

**Knowes Housing Association Limited**  
**Report and Financial Statements**

**For the year ended 31st March 2011**

**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**

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**MANAGEMENT COMMITTEE, EXECUTIVES AND ADVISERS  
YEAR ENDED 31st MARCH 2011**

**MANAGEMENT COMMITTEE**

|                              |                                       |
|------------------------------|---------------------------------------|
| William Stevenson            | Chairperson                           |
| Ann Feeney                   | Vice Chair - Appointed September 2010 |
| Rhona Polak                  | Secretary                             |
| Anne McGowan                 | Treasurer                             |
| Shella Cope                  |                                       |
| John Lafferty                |                                       |
| Lockhart Cameron             |                                       |
| Pat Giffin                   |                                       |
| Frances Austin               | Appointed September 2010              |
| Ugona Onyekwere              | Appointed September 2010              |
| Raymond Clarke               | Co-opted February 2011                |
| Frank Newey                  | Co-opted February 2011                |
| Janet Downey                 | Resigned September 2010               |
| Patricia Eadie               | Resigned December 2010                |
| Councillor Margaret Bootland |                                       |

**EXECUTIVE OFFICERS**

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

**REGISTERED OFFICE**

10 Field Road  
Fairley  
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'doro  
45 Gordon Street  
Glasgow  
G1 3PE

**INTERNAL AUDITORS**

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

## KNOWES HOUSING ASSOCIATION LIMITED

### **REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2011**

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The Management Committee presents its report and the Financial Statements for the year ended 31st March 2011.

#### **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**

During the year the Association recruited one new member of staff, this being filling the vacant Finance Assistant post resulting from the retirement of the previous post holder.

#### **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 year ending 31st March 2011, we spent **£593,773** on day to day repairs, which is an increase of **£31,453** on the previous year, this increase is predominantly as a result of the VAT rate changes.

The year 2010/11 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 bathroom sanitaryware and renewed boundary fencing to a number of our cottage type properties. We also ensured that to the best of our ability all properties with gas heating appliances were maintained and serviced in accordance with legislative requirements. All of the planned maintenance and major component replacement work was undertaken at a cost of **£799,503**.

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 as information becomes available, 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 2011**

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#### **Review of Business and Future Developments (Contd.)**

##### **Housing Management**

The Association had 69 properties to re-allocate last year which is a decrease from the previous year. Our performance in this area improved significantly with our days taken to let being on average 6 calendar days (11 last year and 15 calendar days the year before) and void loss was reduced further from 0.3% to 0.1%. Our performance improvements have been due to additional process improvements and tighter timescales with our repairs contractor to return properties following void work, and also the reduction in stock turnover. The Associations stock continues to be popular with 265 new applications for housing being received in the last year – and a total of 500 applicants on our waiting lists.

Rent Arrears at the end of March 2011 reached a new low - 1.5% of the annual debit (with only 0.5% being the non-technical, or actual, arrears figure). This is a very impressive arrears figure and was achieved with no evictions, and a reduced number of tenants receiving legal notices or being referred to court.

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 we are continuing to work with 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.

##### **Wider Action**

For the sixth consecutive year, Knowes Housing Association, in partnership with Fatfley 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 Fatfley 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 obtained funding to provide a Get Cooking/Get Shopping series of healthy eating classes to 200 residents within the West Dunbartonshire area and this programme was completed in April 2011 with very positive results.

##### **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 **£649,732** (2010 - surplus **£622,706**).

The Association met its financial loan covenant ratios with regard to interest cover (2011 – **1232%**; 2010 – **1199%**) and average gross debt per property (2011 - **£6,032**; 2010 - **£6,638**). Net assets now stand at **£2,543,966** (2010 - **£1,894,230**).

## KNOWES HOUSING ASSOCIATION LIMITED

### REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2011

#### **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 2011**

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**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 **£475 (2010: £445)**.

