

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

Registered Housing Association No.L2620

FSA Reference No. 1920R(S)

Scottish Charity No. SC07241

LORETTO HOUSING ASSOCIATION

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LORETTO HOUSING ASSOCIATION

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

MANAGEMENT COMMITTEE

Euan Ramsay	Chairperson
Bill O'Neil	Secretary
Hugh Rooney	
Michael Burns	
Tom McKeown	
Laura Edwards	
Maureen Dowden	
Tom McFadyen	
Laura Forbes	
David Comley	
Lindsay Forrest	
Janis McDonald	
Peter Bodkin	
Maira Smith	(Appointed 26 August 2009)
Thomas Connelly	(Appointed 21 September 2009)
Margo McCann	(Appointed 21 September 2009)
Paul Whiteley	(Appointed 27 October 2009)
Valarie McCann	(Resigned June 2009)

EXECUTIVE OFFICERS

Simon Carr	Chief Executive
Cathy Fallon	Depute Chief Executive

REGISTERED OFFICE

Lipton House
170 Crown Street
Glasgow
G5 9XD

AUDITORS

Alexander Sloan
Chartered Accountants
38 Cadogan Street
Glasgow
G2 7HF

BANKERS

Royal Bank of Scotland
292 Argyle Street
Glasgow
G2 8DD

SOLICITORS

T.C Young
7 West George Street
Glasgow
G2 1BA

LORETTO HOUSING ASSOCIATION

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.1920R(S). The Association is constituted under its Rule Book. The Association is a registered Scottish Charity with the charity number SC07241.

Principal Activities

The Association is a registered charity whose principal activities are the provision and management of rented accommodation and the provision of care and support services.

Review of Business and Future Developments

Despite the very difficult external environment the Association is still able to report some very significant and positive achievements for the year to 31 March 2010.

While we only provided 18 new units of accommodation they will make a huge difference to tenant's lives. In 13 of the units we have helped the Richmond Fellowship re-house people who had been previously living in shared accommodation; this has provided these tenants with a new lease of life and will help them make the most of their lives. We also bought 4 houses in Kilsyth which have been allocated to adults with a learning disability. In addition we bought one house under the government's mortgage to rent scheme. While the numbers of new units might be small they will have a massive impact on the people we have rehoused.

We also welcomed the 26 tenants from St Johns HA Glasgow who transferred all their engagements to Loretto.

We also were able to maintain the vast majority of our care contracts.

The year though will be remembered by many people as the year in which we changed the terms and conditions of employment. Staff in both companies were equally adversely affected by increases in the hours of work, reduced benefits of our occupational sick pay scheme as well as changes to maternity pay, in the previous year we had already decided to move from a Final Salary Pension scheme to the Career Average Scheme.

The changes were made to ensure that we didn't lose any care contracts in the short term but also to help ensure we remained competitive in the longer term.

Staff ultimately overwhelmingly accepted the proposed terms which we think demonstrates tremendous commitment to the work of Loretto Housing and Loretto Care. There has always been a positive culture and atmosphere throughout the Association we hope this can be maintained in years to come.

During the past year significant management attention was devoted to reviewing not only how we are organized but also the resources in each section. To date we have reviewed the senior management structure. Ultimately it was agreed that the likely cost savings generated by the reports conclusions would be small compared to the disruption the reorganization would have involved.

LORETTO HOUSING ASSOCIATION

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

Review of Business and Future Developments (Contd.)

Reviews were commenced in respect of our housing operations, property development operations as well as our Learning and Development function. Reviews will be completed for all other sections in the Association during the coming year.

We know from the 5 year plan presented to committee in May 2010 that we expect Care and the Learning and Development Section to incur significant deficits over the next 5 years.

In addition councils are developing the Self Directed Support agenda where significantly more emphasis is placed on service users choosing how they spend the resources being allocated to them.

