

Knowes Housing Association Limited
Report and Financial Statements
For the year ended 31st March 2010

Registered Housing Association No. HEP300

FSA Reference No. 2518R(S)

Scottish Charity No. SC027466

KNOWES HOUSING ASSOCIATION LIMITED

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KNOWES HOUSING ASSOCIATION LIMITED

**MANAGEMENT COMMITTEE , EXECUTIVES AND ADVISERS
YEAR ENDED 31st MARCH 2010**

MANAGEMENT COMMITTEE

William Stevenson	Chairperson
Patricia Eadie	Vice Chair
Rhona Polak	Secretary
Judith Brooker	Treasurer - resigned September 2009
Anne Feenay	
Anne McGowan	
Sheila Cope	Treasurer - appointed September 2009
John Lafferty	
Douglas McAllister	resigned May 2009
Lockhart Cameron	
Councillor Margaret Bootland	
Robert McLachlan	removed under rule 44 December 2009
Pat Giffen	appointed September 2009
Frances Austin	co-opted January 2010
Ugonna Onyekwere	appointed September 2009

EXECUTIVE OFFICERS

Pierre De Fence	Director
Paul McVey	Depute Director
Erica Davidson	Head of Finance

REGISTERED OFFICE

10 Field Road
Faifley
Clydebank
G81 5BX

AUDITORS

Alexander Sloan
Chartered Accountants
38 Cadogan Street
Glasgow
G2 7HF

BANKERS

Bank of Scotland
42/44 Sylvania Way
Clydebank
Glasgow
G81 2TL

SOLICITORS

Harper McLeod
The Ca'd'oro
45 Gordon Street
Glasgow
G1 3PE

INTERNAL AUDITORS

The Internal Audit Association
Business Support Centre
Granham House
Spring Graden Lane
Gosport
PO12 1HY

KNOWES HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2010

The Management Committee presents its report and the Financial Statements for the year ended 31st March 2010.

Legal Status

The Association is a registered non-profit making organisation under the Industrial and Provident Societies Act 1965 No.2518R(S). The Association is constituted under its Rule Book. The Association is a registered Scottish Charity with the charity number SC027466.

Principal Activities

The principal activities of the Association are the provision and management of affordable rented accommodation.

Review of Business and Future Developments

Staffing

During the year the Association recruited two new members of staff, these being the Technical Inspector and Senior Corporate Services Officer, previously Tenant Participation Officer. Both posts were recruited in order to fill vacant positions created by staff leaving.

Repairs Maintenance and Development

The Association continues to focus on improving services to our customers and to ensure compliance with statutory and best practice requirements. In the year ending 31st March 2010, we spent £562,320 on day to day repairs, which shows a slight decrease on the previous year and shows a levelling out of expenditure. We ensured that to the best of our ability all properties with gas heating appliances were maintained and serviced in accordance with legislative requirements, and the cost of carrying out this work was £105,268.

The year 2009/10 saw us continue with our programme of maintenance and component replacement, which will ensure the Association complies with the Scottish Housing Quality Standard legislation. To this end we carried out maintenance painting to one fifth of our properties, continued with our programme of renewing kitchens, replaced a number of obsolete controlled entry systems, replaced defective balconies to tenement properties, replaced bathroom sanitaryware and renewed boundary fencing to a number of our cottage type properties. All of this was undertaken at a cost of £486,774.

The Association completed the construction of the respite facility at Dunn Street in Duntocher and handed the building over to West Dunbartonshire Council in January 2010. This facility will provide much needed respite accommodation to people throughout West Dunbartonshire.

West Dunbartonshire Council has commenced work on their proposal to transfer around 45% of their housing properties to housing associations. Knowes will monitor this situation with a view to becoming involved in stock transfer where appropriate and viable.

KNOWES HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2010

Review of Business and Future Developments (Contd.)

Housing Management

The Association had 97 properties to re-allocate last year which is an increase from the previous year. Our performance in this area improved significantly with our days taken to let being on average 11 calendar days (15 calendar days last year) and void loss was held at 0.3% for the second consecutive year. Our performance improvements have been due to additional process improvements and tighter timescales with our repairs contractor to return properties following void work. The Associations stock continues to be popular with 309 new applications for housing being received in the last year – this is an increase of 15% from last year.