**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  
2nd August 2011

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  
2nd August 2011



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

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We have audited the financial statements of Knowes Housing Association Limited for the year ended 31st March 2011 which comprise an income and expenditure account, balance sheet, cash flow statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 explained more fully in the Statement of Management Committee's Responsibilities the Association's Management Committee are responsible for the preparation of the Financial Statements that give a true and fair view.

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 (APB's) Ethical Standards for Auditors.

**Scope of the audit on 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 Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Management Committee; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Management Committee'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 of our report.

**Opinion on the financial statements**

In our opinion the Financial Statements:

- give a true and fair view of the state of the Association's affairs as at 31st March 2011 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

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

We are required to report to you under the Industrial and Provident Societies Acts 1965 to 2002 if, in our opinion:

- proper books of account have not been kept by the Association in accordance with the requirements of the legislation.
- a satisfactory system of control over transactions has not been maintained by the Association in accordance with the requirements of the legislation.

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

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Matters on which we are required to report by exception (contd.)

- the Income and Expenditure Account to which our report relates, and the Balance Sheet are not in agreement with the books of the Association.
- we have not received all the information and explanations necessary for the purposes of our audit.

We have nothing to report in respect of these matters.



ALEXANDER SLOAN  
Chartered Accountants  
Statutory Auditors  
GLASGOW  
2nd August 2011

**KNOWES HOUSING ASSOCIATION LIMITED**

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st MARCH 2011**

|                                       | Notes | 2011<br>£          | 2010<br>£          |
|---------------------------------------|-------|--------------------|--------------------|
| <b>TURNOVER</b>                       | 2.    | 3,512,019          | 3,364,405          |
| Operating Costs                       | 2.    | <u>(2,827,313)</u> | <u>(2,677,056)</u> |
| <b>OPERATING SURPLUS</b>              | 9.    | 684,706            | 687,349            |
| Gain On Sale Of Housing Stock         | 7.    | 12,059             | -                  |
| Interest Receivable and Other Income  |       | 27,388             | 6,444              |
| Interest Payable and Similar Charges  | 8.    | <u>(74,421)</u>    | <u>(71,087)</u>    |
|                                       |       | <u>(34,974)</u>    | <u>(64,643)</u>    |
| <b>SURPLUS ON ORDINARY ACTIVITIES</b> |       | <u>649,732</u>     | <u>622,706</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 2011**

|  | Notes  | 2011               | 2010               |
|--|--------|--------------------|--------------------|
|  |        | £                  | £                  |
| <b>TANGIBLE FIXED ASSETS</b>                                   |        |                    |                    |
| Housing Properties - Depreciated Cost                          | 11.(a) | 13,803,044         | 13,854,559         |
| Less: Social Housing Grant                                     | 11.(a) | (5,610,312)        | (5,610,312)        |
| : Other Public Grants  | 11.(a) | (789,595)          | (729,198)          |
| Other fixed assets   | 11.(b) | 7,403,137          | 7,515,049          |
|  |        | 418,124            | 445,615            |
|  |        | <u>7,821,261</u>   | <u>7,960,664</u>   |
| <b>CURRENT ASSETS</b>  |        |                    |                    |
| Debtors  | 13.    | 103,438            | 104,221            |
| Cash at bank and in hand                                       |        | 2,806,260          | 2,500,457          |
|  |        | <u>2,909,698</u>   | <u>2,604,678</u>   |
| <b>CREDITORS: Amounts falling due within one year</b>          | 14.    | <u>(1,012,371)</u> | <u>(910,046)</u>   |
| <b>NET CURRENT ASSETS</b>                                      |        | <u>1,897,327</u>   | <u>1,694,632</u>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |        | <u>9,718,588</u>   | <u>9,655,296</u>   |
| <b>CREDITORS: Amounts falling due after more than one year</b> | 15.    | <u>(7,174,622)</u> | <u>(7,761,066)</u> |
| <b>NET ASSETS</b>  |        | <u>2,543,966</u>   | <u>1,894,230</u>   |
| <b>CAPITAL AND RESERVES</b>                                    |        |                    |                    |
| Share Capital  | 17.    | 126                | 122                |
| Revenue Reserves   | 18.    | 2,543,840          | 1,894,108          |
|  |        | <u>2,543,966</u>   | <u>1,894,230</u>   |

The Financial Statements were approved by the Management Committee and signed on their behalf on 2nd August 2011.

