

FOUNDATION EAST LIMITED
(Industrial and Provident Society no. 29722R)

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2008

FOUNDATION EAST LIMITED
(Industrial and Provident Society no. 29722R)

REPORT AND FINANCIAL STATEMENTS
For the year ended 31 March 2008

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FOUNDATION EAST LIMITED

REFERENCE AND ADMINISTRATIVE DETAILS

For the year ended 31 March 2008

Directors

David Bell	
Andrew Budden	(Resigned 25/06/2007)
Richard Calvesbert	
Steve Clarke	(appointed 25/06/2007)
Thomas Cook	
Iain Dunnett	
Mark Gipson	
Richard Glinn	(appointed 25/06/2007)
Jolyon Larkman	(Co-opted 15/10/2007)
Ellen Lederman	(Resigned 15/10/2007)
James Murray - Chair	
Martyn Rouse - Treasurer	
Christopher Storey	
Deborah Wildridge	

Secretary Anne Ford

Chief Executive Bob Marchant

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 2008

The Directors are pleased to present their report and the audited financial statements for the year ended 31 March 2008.

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 fulfil the duties in accordance with best practice and statutory requirements.

The Board of Directors meet quarterly. Three 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 Credit Committee that 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.

DIRECTORS' REPORT

For the year ended 31 March 2008

Risk management

The Society had planned on undertaking a formal appraisal of risk through the creation of a Risk Register – at the time of writing this review remains outstanding. At a time of global macro economic uncertainty the Society is acutely aware of the need to manage its business prudently and in line with Best Practice. With this in mind, the creation of the Risk Register is to be completed during the first half of 2008/9. In the meantime, the Directors are satisfied that appropriate systems are in place to mitigate exposure to major risks. Internal control risks are minimised by procedures in place for the authorisations of expenditure and commitments. Insurance cover has been arranged in respect of the work of the Society. The Society retains significant risk in relation to the continuance of adequate external funding and the risk is continually monitored and actively managed by the Directors and the Chief Executive.

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.

DIRECTORS' REPORT

For the year ended 31 March 2008

Mission

The Society's mission is:

'to contribute to social inclusion by developing and delivering accessible financial products and services; and by engaging in property and land transactions that work to provide local communities with access to those assets.'

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.

Business Lending is the core of the Society's work, its "raison d'etre". The year has been a challenging one with the advent of a global credit crisis precipitating a UK housing market re-adjustment that some forecasters describe as a collapse. The atmosphere for enterprise was thick with "smog" and the Society's performance has been significantly down in comparison to its target :-

	Target	Actual
No. of loans approved	40	20
Value of loans approved	£300,000	£181,600

Reduced lending volumes have impacted the Society's ability to both create and safeguard jobs, with only 33.5 jobs created and 9.5 jobs safeguarded this year with much of this being achieved in the final quarter. The business lending portfolio stood at approximately £432,000 at the end of the year. However, the Society feels that this short-term performance "blip" has been overcome through a combination of external factors such as an improving economic outlook and internal changes including allocating Loan Officers to "patches" tasked with "getting under the skin" of the mainstream financial services and enterprise support mechanisms.

Personal Lending activity continued, but on a much reduced scale due to the DWP Growth Fund support being fully lent mid-way through the year. Going forward personal lending will be to Housing Association partners' tenants, allowing the Society to continue its impact (each individual loan has a very personal story behind it) but with minimal resources, reflecting the difficult funding regime that was the Growth Fund and with no real appetite to bid for support under Growth Fund 2.

No. of loans approved	57
Value of loans approved	£70,851

By the end of the year the personal lending portfolio before provisions stood at approximately £86,000 comprising 66 outstanding loans.

Community Land Trust work has progressed well with Halesworth Hempworks, now re-named as Miles Ward Court, effectively opening for business on the 1st April 2008. The first tenant moved in shortly afterwards, whilst marketing of the remaining 7 workspace units is going well with much local interest.

DIRECTORS' REPORT

For the year ended 31 March 2008

Building upon this success, in December, the Society took the opportunity to purchase a listed property contiguous to Miles Ward Court that is to be converted into a single shop / workspace as well as 2 affordable housing units above. Funding has been secured to facilitate this development and the Society is excited about being able to provide local people with affordable local accommodation.

Finally, the Society also secured a small grant to enable it to undertake feasibility work relating to a potential development in Bungay. This would involve the development of a relatively large, multi-use community resource centre; however, it is too early to speculate as to whether the development is financially viable.

