

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

**REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 MARCH 2011**

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

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**REPORT AND FINANCIAL STATEMENTS**  
**For the year ended 31 March 2011**

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## FOUNDATION EAST LIMITED

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### REFERENCE AND ADMINISTRATIVE DETAILS

For the year ended 31 March 2011

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| <b>Directors</b>              | Peter Jones - Chair<br>Thomas Cook - Vice Chair<br>Jolyon Larkman - Treasurer<br>David Bell<br>Steve Clarke<br>Steve Cook (appointed 13 September 2010)<br>Mark Gipson<br>Richard Glinn<br>James Murray<br>John Stenhouse (appointed 28 March 2011)<br>Christopher Storey<br>Deborah Wildridge<br>Simon Glennister (resigned 27 March 2011)<br>Nicki Hayes-Singh (resigned 6 September 2010)<br>Martyn Rouse (resigned 6 September 2010) |
| <b>Secretary</b>              | Anne Katy Ford   |
| <b>Chief Executive</b>        | Anne Katy Ford   |
| <b>I&amp;P Society number</b> | 29722R   |
| <b>Registered office</b>      | Saxon House<br>7 Hillside Business Park<br>Kempson Way<br>Bury St Edmunds<br>IP32 7EA  |
| <b>Auditors</b>               | Gotham Erskine LLP<br>Friendly House<br>52 - 58 Tabernacle Street<br>London<br>EC2A 4NJ  |
| <b>Bankers</b>                | The Co-operative Bank Plc<br>P.O. Box 101<br>Balloon Street<br>Manchester<br>M60 4EP<br><br>Unity Trust Bank plc<br>Nine Brindleyplace<br>Birmingham<br>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 2011**

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The Directors are pleased to present their report and the audited financial statements for the year ended 31 March 2011.

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 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. 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 committees 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 2011**

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**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**

To champion social inclusion and community enterprise by providing accessible financial products and services; and by engaging in property and land transactions that work to provide assets which benefit local communities.

**Our values**

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

- Honesty
- Service
- Respect
- Responsibility

**Activities and operational review**

The United Kingdom has seen some significant changes in the past year, including the shake up of the public sector, the announcement that the Regional Development Agencies in some regions would be disbanded, the formation of new Local Enterprise Partnerships not to mention the launch of the Big Society ideal. Against this backdrop of dramatic change, the Society continued to deliver its mission in two key areas: business lending, and community land trust promotion.

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.

**DIRECTORS' REPORT**

**For the year ended 31 March 2011**

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This time last year we reported that the Society had begun work on a 5 year strategic plan. As part of the business planning process the Directors agreed on a revised mission statement which better reflected its vision for the future ambitions of the Society.

“To champion social inclusion and community enterprise by providing accessible financial products and services; and by engaging in property and land transactions that work to provide assets which benefit local communities”.

Furthermore it has agreed its objectives for the next 5 years:

- To grow the lending business to offer more targeted products to meet changing client needs and to improve the quality of the loan book to financially contribute to the Society's future over the next 5 years.
- To develop a self-financing Community Land Trust support service for community groups that are seeking to develop affordable land and property assets within their localities and to further develop the Society's own portfolio of property assets across the region
- To increase the number of Industrial and Provident Society members both to raise capital for on-lending and to ensure that the Society remains rooted in the community it serves.

The development of the 5 year plan enabled the Society to focus on those areas of business that would have the greatest impact and agreed that for the time being it would cease to offer personal loan products.

The process of writing the new plan involved all the board and staff team. This has resulted in a robust map for the future, and has created a tool with which the Society can move forward to achieve its mission.

**Business Lending**

Through lending to viable businesses in the region, the Society is able to demonstrate that the creation and saving of jobs is paramount to the region's resurgence from recession. In recessionary times many businesses fail but many also start up and thrive. To be in at the beginning of a business's existence and to see it flourish is extremely rewarding. This is one of the many reasons our members tell us that keeps them involved with our work.

|                  | <i>2011</i> | <i>2010</i> |
|------------------|-------------|-------------|
| Loans disbursed  | 48          | 36          |
| Amount disbursed | £768,300    | £442,688    |

Of the businesses supported during the year, 32 were start up businesses. One of these new businesses is a 7 bedroomed care home providing accommodation for people with a range of learning disabilities, based in Norfolk. The home is run by a married couple, both of whom have extensive experience in social care. The business needed a top up loan to complete a refurbishment programme, and whilst some of the finance was provided by their own bank, the owners needed a small amount more which their bank was not able to provide. The business employs 15 staff and it is expected that this will increase to 18 staff over the course of the next year.

**DIRECTORS' REPORT**

**For the year ended 31 March 2011**

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|           | <b>Start Ups</b> |            | <b>Expansion</b> |            | <b>Recovery</b> |          |
|-----------|------------------|------------|------------------|------------|-----------------|----------|
| All years | 185              | £1,988,021 | 84               | £1,368,249 | 10              | £170,232 |
| 2008/09   | 67               | £898,189   | 26               | £503,728   | 2               | £20,000  |
| 2009/10   | 20               | £181,255   | 13               | £232,000   | 3               | £27,000  |
| 2010/11   | 32               | £400,050   | 14               | £268,250   | 2               | £100,000 |

Despite these difficult times our clients have persevered and honoured their repayment commitments. This is due to a mixture of sheer determination, superb post loan support offered by the society's team of business loans managers and credit control team, and through use of the Society's innovative coaching scheme. The Society prides itself on the support it offers its clients both in the good and bad times. Because it expects there to be issues along the way it is not surprised when problems occur and will work with its clients to find a way forward.

