. As a result the fund (which currently stands at £51,706 after loan losses have been deducted) has been treated as a capital grant, which has been ring fenced within restricted funds.

23. RELATED PARTIES

Thomas Cook is a Director of the Society and a Partner with Kester Cunningham John Solicitors. During the year Kester Cunningham John provided legal advice to the sum of £403 (2009: £569). The Directors consider these transactions were on normal business terms and that the contracts were entered into on an arm's length basis.

Christopher Storey is a Director of the Society and the Proprietor of SB Surveyors. During the year SB Surveyors provided services to the sum of £1,208 (2009: £4,903). The Directors consider this transaction was on normal business terms and that the contracts were entered into on an arm's length basis.

Mark Gipson is a Director of the Society and a Partner with Birketts Solicitors LLP. During the year Birketts provided legal advice to the sum of £12,619 (2009: £6,445). The Directors consider this transaction was on normal business terms and that the contracts were entered into on an arm's length basis.