The significance of all this from Loretto's point of view is that across a council area there will be less care and support for us to manage and therefore less management fees. Glasgow for example are hoping that they will ultimately make 20% savings in their budget; this will mean a 20% reduction in the management fees. It is unlikely that we need to worry unduly about this in this current year but in subsequent years we will need to factor this into our thinking.

The feeling we are getting from all of our meetings with Councils is that we are in for unprecedented reductions in expenditure and that social care will not be excluded from the cuts. If we are to believe what we have been told and what commentators in the financial journals say is that we are in for a very difficult time and there will be further difficult decisions for us to take.

The 5 year plan presented to committee demonstrated that resources existed over the medium term to support our planned housing activities albeit this included a rent increase over and above the rate of inflation, though our rents still remain below the average new build rent in Scotland.

Over the last 6 months or so 4 staff members have resigned from head office these posts have not been filled. Though members should note that to some extent this has been mitigated because staff are working an extra 2.5 hours per week.

Having said all of the above, parts of the Loretto business will grow and we have to respond appropriately to those elements. For example committee will hear reports from NIM/Development section asking committee to consider an increase in staffing to manage property development activities. We are optimistic that we will be able to build 200 houses or so over the next 4 years or so.

In addition members will also hear reports from the Head of Housing proposing that staff numbers are increased from their current level.

During the year we continued to improve performance across most areas of our work we in particular drove down re-let times, we were also successful in continuing to reduce the levels of absence at work.

Performance reporting to committee consists of the following; KPI reports to sub committees, an annual report on KPI's to management committee a benchmarking report every two years across all areas, we also report to sub committee occasionally with benchmarking reports, a stakeholders report every two years and an annual report from Care Commission in respect of Care Services and Sheltered Housing Services.

LORETTO HOUSING ASSOCIATION

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

Review of Business and Future Developments (Contd.)

The CEO considers the performance of both companies in the group to be generally very good there are some areas where performance has been exemplary for example in respect of recent years performance in respect of Voids Management. While it is no guarantee of good performance our grades from the Care Commission have also been very good. In respect of NIM/Development we are now hopefully seeing the benefit of the investment made, and of course the diligence of the staff involved.

It will be very challenging to improve on performance while firstly management attention is being diverted to organisation reviews and while we are reducing the resources available to staff but that is the task we have to set for ourselves.

Most commentators expect that the voluntary sector will see a trend towards amalgamations mergers and other forms of strategic alliances between organisations in both the housing and care sector. Certainly the Scottish Government and leaders in social work departments have been urging this for some time now, not least because it reduces their own transaction costs with providers.

We had hoped that discussions with another RSL and Care Provider that dominated our work in early 2009 would have led to a formal merger. Regrettably the other party decided to withdraw from the discussions. We would not rule out similar discussions with other agencies in the future indeed at the time of writing we have been asked to submit proposals regarding a strategic alliance with another care provider.

Committee meetings were generally well attended during the year both committee reporting attendance levels of over 60%, it will be essential to maintain this in years to come to help ensure that our record of good governance is maintained. We hope to bring our rules into line with the new SFHA model rules during 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 elected by the members according to the rules at the Association's Annual General Meeting.

LORETTO HOUSING ASSOCIATION

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

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. It is 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

LORETTO HOUSING ASSOCIATION

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.

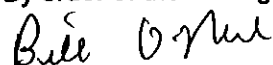
It is the Management Committee's responsibility to establish and maintain systems of Internal Financial Control. Such systems can only provide reasonable and not absolute assurance against material financial mis-statement or Loss. Key elements of the Association's systems include ensuring that:

- 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.

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



BILL O'NEIL

Secretary

25 August 2010

LORETTO HOUSING ASSOCIATION

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

In addition to our audit of the Financial Statements, we have reviewed your statement on Page 6 concerning the Association's compliance with the information required by the section on Internal Financial Control within SFHA's publication "Raising Standards in Housing".