Rent Arrears at the end of March 2010 reached a new low - 1.7% of the annual debit (with only 0.7% being the non-technical, or actual, arrears figure). This is a very impressive arrears figure and was achieved with only 2 evictions, and a significant number of referrals to other agencies in a bid to minimise tenants debt and maximise their income.

Knowes continues to work with a range of agencies to tackle anti social behaviour through diversionary activities and preventative measures. Our information sharing with these agencies is continuing to improve and in the last year we have agreed a common anti social behaviour policy and procedure among all local housing providers including West Dunbartonshire Council. There were no new ASBOs or evictions due to anti social behaviour in the last year which is an indication of an improving picture in our community. This was reflected in responses to our Tenant Satisfaction Survey recently which demonstrated improved perceptions in areas such as anti social behaviour, crime and youth loitering etc.

Wider Action

For the fifth consecutive year, Knowes Housing Association in partnership with Failley Housing Association and the Independent Resource Centre, have provided a satellite welfare benefits and debt counselling service. This project has attracted wider role funding and has proved very successful among the residents of Failley and Duntocher. The service, which is independent and confidential, ensures that residents are assisted in maximising their income while tackling any financial problems they may be facing. Both Associations have integrated client referrals into their arrears management procedures to ensure that all customers are encouraged to access this service when their rent account is falling into arrears.

Café Knowes continues to provide healthy food to the community as well as providing fruit for all primary schools in West Dunbartonshire. This year we have obtained funding to provide a Get Cooking/Get Shopping series of healthy eating classes to 200 residents within the West Dunbartonshire area.

In partnership with Community Links Scotland and Failley Housing Association the arts project working with the two local primary schools and the Failley Arts group concluded with the banner being installed on the gable end of a tenement on Failley Road.

Other

The members of the Management Committee are of the opinion that the state of affairs of the Association is satisfactory given the surplus in the year of £622,706 (2009 – Surplus £425,675). The Association met its financial loan covenant ratios with regard to interest cover (2010 – 1199% 2009 – 303%) and average gross debt per property (2010 - £6,638; 2009 - £6,265). Net assets now stand at £1,894,230 (2009 - £1,271,548).

KNOWES HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2010

Management Committee and Executive Officers

The members of the Management Committee and the Executive Officers are listed on Page 1.

Each member of the Management Committee holds one fully paid share of £1 in the Association. The Executive Officers hold no interest in the Association's share capital and, although not having the legal status of Directors, they act as Executives within the authority delegated by the Management Committee.

The members of the Management Committee are also Trustees of the Charity. Members of the Management Committee are appointed by the members at the Association's Annual General Meeting.

Statement of Management Committee's Responsibilities

The Industrial and Provident Societies Acts 1965 to 2002 require the Management Committee to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing those Financial Statements, the Management Committee is required to:-

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

The Management Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the Financial Statements comply with the Industrial and Provident Societies Act 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for ensuring the Association's suppliers are paid promptly.

The Management Committee must in determining how amounts are presented within items in the income and expenditure account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting practices.

In so far as the Management Committee are aware:

- There is no relevant audit information (information needed by the Housing Association's auditors in connection with preparing their report) of which the Association's auditors are unaware, and
- The Management Committee have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Housing Association's Auditors are aware of that information

KNOWES HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE
FOR THE YEAR ENDED 31ST MARCH 2010

Statement on Internal Financial Control

The Management Committee acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate for the business environment in which it operates. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the Association, or for publication
- the maintenance of proper accounting records;
- the safeguarding of assets against unauthorised use or disposition

It is the Management Committee's responsibility to establish and maintain systems of Internal Financial Control. Such systems can only provide reasonable and not absolute assurance against material financial mis-statement or loss. Key elements of the Association's systems include ensuring that

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of controls and restrict the unauthorised use of Association's assets;
- experienced and suitably qualified staff take responsibility for important business functions and annual appraisal procedures have been established to maintain standards of performance
- forecasts and budgets are prepared which allow the management team and the Management Committee to monitor key business risks, financial objectives and the progress being made towards achieving the financial plans set for the year and for the medium term
- regular financial management reports are prepared promptly, providing relevant, reliable and up to date financial and other information, with significant variances from budget being investigated as appropriate
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through the Management Committee;
- the Management Committee receive reports from management and from the external and internal auditors to provide reasonable assurance that control procedures are in place and are being followed and that a general review of the major risks facing the Association is undertaken
- formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal or external audit reports

Donations

During the year the Association made charitable donations amounting to £445 (2009 £720)

Auditors

A resolution to re-appoint the Auditors, Alexander Sloan, Chartered Accountants, will be proposed at the Annual General Meeting.

