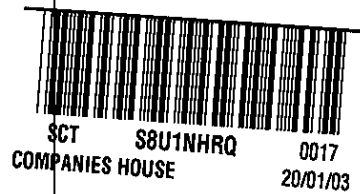


RURAL HOUSING SERVICE

(A company limited by guarantee and not having a share capital)

**Company number 216096
Scottish Charity number SC0031239**

DIRECTORS' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2002



RURAL HOUSING SERVICE

(A private company, limited by guarantee, and a Scottish charity)

Scottish Charity No:	SC0031239
Company No:	216096
Directors 2001/2002:	Alastair Ian Cameron Anne Elizabeth Clark Raymond Kennedy Young OBE George Finlay (Deceased May 2001)
Co-opted Board members:	Peter Pearson Fiona Munro Anne Baxter
Company Secretary:	Derek William Logie, at registered office
Registered office:	28 Albany Street Edinburgh EH1 3QH Tel: 0131 477 4506 Fax: 0131 477 2710
Bankers:	Bank of Scotland Head Office the Mound Edinburgh EH1 1YZ
Auditor:	D M Vaughan & Co Ltd 10 Gloucester Place Edinburgh EH3 5EF
Solicitors:	Balfour & Manson 56 Frederick Street Edinburgh EH2 1LS

RURAL HOUSING SERVICE DIRECTORS' REPORT

The directors present their report with the audited financial statements for the year ended 31 March 2002.

Legal and administrative information set out on page 1 forms part of this report. The financial statements comply with the current statutory requirements, the Memorandum and Articles of Association and the Statement of Recommended Practice - Accounting and Reporting by Charities 2000.

PRINCIPAL ACTIVITIES, LEGAL STATUS AND ORGANISATION

The charity is constituted as a company limited by guarantee, and therefore governed by a Memorandum and Articles of Association.

The principal object for which the Company is established is to assist rural communities in Scotland to relieve poverty by alleviating rural homelessness, poor housing conditions, other housing needs, and related problems. For the purpose of furthering the attainment of the above mentioned principal object the Company shall have and may pursue all or any of the following actions: to support rural communities to work in partnership with local and national government and their agencies, housing associations, voluntary bodies and the private sector; to provide advice, support and information to rural communities and individuals on housing issues and problems; to establish and support networks linking individuals and groups with an interest in rural housing issues; to provide information on rural housing issues to increase understanding amongst policy and decision makers; to carry out and publish research projects which increase understanding of rural housing issues and which pilot innovative ways of tackling them and seek opportunities for influencing public policy on relevant matters, and advocating on behalf of rural communities.

A board of Directors administers the charity. They meet as and when required to make decisions regarding the charity (4 times in year to 31 March 2002). An Executive Director is appointed by the directors to manage the day to day operations of the charity.

INVESTMENT POWERS

Under the memorandum and articles of association, the charity has the power to make any investment which the directors see fit.

RELATED PARTIES

The Rural Housing Service was formerly a part of the Scottish Churches Housing Agency and is shown as a restricted fund in the Scottish Churches Housing Agency accounts to 31 March 2001. Rural Housing Service became a charity in its own right from 1 April 2001. The comparative figures shown are taken from the Scottish Churches Housing Agency accounts for the year ended 31 March 2001. Alastair Cameron who is a director of Rural Housing Service is the Co-ordinator of Scottish Churches Housing Agency. None of the directors of Scottish Churches Housing Agency are directors of Rural Housing Service.

RURAL HOUSING SERVICE

DIRECTORS' REPORT (Cont.)

REVIEW OF ACTIVITIES

This is the first Directors' Review of Activities for the Rural Housing Service as an independent charitable organisation. The Rural Housing Service became independent on 1 April 2001 after much hard work from the Steering Group members and staff. We are very grateful for the home given to us by the Scottish Churches Housing Agency whilst the new organisation was being established.

Rhona Brankin MSP, the Deputy Minister for Rural Development formally launched the Rural Housing Service in Haddington on 6 November 2001. The Minister confirmed the Scottish Executive's support for the Rural Housing Service and commended the Service for its work in helping to deliver affordable housing in rural communities.