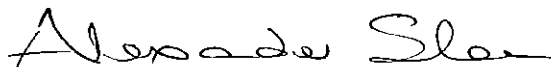
Basis of Opinion

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 6 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
25 August 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LORETTO HOUSING ASSOCIATION

We have audited the financial statements of Loretto Housing Association 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.

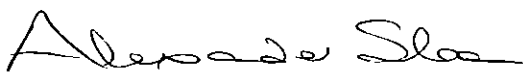
Opinion

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
25 August 2010

LORETTO HOUSING ASSOCIATION

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

	Notes	£	2010 £	£	2009 £
TURNOVER	2.		5,573,154		5,518,276
Operating Costs	2.		<u>(5,194,021)</u>		<u>(5,487,631)</u>
OPERATING SURPLUS	8.		379,133		30,645
Release of Negative Goodwill	22.	67,012		43,662	
Interest Receivable and Other Income		2,966		46,601	
Interest Payable and Similar Charges	7.	<u>(179,036)</u>		<u>(262,612)</u>	
			<u>(109,058)</u>		<u>(172,349)</u>
SURPLUS / (DEFICIT) ON ORDINARY ACTIVITIES			<u><u>270,075</u></u>		<u><u>(141,704)</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.

LORETTO HOUSING ASSOCIATION

BALANCE SHEET AS AT 31st MARCH 2010

	Notes	£	2010 £	£	2009 £
TANGIBLE FIXED ASSETS					
Housing Properties - Depreciated Cost	10.(a)		58,946,447		57,773,748
Less: Social Housing Grant	10.(a)		(45,790,181)		(44,518,881)
: Other Public Grants	10.(a)		(1,797,839)		(1,761,136)
			<u>11,358,427</u>		<u>11,493,731</u>
Other fixed assets	10.(b)		2,258,641		2,410,410
			<u>13,617,068</u>		<u>13,904,141</u>
CURRENT ASSETS					
Debtors	12.	569,520		443,027	
Development Cost of Housing Property	21.	-		213,927	
Cash at bank and in hand		1,484,255		1,542,134	
			<u>2,053,775</u>	<u>2,199,088</u>	
CREDITORS: Amounts falling due within one year	13.	(1,606,497)		(2,083,686)	
NET CURRENT ASSETS			<u>447,278</u>		<u>115,402</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			14,064,346		14,019,543
CREDITORS: Amounts falling due after more than one year	14.		(4,608,244)		(4,855,558)
PROVISIONS FOR LIABILITIES AND CHARGES					
Provision for Future Project Expenditure	23.	(3,262,604)		(3,196,879)	
			<u>(3,262,604)</u>	<u>(3,196,879)</u>	<u>(3,196,879)</u>
NET ASSETS			<u>6,193,498</u>		<u>5,967,106</u>
CAPITAL AND RESERVES					
Share Capital	16.		273		294
Designated Reserves	17.(a)		2,756,245		2,665,474
Revenue Reserves	17.(b)		1,916,290		1,736,986
Negative Goodwill	22.		1,520,690		1,564,352
			<u>6,193,498</u>		<u>5,967,106</u>

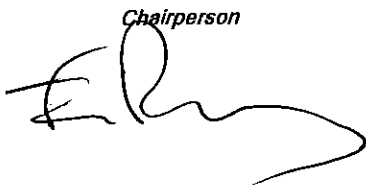
The Financial Statements were approved by the Management Committee and signed on their behalf on