WILLIAM STEVENSON  
*Chairperson*



ANN FEENEY  
*Vice-Chairperson*



RHONA POLAK  
*Secretary*



**KNOWES HOUSING ASSOCIATION LIMITED**

**CASH FLOW STATEMENT FOR THE YEAR ENDED  
31st MARCH 2011**

|   | Notes | 2011      | 2010        |
|---|-------|-----------|-------------|
|   | £     | £         | £           |
| <b>Net Cash Inflow from Operating Activities</b>                                | 16.   | 969,662   | 840,369     |
| <b>Returns on Investment and Servicing of Finance</b>                           |       |           |             |
| Interest Received   |       | 27,388    | 6,444       |
| Interest Paid   |       | (74,421)  | (71,087)    |
| <b>Net Cash (Outflow) from Investment and Servicing of Finance</b>              |       | (47,033)  | (64,643)    |
| <b>Capital Expenditure and Financial Investment</b>                             |       |           |             |
| Acquisition and Construction of Properties                                      |       | (154,873) | (1,272,685) |
| Purchase of Other Fixed Assets  |       | (1,970)   | (5,287)     |
| Other Grants Received   |       | 107,355   | 218,585     |
| Proceeds on Disposal of Properties  |       | 14,893    | -           |
| <b>Net Cash (Outflow) from Capital Expenditure and Financial Investment</b>     |       | (34,595)  | (1,059,387) |
| <b>Net Cash Inflow / (Outflow) before use of Liquid Resources and Financing</b> |       | 888,034   | (283,661)   |
| <b>Financing</b>  |       |           |             |
| Loan Advances Received  |       | -         | 2,525,400   |
| Loan Principal Repayments   |       | (582,250) | (491,041)   |
| Share Capital Issued  |       | 19        | 3           |
| <b>Net Cash (Outflow) / Inflow from Financing</b>                               |       | (582,231) | 2,034,362   |
| <b>Increase in Cash</b>   | 16.   | 305,803   | 1,750,701   |

# KNOWES HOUSING ASSOCIATION LIMITED

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

## 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 Scottish Housing Associations' 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 St 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