Investment Raising has been a something of a “mixed bag”.

Whilst the Society was successful in securing accreditation as a Community Development Finance Institution (CDFI) for the purposes of offering Community Investment Tax Relief (CITR), it has not actively sought to increase its membership based upon CITR – yet. During 2008/9 the Society will be pursuing this option more vigorously, and expect to make some significant in-roads into the mid-corporate sector based upon a corporate social responsibility agenda.

In terms of raising capital for on-lending to our business clients the Society is able to report good progress. In late 2007/ early 2008 it was confirmed that the Society had been successful in winning the East of England Development Agency (EEDA) competitive tender to provide a CDFI solution across the whole of the East of England. Whilst the Society now grapples with the plan of how best to do this, it is comforted by the confidence EEDA has shown in it by providing funding of £1.2m (£750k capital and £450k revenue). Following negotiations with both Charity Bank and Unity Trust Bank, it was decided to work with Unity Trust Bank and the Society is in the late stages of confirming that the EEDA £750k capital can be used as a Loan Loss Reserve allowing access to over £2m of capital in the next 2-3 years to facilitate the expansion plan. Furthermore, the Unity Trust cash is classed as “clean money” and can be backed by a Small Firms Loan Guarantee scheme (SFLG) accreditation that was confirmed in early 2008. These developments combine to allow more cash to be lent, more quickly and at significantly less risk than might otherwise have been incurred.

Finally, I would like to mention here the contribution of the Society's first chief executive, Belinda Bell, who left the Society during the year. Her energy and vision contributed much to the development of the Society. It also gives me pleasure to welcome Bob Marchant, the new chief executive, and look forward to the year ahead.

Financial review

The Board is aware that its year-on-year income is subject to fluctuations. It therefore aims to build a reserves fund totalling three months' running costs. However, this has not been possible based on the current mix of income streams. In order to maintain a positive General Reserve the Finance Committee has authorised the transfer of £100k of funds from the Loan Capital Reserve (see Note 18).

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.

DIRECTORS' REPORT

For the year ended 31 March 2008

Having regard to the liquidity requirements of the Society, surplus funds are invested in bank accounts in order to earn a reasonable rate of interest. This represents a low risk investment and the Board believes that an adequate return has been achieved this year. The Board reviewed the Society's Investment Policy during the 2007 financial year, and will continue to do so in a period of financial market volatility.

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 judgements 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.

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 26 June 2008 and signed on its behalf by:

TOMAS COOK
Vice Chair

Independent auditors' report to Foundation East Limited

We have audited the financial statements of Foundation East Limited for the year ended 31 March 2008 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 January 2007).

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 2008 and of its surplus/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 & Registered Auditors

Friendly House

52 - 58 Tabernacle Street

London EC2A 4NJ

Date:

FOUNDATION EAST LIMITED

STATEMENT OF FINANCIAL ACTIVITIES

For the year ended 31 March 2008

	Note	Unrestricted Funds					Total Funds 2008	Total Funds 2007
		Restricted Funds 2008	Loan Capital 2008	Fixed Asset Fund 2008	Property Development Fund 2008	General Reserve 2008		
		£	£	£	£	£	£	
INCOME								
Revenue grants for property activities	2	15,000	-	-	-	-	15,000	20,000
Capital grants for property activities	3	485,454	-	-	-	-	485,454	98,537
Revenue grants for lending activities	4	220,139	-	-	-	-	220,139	244,618
Capital grants for lending activities	5	953,139	-	-	-	-	953,139	653,000
Interest from loans		-	-	-	-	52,937	52,937	47,934
Loan arrangement fees		-	-	-	-	3,125	3,125	7,210
Investment income		-	-	-	-	16,815	16,815	4,853
TOTAL INCOMING RESOURCES		1,673,732	-	-	-	72,877	1,746,609	1,076,152
RESOURCES EXPENDED								
Operating activities - lending and property development								
Operational costs	6	153,799	-	9,700	-	141,669	305,168	281,285
Bad and doubtful debts	13	21,057	102,970	-	-	-	124,027	162,156
Governance	7	-	-	-	-	23,948	23,948	22,490
TOTAL RESOURCES EXPENDED		174,856	102,970	9,700	-	165,617	453,143	465,931
Net income/(expenditure) before transfer		1,498,876	(102,970)	(9,700)	-	(92,740)	1,293,466	610,221
Transfer between funds	18	(684,066)	88,167	1,296	532,939	61,664	-	-
Net incoming resources after transfer		814,810	(14,803)	(8,404)	532,939	(31,076)	1,293,466	610,221
TOTAL FUNDS AT 1 APRIL 2007		307,157	526,702	25,597	88,092	68,133	1,015,681	405,460
TOTAL FUNDS AT 31 MARCH 2008		£ 1,121,967	£ 511,899	£ 17,193	£ 621,031	£ 37,057	£ 2,309,147	£ 1,015,681