The coaching scheme introduced early in 2010 continues to develop. The scheme is offered to all clients, but is of particular benefit to start up businesses and continues to be well received. Improvements on the scheme have been made during the year following feedback received from the beneficiaries. Included in this feedback was the need to offer a choice of coaches, and in this respect a new coach has come on board, and more are due to be added over the next few months. The new coach has become involved due to her passion and enthusiasm to help fledging businesses, and her motivational skills are particularly useful in encouraging those start up businesses who may at first struggle with the transition between working as an employee to becoming self-employed.

A business that has benefitted extensively from the coaching scheme is a Pork Butchers based in Suffolk. The family had returned from abroad having worked in the butchery industry, and were keen to establish themselves as a supplier of quality pork products. As a start up business, with little security to offer, they were unable to borrow funds from their bank. The business loans manager recognised the fortitude of the business owner, their need to re-establish themselves in this country and desire to provide for their family, and agreed a start up loan with coaching support. Despite the couple's best endeavours, however, the business struggled to attract sufficient customers to the new shop. With the help of the coach and post loan support the business changed direction and as an alternative to waiting for customers to come to them, took their product to the customers, at market stalls around the county instead. Working with the coach during the bleak times was at times challenging but both persevered, the business is now expanding and expects to swell further over the coming year.

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 it makes and the number of jobs its finance has helped to either save or create. In the year under review the Society is pleased to report that it achieved its volume lending and job targets.

|                                     |             |             |
|-------------------------------------|-------------|-------------|
|                                     | <b>2011</b> | <b>2010</b> |
| Jobs created (Full time equivalent) | 74.5        | 29          |
| Jobs saved (Full time equivalent)   | 211         | 42.5        |

**DIRECTORS' REPORT**

**For the year ended 31 March 2011**

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A well established family firm manufacturing high precision components for the Diesel, Oil, Gas and Aerospace industries, and employing over 70 staff, found itself with a problem when it received an order it was not able to fulfill in a short time frame due to reduced stock levels. The Society offered the firm a bridging facility to enable it to purchase the parts needed to fulfill the order. Whilst their bank had been supportive, it had been unable to extend their borrowing facility further. The Society's business loans manager recognised the conviction and strength to succeed in the business owners and was able to work with them to solve the problem.

The Society takes significant risks when agreeing to lend to businesses that have been unable to access finance from the mainstream. The risks it does take however are calculated and it regularly reviews its underwriting activity to ensure these stay within acceptable parameters. Members of the Loan Assessment Panel and lending team met to review several cases where the businesses had not succeeded and where bad debt had been incurred, with a view to learning lessons and not repeating mistakes. Whilst acknowledging that there were improvements to the risk assessment process it concluded that the loans would still have been made.

Whilst it is not prudent to make loans that may incur losses, this is a risk the Society makes when seeking to deliver its mission in an under-served market. It accepts that even if losses are incurred, assistance has been given to individuals who otherwise may not have been able to at least try to improve the quality of their lives.

**Community Land Trust Development**

In order to forge ahead with the strategic objective to develop a self-financing Community Land Trust support service for community groups, the Society recognized that it needed a dedicated staff resource in this specialized field. In October 2010 it recruited a CLT Development Manager (CLTDM) to manage this strategic objective.

In the relatively short period since the decision to employ the new manager was made, there have been some significant developments, including the writing and adoption of a CLT Business Plan, the creation of literature to detail the Society's offering and the appointment of the CLTDM on to the Board of the National CLT Network.

Community Land Trusts are delivery vehicles that can manage land and property for the community in perpetuity. They have significant public benefit, helping to generate jobs and create affordable housing in areas of social and economic deprivation. The CLTDM has already identified a number of community groups around the region with an interest in CLTs and is working with them to help them to realise their plans. One example is a dedicated group of community volunteers who have seized the opportunity to work up plans to acquire a surplus property asset from the County Council. By focusing on the assets that their community have rather than what they lack, this group, supported and guided by the CLTDM, are developing a genuine community led solution that will go some way to addressing the community's identified needs and aspirations.

Amongst his many roles the CLTDM is responsible for keeping up to date with new legislation, including the new Localism Bill. The 'local' approach to planning in particular means that there are new opportunities for local people to have a greater say on what development should happen in their neighbourhood. As more powers and opportunities are devolved to the local level the Society should be well positioned to take a lead in bringing to market innovative products to meet this bottom up agenda.



**DIRECTORS' REPORT**

**For the year ended 31 March 2011**

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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.

**Profile**

Raising the profile of the Society has always been a priority. But as a small organization with few staff, it has always struggled to achieve this effectively. The recently formed Marketing Committee sought to address this issue and concluded that the society would benefit from a dedicated resource. The Society decided therefore to engage the services of a PR company based in Cambridge. The PR company's approach was to take a step back and consider what message the Society was trying to give and to whom. They started by creating the Society's annual review using case studies of its clients and launched the review to the media resulting in radio and television interviews and articles in newspapers and magazines across the region. This activity has continued on a regular basis, the PR Company feeding the media with relevant stories when it sees a relevant opportunity.

In addition the team has entered the social media arena and our members and team regularly provide blogs, are engaged with Linked In discussion groups and have appeared on YouTube.

As well as the annual review which provides all the financial and social statistics, the Society has redesigned its literature to include leaflets on its lending products, its membership offering and its CLT service. Regular newsletters covering the latest activity are sent out. In addition a significant amount of effort has gone into re-wording its website, including search engine optimization and improved navigation.

The Chief Executive (CE) was invited to attend a meeting at No 10 Downing Street in December along with several other Chief Executives from other innovative Community Development Finance Institutions (CDFI) across the country to discuss ways in which new businesses could be supported through the recession. In addition the CE and The CLTDM have visited Members of Parliament in the House of Commons and the House of Lords for various launches including the Localism Bill and small business funding initiatives.