By order of the Management Committee



RHONA POLAK
Secretary
CLYDEBANK
03 August 2010

KNOWES HOUSING ASSOCIATION LIMITED

REPORT BY THE AUDITORS TO THE MANAGEMENT COMMITTEE OF
KNOWES HOUSING ASSOCIATION LIMITED
ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the Financial Statements, we have reviewed your statement on Page 5 concerning the Association's compliance with the information required by the section on Internal Financial Control within SFHA's publication "Raising Standards in Housing".

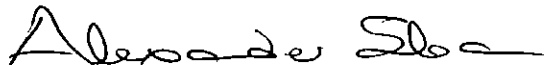
Basis of Opinion

We carried out our review having regard to the requirements relating to corporate governance matters within Bulletin 2006/5 issued by the Auditing Practices Board. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reasons given for non-compliance.

Opinion

In our opinion the Statement on Internal Financial Control on page 5 has provided the disclosures required by the section on Internal Financial Control within SFHA's publication "Raising Standards in Housing" and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Through enquiry of certain members of the Management Committee and Officers of the Association, and examination of relevant documents, we have satisfied ourselves that the Management Committee's Statement on Internal Financial Control appropriately reflects the Association's compliance with the information required by the section on Internal Financial Control within SFHA's "Raising Standards in Housing".



ALEXANDER SLOAN
Chartered Accountants

GLASGOW
03 August 2010

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
KNOWES HOUSING ASSOCIATION LIMITED**

We have audited the financial statements of Knowes Housing Association Limited for the year ended 31st March 2010 which comprise an income and expenditure account, balance sheet, cash flow statement and related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the Association'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 Association's members those matters we are required to state to them in an auditors' 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 Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Management Committee and Auditors

As described in the Statement of Management Committee's Responsibilities the Association's Management Committee are responsible for the preparation of the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Act 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. We also report to you if, in our opinion, the Management Committee's Report is consistent with the Financial Statements, if the Association 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 Management Committee's remuneration and transactions with the Association is not disclosed.

We read the Management Committee's 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Management Committee in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

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


Opinion

In our opinion the Financial Statements:

give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the Association's affairs as at 31st March 2010 and of its income and expenditure and cash flow for the year then ended; and

have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

In our opinion, the information given in the Management Committee's Report is consistent with the financial statements.



ALEXANDER SLOAN
Chartered Accountants
Statutory Auditors
GLASGOW
03 August 2010

KNOWES HOUSING ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st MARCH 2010

	Notes	£	2010 £	£	2009 £
TURNOVER	2.		3,364,405		3,237,981
Operating Costs	2.		<u>(2,677,056)</u>		<u>(2,684,069)</u>
OPERATING SURPLUS	9.		687,349		553,912
Gain on Sale of Housing Stock	7.	-		127,590	
Interest Receivable and Other Income		6,444		22,240	
Interest Payable and Similar Charges	8.	<u>(71,087)</u>		<u>(278,067)</u>	
			<u>(64,643)</u>		<u>(128,237)</u>
SURPLUS ON ORDINARY ACTIVITIES			<u><u>622,706</u></u>		<u><u>425,675</u></u>

All amounts relate to continuing activities. All recognised surpluses and deficits have been included in the Income & Expenditure Account. Historical cost surpluses and deficits are identical to those shown in the accounts.

KNOWES HOUSING ASSOCIATION LIMITED

BALANCE SHEET AS AT 31st MARCH 2010

	Notes	2010		2009	
		£	£	£	£
TANGIBLE FIXED ASSETS					
Housing Properties - Depreciated Cost	11.(a)		13,854,559		12,749,287
Less: Social Housing Grant	11.(a)		(5,610,312)		(5,610,312)
: Other Public Grants	11.(a)		(729,198)		(509,432)
			<u>7,515,049</u>		<u>6,629,543</u>
Other fixed assets	11.(b)		445,615		470,155
			<u>7,960,664</u>		<u>7,099,698</u>
CURRENT ASSETS					
Debtors	14.	104,221		109,652	
Cash at bank and in hand		2,500,457		749,756	
		<u>2,604,678</u>		<u>859,408</u>	
CREDITORS: Amounts falling due within one year	15.	<u>(910,046)</u>		<u>(788,877)</u>	
NET CURRENT ASSETS			<u>1,694,632</u>		<u>70,531</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			9,655,296		7,170,229
CREDITORS: Amounts falling due after more than one year	16.		<u>(7,761,066)</u>		<u>(5,898,681)</u>
NET ASSETS			<u>1,894,230</u>		<u>1,271,548</u>
CAPITAL AND RESERVES					
Share Capital	18.		122		146
Revenue Reserves	19.		1,894,108		1,271,402
			<u>1,894,230</u>		<u>1,271,548</u>