25 August 2010

Chairperson

Committee Member

Secretary





LORETTO HOUSING ASSOCIATION

CASH FLOW STATEMENT FOR THE YEAR ENDED
31st MARCH 2010

	Notes	2010 £	2009 £
Net Cash Inflow from Operating Activities	15.	595,337	766,907
Returns on Investment and Servicing of Finance			
Interest Received		2,966	67,693
Interest Paid		(180,881)	(294,932)
Net Cash (Outflow) from Investment and Servicing of Finance		(177,915)	(227,239)
Capital Expenditure and Financial Investment			
Acquisition and Construction of Properties		(1,213,444)	(3,180,172)
Cash Received on Acquisition		23,350	
Purchase of Other Fixed Assets		(34,741)	(144,216)
Social Housing Grant Received		1,031,489	1,698,264
Other Grants Received		36,703	5,224
Net Cash (Outflow) from Capital Expenditure and Financial Investment		(156,643)	(1,620,900)
Net Cash Inflow / (Outflow) before use of Liquid Resources and Financing		260,779	(1,081,232)
Financing			
Loan Advances Received		-	770,128
Loan Redemption Payments		-	(452,966)
Loan Principal Repayments		(237,031)	(195,767)
Share Capital Issued		40	4
Net Cash Inflow from Financing		(236,991)	121,399
Increase in Cash	15.	<u>23,788</u>	<u>(959,833)</u>

LORETTO HOUSING ASSOCIATION

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.

Basis Of Consolidation

The Financial Statements for Lorretto Housing Association Limited present information about it as an individual undertaking and not about its Group.

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%. 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	- 2% per annum straight line
Photocopier	- 25% per annum straight line
Computer Equipment	- 25% per annum straight line
Office Equipment	- 10% per annum reducing balance

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.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

Sales Of Housing Properties

First tranche Shared Ownership disposals are credited to turnover on completion. The cost of construction of these sales is taken to operating cost. In accordance with the Statement of Recommended Practice, disposals of subsequent tranches are treated as fixed asset disposals with the gain or loss on disposal shown in the Income and Expenditure Account.

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.

Disposals under shared equity schemes are accounted for in the Income and Expenditure Account. The remaining equity in the property is treated as a fixed asset investment, which is matched with the grant received.

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.

Capitalisation Of Development Overheads

Directly attributable development administration costs relating to development activities are capitalised in accordance with the Statement of Recommended Practice.

Designated Reserves

The Association has designated part of its reserves to meet its long term obligations.

The Cyclical Maintenance Reserve has been designated to meet future repair and maintenance obligations which are cyclical in nature. These are carried out in accordance with a planned programme of works.

The Major Repairs Reserve is based on the Association's liability to maintain housing properties in a state of repair which at least maintains their residual values in prices prevailing at the time of acquisition and construction.

Property Development Cost

Property developments that are intended for resale are included in current assets until disposal.

Negative Goodwill

Negative goodwill created through transfer of engagements is written off to the Income and Expenditure account as the non-cash assets acquired are depreciated or sold.

Provision for Future Project Costs

a) Mainstream - Surpluses and deficits arising from the provision of services to the Association's tenants are carried forward and adjusted in the charges levied or service provided in future years. The calculation of the surplus or deficit arising each year is made separately for each project. Both debit and credit balances on this account are included in this provision.

b) Supported Accommodation - Surpluses and deficits arising from the provision of services at Supported Accommodation projects are carried forward to future years and included in this provision. The calculation of surplus or deficit arising each year is made separately for each project.

LORETTO HOUSING ASSOCIATION

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.	3,465,476	2,919,814	545,662	3,981,401	3,506,957	474,444
Other Activities	4.	2,107,678	2,274,207	(166,529)	1,536,875	1,980,674	(443,799)
Total		5,573,154	5,194,021	379,133	5,518,276	5,487,631	30,645