In 2001/02 the Rural Housing Service has concentrated its efforts in providing support to rural communities to help them develop practical solutions to local housing issues. Major new projects this year were: on Gigha supporting the successful community buy-out and helping develop a strategy for the renovation of existing houses and the development of new houses; on Iona carrying out a housing needs study and helping to secure housing investment on the island; in Foulden, Mordington and Lamberton, completing a housing needs survey. During 2001/02 the Rural Housing Service provided support to 16 new rural communities and it is expected that many of these will become major projects in the future. The Service has continued to provide on-going support to previous community contacts and 2001/02 saw the culmination of our work on Care and Repair with the establishment of Argyll and Bute Care and Repair Service which now employs 8 full-time staff; as well as the site start for the 4 new housing association houses on Colonsay.

Providing information and advice on housing problems and grants to individuals in rural communities is a growing area of work and the new Rural Housing Service website www.ruralhousingscotland.org.uk is providing a new route for people to contact us. The membership of the Rural Housing Service stood at 52 by 31 March 2002 and a major membership drive will be launched in 2002/03. This year saw the launch of our members' newsletter, The Lighthouse, which is distributed to our membership as well as community and housing organisations across Scotland.

RESERVES POLICY

The reserves policy is as set out on note 8 on page 11.

RISK MANAGEMENT

The directors operate an ongoing review of the major risks to which the charity is exposed and systems have been established to mitigate those risks.

DIRECTORS

The directors of the company during the year were those listed on page 1. George Finlay died suddenly in May 2001 and we wish to pay tribute to George's tireless work to improve rural housing opportunities.

RURAL HOUSING SERVICE**DIRECTORS' REPORT (Cont.)****STATEMENT OF DIRECTORS RESPONSIBILITIES**

The Charities Regulations 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 Service and of the results of the Service for that period. In preparing those financial statements, the directors are required to:

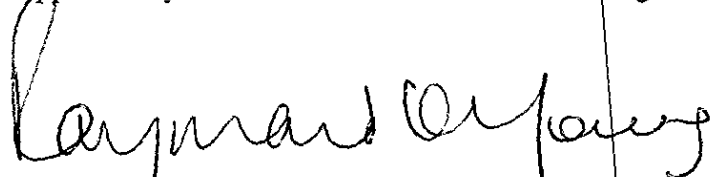
- (a) select suitable accounting policies and apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) prepare the financial statements on a going-concern basis unless it is inappropriate to presume that the Service will continue to operate.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Service and enable them to ensure that the financial statements comply with the Charities Regulations. They are also responsible for safeguarding the assets of the Service and hence for taking reasonable steps for the prevention of fraud and other irregularities.

AUDITORS

D M Vaughan and Co Limited were re-appointed as the charitable company's auditor during the year and have expressed their willingness to continue in that capacity.

Approved by the board on 3 October 2002 and signed on its behalf by:



Raymond Kennedy Young OBE

RURAL HOUSING SERVICE LIMITED**REPORT OF THE AUDITORS TO THE DIRECTORS OF
RURAL HOUSING SERVICE LIMITED**

We have audited the financial statements of Rural Housing Service Limited for the year ended 31 March 2002 which comprise the statement of financial activities, the balance sheet and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3, the members of the management committee, who are directors for the purpose of company law and trustees for the purpose of charity law, are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

It is our responsibility to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

RURAL HOUSING SERVICE LIMITED**REPORT OF THE AUDITORS TO THE DIRECTORS' OF
RURAL HOUSING SERVICE LIMITED (Cont.)****OPINION**

In our opinion the financial statements give a true and fair view of the charitable company's state of affairs as at 31 March 2002 and of its incoming resources and application of resources, including the charitable company's income and expenditure, for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

D.M. Vaughan & Co Ltd
Chartered Certified Accountants & Registered Auditors
10 Gloucester Place, Edinburgh EH3 6EF

DM Vaughan & Co Ltd

Dated: 31 October 2002

RURAL HOUSING SERVICE**Income and Expenditure Account, incorporating Statement of Financial Activities,
for the Year Ended 31 March 2002**