The annexed notes form part of these financial statements

FOUNDATION EAST LIMITED

BALANCE SHEET
As at 31 March 2008

	Notes	£	2008 £	£	2007 £
FIXED ASSETS					
Property assets	10		687,031		88,092
Other tangible assets	11		17,193		25,597
Investments	12		250		250
			704,474		113,939
CURRENT ASSETS					
Loans	13	405,786		401,911	
Debtors	14	444,209		141,325	
Cash at bank and in hand		1,123,978		509,485	
			1,973,973	1,052,721	
CREDITORS: amounts falling due within one year	15	(240,650)		(72,946)	
NET CURRENT ASSETS			1,733,323		979,775
TOTAL ASSETS LESS CURRENT LIABILITIES			2,437,797		1,093,714
CREDITORS: amounts falling due after one year	16		(66,000)		(23,333)
NET ASSETS			£ 2,371,797		£ 1,070,381
CAPITAL AND RESERVES					
Share capital	17		62,650		54,700
Funds:	18				
Restricted funds		1,121,967		307,157	
Unrestricted funds:					
Loan capital		511,899		526,702	
Fixed asset fund		17,193		25,597	
Property development fund		621,031		88,092	
General reserve		37,057		68,133	
Total funds			2,309,147		1,015,681
			£ 2,371,797		£ 1,070,381

The financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007). They were approved, and authorised for issue, by the Directors on 26 June 2008 and signed on their behalf by:-

TOMAS COOK, Vice Chair

MARTYN ROUSE, Treasurer

ANNE FORD, Secretary

The annexed notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

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 January 2007). 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 2008 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 2008 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.

Loan capital is a designated fund. Often contracts do not place an ongoing restriction on the use of the loan capital fund once the Society has made an initial loan to an individual or business. When this is the case, 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. The Society may change the use of these funds at its discretion.

The retained surplus 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

Tangible fixed assets and depreciation

All assets costing more than £500 are capitalised.

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:

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. A further general provision is made based on the Society's past experience.

Pensions

The company 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 GRANTS FOR PROPERTY ACTIVITIES

	2008		2007
	£		£
Lankelly Chase Foundation	<u>£ 15,000</u>	£	<u>20,000</u>

3. CAPITAL GRANTS FOR PROPERTY ACTIVITIES

	2008		2007
	£		£
East of England Development Agency - Miles Ward Court	141,496		28,504
East of England Development Agency - 154 Chediston Street	187,120		-
Suffolk County Council	3,500		6,500
Wavney District Council	-		10,000
Adventure Capital Fund	21,333		26,358
Go East	132,005		27,175
	<u>£ 485,454</u>	£	<u>98,537</u>

The Society received capital grants towards its redevelopment of Miles Ward Court (a disused hemp works situated in Halesworth) and 154 Chediston Street. Further details of these projects are described in Note 10.

The Capital grant from the East of England Development Agency for 154 Chediston Street stipulates that the funder will have a legal charge over the property for 5 years. The funding agreement with Go East stipulates that the grant can be clawed back if Miles Ward Court is sold or its use changed within 20 years of the grant being received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

4. REVENUE GRANTS FOR LENDING ACTIVITIES

	2008	<i>2007</i>
	£	£
Havebury Housing	1,000	-
Colchester Borough Homes	1,000	-
Suffolk Housing Society	1,000	<i>1,000</i>
Colne Housing Society	-	<i>1,000</i>
Esmée Fairbairn	-	<i>30,169</i>
East of England Development Agency	110,000	<i>151,215</i>
Suffolk Development Agency	76	<i>52,254</i>
Department for Work and Pensions	17,063	<i>8,980</i>
Norwich City Council (Local Enterprise Growth Initiative)	90,000	-
	£ 220,139	£ 244,618

5. CAPITAL GRANTS FOR LENDING ACTIVITIES

	2008	<i>2007</i>
	£	£
East of England Development Agency	936,139	<i>145,000</i>
Suffolk Development Agency	-	<i>330,000</i>
Colne Housing Society	-	<i>5,000</i>
European Commission (Objective 2)	-	<i>150,000</i>
Department for Work and Pensions	7,000	<i>23,000</i>
Havebury Housing	5,000	-
Colchester Borough Homes	5,000	-
	£ 953,139	£ 653,000

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

The funding agreement with the European Commission was initially a long term loan. Repayment of the loan is at the funder's discretion and capital money unspent by 31 December 2008 will be returned to the funder. As a result the fund (which currently stands at £143,958 after loan losses have been deducted) has been treated as a capital grant, which has been ring fenced within restricted funds.