**Membership**

As part of its profile raising activity the Society embarked on a Home Grown Business Initiative aimed at encouraging business owners from the region to support fledgling businesses to start up, through investing in the Society and is pleased to report some success in this area with new members becoming involved. Membership not only provides a source of capital for the society to lend but equally important provides the members themselves the opportunity to get involved in their communities through attendance on loan panels, on the Board and on various sub committees.

**Governance**

During the year the Society was pleased to welcome two new directors to the Board namely Steve Cook and John Stenhouse to replace Martyn Rouse and Nicki Hayes who stepped down in September. In addition Steve Cook has added strength to the Property Committee and John Stenhouse to the Finance Committee.

The Society embraces change, welcomes constructive criticism and acknowledges that improvements can always be made. It is critically important to the Society that its stakeholders can rely on its competency and transparency and in this respect has willingly subjected itself to in-depth external scrutiny.

**DIRECTORS' REPORT**

**For the year ended 31 March 2011**

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As part of its funding contract with EEDA the Society is obliged to undertake an external audit and is pleased to report that it achieved a high level pass with only minor changes to governance arrangements recommended. Following discussion policies were amended and revised procedures incorporated into the working practices of the organisation. The Society is grateful for the support and guidance offered to it from EEDA throughout the process.

As the Society is an accredited provider of the Enterprise Finance Guarantee scheme it undertook an audit by the Government Business Innovation and Skills (BiS) department and is pleased to report that it received an exemplary report. The Society is grateful for the support and guidance offered to it from BiS throughout the process.

The Society is a charter member of its trade association, the Community Development Finance Association (CDFA). The CDFA delivers the Change Matters performance review programme on behalf of its members, aimed at improving their individual performance. The Society willingly opened itself up for scrutiny by an external assessor. Amongst the programme objectives is to discuss options and provide alternative solutions to improve the individual CDFI's efficiency and sustainability. The Society received a positive report and is working closely with the CDFA to develop those areas highlighted as in need of improvement.

**The Staff Team**

The Directors are pleased to announce the expansion of the Society's staff team to ensure it is able to deliver its mission and achieve its objectives. As reported earlier in the Community Land Trust section, the Society are pleased to welcome Phil Rose as CLT Development Manager. Phil is a property services professional, and has recently achieved Distinction in a post graduate diploma in Surveying from Reading University.

Joining the business lending team to expand its offering in Bedfordshire and Hertfordshire is Bob Shimmon. Bob is a former senior banking executive with Lloyds TSB and on joining the Society has completed his SFEDI accreditation enabling him to offer business advice.

Strengthening the operations team is Asha Wysocka who joins as assistant to the recently promoted Finance and Credit Controller, Becky Allen. Asha recently achieved a first class pass in Sage accounting.

Through the National Graduate employment scheme Megan Clifford was engaged on a short term contract to provide project assistance on the profile raising project.

The Society is dedicated to providing the best quality service to its members and clients and as such is committed to ensure the continued personal development of its team, including updates in technology, interpersonal and office skills. At the beginning of the year the CE undertook an intensive leadership course which has enabled her to more effectively lead the diverse company forward.

**DIRECTORS' REPORT**

**For the year ended 31 March 2011**

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**Financial Review**

In the year the Society's income totalled £334k. After deducting resources expended, the Society incurred a deficit of £247k. This compares with a small surplus of £26k in 2009/10. While, on the face of it, this appears to be a significant deterioration, there are a number of features that require further explanation. The reduction in incoming resources over 2010/11 is almost entirely accounted for by the absence of capital grants from EEDA for the lending programme. In 2009/10, EEDA had provided FE with £255k for this purpose. In addition a further £20k in loan capital was repaid by the Society to three housing associations upon the discontinuation of providing personal loans to their tenants.

Whilst the total outgoing resources figures for the two years are almost identical, £581k, this masks significant differences between the two years. Operational costs in 2011 (£419k) were £87k (26.1%) above the same figure for 2010. This largely reflects the Society's decision to employ a CLT Development Manager and significant increases in advertising and marketing expenditure as part of the Society's drive to raise its public profile.

This was significantly offset by a much lower bad and doubtful debts charge (£124k), which is £86k (41.1%) better than 2010. This shows that the drive to improve loan quality is really starting to bear fruit.

In order to maintain the general reserve £50k was transferred from the Loan Capital Fund to the General Reserve thereby leaving the fund with a positive balance of £3.3k at the year end. It is intended that funds transferred from the Loan Capital Fund will be transferred back once the Society's general reserve is in surplus.

**Future Plans**

**Social Return on Investment**

The Society continues to collate statistical data to enable it to produce a meaningful social return on investment report (SROI). Resources needed however to produce a report this year have been tight and have resulted in this being an incomplete piece of work. The Society believes that the production of a SROI report will enhance the Society's offering as an investment opportunity, to enable its potential members to see the real value of its work in a less financial and more human way. The Society hopes to engage with the Business Link secondment programme, which will enable it to work with a business professional who can assist the Society to make real inroads into the production of this report. We look forward to presenting it in the coming six months.

**Management**

The Society has set itself significant challenges for the next five years. Since 2009 there has been a period of rebalancing and rethinking and the Society has relied heavily on the stewardship of its Chief Executive Katy Ford. Along with her team of loyal and hard working individuals she has steered the Society through some difficult times to the stage where it can now look forward with realistic expectations and achieve what it has set out to do. Steps are being taken to improve the management composition, with the implementation of a more structured management team. This will include the creation of separate teams to take responsibility for investment raising and for achieving business lending targets. This re-structuring will enable the CE to become more strategic and less operational in her day to day activities.