	Notes	Restricted £	Unrest- ricted £	Total Year to 31.3.02 £	Total Year to 31.3.01 £
Incoming resources:					
Donations and Grants	2	3,039	37,690	40,729	47,641
Investment Income	3	-	207	207	-
Activities for generating funds	4	-	6,715	6,715	-
Total Income		<u>3,039</u>	<u>44,612</u>	<u>47,651</u>	<u>47,641</u>
Resources expended:					
Charitable expenditure:					
Cost of activities in furtherance of the charity's objects	5	-	44,701	44,701	42,624
Managing and administering the charity	6	-	4,105	4,105	1,688
Total Expenditure		<u>-</u>	<u>48,806</u>	<u>48,806</u>	<u>44,312</u>
(Deficit)/Surplus for Year		3,039	(4,194)	(1,155)	3,329
Balance in Funds at 31 March 2001		-	15,067	15,067	11,738
Balance in Funds at 31 March 2002	11	<u>3,039</u>	<u>10,873</u>	<u>13,912</u>	<u>15,067</u>

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the surplus for the current and previous years.

The notes 1 to 14 on pages 9 to 13 form part of these accounts

RURAL HOUSING SERVICE**BALANCE SHEET AT 31 MARCH 2002**

	Notes	2002 £	2001 £
Fixed Assets	9	<u>-</u>	<u>538</u>
Current Assets			
Cash at bank and in hand	10	12,655	15,190
Debtors	11	<u>3,012</u>	<u>-</u>
		<u>15,667</u>	<u>15,190</u>
Current Liabilities (due within one year)			
Creditors	12	<u>1,755</u>	<u>661</u>
Net Current Assets		<u>13,912</u>	<u>14,529</u>
		<u>13,912</u>	<u>15,067</u>
Represented by:			
Funds			
General Fund Revenue Account	8	10,873	15,067
Restricted funds	8	<u>3,039</u>	<u>-</u>
		<u>13,912</u>	<u>15,067</u>

The accounts were approved by the Directors on *3 October 2002*

Anne E. Clark
(Honorary Treasurer)

Raymond W. Jones
(Honorary Chairman)

The notes 1 to 14 on pages 9 to 13 form part of these accounts

Notes on Accounts**1. Accounting policies****(a) Preparation of Accounts**

The accounts have been prepared under the historical cost convention and in accordance with Section 228 of, and Schedule 4 to, the Companies Act 1985.

The effects of events relating to the year ended 31 March 2002 which occurred before 3 October 2002, the date of approval of the accounts by the Board, have been included in the accounts to the extent required to show a true and fair view of the state of affairs at 31 March 2002 and of the results for the year ended on that date.

(b) Other accounting policies are disclosed under the appropriate notes attached to the accounts.

(c) Incoming resources

Income from Donations, Grants, Interest Received and Fees is included in incoming resources when they are receivable.

(d) Resources expended

Resources expended are included in the Statement of Financial Activities on an accruals basis.

Certain expenditure is directly attributable to specific activities and has been included in those cost categories. Where a cost cannot be clearly identified as relating to a specific activity, it is included in Management and Administration expenses.

(e) Pension costs

The charity participates in a defined benefit scheme. The pension cost included in staff costs is the contribution due from the charity for the year.

2. Donations and Grants

Amounts received in the year to 31 March 2002 are as follows:

	2002	2001
	£	£
Communities Scotland (formerly Scottish Homes)	4,000	6,001
The Scottish Executive	23,690	23,000
Other public bodies	-	7,440
The Tudor Trust	10,000	10,000
Lloyds TSB Foundation for Scotland	3,039	1,200
	<u>40,729</u>	<u>47,641</u>

RURAL HOUSING SERVICE

10.

Notes on Accounts (Cont.)**3. Investment Income**

	2002	2001
	£	£
Cash Investments	<u>207</u>	<u>-</u>

4. Activities for generating funds:

	2002	2001
	£	£
Sales and fees	5,921	-
Membership fees	695	-
Misc Income	99	-
	<u>6,715</u>	<u>-</u>

5. Cost of activities in furtherance of the charity's objects:

	Note	2002	2001
		£	£
Salaries	7	34,993	30,199
Property		2,200	2,070
Print and Stationery		2,107	1,386
Postage and Telephone		1,148	620
Insurance		163	110
Meetings, travel		3,700	3,208
Subscriptions		-	150
Fees for external advice		390	4,881
		<u>44,701</u>	<u>42,624</u>

6. Management and administration of the charity:

	2002	2001
	£	£
Depreciation	538	538
Audit	881	150
Legal and professional	270	-
Bank charges	16	-
Fees for external advice	2,400	1,000
	<u>4,105</u>	<u>1,688</u>

Notes on Accounts (Cont.)**7. Salaries**

One full-time member of staff was employed during the course of the year.