3. PARTICULARS OF INCOME & EXPENDITURE FROM SOCIAL LETTINGS

	General Needs Housing £	Supported Housing £	Shared ownership £	Restated	
				2010 Total £	2009 Total £
Income from Lettings					
Rent Receivable Net of Identifiable Service Charges	1,717,235	1,312,113	6,131	3,035,479	2,877,164
Service Charges Receivable	298,295	227,922	5,009	531,226	1,361,153
Gross Rents Receivable	2,015,530	1,540,035	11,140	3,566,705	4,238,317
Less: Rent losses from voids	57,383	43,846	-	101,229	256,916
Total Income From Social Letting	1,958,147	1,496,189	11,140	3,465,476	3,981,401
Expenditure on Social Letting Activities					
Service Costs	265,562	202,912	5,009	473,483	1,141,876
Management and maintenance administration costs	731,244	558,732	3,565	1,293,541	1,320,950
Reactive Maintenance	264,338	201,976	-	466,314	325,072
Bad Debts - Rents and Service Charges	11,552	8,827	-	20,379	24,564
Planned and Cyclical Maintenance, including Major Repairs	233,223	178,202	-	411,425	453,425
Depreciation of Social Housing	142,744	110,307	1,621	254,672	241,070
Operating Costs of Social Letting	1,648,663	1,260,956	10,195	2,919,814	3,506,957
Operating Surplus on Social Letting Activities	309,484	235,233	945	545,662	474,444
2009		312,895	161,549		

LORETTO HOUSING ASSOCIATION

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 Debts	Operating Costs Other	Operating Surplus / (Deficit) 2010	Operating Surplus / (Deficit) 2009
	£	£	£	£	£	£	£	£	£
Support Activities	-	-	352,657	482,729	835,386	-	835,386	-	-
Care Activities	-	-	-	1,043,965	1,043,965	-	1,045,458	(1,493)	(157,369)
Training	-	-	-	219,433	219,433	-	328,801	(109,368)	(213,427)
Other Activities	-	-	-	8,894	8,894	-	64,562	(55,668)	(73,003)
Total From Other Activities	-	-	352,657	1,755,021	2,107,678	-	2,274,207	(166,529)	(443,799)
2009	-	-	339,458	1,197,417	1,536,875	-	1,980,674	(443,799)	(443,799)

LORETTO HOUSING ASSOCIATION

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>136,314</u>	<u>141,204</u>
Pension contributions made on behalf on Officers with emoluments greater than £60,000	<u>21,252</u>	<u>21,252</u>
Emoluments payable to Chief Executive (excluding pension contributions)	<u>75,907</u>	<u>75,611</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
£70,001 to £80,000	1	1

6. EMPLOYEE INFORMATION

	2010 No.	2009 No.
The average monthly number of full time equivalent persons employed during the year was	<u>66</u>	<u>62</u>
The average total number of Employees employed during the year was	<u>77</u>	<u>72</u>

	£	£
Staff Costs were:		
Wages and Salaries	1,935,396	1,836,947
Social Security Costs	162,266	139,022
Other Pension Costs	196,584	190,633
Temporary, Agency and Seconded Staff	<u>121,914</u>	<u>315,637</u>
	<u>2,416,160</u>	<u>2,482,239</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. INTEREST PAYABLE

	2010	2009
	£	£
On Bank Loans & Overdrafts	159,926	242,465
On Other Loans	19,110	20,147
	<u>179,036</u>	<u>262,612</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).

8. SURPLUS/ (DEFICIT) ON ORDINARY ACTIVITIES

	2010	2009
	£	£
Surplus /(Deficit) on Ordinary Activities before Taxation is stated after charging:-		
Depreciation - Tangible Owned Fixed Assets	441,182	412,997
Auditors' Remuneration - Audit Services	8,752	8,165
Operating Lease Rentals - Land & Buildings	-	28,401
Operating Lease Rentals - Other	<u>1,648</u>	<u>1,648</u>