**Funding**

The Society expects to increase its lending activity over the coming year and will need to raise further capital in order to support this. Through its trade association, the CDFa, two significant opportunities for finance are under development.

**DIRECTORS' REPORT**

**For the year ended 31 March 2011**

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Firstly, following a successful bid in the first round of the Regional Growth Fund, grant capital matched with capital from the public sector should be available in September.

Secondly and in conjunction with Charity Bank and Investing for Good, the CDFA are developing the Progress Fund using a combination of funding sources including a European Social Fund guarantee.

**Business Link**

Business Link in its current format will cease to exist in November 2011, being replaced by a centralised telephone and web-based service. As Business Link has been a major source of referrals to the Society, particularly for its lending products, the team will need to establish good relationships with the new business link team once it has been formed. It is refreshing however, that as well as the numerous private sector companies with whom the Business Lending Managers in particular have developed good relationships e.g. accountants firms, legal firms and all major banks, many new business advisors have set up in business themselves as a result in the changes in public sector funding regimes. We therefore firmly believe that businesses in the six counties we serve, will have access to support networks, albeit that they may have to pay for some of the services in future.

**EEDA**

It is expected that EEDA will be completely disbanded by the end of March 2012, to be replaced with six Local Enterprise Partnerships around the region. As these partnerships aims are to drive the economy forward in their respective local areas, it is of crucial importance that the Society develops good working relationships with these new organizations. At the point of writing this report however all LEP's remain at a very early stage of their development including in some cases the formation of the Board of Directors.

As the Society has an ongoing contract with EEDA beyond 2012 it is working closely with them to transfer the responsibility of the contract delivery to a new government department. Again, however at the point of writing this report it is not known who that new department will be. The Society is however committed to delivering the contract and looks forward to developing a new relationship with the replacement body.

**Responsibilities of Directors**

The Industrial and Provident Societies Acts require 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 its income and expenditure for that period. In preparing those financial statements the Directors are required to:

- 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.

**DIRECTORS' REPORT**

**For the year ended 31 March 2011**

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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, since the year-end, become the Not for Profit Team at MacIntyre Hudson LLP. They have indicated their willingness to continue in office and offer themselves for re-appointment as such.

This report was approved and authorised for issue by the Directors on 25 July 2011 and signed on its behalf by:

PETER JONES  
Chair

## **INDEPENDENT AUDITORS' REPORT TO FOUNDATION EAST LIMITED**

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We have audited the financial statements of Foundation East Limited for the year ended 31 March 2011 which comprise the Statement of Financial Activities, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the requirements of the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities)

This report is made solely to the Society's members, as a body, 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's members 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 and the Society's members, for our audit work, for this report, or for the opinions we have formed.

### **Responsibilities of Auditors**

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Director's Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice [applicable to Smaller Entities] and the Industrial and Provident Societies Acts 1965 to 2002.

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**INDEPENDENT AUDITORS' REPORT TO  
FOUNDATION EAST LIMITED  
(Continued)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all of the information and explanations we require for our audit.

**Gotham Erskine LLP**

Chartered Accountants and Statutory Auditors

Friendly House

52 - 58 Tabernacle Street

London, EC2A 4NJ

Date:

FOUNDATION EAST LIMITED

STATEMENT OF FINANCIAL ACTIVITIES  
For the year ended 31 March 2011

|  | Note | Restricted<br>Funds<br>2011<br>£ | Unrestricted Funds           |                                  |                               | General<br>Reserve<br>2011<br>£ | Total<br>Funds<br>2011<br>£ | Total<br>Funds<br>2010<br>£ |
|--|------|----------------------------------|------------------------------|----------------------------------|-------------------------------|---------------------------------|-----------------------------|-----------------------------|
|  |      |                                  | Loan<br>Capital<br>2011<br>£ | Fixed Asset<br>Fund<br>2011<br>£ | Property<br>Fund<br>2011<br>£ |                                 |                             |                             |
| <b>INCOME</b>  |      |                                  |                              |                                  |                               |                                 |                             |                             |
| Grant income   |      |                                  |                              |                                  |                               |                                 |                             |                             |
| Capital grants for property activities                   |      | -                                | -                            | -                                | -                             | -                               | 29,626                      |                             |
| Revenue grants for lending activities                    | 2    | 157,164                          | -                            | -                                | 4,750                         | 161,914                         | 154,154                     |                             |
| Capital grants for lending activities                    | 3    | (18,355)                         | -                            | -                                | -                             | (18,355)                        | 255,000                     |                             |
| Interest from loans                                      |      | -                                | -                            | -                                | 141,984                       | 141,984                         | 131,863                     |                             |
| Loan arrangement fees                                    |      | -                                | -                            | -                                | 17,726                        | 17,726                          | 10,548                      |                             |
| Rental income  |      | -                                | -                            | -                                | 27,140                        | 27,140                          | 23,042                      |                             |
| Investment income  |      | -                                | -                            | -                                | 3,852                         | 3,852                           | 3,674                       |                             |
| <b>TOTAL INCOMING RESOURCES</b>                          |      | <b>138,809</b>                   | -                            | -                                | <b>195,452</b>                | <b>334,261</b>                  | <b>607,907</b>              |                             |
| <b>RESOURCES EXPENDED</b>                                |      |                                  |                              |                                  |                               |                                 |                             |                             |
| Operating activities - lending and property development: |      |                                  |                              |                                  |                               |                                 |                             |                             |
| Operational costs  | 4    | 157,164                          | -                            | 5,899                            | 6,578                         | 438,656                         | 332,620                     |                             |
| Bad and doubtful debts                                   | 11   | 164,871                          | (23,929)                     | -                                | -                             | (17,222)                        | 209,893                     |                             |
| Governance   | 5    | -                                | -                            | -                                | -                             | 18,546                          | 38,944                      |                             |
| <b>TOTAL RESOURCES EXPENDED</b>                          |      | <b>322,035</b>                   | <b>(23,929)</b>              | <b>5,899</b>                     | <b>6,578</b>                  | <b>270,339</b>                  | <b>581,457</b>              |                             |
| Net income/(expenditure)<br>before transfers             |      | (183,226)                        | 23,929                       | (5,899)                          | (6,578)                       | (74,887)                        | 26,450                      |                             |
| Transfers between funds                                  | 17   | -                                | (50,000)                     | 3,138                            | 6,304                         | 40,558                          | -                           |                             |
| Net (outgoing)/incoming resources<br>after transfers     |      | (183,226)                        | (26,071)                     | (2,761)                          | (274)                         | (34,329)                        | 26,450                      |                             |
| Impairment loss on property                              |      | -                                | -                            | -                                | -                             | -                               | (179,540)                   |                             |
| <b>NET MOVEMENT IN FUNDS</b>                             |      | <b>(183,226)</b>                 | <b>(26,071)</b>              | <b>(2,761)</b>                   | <b>(274)</b>                  | <b>(34,329)</b>                 | <b>(153,090)</b>            |                             |
| TOTAL FUNDS AT 1 APRIL 2010                              |      | 1,497,214                        | 206,617                      | 18,333                           | 343,908                       | 37,656                          | 2,103,728                   |                             |
| <b>TOTAL FUNDS AT 31 MARCH 2011</b>                      |      | <b>£ 1,313,988</b>               | <b>£ 180,546</b>             | <b>£ 15,572</b>                  | <b>£ 343,634</b>              | <b>£ 3,327</b>                  | <b>£ 2,103,728</b>          |                             |