The Financial Statements were approved by the Management Committee and signed on their behalf on

03 August 2010

Chairperson

Patricia Eadie

Treasurer

Sheda M. Cope

Secretary

R. Pollock

KNOWES HOUSING ASSOCIATION LIMITED

**CASH FLOW STATEMENT FOR THE YEAR ENDED
31st MARCH 2010**

	Notes	2010 £	2009 £
Net Cash Inflow from Operating Activities	17.	840,369	843,624
Returns on Investment and Servicing of Finance			
Interest Received		6,444	22,240
Interest Paid		(71,087)	(278,067)
Net Cash (Outflow) from Investment and Servicing of Finance		(64,643)	(255,827)
Capital Expenditure and Financial Investment			
Acquisition and Construction of Properties	(1,272,685)	(339,091)	
Purchase of Other Fixed Assets	(5,287)	(35,551)	
Social Housing Grant Received	-	-	
Other Grants Received	218,585	231,208	
Proceeds on Disposal of Properties	-	142,510	
Net Cash (Outflow) from Capital Expenditure and Financial Investment		(1,059,387)	(924)
Net Cash (Outflow) / Inflow before use of Liquid Resources and Financing		(283,661)	586,873
Financing			
Loan Advances Received	2,525,400	-	
Loan Principal Repayments	(491,041)	(320,045)	
Share Capital Issued	3	21	
Net Cash Inflow / (Outflow) from Financing		2,034,362	(320,024)
Increase in Cash	17.	<u>1,750,701</u>	<u>266,849</u>

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis Of Accounting

The Financial Statements have been prepared in accordance with applicable Accounting Standards, the Statement of Recommended Practice - Accounting by Registered Social Landlords 2008, and on the historical cost basis. They also comply with the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. A summary of the more important accounting policies is set out below.

Turnover

Turnover represents rental and service charge income receivable, fees receivable and revenue grants receivable.

Retirement Benefits

The Association participates in the S.F.H.A. Defined Benefits Pension Scheme and retirement benefits to employees of the Association are funded by the contributions from all participating employers and employees in the Scheme. Payments are made in accordance with periodic calculations by consulting Actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

Valuation Of Housing Properties

Housing Properties are stated at cost, less social housing and other public grants and less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the properties at an annual rate of 2%, with the exception of the Dunn Street property which is depreciated on a straight line basis over the length of the lease agreement between the Association and West Dunbartonshire Council. Land is not depreciated. Housing Properties are reviewed for impairment if events or circumstances indicate that the carrying value is higher than the recoverable amount.

Depreciation And Impairment Of Other Fixed Assets

Other Fixed Assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the assets at the following annual rates:-

Office Premises	- 3.3%
Furniture and Fittings	- 25%
Computer Equipment	- 20%
Office Equipment	- 25%

The carrying value of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Social Housing Grant And Other Grants In Advance/Arrears

Where developments have been financed wholly or partly by Social Housing Grant or other capital grant, the cost of those developments has been reduced by the amount of the grant receivable. The amount of the grants receivable is shown separately on the Balance Sheet.

Social Housing Grant received in respect of revenue expenditure is credited to the Income and Expenditure Account in the same period as the expenditure to which it relates.

Although Social Housing Grant is treated as a grant for accounting purposes, it may nevertheless become repayable in certain circumstances, such as the disposal of certain assets. The amount repayable would be restricted to the net proceeds of sale.

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

Sales Of Housing Properties

Disposals of housing property under the Right to Buy scheme are treated as a fixed asset disposal and any gain and loss on disposal accounted for in the Income and Expenditure Account.

Leases/Leased Assets

Costs in respect of operating leases are charged to the Income and Expenditure Account on a straight line basis over the lease term. Assets held under finance leases and hire purchase contracts are capitalised in the Balance Sheet and are depreciated over their useful lives.