9. TAX ON SURPLUS / (DEFICIT) ON ORDINARY ACTIVITIES

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

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. TANGIBLE FIXED ASSETS

a) Housing Properties	Housing Properties Held for Letting £	Housing Properties In course of Construction £	Completed Shared Ownership Properties £	Total £
COST				
As at 1st April 2009	57,053,800	1,835,681	425,033	59,314,514
Additions	540,749	886,622	-	1,427,371
Schemes Completed	2,225,891	(2,225,891)	-	-
As at 31st March 2010	<u>59,820,440</u>	<u>496,412</u>	<u>425,033</u>	<u>60,741,885</u>
DEPRECIATION				
As at 1st April 2009	1,522,045	-	18,721	1,540,766
Charge for Year	253,051	-	1,621	254,672
As at 31st March 2010	<u>1,775,096</u>	<u>-</u>	<u>20,342</u>	<u>1,795,438</u>
SOCIAL HOUSING GRANT				
As at 1st April 2009	43,085,204	1,155,363	278,314	44,518,881
Additions	599,767	671,533	-	1,271,300
Schemes Completed	1,361,387	(1,361,387)	-	-
As at 31st March 2010	<u>45,046,358</u>	<u>465,509</u>	<u>278,314</u>	<u>45,790,181</u>
OTHER CAPITAL GRANTS				
As at 1st April 2009	1,755,912	5,224	-	1,761,136
Additions	26,233	10,470	-	36,703
As at 31st March 2010	<u>1,782,145</u>	<u>15,694</u>	<u>-</u>	<u>1,797,839</u>
NET BOOK VALUE				
As at 31st March 2010	<u>11,216,841</u>	<u>15,209</u>	<u>126,377</u>	<u>11,358,427</u>
As at 31st March 2009	<u>10,690,639</u>	<u>675,094</u>	<u>127,998</u>	<u>11,493,731</u>

Additions to housing properties includes capitalised development administration costs of £87,862 (2009 - £53,169) and capitalised major repair costs to existing properties of £nil (2009 £nil)

All land and housing properties are freehold.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. TANGIBLE FIXED ASSETS (Continued)

b) Other Tangible Assets

	Computer Equipment £	Office Premises £	Office Furniture & Equipment £	Total £
COST				
As at 1st April 2009	638,326	2,316,851	77,319	3,032,496
Additions	32,043	2,698	-	34,741
As at 31st March 2010	<u>670,369</u>	<u>2,319,549</u>	<u>77,319</u>	<u>3,067,237</u>
AGGREGATE DEPRECIATION				
As at 1st April 2009	333,360	238,039	50,687	622,086
Charge for year	137,468	46,391	2,651	186,510
As at 31st March 2010	<u>470,828</u>	<u>284,430</u>	<u>53,338</u>	<u>808,596</u>
NET BOOK VALUE				
As at 31st March 2010	<u>199,541</u>	<u>2,035,119</u>	<u>23,981</u>	<u>2,258,641</u>
As at 31st March 2009	<u>304,966</u>	<u>2,078,812</u>	<u>26,632</u>	<u>2,410,410</u>

11. COMMITMENTS UNDER OPERATING LEASES

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

	2010 £	2009 £
Land and Buildings		
Expiring within one year	<u>-</u>	<u>14,401</u>
Other		
Expiring between two and five years	<u>2,169</u>	<u>1,132</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. DEBTORS

	2010	2009
	£	£
Arrears of Rent & Service Charges	314,718	309,509
Less: Provision for Doubtful Debts	<u>(150,301)</u>	<u>(203,706)</u>
	164,417	105,803
Social Housing Grant Receivable	198,073	19,662
Other Debtors	<u>207,030</u>	<u>317,562</u>
	<u>569,520</u>	<u>443,027</u>

13. CREDITORS: Amounts falling due within one year

	2010	2009
	£	£
Bank Overdrafts (secured)	353,571	435,238
Housing Loans	246,984	236,701
Trade Creditors	276,282	350,981
Rent in Advance	193,845	126,524
Social Housing Grant in Advance	-	61,400
Other Taxation and Social Security	48,535	47,883
Amounts Due to Group Undertakings	171,562	360,080
Other Creditors	216,910	263,215
Accruals and Deferred Income	<u>98,808</u>	<u>201,664</u>
	<u>1,606,497</u>	<u>2,083,686</u>

The bank overdraft is secured by specific charges on the Association's housing properties.