FOUNDATION EAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

6. OPERATIONAL COSTS	2008	2007
	£	£
Staff costs (see Note 8)	219,058	208,394
Rent	11,396	12,031
Hospitality & refreshment	2,126	2,077
Telephone & postage	6,156	6,463
Insurance	3,441	1,951
Depreciation	9,700	8,016
Travel and subsistence	13,072	12,295
Consumables	3,938	4,787
Equipment & IT	13,948	7,212
Advertising & marketing	7,275	9,205
Bank charges	1,517	1,140
Conference & seminar fees	2,071	3,161
Subscriptions & memberships	1,908	2,622
Website	940	29
Legal fees	3,218	2,451
Professional and consultancy fees	14,039	11,588
Other fees payable to auditor, grant audits and general advice	1,880	2,585
Other expenses	4,879	1,188
	320,562	297,195
Allocated to governance costs	(15,394)	(15,910)
	£ 305,168	£ 281,285

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	2008	2007
	£	£
Audit fees	8,554	6,580
Allocated from operational costs (see Note 6)	15,394	15,910
	£ 23,948	£ 22,490

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

8. STAFF NUMBERS AND COSTS	2008	2007
	£	£
Salaries	181,609	170,925
Social security costs	17,273	15,320
Pension costs	10,786	9,844
Temporary staff and recruitment	9,044	-
Staff training and welfare	346	12,305
	<u>£ 219,058</u>	<u>£ 208,394</u>

The average weekly number of employees, calculated as full time equivalents, during the period was: 5.6 (2007 - 5.5)

No employee received remuneration of more than £60,000.

9. DIRECTORS

During the year, no Director received any remuneration (2007 - £NIL). However as described in Note 22 , one of the Directors is also a Director of a Company which provide consultancy services to the Society. One member of the Board received reimbursement of expenses for travel amounting to £737 (2007 - £571).

10. PROPERTY ASSETS	Miles Ward Court £	154 Chediston Street £	Total £
Cost			
At 1 April 2007	88,092	-	88,092
Additions	420,444	178,495	598,939
At 31 March 2008	<u>£ 508,536</u>	<u>£ 178,495</u>	<u>£ 687,031</u>

In 2006 the Society was sold an old disused hemp works in Halesworth, Suffolk, for a peppercorn. The Society has been renovating the property into business units. The developed property, re-named Miles Ward Court, was completed soon after the year end when it came available to local businesses. Depreciation will be charged from 2008/09 once the building is in use.

During the year the Society purchased another property in Halesworth Suffolk - 154 Chediston Street. The property will be converted into further business and residential units. Depreciation will be charged when the development is complete and the building is in use.

As explained in Note 3, certain funders have a legal charge, or have placed conditions on the ongoing use of Property Assets.

Currently all assets have been recorded at cost. The Society will be considering any impairment of the property's value once in full use.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2008

11. OTHER TANGIBLE FIXED ASSETS

	Computer equipment £	Fixtures & Fittings £	Office equipment £	Total £
Cost				
At 1 April 2007	29,226	10,646	6,157	46,029
Additions	625	574	97	1,296
At 31 March 2008	<u>29,851</u>	<u>11,220</u>	<u>6,254</u>	<u>47,325</u>
Depreciation				
At 1 April 2007	15,430	2,644	2,358	20,432
Charge for the year	7,391	1,078	1,231	9,700
At 31 March 2008	<u>22,821</u>	<u>3,722</u>	<u>3,589</u>	<u>30,132</u>
Net book value				
At 31 March 2007	<u>£ 13,796</u>	<u>£ 8,002</u>	<u>£ 3,799</u>	<u>£ 25,597</u>
At 31 March 2008	<u>£ 7,030</u>	<u>£ 7,498</u>	<u>£ 2,665</u>	<u>£ 17,193</u>