Works to Existing Properties

The Association capitalises major repairs expenditure where these works result in an enhancement of economic benefits by increasing the net rental stream over the life of the property.

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS

	Notes	2010			2009		
		Turnover £	Operating Costs £	Operating Surplus / (Deficit) £	Turnover £	Operating Costs £	Operating Surplus / (Deficit) £
Social Lettings	3.	3,190,236	2,440,098	750,138	3,053,408	2,422,546	630,862
Other Activities	4.	174,169	236,958	(62,789)	184,573	261,523	(76,950)
Total		3,364,405	2,677,056	687,349	3,237,981	2,684,069	553,912

3. PARTICULARS OF INCOME & EXPENDITURE FROM SOCIAL LETTINGS

	General Needs Housing £	Supported Housing £	Shared ownership £	2010 Total £	2009 Total £
Income from Lettings					
Rent Receivable Net of Identifiable Service Charges	3,037,676	15,670	-	3,053,346	2,970,265
Service Charges Receivable	66,629	-	-	66,629	53,043
Gross Rents Receivable	3,104,305	15,670	-	3,119,975	3,023,308
Less: Rent losses from voids	10,573	-	-	10,573	9,819
Net Rents Receivable	3,093,732	15,670	-	3,109,402	3,013,489
Revenue Grants from Scottish Ministers	80,834	-	-	80,834	39,919
Revenue Grants From Local Authorities and Other Agencies	-	-	-	-	-
Total Income From Social Letting	3,174,566	15,670	-	3,190,236	3,053,408
Expenditure on Social Letting Activities					
Service Costs	67,362	-	-	67,362	51,754
Management and maintenance administration costs	915,777	19,453	-	935,230	865,449
Reactive Maintenance	562,320	-	-	562,320	607,551
Bad Debts - Rents and Service Charges	8,331	-	-	8,331	7,121
Planned and Cyclical Maintenance, including Major Repairs	705,148	-	-	705,148	739,738
Depreciation of Social Housing	154,461	7,246	-	161,707	150,933
Operating Costs of Social Letting	2,413,399	26,699	-	2,440,098	2,422,546
Operating Surplus on Social Letting Activities	761,167	(11,029)	-	750,138	630,862
2009	630,862	-	-	630,862	

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM OTHER ACTIVITIES

	Grants From Scottish Ministers	Other Revenue Grants	Supporting People Income	Other Income	Total Turnover	Operating Costs Bad Debts	Operating Costs Other	Operating Surplus / (Deficit) 2010	Operating Surplus / (Deficit) 2009
	£	£	£	£	£	£	£	£	£
Wider Role Activities	-	33,500	-	115,471	148,971	-	204,195	(55,224)	(55,754)
Factoring	-	-	-	25,198	25,198	-	32,763	(7,565)	(21,196)
Total From Other Activities	-	33,500	-	140,669	174,169	-	236,958	(62,789)	(76,950)
2009	1,700	43,770	-	139,103	184,573	-	261,523	(76,950)	

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. OFFICERS' EMOLUMENTS

The Officers are defined in s74 of the Industrial and Provident Societies Act 1965 as the members of the Management Committee, managers or servants of the Association.

	2010 £	2009 £
Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions)	<u>64,676</u>	<u>63,118</u>
Pension contributions made on behalf on Officers with emoluments greater than £60,000	<u>9,869</u>	<u>9,530</u>
Emoluments payable to Chief Executive (excluding pension contributions)	<u>64,676</u>	<u>63,118</u>

The number of Officers, including the highest paid Officer, who received emoluments (excluding pension contributions) over £60,000 was in the following ranges:-

	Number	Number
£60,001 to £70,000	1	1

6. EMPLOYEE INFORMATION

	2010 No.	2009 No.
The average monthly number of full time equivalent persons employed during the year was	<u>22</u>	<u>23</u>
The average total number of Employees employed during the year was	<u>23</u>	<u>24</u>
Staff Costs were:	£	£
Wages and Salaries	647,761	636,555
Social Security Costs	50,080	49,247
Other Pension Costs	84,361	82,917
Temporary, Agency and Seconded Staff	29,688	3,119
	<u>811,890</u>	<u>771,838</u>

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. GAIN ON SALE OF HOUSING STOCK

	2010	2009
	£	£
Sales Proceeds	-	142,510
Cost of Sales	-	14,920
Gain On Sale Of Housing Stock	<u>-</u>	<u>127,590</u>

8. INTEREST PAYABLE

	2010	2009
	£	£
On Bank Loans & Overdrafts	<u>71,087</u>	<u>278,067</u>

Interest incurred in the development period of housing properties which has been written off to the income and expenditure account amounted to £nil (2009 £nil).

9. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2010	2009
	£	£
Surplus on Ordinary Activities before Taxation is stated after charging:-		
Depreciation - Tangible Owned Fixed Assets	191,534	181,598
Auditors' Remuneration - Audit Services	5,200	5,000
Operating Lease Rentals - Other	<u>3,469</u>	<u>4,009</u>

10. TAX ON SURPLUS ON ORDINARY ACTIVITIES

The Association is a Registered Scottish Charity and is not liable to United Kingdom Corporation Tax on its charitable activities.

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. TANGIBLE FIXED ASSETS

a) Housing Properties	Housing Properties Held for Letting £	Housing Properties In course of Construction £	Total £
COST			
As at 1st April 2009	13,717,056	144,588	13,861,644
Additions	377,755	889,224	1,266,979
Disposals	-	-	-
Schemes Completed	1,033,812	(1,033,812)	-
As at 31st March 2010	<u>15,128,623</u>	<u>-</u>	<u>15,128,623</u>
DEPRECIATION			
As at 1st April 2009	1,112,357	-	1,112,357
Charge for Year	161,707	-	161,707
Disposals	-	-	-
As at 31st March 2010	<u>1,274,064</u>	<u>-</u>	<u>1,274,064</u>
SOCIAL HOUSING GRANT			
As at 1st April 2009	5,610,312	-	5,610,312
Additions	-	-	-
Disposals	-	-	-
Schemes Completed	-	-	-
As at 31st March 2010	<u>5,610,312</u>	<u>-</u>	<u>5,610,312</u>
OTHER CAPITAL GRANTS			
As at 1st April 2009	509,432	-	509,432
Additions	219,766	-	219,766
Disposals	-	-	-
Schemes Completed	-	-	-
As at 31st March 2010	<u>729,198</u>	<u>-</u>	<u>729,198</u>
NET BOOK VALUE			
As at 31st March 2010	<u>7,515,049</u>	<u>-</u>	<u>7,515,049</u>
As at 31st March 2009	<u>6,484,955</u>	<u>144,588</u>	<u>6,629,543</u>

Additions to housing properties includes capitalised development administration costs of £nil (2009 - £nil) and capitalised major repair costs to existing properties of £nil (2009 £nil)

All land and housing properties are freehold.

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. TANGIBLE FIXED ASSETS (Continued)

b) Other Tangible Assets	Computer Equipment £	Motor Vehicles £	Office Premises £	Furniture & Equipment £	Total £
COST					
As at 1st April 2009	88,953	20,400	645,113	91,718	846,184
Additions	402	-	1,198	3,687	5,287
Eliminated on Disposals	(215)	-	-	(663)	(878)
As at 31st March 2010	<u>89,140</u>	<u>20,400</u>	<u>646,311</u>	<u>94,742</u>	<u>850,593</u>
GRANTS RECEIVED					
As at 1st April 2009	9,100	20,400	-	30,620	60,120
Received in year	-	-	-	-	-
Repaid on Disposal	-	-	-	-	-
As at 31st March 2010	<u>9,100</u>	<u>20,400</u>	<u>-</u>	<u>30,620</u>	<u>60,120</u>
AGGREGATE DEPRECIATION					
As at 1st April 2009	57,797	-	199,140	58,972	315,909
Charge for year	6,256	-	21,544	2,027	29,827
Eliminated on disposal	(215)	-	-	(663)	(878)
As at 31st March 2010	<u>63,838</u>	<u>-</u>	<u>220,684</u>	<u>60,336</u>	<u>344,858</u>
NET BOOK VALUE					
As at 31st March 2010	<u>16,202</u>	<u>-</u>	<u>425,627</u>	<u>3,786</u>	<u>445,615</u>
As at 31st March 2009	<u>22,056</u>	<u>-</u>	<u>445,973</u>	<u>2,126</u>	<u>470,155</u>

12. CAPITAL COMMITMENTS

	2010 £	2009 £
Capital Expenditure that has been contracted for but has not been provided for in the Financial Statements	<u>-</u>	<u>900,000</u>

The above commitments will be financed by a mixture of public grant, private finance and the Association's own resources.