At the balance sheet date there were pension contributions outstanding of £23,730 (2009 £24,141)

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

	2010	2009
	£	£
Housing Loans	<u>4,608,244</u>	<u>4,855,558</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	246,984	236,701
Between one and two years	250,824	234,272
Between two and five years	778,822	634,773
In five years or more	<u>3,578,598</u>	<u>3,986,513</u>
	4,855,228	5,092,259
Less: Amount shown in Current Liabilities	<u>246,984</u>	<u>236,701</u>
	<u>4,608,244</u>	<u>4,855,558</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. CASH FLOW STATEMENT

<i>Reconciliation of operating surplus to net cash inflow from operating activities</i>	2010 £	2009 £
Operating Surplus	379,133	30,645
Depreciation	441,182	412,997
Change in Provisions for liabilities and charges	65,725	64,155
Change in properties developed for resale	-	(213,927)
Change in Debtors	51,918	20,972
Change in Creditors	(154,042)	164,066
Change in amounts due to/from subsidiary	(188,518)	287,999
Share Capital Written Off	(61)	-
Net Cash Inflow from Operating Activities	<u>595,337</u>	<u>766,907</u>

<i>Reconciliation of net cash flow to movement in net debt</i>	2010 £	£	2009 £	£
Increase in Cash	23,788		(959,833)	
Cash flow from change in debt	<u>237,031</u>		<u>(121,395)</u>	
Movement in net debt during year		260,819		(1,081,228)
Net debt at 1st April 2009		<u>(3,985,363)</u>		<u>(2,904,135)</u>
Net debt at 31st March 2010		<u><u>(3,724,544)</u></u>		<u><u>(3,985,363)</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	1,542,134	(57,879)	1,484,255
Bank Overdrafts	<u>(435,238)</u>	<u>81,667</u>	<u>(353,571)</u>
	1,106,896	23,788	1,130,684
Liquid Resources	-	-	-
Debt: Due within one year	(236,701)	(10,283)	(246,984)
Due after more than one year	<u>(4,855,558)</u>	<u>247,314</u>	<u>(4,608,244)</u>
Net Debt	<u><u>(3,985,363)</u></u>	<u><u>260,819</u></u>	<u><u>(3,724,544)</u></u>

Major Non-Cash Transactions

During year the Association acquired the assets and liabilities of St Johns Housing Association for no consideration. Further details of the acquisition are set out in note 26 of the financial statements.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. SHARE CAPITAL

Shares of £1 each Issued and Fully Paid	£
At 1st April 2009	294
Issued in year	40
Cancelled in year	<u>(61)</u>
At 31st March 2010	<u>273</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.

17. RESERVES

(a) Designated Reserves	Property Improvement Reserve £	Cyclical Maintenance £	Major Repairs £	Total £
At 1st April 2009	80,543	34,759	2,550,172	2,665,474
Transfer (to) / from Revenue Reserves	<u>(17,203)</u>	-	<u>107,974</u>	<u>90,771</u>
At 31st March 2010	<u>63,340</u>	<u>34,759</u>	<u>2,658,146</u>	<u>2,756,245</u>

(b) Revenue Reserves	Total £
At 1st April 2009	1,736,986
Surplus for the Year	270,075
Transfer (to) / from Designated Reserves	<u>(90,771)</u>
At 31st March 2010	<u>1,916,290</u>

18. HOUSING STOCK

The number of units of accommodation in management at the year end was:-	2010 No.	2009 No.
General Needs - New Build	568	543
Shared Ownership	14	14
Supported Housing	<u>434</u>	<u>427</u>
	<u>1,016</u>	<u>984</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. 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:

3 members are tenants of the Association

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.

20. FIXED ASSET INVESTMENT

Investments in Subsidiaries

The Association has a subsidiary Loretto Care which is controlled through provisions included within its Memorandum and Articles. The relationship between the Association and its subsidiary is set out in an independence agreement between both parties.