The annexed notes form part of these financial statements



FOUNDATION EAST LIMITED

**BALANCE SHEET**  
As at 31 March 2011

|   | Notes | 2011                      | 2010                      |
|---|-------|---------------------------|---------------------------|
|   |       | £                         | £                         |
| <b>FIXED ASSETS</b>                                   |       |                           |                           |
| Property assets                                       | 8     | 397,982                   | 404,560                   |
| Other tangible assets                                 | 9     | 15,572                    | 18,333                    |
| Investments   | 10    | -                         | 250                       |
|   |       | <u>413,554</u>            | <u>423,143</u>            |
| <b>CURRENT ASSETS</b>                                 |       |                           |                           |
| Loans   | 11    | 1,096,489                 | 911,151                   |
| Debtors   | 12    | 59,760                    | 64,117                    |
| Cash at bank and in hand                              | 13    | 1,314,091                 | 1,866,776                 |
|   |       | <u>2,470,340</u>          | <u>2,842,044</u>          |
| <b>CREDITORS: amounts falling due within one year</b> | 14    | <u>(164,390)</u>          | <u>(282,107)</u>          |
| <b>NET CURRENT ASSETS</b>                             |       | <u>2,305,950</u>          | <u>2,559,937</u>          |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       | <u>2,719,504</u>          | <u>2,983,080</u>          |
| <b>CREDITORS: amounts falling due after one year</b>  | 15    | <u>(801,087)</u>          | <u>(810,652)</u>          |
| <b>NET ASSETS</b>                                     |       | <u><u>£ 1,918,417</u></u> | <u><u>£ 2,172,428</u></u> |
| <b>CAPITAL AND RESERVES</b>                           |       |                           |                           |
| Share capital   | 16    | 61,350                    | 68,700                    |
| Restricted funds                                      | 17    | 1,313,988                 | 1,497,214                 |
| Unrestricted funds:                                   | 17    |                           |                           |
| Loan capital  |       | 180,546                   | 206,617                   |
| Fixed asset fund                                      |       | 15,572                    | 18,333                    |
| Property fund   |       | 343,634                   | 343,908                   |
| General reserve                                       |       | 3,327                     | 37,656                    |
| Total funds   |       | <u>1,857,067</u>          | <u>2,103,728</u>          |
|   |       | <u><u>£ 1,918,417</u></u> | <u><u>£ 2,172,428</u></u> |

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 25 July 2011 and signed on their behalf by:-

\_\_\_\_\_  
PETER JONES, Chair

\_\_\_\_\_  
JOLYON LARKMAN, Treasurer

\_\_\_\_\_  
ANNE KATY FORD, Secretary

The annexed notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2011

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**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 2011 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 2011 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 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:

FOUNDATION EAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

|                    |   |                              |
|--------------------|---|------------------------------|
| 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 GRANTS FOR LENDING ACTIVITIES                  | 2011<br>£        | 2010<br>£        |
|---|------------------|------------------|
| Havebury Housing  | 2,727            | 3,465            |
| Cambridgeshire Business Limited                           | -                | 20,000           |
| Community Development Finance Association                 | 4,750            | -                |
| Suffolk Housing Society                                   | 11,220           | 4,423            |
| Colne Housing Society                                     | (318)            | 4,690            |
| East of England Development Agency                        | 123,333          | 100,000          |
| Norwich City Council (Local Enterprise Growth Initiative) | 20,202           | 21,576           |
|   | <u>£ 161,914</u> | <u>£ 154,154</u> |

The negative income shown under Colne Housing Society represents a partial refund of grant.

| 3. CAPITAL GRANTS FOR LENDING ACTIVITIES | 2011<br>£         | 2010<br>£        |
|--|-------------------|------------------|
| East of England Development Agency       | -                 | 250,000          |
| Havebury Housing                         | (8,230)           | 5,000            |
| Colne Housing Society                    | (6,879)           | -                |
| Colchester Borough Homes                 | (3,246)           | -                |
|  | <u>£ (18,355)</u> | <u>£ 255,000</u> |