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

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 2011

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

|  |      | 2011                            |                   | 2010                            |                   |                  |
|--|------|---------------------------------|-------------------|---------------------------------|-------------------|------------------|
|  |      | Operating Surplus / (Deficit) £ | Operating Costs £ | Operating Surplus / (Deficit) £ | Operating Costs £ |                  |
|  |      | 2011                            |                   | 2010                            |                   |                  |
|  |      | Turnover                        | Turnover          | Turnover                        | Turnover          |                  |
|  |      | £                               | £                 | £                               | £                 |                  |
| Social Lettings  | 3.   | 3,332,288                       | 2,599,488         | 3,190,236                       | 2,440,098         |                  |
| Other Activities   | 4.   | 179,731                         | 227,825           | 174,169                         | 236,958           |                  |
|  |      | (48,094)                        | (48,094)          | (62,789)                        | (62,789)          |                  |
| <b>Total</b>   |      | <b>3,512,019</b>                | <b>2,827,313</b>  | <b>3,364,405</b>                | <b>2,677,056</b>  |                  |
|  |      | 684,706                         | 684,706           | 687,349                         | 687,349           |                  |
| <b>3. PARTICULARS OF INCOME &amp; EXPENDITURE FROM SOCIAL LETTINGS</b> |      |                                 |                   |                                 |                   |                  |
|  |      | General                         | Supported         | Shared                          | 2011              | 2010             |
|  |      | Needs                           | Housing           | ownership                       | Total             | Total            |
|  |      | Housing                         | Housing           | £                               | £                 | £                |
|  |      | £                               | £                 | £                               | £                 | £                |
| <b>Income from Lettings</b>  |      |                                 |                   |                                 |                   |                  |
| Rent Receivable Net of Identifiable Service Charges                    |      | 3,118,390                       | 88,768            | -                               | 3,207,158         | 3,053,346        |
| Service Charges Receivable   |      | 66,634                          | -                 | 66,634                          | 66,634            | 66,629           |
| <b>Gross Rents Receivable</b>  |      | <b>3,185,024</b>                | <b>88,768</b>     | <b>-</b>                        | <b>3,273,792</b>  | <b>3,119,975</b> |
| Less: Rent losses from voids   |      | 4,388                           | -                 | -                               | 4,388             | 10,573           |
| <b>Net Rents Receivable</b>  |      | <b>3,180,636</b>                | <b>88,768</b>     | <b>-</b>                        | <b>3,269,404</b>  | <b>3,109,402</b> |
| Revenue Grants from Scottish Ministers                                 |      | 62,884                          | -                 | -                               | 62,884            | 80,834           |
| <b>Total Income From Social Letting</b>                                |      | <b>3,243,520</b>                | <b>88,768</b>     | <b>-</b>                        | <b>3,332,288</b>  | <b>3,190,236</b> |
| <b>Expenditure on Social Letting Activities</b>                        |      |                                 |                   |                                 |                   |                  |
| Service Costs  |      | 68,614                          | -                 | -                               | 68,614            | 67,362           |
| Management and maintenance administration costs                        |      | 902,003                         | 13,163            | -                               | 915,166           | 935,230          |
| Reactive Maintenance   |      | 593,501                         | 272               | -                               | 593,773           | 562,820          |
| Bad Debts - Rents and Service Charges                                  |      | 2,404                           | -                 | -                               | 2,404             | 8,331            |
| Planned and Cyclical Maintenance, including Major Repairs              |      | 799,503                         | 22,857            | -                               | 822,360           | 705,148          |
| Depreciation of Social Housing   |      | 155,819                         | 41,352            | -                               | 197,171           | 161,707          |
| <b>Operating Costs of Social Letting</b>                               |      | <b>2,521,844</b>                | <b>77,644</b>     | <b>-</b>                        | <b>2,599,488</b>  | <b>2,440,098</b> |
| <b>Operating Surplus on Social Letting Activities</b>                  |      | <b>721,676</b>                  | <b>11,124</b>     | <b>-</b>                        | <b>732,800</b>    | <b>750,138</b>   |
|  | 2010 | 761,167                         | (11,029)          | -                               | 750,138           | 750,138          |



# KNOWES HOUSING ASSOCIATION LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

|                                    | Grants<br>From<br>Scottish<br>Ministers<br>£ | Other<br>Revenue<br>Grants<br>£ | Supporting<br>People<br>Income<br>£ | Other<br>Income<br>£ | Total<br>Turnover<br>£ | Operating<br>Costs<br>Bad Debts<br>£ | Operating<br>Costs<br>Other<br>£ | Operating<br>Surplus<br>/ (Deficit)<br>2011<br>£ | Operating<br>Surplus<br>/ (Deficit)<br>2010<br>£ |
|------------------------------------|--|---------------------------------|-------------------------------------|----------------------|------------------------|--------------------------------------|----------------------------------|--|--|
| Wider Role Activities              | -  | 46,500                          | -                                   | 108,163              | 154,663                | -                                    | 197,324                          | (42,661)   | (55,224)   |
| Factoring                          | -  | -                               | -                                   | 25,068               | 25,068                 | -                                    | 30,501                           | (5,433)  | (7,565)  |
| <b>Total From Other Activities</b> | <b>-</b>                                     | <b>46,500</b>                   | <b>-</b>                            | <b>133,231</b>       | <b>179,731</b>         | <b>-</b>                             | <b>227,825</b>                   | <b>(48,094)</b>                                  | <b>(62,789)</b>                                  |
| <b>2010</b>                        | <b>-</b>                                     | <b>33,500</b>                   | <b>-</b>                            | <b>140,669</b>       | <b>174,169</b>         | <b>-</b>                             | <b>236,958</b>                   | <b>(62,789)</b>                                  |  |