12. INVESTMENTS

	2008 £	2007 £
Shares in Wessex Reinvestment Trust	<u>£ 250</u>	<u>£ 250</u>

13. LOANS

	2008 £	2007 £
Capital Loan balance		
At 1 April 2007	475,425	312,440
Loans disbursed in the year	271,285	484,778
Loans repaid in the year	(143,383)	(192,713)
Loans written off in the year	(83,559)	(129,080)
Capital Loan Balance as at 31 March 2008	<u>519,768</u>	<u>475,425</u>
Less: Provision for doubtful debts		
At 1 April 2007	(73,514)	(40,438)
Increase in provision during the year financial year	(15,468)	(8,076)
Additional general bad debt provision (see below)	(25,000)	(25,000)
Provision for doubtful debts as at 31 March 2008	<u>(113,982)</u>	<u>(73,514)</u>
	<u>£ 405,786</u>	<u>£ 401,911</u>

At the year end £173,256 of the loan balance was receivable in one year (2007: £158,475). In 2007/08 the additional general bad debt provision has been agreed by a further £25,000. The Society will be reviewing its standard provisioning policy during the coming year so that the need for these additional provisions will be removed.

FOUNDATION EAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

	2008 £	2007 £
Bad debt expenditure		
Loans written off in the year	83,559	129,080
Increase in provision during the year financial year	15,468	8,076
Additional general bad debt provision (see below)	25,000	25,000
	<u>£ 124,027</u>	<u>£ 162,156</u>

In 2006/07 the Society decided to provide an additional £25,000 general bad debt provision over and above their standard provisioning policy, In 2007/08 the additional general bad debt provision has been increased by a further £25,000. The Society will be reviewing its standard provisioning policy during the coming year so that the need for these additional provisions should be removed.

14. DEBTORS	2008	2007
Due within one year	£	£
Grant debtors	441,814	137,915
Prepayments	2,395	3,410
	<u>£ 444,209</u>	<u>£ 141,325</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2008	2007
	£	£
Trade creditors	15,875	445
Salary owed to third party agents	57,294	59,899
Accruals	46,881	9,482
Deferred income	120,600	3,120
	<u>£ 240,650</u>	<u>£ 72,946</u>

	2008	2007
	£	£
<u>Deferred income</u>		
Balance at 1 April 2007	3,120	30,169
Amount released to incoming resources	(3,120)	(30,169)
Amount deferred in the year	120,600	3,120
Balance at 31 March 2008	<u>£ 120,600</u>	<u>£ 3,120</u>

The £120,600 of deferred income relates to money received from Norwich City Council (Local Enterprise Growth Initiative) to finance loan making activity in 2008/09.

16. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	2008	2007
	£	£
Loan from the Adventure Capital Fund	<u>£ 66,000</u>	<u>£ 23,333</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

The Adventure Capital Fund awarded the Society £99,000 towards the cost of developing Miles Ward Court (as described in Note 10 and Note 18). £66,000 of this award is in the form of a long-term loan. The remaining £33,000 has been provided as a grant. Interest is payable at 6% per annum. The contract also provides for a 2 year capital holiday. The long term loan has been secured on the building.

17 SHARE CAPITAL

	2008	<i>2007</i>
	£	£
Ordinary shares of £1 each	35,550	30,700
CITR ordinary shares of £1 each	27,100	24,000
	<u>£ 62,650</u>	<u>£ 54,700</u>

Movement in share capital

	2008	2007
	£	£
At 1 April 2007	54,700	15,750
Shares issued	7,950	38,950
Shares redeemed	-	-
At 31 March 2008	<u>£ 62,650</u>	<u>£ 54,700</u>

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 2008

18. SUMMARY OF FUNDS

	Brought Forward £	Incoming Resources £	Resources Expended £	Transfers £	Carried Forward £
SUMMARY OF FUNDS					
Restricted Funds	307,157	1,673,732	(174,856)	(684,066)	1,121,967
Unrestricted funds:					
Loan capital	526,702	-	(102,970)	88,167	511,899
Other unrestricted funds					
Fixed asset fund	25,597	-	(9,700)	1,296	17,193
Property development fund	88,092	-	-	532,939	621,031
General fund	68,133	72,877	(165,617)	61,664	37,057
	<u>£ 1,015,681</u>	<u>£ 1,746,609</u>	<u>£ (453,143)</u>	<u>£ Nil</u>	<u>£ 2,309,147</u>

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.