13. COMMITMENTS UNDER OPERATING LEASES

At the year end, the annual commitments under operating leases were as follows:-	2010 £	2009 £
Other		
Expiring between two and five years	<u>3,525</u>	<u>3,342</u>

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. DEBTORS

	2010 £	2009 £
Arrears of Rent & Service Charges	58,638	63,895
Less: Provision for Doubtful Debts	<u>(36,012)</u>	<u>(37,929)</u>
	22,626	25,966
Other Debtors	81,595	83,686
	<u>104,221</u>	<u>109,652</u>

15. CREDITORS: Amounts falling due within one year

	2010 £	2009 £
Housing Loans	569,216	397,242
Trade Creditors	23,705	63,295
Rent in Advance	105,267	87,932
Social Housing Grant in Advance	76,159	76,159
Other Taxation and Social Security	14,647	17,472
Other Creditors	76,060	84,687
Accruals and Deferred Income	44,992	62,090
	<u>910,046</u>	<u>788,877</u>

At the balance sheet date there were pension contributions outstanding of £10,161 (2009 £10,460)

16. CREDITORS: Amounts falling due after more than one year

	2010 £	2009 £
Housing Loans	<u>7,761,066</u>	<u>5,898,681</u>
Housing Loans are secured by specific charges on the Association's housing properties and are repayable at varying rates of interest in instalments, due as follows:-		
Within one year	569,216	397,242
Between one and two years	574,339	400,817
Between two and five years	1,754,215	1,224,224
In five years or more	5,432,512	4,273,640
	<u>8,330,282</u>	<u>6,295,923</u>
Less: Amount shown in Current Liabilities	569,216	397,242
	<u>7,761,066</u>	<u>5,898,681</u>

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. CASH FLOW STATEMENT

<i>Reconciliation of operating surplus to net cash inflow from operating activities</i>	2010 £	2009 £
Operating Surplus	687,349	553,912
Depreciation	191,534	181,598
Change in Debtors	6,612	73,997
Change in Creditors	(45,099)	34,122
Share Capital Written Off	(27)	(5)
Net Cash Inflow from Operating Activities	<u>840,369</u>	<u>843,624</u>

<i>Reconciliation of net cash flow to movement in net debt</i>	2010 £	£	2009 £	£
Increase in Cash	1,750,701		266,849	
Cash flow from change in debt	<u>(2,034,359)</u>		<u>320,045</u>	
Movement in net debt during year		(283,658)		586,894
Net debt at 1st April 2009		<u>(5,546,167)</u>		<u>(6,133,061)</u>
Net debt at 31st March 2010		<u><u>(5,829,825)</u></u>		<u><u>(5,546,167)</u></u>

<i>Analysis of changes in net debt</i>	At 01.04.09 £	Cash Flows £	At 31.03.10 £
Cash at bank and in hand	749,756	1,750,701	2,500,457
	<u>749,756</u>	<u>1,750,701</u>	<u>2,500,457</u>
Debt: Due within one year	(397,242)	(171,974)	(569,216)
Due after more than one year	<u>(5,898,681)</u>	<u>(1,862,385)</u>	<u>(7,761,066)</u>
Net Debt	<u><u>(5,546,167)</u></u>	<u><u>(283,658)</u></u>	<u><u>(5,829,825)</u></u>

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. SHARE CAPITAL

Shares of £1 each Issued and Fully Paid	£
At 1st April 2009	146
Issued in year	3
Cancelled in year	(27)
At 31st March 2010	<u>122</u>

Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividend or distributions on a winding up. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid thereon becomes the property of the Association. Each member has a right to vote at members' meetings.

19. RESERVES

Revenue Reserves	Total £
At 1st April 2009	1,271,402
Surplus for the Year	622,706
At 31st March 2010	<u>1,894,108</u>

20. HOUSING STOCK

The number of units of accommodation in management at the year end was:-	2010 No.	2009 No.
General Needs - New Build	119	119
- Rehabilitation	891	886
Supported Housing	1	-
	<u>1,011</u>	<u>1,005</u>

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. RELATED PARTY TRANSACTIONS

Members of the Management Committee are related parties of the Association as defined by Financial Reporting Standard 8.