The Society discontinued offering personal loan products to businesses and individuals from 31 December 2010. The negative income shown in 2011 represents capital grant funding returned to funders in the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

| <b>4. OPERATIONAL COSTS</b>                              | <b>2011</b>      | <b>2010</b>      |
|--|------------------|------------------|
|  | £                | £                |
| Staff costs (see Note 6)                                 | 253,014          | 198,907          |
| Temporary staff and recruitment                          | 2,959            | -                |
| Staff training and welfare                               | 2,920            | 5,689            |
| Rent   | 17,342           | 13,023           |
| Hospitality and refreshment                              | 2,252            | 2,186            |
| Telephone and postage                                    | 4,916            | 5,377            |
| Insurance  | 3,734            | 4,929            |
| Property depreciation                                    | 6,578            | 6,578            |
| Depreciation of other tangible fixed assets (see Note 9) | 5,899            | 6,955            |
| Mileage allowance and other travel and subsistence costs | 23,858           | 15,678           |
| Consumables  | 4,595            | 4,536            |
| Equipment and IT   | 14,463           | 12,283           |
| Advertising and marketing                                | 20,909           | 11,574           |
| Loan arrangement fees and bank charges                   | 1,501            | 1,135            |
| Conference and seminar fees                              | 1,622            | 2,643            |
| Loss on disposal of fixed assets                         | -                | 1,526            |
| Subscriptions and memberships                            | 5,158            | 4,519            |
| Website  | 10,706           | 586              |
| Legal fees   | 2,843            | 1,591            |
| Professional and consultancy fees                        | 22,781           | 26,589           |
| Fees payable to auditors (for grant audits and advice)   | 1,176            | 1,175            |
| Property servicing costs                                 | 11,912           | 8,534            |
| Interest payable on Unity Trust bank loan                | 18,751           | 18,854           |
| Interest payable on Adventure Capital Fund loan          | 2,820            | 4,194            |
| Other expenses   | 5,469            | 3,667            |
|  | <u>448,178</u>   | <u>362,728</u>   |
| Allocated to governance costs                            | <u>(9,522)</u>   | <u>(30,108)</u>  |
|  | <u>£ 438,656</u> | <u>£ 332,620</u> |

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 5).

| <b>5. GOVERNANCE COSTS</b>                    | <b>2011</b>     | <b>2010</b>     |
|---|-----------------|-----------------|
|   | £               | £               |
| Audit fees                                    | 9,024           | 8,836           |
| Allocated from operational costs (see Note 4) | 9,522           | 30,108          |
|   | <u>£ 18,546</u> | <u>£ 38,944</u> |

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2011

| <b>6. STAFF NUMBERS AND COSTS</b> | <b>2011</b>             | <i>2010</i>             |
|-----------------------------------|-------------------------|-------------------------|
|                                   | <b>£</b>                | <b>£</b>                |
| Salaries                          | <b>218,057</b>          | <i>167,807</i>          |
| Social security costs             | <b>21,931</b>           | <i>17,875</i>           |
| Pension costs                     | <b>13,026</b>           | <i>13,225</i>           |
|                                   | <b><u>£ 253,014</u></b> | <b><u>£ 198,907</u></b> |

The average weekly number of employees, calculated as full time equivalents, during the period was: 7.0 (2010 - 5.3).

No employee received remuneration greater than £60,000 in the year or the previous financial year.

**7. DIRECTORS**

During the year, no Director received any remuneration (2010 - £NIL). However as described in Note 21, some of the Directors provide services to the Society in a professional, arms length capacity. Two members of the Board received reimbursement of expenses for travel amounting to £114 (2010 - four members of the board: £645).

**8. PROPERTY ASSETS**

|                                      | <b>Miles Ward<br/>Court<br/>£</b> | <b>154<br/>Chediston<br/>Street<br/>£</b> | <b>Total<br/>£</b>      |
|--------------------------------------|-----------------------------------|---|-------------------------|
| <b>Cost net of impairment losses</b> |                                   |   |                         |
| At 1 April 2010 and 31 March 2011    | <b><u>£ 215,000</u></b>           | <b><u>£ 196,138</u></b>                   | <b><u>£ 411,138</u></b> |
| <b>Depreciation</b>                  |                                   |   |                         |
| At 1 April 2010                      | 3,440                             | 3,138                                     | 6,578                   |
| Charge for the year                  | 3,440                             | 3,138                                     | 6,578                   |
| At 31 March 2011                     | <b><u>£ 6,880</u></b>             | <b><u>£ 6,276</u></b>                     | <b><u>£ 13,156</u></b>  |
| <b>Net book value</b>                |                                   |   |                         |
| At 1 April 2010                      | <b><u>£ 211,560</u></b>           | <b><u>£ 193,000</u></b>                   | <b><u>£ 404,560</u></b> |
| At 31 March 2011                     | <b><u>£ 208,120</u></b>           | <b><u>£ 189,862</u></b>                   | <b><u>£ 397,982</u></b> |

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 funding agreement with Go East for Miles Ward Court stipulated that the grant can be clawed back if it is sold or its use changes before 2028.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2011