# KNOWES HOUSING ASSOCIATION LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

### 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.

|  | 2011 | 2010 |
|--|------|------|
|  | £    | £    |

Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions)

|      |                 |                 |
|------|-----------------|-----------------|
| 2011 | 65,986          | 64,676          |
|      | <u>        </u> | <u>        </u> |

Pension contributions made on behalf on Officers with emoluments greater than £60,000

|      |                 |                 |
|------|-----------------|-----------------|
| 2011 | 10,091          | 9,869           |
|      | <u>        </u> | <u>        </u> |

Emoluments payable to Chief Executive (excluding pension contributions)

|      |                 |                 |
|------|-----------------|-----------------|
| 2011 | 65,986          | 64,676          |
|      | <u>        </u> | <u>        </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

|  | 2011 | 2010 |
|--|------|------|
|--|------|------|

The average monthly number of full time equivalent persons employed during the year was

|     |                 |                 |
|-----|-----------------|-----------------|
| No. | 22              | 22              |
|     | <u>        </u> | <u>        </u> |

The average total number of Employees employed during the year was

|     |                 |                 |
|-----|-----------------|-----------------|
| No. | 23              | 23              |
|     | <u>        </u> | <u>        </u> |

Staff Costs were:

Wages and Salaries  
Social Security Costs  
Other Pension Costs  
Temporary, Agency and Seconded Staff

|   |                |                |   |
|---|----------------|----------------|---|
| £ | 663,134        | 647,761        | £ |
|   | 53,184         | 50,080         |   |
|   | 83,473         | 84,361         |   |
|   | 2,186          | 29,688         |   |
|   | <u>801,977</u> | <u>811,890</u> |   |

**KNOWES HOUSING ASSOCIATION LIMITED**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

|                               | 2011          | 2010 |
|-------------------------------|---------------|------|
|                               | £             | £    |
| Sales Proceeds                | 14,893        | -    |
| Cost of Sales                 | <u>2,834</u>  | -    |
| Gain On Sale Of Housing Stock | <u>12,059</u> | -    |

|                            | 2011          | 2010          |
|----------------------------|---------------|---------------|
|                            | £             | £             |
| On Bank Loans & Overdrafts | <u>74,421</u> | <u>71,087</u> |

Interest incurred in the development period of housing properties which has been written off to the income and expenditure account amounted to £nil (2010 £nil).

|   | 2011         | 2010         |
|---|--------------|--------------|
|   | £            | £            |
| Surplus on Ordinary Activities before Taxation is stated after charging:- | 226,633      | 191,534      |
| Depreciation - Tangible Owned Fixed Assets                                | 6,500        | 5,200        |
| Auditors' Remuneration - Audit Services                                   | 4,496        | <u>3,469</u> |
| Operating Lease Rentals - Other   | <u>4,496</u> | <u>3,469</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 31<sup>st</sup> MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 11. TANGIBLE FIXED ASSETS

| a) Housing Properties       | Housing<br>Properties<br>Held<br>for Letting<br>£ | Total<br>£        |
|-----------------------------|---|-------------------|
| <b>COST</b>                 |   |                   |
| As at 1st April 2010        | 15,128,623  | 15,128,623        |
| Additions                   | 148,491   | 148,491           |
| Disposals                   | (3,657)   | (3,657)           |
| Schemes Completed           | -   | -                 |
| As at 31st March 2011       | <u>15,273,457</u>                                 | <u>15,273,457</u> |
| <b>DEPRECIATION</b>         |   |                   |
| As at 1st April 2010        | 1,274,064   | 1,274,064         |
| Charge for Year             | 197,172   | 197,172           |
| Disposals                   | (823)   | (823)             |
| As at 31st March 2011       | <u>1,470,413</u>                                  | <u>1,470,413</u>  |
| <b>SOCIAL HOUSING GRANT</b> |   |                   |
| As at 1st April 2010        | 5,610,312   | 5,610,312         |
| Additions                   | -   | -                 |
| Disposals                   | -   | -                 |
| Schemes Completed           | -   | -                 |
| As at 31st March 2011       | <u>5,610,312</u>                                  | <u>5,610,312</u>  |
| <b>OTHER CAPITAL GRANTS</b> |   |                   |
| As at 1st April 2010        | 729,198   | 729,198           |
| Additions                   | 60,397  | 60,397            |
| Disposals                   | -   | -                 |
| Schemes Completed           | -   | -                 |
| As at 31st March 2011       | <u>789,595</u>                                    | <u>789,595</u>    |
| <b>NET BOOK VALUE</b>       |   |                   |
| As at 31st March 2011       | <u>7,403,137</u>                                  | <u>7,403,137</u>  |
| As at 31st March 2010       | <u>7,515,049</u>                                  | <u>7,515,049</u>  |