The aggregate amount of capital and reserves and the results of Loretto Care for the year ended 31 March 2010 were as follows:

	2010	2009
	£	£
Capital & Reserves	<u>410,799</u>	<u>554,888</u>
Loss for the year	<u>(144,089)</u>	<u>(48,443)</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. DEVELOPMENT COST OF HOUSING PROPERTY

	2010	2009
	£	£
Shared Equity Properties		
Completed Properties Unsold	-	383,122
Less: Grants Received from Scottish Ministers	-	(169,195)
	<u>-</u>	<u>213,927</u>

22. NEGATIVE GOODWILL

	2010
	£
Balance as at 1 April 2009	1,564,352
Arising from transfer of engagement in the year	23,350
Release during the year	(67,012)
	<u>1,520,690</u>

23. PROVISIONS FOR LIABILITIES AND CHARGES

	2010	2009
	£	£
Future Project Expenditure		
Balance as at 1 April 2009	3,196,879	3,132,724
Increase in Provision	65,725	64,155
	<u>3,262,604</u>	<u>3,196,879</u>

24. CASH AT BANK AND IN HAND

	2010	2009
	£	£
Held by Loretto Housing Association	1,834,299	1,702,385
Less: Held on behalf of Loretto Care	(350,044)	(160,251)
	<u>1,484,255</u>	<u>1,542,134</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. CONTINGENT LIABILITIES

- On 1st April 2002 the Association acquired housing land and buildings from Salvation Army Housing Association Limited. Salvation Army Housing Association Limited partly financed the cost of the property through grants, as follows:

	£
Social Housing Grant	4,808,736
Glasgow Development Agency	199,438
Glasgow City Council	400,000

These grants may be repayable under certain circumstances, such as the disposal of the property to which they relate.

- The Association also acquired housing land and buildings from St Johns Housing Association Limited on 1st April 2009. St Johns Housing Association Limited financed the cost of the property through grants, as follows:

	£
Social Housing Grant	125,543

These grants may be repayable under certain circumstances, such as the disposal of the property to which they relate.

- There is an ongoing dispute with another housing association regarding a development. At the current time it is not practicable to quantify the extent of any liability.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. ACQUISITION

On 1 April 2009 the Association acquired housing assets and the related rent arrears from St Johns (Glasgow) Housing Association Limited as part of a Transfer of Engagement. The Association acquired 26 housing units. The identifiable assets and liabilities have been incorporated in the balance sheet of the Association at their fair value on acquisition.

Analysis of Acquisition

	Book Value £	Adjustment to Fair Value £	Fair Value £
Housing Properties	- a)	-	-
Cash	23,350 b)	-	23,350
	<u>23,350</u>	<u>-</u>	<u>23,350</u>
Consideration - at fair value			<u>-</u>
Negative Goodwill Arising on Acquisition			<u>23,350</u>

Adjustments

- a) Housing Property has been recognised at its fair value, being its value using the EUV-SH basis at acquisition.
- b) Cash has been recognised at its monetary value.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS

General

Loretto Housing Association 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.

At 1 April 2010, Loretto Housing Association changed from the final salary 1/60th scheme to the Career Average Earnings - 1/60th scheme for existing employees. New employees after this date will be offered the Career Average Earnings - 1/60th scheme.

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 Loretto Housing Association paid contributions at the rate of 15.4% of pensionable salaries. Member contributions were 7.7%.

As at the balance sheet date there were 39 active members of the Scheme employed by Loretto Housing Association. The annual pensionable payroll in respect of these members was £1,219,350. Loretto Housing Association 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%).

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. 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

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. 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	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%

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2010

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. 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 £53.6million to £160million. The funding level of liabilities, based on these figures, would be 64.8% (2006 - 83.4%).

As a result of this valuation the total contribution rate must increase on average by 7% of pensionable earnings for all existing benefit options structures from April 2011.

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.