**9. OTHER TANGIBLE FIXED ASSETS**

|                       | Computer<br>equipment<br>£ | Fixtures &<br>Fittings<br>£ | Office<br>equipment<br>£ | Total<br>£      |
|-----------------------|----------------------------|-----------------------------|--------------------------|-----------------|
| <b>Cost</b>           |                            |                             |                          |                 |
| At 1 April 2010       | 38,062                     | 17,855                      | 4,322                    | 60,239          |
| Additions             | 2,600                      | 538                         | -                        | 3,138           |
| At 31 March 2011      | <u>40,662</u>              | <u>18,393</u>               | <u>4,322</u>             | <u>63,377</u>   |
| <b>Depreciation</b>   |                            |                             |                          |                 |
| At 1 April 2010       | 32,411                     | 6,220                       | 3,275                    | 41,906          |
| Charge for the year   | 3,520                      | 1,839                       | 540                      | 5,899           |
| At 31 March 2011      | <u>35,931</u>              | <u>8,059</u>                | <u>3,815</u>             | <u>47,805</u>   |
| <b>Net book value</b> |                            |                             |                          |                 |
| At 31 March 2010      | £ 5,651                    | £ 11,635                    | £ 1,047                  | £ 18,333        |
| At 31 March 2011      | <u>£ 4,731</u>             | <u>£ 10,334</u>             | <u>£ 507</u>             | <u>£ 15,572</u> |

**10. INVESTMENTS**

|                                     | 2011<br>£ | 2010<br>£ |
|-------------------------------------|-----------|-----------|
| Shares in Wessex Reinvestment Trust | £ Nil     | £ 250     |

The above investments are valued at historic cost.

**11. LOANS**

|   | 2011<br>£        | 2010<br>£        |
|---|------------------|------------------|
| <b>Capital Loan balance</b>                       |                  |                  |
| At 1 April 2010                                   | 1,195,455        | 1,481,856        |
| Loans disbursed in the year                       | 768,295          | 453,384          |
| Loans repaid in the year                          | (302,630)        | (202,128)        |
| Loans written off in the year                     | (255,365)        | (537,657)        |
| Capital Loan Balance as at 31 March 2011          | <u>1,405,755</u> | <u>1,195,455</u> |
| <b>Less: Provision for doubtful debts</b>         |                  |                  |
| At 1 April 2010                                   | (284,304)        | (347,737)        |
| (Increase)/reduction in provision during the year | (24,962)         | 63,433           |
| Provision for doubtful debts as at 31 March 2011  | <u>(309,266)</u> | <u>(284,304)</u> |
|   | <u>1,096,489</u> | <u>£ 911,151</u> |

At the year end £419,454 of the loan balance was receivable in one year (2010: £335,890).

FOUNDATION EAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

|   | 2011             | 2010             |
|---|------------------|------------------|
|   | £                | £                |
| <b>Bad debt expenditure</b>   |                  |                  |
| Loans written off in the year                                       | 255,365          | 537,657          |
| Loans previously written off and subsequently recovered (see below) | (156,607)        | (264,331)        |
| Increase / (decrease) in provision during the financial year        | 24,962           | (63,433)         |
|   | <u>£ 123,720</u> | <u>£ 209,893</u> |

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

| 12. DEBTORS                                  | 2011            | 2010            |
|--|-----------------|-----------------|
| Due within one year                          | £               | £               |
| Grant debtors                                | 2,448           | 6,420           |
| Receivable from Enterprise Finance Guarantee | 39,934          | 51,064          |
| Prepayments and accrued income               | 17,378          | 6,633           |
|  | <u>£ 59,760</u> | <u>£ 64,117</u> |

13. CASH AT BANK AND IN HAND

As described in Note 15, £750,000 was held on deposit by Unity Trust bank as loan security.

| 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR  | 2011             | 2010             |
|---|------------------|------------------|
|   | £                | £                |
| Trade creditors                                     | 9,200            | 2,607            |
| Salary owed to third party agents                   | 67,666           | 47,198           |
| Accruals  | 16,040           | 10,010           |
| Deferred income                                     | 66,667           | 133,152          |
| Grant repayable to European Commission (see Note 3) | -                | 85,875           |
| Rent deposits                                       | 1,556            | 1,981            |
| Loan from the Adventure Capital Fund (see Note 16)  | 3,261            | 1,284            |
|   | <u>£ 164,390</u> | <u>£ 282,107</u> |

|                                       | 2011            | 2010             |
|---------------------------------------|-----------------|------------------|
|                                       | £               | £                |
| <u>Deferred grant income</u>          |                 |                  |
| Balance at 1 April 2010               | 133,152         | 20,000           |
| Amount released to incoming resources | (66,485)        | (20,000)         |
| Amount deferred in the year           | -               | 133,152          |
| Balance at 31 March 2011              | <u>£ 66,667</u> | <u>£ 133,152</u> |

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2011

| <b>15. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b> | <b>2011</b>      | <i>2010</i>      |
|--|------------------|------------------|
|  | £                | £                |
| Loan from Unity Bank                                     | <b>750,000</b>   | <i>750,000</i>   |
| Loan from the Adventure Capital Fund                     | <b>51,087</b>    | <i>60,652</i>    |
|  | <b>£ 801,087</b> | <i>£ 810,652</i> |

The Adventure Capital Fund awarded the Society £99,000 towards the cost of developing Miles Ward Court (as described in Notes 8 and 17). £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 long term loan has been secured on the building.