Additions to housing properties includes capitalised development administration costs of £nil (2010 - £nil) and capitalised major repair costs to existing properties of £nil (2010- £nil)

All land and housing properties are freehold.

No capital expenditure has been contracted for in the current or previous years but not provided for in the Financial Statements.

**KNOWES HOUSING ASSOCIATION LIMITED**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| <b>11. TANGIBLE FIXED ASSETS (Continued)</b> |                           |                       |  |                  |              |  |
|--|---------------------------|-----------------------|--|------------------|--------------|--|
| <b>b) Other Tangible Assets</b>              | <b>Computer Equipment</b> | <b>Motor Vehicles</b> | <b>Office Premises &amp; Furniture</b> | <b>Equipment</b> | <b>Total</b> |  |
|  | <b>£</b>                  | <b>£</b>              | <b>£</b>                               | <b>£</b>         | <b>£</b>     |  |
| <b>COST</b>                                  |                           |                       |  |                  |              |  |
| As at 1st April 2010                         | 89,140                    | 20,400                | 646,311                                | 94,742           | 850,593      |  |
| Additions                                    | 799                       | -                     | -                                      | 1,171            | 1,970        |  |
| Eliminated on Disposals                      | -                         | -                     | -                                      | (175)            | (175)        |  |
| As at 31st March 2011                        | 89,939                    | 20,400                | 646,311                                | 95,738           | 852,388      |  |
| <b>GRANTS RECEIVED</b>                       |                           |                       |  |                  |              |  |
| As at 1st April 2010                         | 9,100                     | 20,400                | -                                      | 30,620           | 60,120       |  |
| Received in year                             | -                         | -                     | -                                      | -                | -            |  |
| Repaid on Disposal                           | -                         | -                     | -                                      | -                | -            |  |
| As at 31st March 2011                        | 9,100                     | 20,400                | -                                      | 30,620           | 60,120       |  |
| <b>AGGREGATE DEPRECIATION</b>                |                           |                       |  |                  |              |  |
| As at 1st April 2010                         | 63,838                    | -                     | 220,684                                | 60,336           | 344,858      |  |
| Charge for year                              | 6,247                     | -                     | 21,544                                 | 1,670            | 29,461       |  |
| Eliminated on disposal                       | -                         | -                     | -                                      | (175)            | (175)        |  |
| As at 31st March 2011                        | 70,085                    | -                     | 242,228                                | 61,831           | 374,144      |  |
| <b>NET BOOK VALUE</b>                        |                           |                       |  |                  |              |  |
| As at 31st March 2011                        | 10,754                    | -                     | 404,083                                | 3,287            | 418,124      |  |
| As at 31st March 2010                        | 16,202                    | -                     | 425,627                                | 3,786            | 445,615      |  |

**12. COMMITMENTS UNDER OPERATING LEASES**

At the year end, the annual commitments under operating leases were as follows:-

|                                     | <b>2011</b> | <b>2010</b> |
|-------------------------------------|-------------|-------------|
|                                     | <b>£</b>    | <b>£</b>    |
| <b>Other</b>                        |             |             |
| Expiring between two and five years | 3,413       | 3,525       |