The expenditure figure is made up as follows:

	2002	2001
	£	£
Salaries and Benefits	29,320	25,311
National Insurance	2,201	1,900
Pensions	3,473	2,988
	<u>34,994</u>	<u>30,199</u>

No employee earned more than £50,000 in the year.

One member of staff has benefits accruing under a defined benefit pension scheme.

8. Reserves

The directors consider an unrestricted fund of about £12,000 is prudent for the efficient operation of the Service. This is to ensure that the commitments of the Service are protected by reserves and not solely dependent on current year funding.

The balance on the restricted fund represents monies received from Lloyds TSB Foundation for Scotland. This money was unspent at the year-end.

9. Fixed Assets: Office equipment and furniture

	£
Cost:	
Balance at 31 March 2001	<u>1,613</u>
Balance at 31 March 2002	<u>1,613</u>
Depreciation:	
Balance at 31 March 2001	1,075
Charge for year	<u>538</u>
Balance at 31 March 2002	<u>1,613</u>
Net book value at 31 March 2002	<u>-</u>
Net book value at 31 March 2001	<u>538</u>

Depreciation: equipment and similar costs are written off over three years.

10. Cash at bank and in hand

	2002	2001
	£	£
Cash at bank	<u>12,655</u>	<u>15,190</u>

Notes on Accounts (Cont.)

11. Debtors

	2002	2001
	£	£
Trade debtors	3,012	-
	<u>3,012</u>	<u>-</u>

12. Creditors

	2002	2001
	£	£
Accruals	1,755	-
Taxation and social security	-	661
	<u>1,755</u>	<u>661</u>

13. Pension scheme - Scottish Federation of Housing Associations

The Service participates in the SFHA Pension Scheme (the "Scheme"). The Scheme is a multi-employer defined benefit scheme. The scheme is funded and is contracted out of the state scheme.

The last formal valuation of the scheme was performed at 30 September 2000 by a qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the valuation date was £128.7 million.

The Rural Housing Service paid contributions at the rate of 12.2% during the accounting period members contributions were 5% up to 31 March 2002 and will increase to 6% from 1 April 2002.

It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers.

Due to the nature of the scheme, the profit and loss account charge for the period under both SSAP24 and FRS17 represents the employer contribution payable.

Financial assumptions

The financial assumptions underlying the valuation were as follows:

	% per annum
Rate of return on future contributions	6.60
Rate of return on accumulated assets	5.17
Rate of salary increases	4.50
Rate of pension increases	2.50
Rate of price inflation	2.50

The accumulated assets of the Scheme were assumed to earn the same return as if they had been invested in a portfolio comprising 100% UK equities for non-pensioner liabilities and 50% UK equities/50% index-linked gilts for pensioner liabilities.

Notes on Accounts (Cont.)

13. Pension scheme - Scottish Federation of Housing Associations (Cont.)

The valuation revealed a shortfall of assets compared with the value of liabilities of some £24.0 million (equivalent to a past service funding level of 84%). The employer's ongoing future service contribution rate, after allowing for changes in benefits, were assessed as 9% of pensionable salaries. In view of the past service shortfall most employers (including the Rural Housing Service) are required to contribute at the rate of 12.2% of pensionable salaries in order to bring the value of assets and liabilities into balance. A small number of employers that have closed the scheme to new members are required to contribute at the rate of 14.2% to reflect the higher cost of a closed arrangement. Member contributions will be increased from 5% to 6% on 1 April 2002. On the basis of the valuation assumptions this pattern of contributions will be sufficient to eliminate the past service deficit by 30 September 2016.

The next valuation will be as at 30 September 2003 and the results will be available after June 2004.

14. Financial Commitments

At 31 March 2002 the company had annual commitments under non-cancellable operating leases as follows:

	2002 £	2001 £
Expiry date:		
Less than one year	-	-
Between one and five years	2,200	2,200
More than five years	-	-
	<u>2,200</u>	<u>2,200</u>