The related party relationships of the members of the Management Committee is summarised as follows:

8 members are tenants of the Association

3 members are factored owners

1 member is a relevant local councillor

Those members that are tenants of the Association have tenancies that are on the Association's normal tenancy terms and they cannot use their positions to their advantage.

Governing Body Members cannot use their position to their advantage. Any transactions between the Association and any entity with which a Governing Body Member has a connection with is made at arm's length and is under normal commercial terms.

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. RETIREMENT BENEFIT OBLIGATIONS

General

Knowes Housing Association Limited participates in the SFHA Pension Scheme.

The SFHA Pension Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme

The Scheme offers three benefit structures to employers, namely:

- Final salary with a 1/60th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate
- Career average revalued earnings with a 1/70th accrual rate

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Knowes Housing Association Limited has elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 31 March 2008 and the final salary with a 1/60th accrual rate benefit structure for new entrants from 1 April 2008.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period Knowes Housing Association Limited paid contributions at the rate of 15.4% of pensionable salaries. Member contributions were 7.7%.

As at the balance sheet date there were 16 active members of the Scheme employed by Knowes Housing Association Limited. The annual pensionable payroll in respect of these members was £527,858. Knowes Housing Association Limited continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. SFHA is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, benefits are paid from the total scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30 September 2006 by a professionally qualified actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £268m. The valuation revealed a shortfall of assets compared with the value of liabilities of £54m (equivalent to a past service funding level of 83.4%).

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2008. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed a decrease in the assets of the Scheme to £265 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £149 million, equivalent to a past service funding level of 63.9%. Annual funding updates of the SFHA Pension Scheme are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However they will provide a good indication of the financial progress of the scheme since the last full valuation.

Since the contribution rates payable to the Scheme have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30 September 2006.

Financial Assumptions

The financial assumptions underlying the valuation as at 30 September 2006 were as follows:

	% p.a.
- Investment return pre-retirement	7.2
- Investment return post-retirement	4.9
- Rate of Salary increases	4.6
- Rate of pension increases:	
pension accrued pre 6 April 2005	2.6
pension accrued from 6 April 2005	2.25
(for leavers before 1 October 1993 pension increases are 5.0%)	
- Rate of price inflation	2.6

The valuation was carried out using the PA92C2025 short cohort mortality table for non-pensioners and PA92C2013 short cohort mortality table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions:

	<i>Males</i>	<i>Females</i>
	<i>Assumed life expectancy in years at age 65</i>	<i>Assumed life expectancy in years at age 65</i>
Non-pensioners	21.6	24.4
Pensioners	20.7	23.6

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Valuation Results

The long-term joint contribution rates required from employers and members to meet the cost of future benefit accrual were assessed as:

<i>Benefit Structure</i>	<i>Long-term joint contribution rate (% of pensionable salaries)</i>
Final salary - 60ths	17.8
Career average 60ths	14.6
Career average 70ths	12.6

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the valuation it was agreed that the shortfall of £54m would be dealt with by the payment of additional contributions of 5.3% of pensionable salaries per annum with effect from 1 April 2008. It is the Scheme policy that the joint contribution rate payable is split between employers and members in the ratio 2:1. Accordingly the joint contribution rates from 1 April 2008 for each of the benefit structures will be:

<i>Benefit Structure</i>	<i>Joint contribution rate (% of pensionable salaries)</i>
Final salary 60ths	23.1% comprising employer contributions of 15.4% and member contributions of 7.7%
Career average 60ths	19.9% comprising employer contributions of 13.3% and member contributions of 6.6%
Career average 70ths	17.9% comprising employer contributions of 11.9% and member contributions of 6.0%

KNOWES HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. RETIREMENT BENEFIT OBLIGATIONS (Continued)

A small number of employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.5% to reflect the higher costs of a closed arrangement.

If the valuation assumptions are borne out in practice, this pattern of contributions should be sufficient to eliminate the past service deficit, on an on-going funding basis, by 31 March 2020.

A copy of the recovery plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). The Regulator has reviewed the recovery plan for the SFHA Pension Scheme and confirmed that, in respect of the September 2006 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

The current triennial valuation, as at 30 September 2009, is being undertaken by a professionally qualified actuary. The provisional results of this valuation were issued by the SFHA Pension scheme in May 2010. These figures show that the deficit on the scheme has increased from £53.6 million to £160 million. The funding level of liabilities, based on these figures, would be 64.8% (2006 - 83.4%).

As a result of Pension Scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any "orphan" liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.