**KNOWES HOUSING ASSOCIATION LIMITED**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**13. DEBTORS**

|                                    | 2011           | 2010           |
|------------------------------------|----------------|----------------|
| Arrears of Rent & Service Charges  | £ 52,765       | £ 58,638       |
| Less: Provision for Doubtful Debts | (31,993)       | (36,012)       |
|                                    | <u>20,772</u>  | <u>22,626</u>  |
| Other Debtors                      | 82,666         | 81,595         |
|                                    | <u>103,438</u> | <u>104,221</u> |

**14. CREDITORS: Amounts falling due within one year**

|                                    | 2011             | 2010           |
|------------------------------------|------------------|----------------|
| Housing Loans                      | £ 573,410        | £ 569,216      |
| Trade Creditors                    | 66,557           | 23,705         |
| Rent in Advance                    | 120,715          | 105,267        |
| Social Housing Grant in Advance    | 76,159           | 76,159         |
| Other Taxation and Social Security | 18,545           | 14,647         |
| Other Creditors                    | 61,080           | 76,060         |
| Accruals and Deferred Income       | 95,905           | 44,992         |
|                                    | <u>1,012,371</u> | <u>910,046</u> |

At the balance sheet date there were pension contributions outstanding of £10,193 (2010 £10,161)

**15. CREDITORS: Amounts falling due after more than one year**

|   | 2011             | 2010             |
|---|------------------|------------------|
| Housing Loans   | £ 7,174,622      | £ 7,761,066      |
| 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   | 573,410          | 569,216          |
| Between one and two years   | 578,570          | 574,339          |
| Between two and five years  | 1,767,141        | 1,754,215        |
| In five years or more   | 4,828,911        | 5,432,512        |
|   | <u>7,748,032</u> | <u>8,330,282</u> |
| Less: Amount shown in Current Liabilities   | 573,410          | 569,216          |
|   | <u>7,174,622</u> | <u>7,761,066</u> |

**KNOWES HOUSING ASSOCIATION LIMITED**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**16. CASH FLOW STATEMENT**

|   | 2011<br>£           | 2010<br>£          |                     |
|---|---------------------|--------------------|---------------------|
| <i>Reconciliation of operating surplus to net cash inflow from operating activities</i> |                     |                    |                     |
| Operating Surplus   | 684,706             | 687,349            |                     |
| Depreciation  | 226,633             | 191,534            |                     |
| Change in Debtors   | 783                 | 6,612              |                     |
| Change in Creditors   | 57,555              | (45,099)           |                     |
| Share Capital Written Off   | (15)                | (27)               |                     |
| Net Cash Inflow from Operating Activities   | <u>969,662</u>      | <u>840,369</u>     |                     |
| <i>Reconciliation of net cash flow to movement in net debt</i>                          |                     |                    |                     |
|   | 2011<br>£           | 2010<br>£          |                     |
| Increase in Cash  | 305,803             | 1,750,701          |                     |
| Cash flow from change in debt   | <u>582,250</u>      | <u>(2,034,359)</u> |                     |
|   |                     | (283,658)          |                     |
| Movement in net debt during year  |                     | (5,546,167)        |                     |
| Net debt at 1st April 2010  |                     | <u>(4,941,772)</u> |                     |
| Net debt at 31st March 2011   |                     | <u>(5,829,825)</u> |                     |
| <i>Analysis of changes in net debt</i>  |                     |                    |                     |
|   | At<br>01.04.10<br>£ | Cash<br>Flows<br>£ | At<br>31.03.11<br>£ |
| Cash at bank and in hand  | <u>2,500,457</u>    | 305,803            | <u>2,806,260</u>    |
|   | 2,500,457           | 305,803            | 2,806,260           |
| Debt: Due within one year   | (569,216)           | (4,194)            | (573,410)           |
| Due after more than one year  | <u>(7,761,066)</u>  | 586,444            | <u>(7,174,622)</u>  |
| Net Debt  | <u>(5,829,825)</u>  | <u>888,053</u>     | <u>(4,941,772)</u>  |

## KNOWES HOUSING ASSOCIATION LIMITED

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 17. SHARE CAPITAL

|   |            |
|---|------------|
| Shares of £1 each Issued and Fully Paid | £          |
| At 1st April 2010                       | 122        |
| Issued in year                          | 19         |
| Cancelled in year                       | (15)       |
| At 31st March 2011                      | <u>126</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.