Loan capital is a designated fund. Often contracts do not place an ongoing restriction on the use of the loan capital fund once the Society has made an initial loan to an individual or business. When this is the case, 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. The Society may change the use of these funds at its discretion. During the year a transfer of £100,000 was made to the General Funds to support the Society's operational and property development activities.

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

The Property Development fund represents the £687,031 spent on property development to date (see Note 10), less the £66,000 long term loan obtained to finance the works (see Note 16).

RESTRICTED FUNDS	Brought Forward £	Incoming Resources £	Resources Expended £	Transfers £	Carried Forward £
Property activities:					
Capital grants	10,445	485,454	-	(495,899)	-
Revenue grants	-	15,000	(15,000)	-	-
Lending Activity:					
Capital grants for making loans	296,712	953,139	(21,057)	(188,167)	1,040,627
Revenue grants	-	220,139	(138,799)	-	81,340
	<u>£ 307,157</u>	<u>£ 1,673,732</u>	<u>£ (174,856)</u>	<u>£ (684,066)</u>	<u>£ 1,121,967</u>

FOUNDATION EAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

As described in Note 10, the Society obtained grants from the East of England Development Agency, Suffolk County Council, Waveney District Council, the Adventure Capital Fund, and Go East towards property development projects. £687,031 has been spent on property development to date and this amount has been transferred from restricted funds to the property development fund, since there is no ongoing restriction to the property's use.

£15,000 was awarded to the Society by the Lankelly Chase Foundation to cover the costs of the Project Manager who is overseeing the property renovation.

As detailed in Note 2, £953,139 was provided to the Society by a variety of funders to allow loans to be made to businesses and individuals. At the year end, combined with an unspent opening balance, £1,040,627 of capital remained undistributed. 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 reserves 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	Brought Forward £	Incoming Resources £	Resources Expended £	Transfers £	Carried Forward £
Undistributed recycled loan capital	151,712	-	-	(33,488)	118,224
Loans made to businesses and individuals	374,990	-	(102,970)	121,655	393,675
	<u>£ 526,702</u>	<u>£ Nil</u>	<u>£ (102,970)</u>	<u>£ 88,167</u>	<u>£ 511,899</u>

19. ANALYSIS OF NET ASSETS BETWEEN FUNDS

	Fixed assets £	Loans £	Other net current assets £	Creditors due after one year £	Total £
Share capital	-	-	62,650	-	62,650
Restricted funds	-	12,111	1,109,856	-	1,121,967
Loan capital	-	393,675	118,224	-	511,899
Fixed asset fund	17,193	-	-	-	17,193
Property development fund	687,031	-	-	(66,000)	621,031
General reserve	250	-	36,807	-	37,057
	<u>£ 704,474</u>	<u>£ 405,786</u>	<u>£ 1,327,537</u>	<u>£ (66,000)</u>	<u>£ 2,371,797</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

20. COMMITMENTS

The Society has undertaken the development of a new property 154 Chediston Street. (see Note 10). The total estimated cost of the project is £400,000 (including the £178,495 spent to date).

The Society has an annual commitment on its office space of £10,609. The lease expires on 31 March 2009.

21. CONTINGENT ASSETS AND LIABILITIES

As mentioned in Note 5, the Society has received £150,000 from the European Commission under a contract of a long term loan. The Society anticipates that money unspent by 31 December 2008 will be returned to the funder.

In prior years the Society received a total of £358,208 from the Department of Trade and Industry (Phoenix Fund). The conditions of the funding contract stipulate that the some of these funds may be clawed back if 40% of the loans made from the fund subsequently go bad. The Society does not believe that this is likely to crystallise, yet there remains a possibility of potential clawbacks.

Under professional advice the builder who worked on the construction of Miles Ward Court charged 0% VAT on their supplies. This was done on the basis that the work to the building was a zero rated construction. While the Society is confident that the professional advice associated to the build is correct, the rules surrounding VAT can be complex and at the year end the Society was in the process of seeking further clarification that the correct VAT treatment had been used. In the unlikely event that VAT has been incorrectly charged at the zero rate, a liability of up to £80,000 may arise.

22. RELATED PARTIES

David Bell is both a Director of the Society and brother of Belinda Bell the former Chief Executive who left during the period. David Bell is also a Director of Eaglecloud II Limited, a company that was engaged by the Society during the year to provide consultancy services totalling £520 (2007: £444). The Directors consider this transaction was on normal business terms.

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 £3,962 (2007: £NIL). The Directors consider this transaction was on normal business terms.

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 £10,230 (2007: £3.653). The Directors consider this transaction was on normal business terms.