The loan from Unity Trust bank is used to fund the Society's loan making activities. The capital component is not repayable until April 2014. Interest is payable at 2% over the Bank's Base Rate. 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 within Cash at bank and in hand.

| <b>16. SHARE CAPITAL</b>        | <b>2011</b>     | <i>2010</i>     |
|---------------------------------|-----------------|-----------------|
|                                 | £               | £               |
| Ordinary shares of £1 each      | <b>27,050</b>   | <i>39,000</i>   |
| CITR ordinary shares of £1 each | <b>34,300</b>   | <i>29,700</i>   |
|                                 | <b>£ 61,350</b> | <i>£ 68,700</i> |

| <b>Movement in share capital</b> | <b>2011</b>     | <b>2010</b>     |
|----------------------------------|-----------------|-----------------|
|                                  | £               | £               |
| At 1 April 2010                  | <b>68,700</b>   | <i>65,750</i>   |
| Shares issued                    | <b>5,400</b>    | <i>2,950</i>    |
| Shares redeemed                  | <b>(12,750)</b> | <i>-</i>        |
| At 31 March 2011                 | <b>£ 61,350</b> | <i>£ 68,700</i> |

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 2011

17. SUMMARY OF FUNDS

|                          | Brought Forward<br>£ | Incoming Resources<br>£ | Resources Expended<br>£ | Transfers<br>£ | Carried Forward<br>£ |
|--------------------------|----------------------|-------------------------|-------------------------|----------------|----------------------|
| <b>SUMMARY OF FUNDS</b>  |                      |                         |                         |                |                      |
| Restricted funds         | 1,497,214            | 138,809                 | (322,035)               | -              | 1,313,988            |
| Unrestricted funds:      |                      |                         |                         |                |                      |
| Loan capital             | 206,617              | -                       | 23,929                  | (50,000)       | 180,546              |
| Other unrestricted funds |                      |                         |                         |                |                      |
| Fixed asset fund         | 18,333               | -                       | (5,899)                 | 3,138          | 15,572               |
| Property fund            | 343,908              | -                       | (6,578)                 | 6,304          | 343,634              |
| General fund             | 37,656               | 195,452                 | (270,339)               | 40,558         | 3,327                |
|                          | <u>£ 2,103,728</u>   | <u>£ 334,261</u>        | <u>£ (580,922)</u>      | <u>£ Nil</u>   | <u>£ 1,857,067</u>   |

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. During the year £50,000 of undistributed recycled loan capital was transferred to General fund to support the Society's operational and property development activities. It is the intention on the Directors to return these funds to Loan capital at a later date.

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 8), less the £54,348 loan obtained to help finance them (see Notes 14 and 15).

| <b>RESTRICTED FUNDS</b>         | Brought Forward<br>£ | Incoming Resources<br>£ | Resources Expended<br>£ | Transfers<br>£ | Carried Forward<br>£ |
|---------------------------------|----------------------|-------------------------|-------------------------|----------------|----------------------|
| <b>Lending activities:</b>      |                      |                         |                         |                |                      |
| Capital grants for making loans | 1,497,214            | (18,355)                | (164,871)               | -              | 1,313,988            |
| Revenue grants                  | -                    | 157,164                 | (157,164)               | -              | -                    |
|                                 | <u>£ 1,497,214</u>   | <u>£ 138,809</u>        | <u>£ (322,035)</u>      | <u>£ Nil</u>   | <u>£ 1,313,988</u>   |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2011

As detailed in Note 3, £18,355 was returned by the Society to a variety of funders. 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.

| <b>LOAN CAPITAL FUND</b>                 | <b>Brought Forward</b><br>£ | <b>Incoming Resources</b><br>£ | <b>Resources Expended</b><br>£ | <b>Transfers</b><br>£ | <b>Carried Forward</b><br>£ |
|--|-----------------------------|--------------------------------|--------------------------------|-----------------------|-----------------------------|
| Undistributed recycled loan capital      | 41,322                      | -                              | -                              | (39,900)              | 1,422                       |
| Loans made to businesses and individuals | 165,295                     | -                              | 23,929                         | (10,100)              | 179,124                     |
|  | <u>£ 206,617</u>            | <u>£ Nil</u>                   | <u>£ 23,929</u>                | <u>£ (50,000)</u>     | <u>£ 180,546</u>            |

**18. ANALYSIS OF NET ASSETS BETWEEN FUNDS**

|                           | <b>Fixed assets</b><br>£ | <b>Loans</b><br>£  | <b>Other net current assets</b><br>£ | <b>Creditors due after one year</b><br>£ | <b>Total</b><br>£  |
|---------------------------|--------------------------|--------------------|--------------------------------------|--|--------------------|
| Share capital             | -                        | -                  | 61,350                               | -  | 61,350             |
| Restricted funds          | -                        | 570,811            | 743,177                              | -  | 1,313,988          |
| Loan capital              | -                        | 179,124            | 1,422                                | -  | 180,546            |
| Fixed asset fund          | 15,572                   | -                  | -                                    | -  | 15,572             |
| Property development fund | 397,982                  | -                  | -                                    | (51,087)                                 | 343,634            |
| General fund              | -                        | 346,554            | 403,512                              | (750,000)                                | 3,327              |
|                           | <u>£ 413,554</u>         | <u>£ 1,096,489</u> | <u>£ 1,209,461</u>                   | <u>£ (801,087)</u>                       | <u>£ 1,918,417</u> |

**19. FINANCIAL COMMITMENTS**

2011  
£

2010  
£

At 31 March 2011 the Society had annual commitments under non-cancellable operating leases (property rent) expiring as below:

|                          |                 |                 |
|--------------------------|-----------------|-----------------|
| within one year          | 13,500          | -               |
| within two to five years | -               | 12,777          |
|                          | <u>£ 13,500</u> | <u>£ 12,777</u> |

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2011**

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**20. 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 was repaid to the funder in the year. The Society is confident that the contract was delivered in accordance with agreed terms however the body who is currently responsible for the contract is disputing the contract terms. As a result the fund (which currently stands at £42,091 after loan losses have been deducted) has been treated as a capital grant, which has been ring fenced within restricted funds.

**21. RELATED PARTIES**

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 £2,106 (2010: £12,619). The Directors consider this transaction was on normal business terms and that the contracts were entered into on an arm's length basis.