#### 18. RESERVES

|                      |                  |
|----------------------|------------------|
| At 1st April 2010    | £                |
| Surplus for the year | 1,894,108        |
| At 31st March 2011   | <u>649,732</u>   |
|                      | <u>2,543,840</u> |

#### 19. HOUSING STOCK

|  |              |              |
|--|--------------|--------------|
| The number of units of accommodation in management at the year end was:- | 2011         | 2010         |
| General Needs - New Build  | No. 119      | No. 119      |
| - Rehabilitation   | 892          | 891          |
| Supported Housing  | 1            | 1            |
|  | <u>1,012</u> | <u>1,011</u> |

#### 20. RELATED PARTY TRANSACTIONS

Members of the are related parties of the Association as defined by Financial Reporting Standard

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

9 members are tenants of the Association  
4 members are factored owners

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.



## KNOWES HOUSING ASSOCIATION LIMITED

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 21. RETIREMENT BENEFIT OBLIGATIONS

#### General

Knowes Housing Association Limited participates in the Scottish Housing Association 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 Scheme offers five 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
- Career average revalued earnings with a 1/80th accrual rate
- Career average revalued earnings with a 1/120th accrual rate, contracted in

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 31st March 2011 and the career average revalued earnings with a 1/80th accrual rate benefit structure for new entrants from 1st April 2011.

The Trustee commissions an actuarial valuation of the Scheme every three 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 values. 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% to of pensionable salaries. Member contributions were 7.7%.

As at the balance sheet date there were 15 active members of the Scheme employed by Knowes Housing Association Limited. The annual pensionable payroll in respect of these members was £515,630. 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 as the scheme is a multi-employer arrangement where the 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 Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

## KNOWES HOUSING ASSOCIATION LIMITED

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

##### 21. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The last formal valuation of the Scheme was performed as at 30th September 2009 by a professionally qualified actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £295m. The valuation revealed a shortfall of assets compared with the value of liabilities of £160m (equivalent to a past service funding level of 64.8%).

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30th September 2010. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed a increase in the assets of the Scheme to £335 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £162 million, equivalent to a past service funding level of 67.4%.

#### Financial Assumptions

The financial assumptions underlying the valuation as at 30th September 2009 were as follows:

|  |        |
|--|--------|
|  | % p.a. |
| - Investment return pre-retirement                             | 7.4    |
| - Investment return post-retirement - non pensioners           | 4.6    |
| - Investment return post-retirement - pensioners               | 4.8    |
| - Rate of Salary increases                                     | 4.5    |
| - Rate of pension increases:                                   |        |
| pension accrued pre 6 April 2005 in excess of GMP              | 2.9    |
| pension accrued from 6 April 2005                              | 2.2    |
| (for leavers before 1 October 1993 pension increases are 5.0%) |        |
| - Rate of price inflation                                      | 3.0    |

The valuation was carried out using the SAPS (S1PA) All pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement for non-pensioners and 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 | 18.1  | 20.6  |
| Pensioners     | 18.1  | 20.6  |

## KNOWES HOUSING ASSOCIATION LIMITED

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

#### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 21. 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)</i> |
|--------------------------|---|
| Final salary - 60ths     | 19.2  |
| Career average 60ths     | 17.1  |
| Career average 70ths     | 14.9  |
| Career average 80ths     | 13.2  |
| Career average 120ths    | 9.4   |

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 £160m would be dealt with by the payment of additional contributions of 10.4% of pensionable salaries per annum with effect from 1st April 2011, increasing each 1 April in line with the rate of salary increases assumption.

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.