

Loretto Housing Association
Report and Financial Statements
For the year ended 31st March 2013

Registered Housing Association No.L2620

FCA 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 2013

MANAGEMENT COMMITTEE

Euan Ramsay	Resigned as Chair in Year
Bill O'Neil	Secretary
Michael Burns	Chair
Maureen Dowden	Resigned 28/01/13
Laura Edwards	
Hugh Rooney	
Lindsay Forrest	Resigned 12/12/12
David Comley	
Moiria Smith	
Thomas Connelly	
Margo McCann	
Laura Forbes	
Louise Burke	Resigned 11/03/13
Douglas Robin	Co-opted 31/10/12
Ruth Henderson	Co-opted 31/10/12
Pauline Hamilton	Co-opted 31/10/12

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
129 Bath Street
Glasgow
G2 4DR

SOLICITORS

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

**REPORT OF THE MANAGEMENT COMMITTEE
FOR THE YEAR ENDED 31ST MARCH 2013**

The Management Committee presents its report and the Financial Statements for the year ended 31st March 2013.

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

Review of Business and Future Developments

The Association has thought for some time that leading or joining a group structure would be one way to help ensure that we maintain high class services and develop new ones over the medium to long term. A group structure would allow the sharing of corporate and management costs across a wider service and or stock base. It also allows the sharing of some risks as well as governance costs.

In previous years we have had discussions with two organisations about Loretto leading a new group structure, one with a housing association and another with a social care provider. These were ultimately not successful.

Since these discussions the external environment has significantly worsened across a whole range of issues, subsidy for house building has been reduced, as has revenue support for our care and support work. In addition to this the funding deficit on the Association's pension scheme has increased substantially. Annual contributions to the deficit have increased from £161k to £408k pa. In addition we remain concerned at the impact that the new welfare reforms will have on our tenants as well as the impact on the Association's finances. Our tenants are already feeling the affect of the recession, their incomes are down and we have noted that rent arrears have increased in the last 4 quarters.

During 2011/12 committee received a series of reports from the senior staff team outlining further options about group structures. The possibility was acknowledged that it might be in the interests of Loretto HA, it's subsidiary Loretto Care and its stakeholders to be part of a much larger group.

During preliminary discussions with senior staff at the Wheatley Housing Group it became clear that there would be considerable synergies for both parties if Loretto were to join the WHG. They need expertise to help manage services for some of their existing tenants and their understanding of the environment suggested to them that care and support provision to social housing tenants would be of increasing importance. This would offer considerable opportunities for growth within Loretto as well as leading to opportunities to share costs and risks.

In November of 2012 committee considered an outline business case that had been prepared by staff, committee authorised that staff prepare a full business plan, carry out the necessary due diligence in respect of the plan and WHG and commence consultation with stakeholders.

The final business plan was approved by the management committee in June 2013 and will be submitted to the Scottish Housing Regulator along with a request to change our rules to allow Loretto HA to join the Wheatley Housing Group.

**REPORT OF THE MANAGEMENT COMMITTEE
FOR THE YEAR ENDED 31ST MARCH 2013**

Review of Business and Future Developments (Contd.)

We intend to call a Special General Meeting in September 2013 to seek shareholders approval of the Rule Change, if members approve the special resolution we expect to join the WHG in October 2013.

The Association's management committee was keen that despite discussions with WHG we carried on with our normal business. There are a number of highlights.

During the year we were on site with over 100 units of new build housing and were also in the middle of a significant refurbishment of 22 units of sheltered accommodation at St Johns Court sheltered housing scheme in Glasgow. We also carried out a significant kitchen and bathroom replacement contract in South Lanarkshire as well as a contract to replace doors and windows at Smyllum Road in Lanark. To fund all these works we needed to raise £5.66m in mortgage finance. After seeking tenders from a range of lenders we entered into a contract with the Clydesdale Bank Ltd. We raised additional finance of £1.689m from the Co-operative Bank.

Committee received a report from Investors in People during the year confirming that we have retained our Gold Status. Committee also received a report comparing our performance across a range of measures with other landlords. The report also looked at our performance over the last 5 years. We performed very well across most indicators though in respect of voids we need to do further work to properly assess our performance in respect of this item.

Committee also heard from independent researchers Research Resource who had been commissioned by the Association to carry out a tenants' satisfaction survey. Research Resource reported that in most areas of our work with tenants there had been an increase in satisfaction levels.

Committee attendance in 2012/13 was very similar to that in 2011/12, unfortunately 2 members of committee had to resign from committee because of potential conflict of interests in respect of the Wheatley Housing Group, a further member resigned because of domestic commitments. No new members were recruited but 3 members from Loretto Care were co-opted onto LHA's management committee.

**REPORT OF THE MANAGEMENT COMMITTEE
FOR THE YEAR ENDED 31ST MARCH 2013**

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 2010 and the Determination of Accounting Requirements 2012. 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.

**REPORT OF THE MANAGEMENT COMMITTEE
FOR THE YEAR ENDED 31ST MARCH 2013**

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.

By order of the Management Committee



BILL O'NEIL
Secretary
28 August 2013

**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 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
28 August 2013

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 2013 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 2013 and of its deficit 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 2010 and the Determination of Accounting Requirements 2012.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- the information given in the Management Committee's Report is inconsistent with the financial statements.
- 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
LORETTO HOUSING ASSOCIATION**

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
28 August 2013

LORETTO HOUSING ASSOCIATION

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st MARCH 2013

	Notes	2013 £	Restated 2012 £
TURNOVER	2.	5,448,396	5,794,357
Operating Costs	2.	<u>(5,222,455)</u>	<u>(5,579,802)</u>
OPERATING SURPLUS	8.	225,941	214,555
Exceptional Item	29.	(176,036)	350,512
Interest Receivable and Other Income		15,597	14,939
Interest Payable and Similar Charges	7.	<u>(236,169)</u>	<u>(169,242)</u>
		<u>(396,607)</u>	<u>196,209</u>
(DEFICIT) / SURPLUS FOR THE YEAR		<u><u>(170,667)</u></u>	<u><u>410,764</u></u>

All amounts relate to continuing activities. Historical cost surpluses and deficits are identical to those shown in the accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2013 £	2012 £
Surplus for the financial year	(170,667)	410,764
Prior year adjustment	28. <u>(76,349)</u>	<u>892,387</u>
Total losses and gains recognised since last annual report	<u><u>(247,016)</u></u>	<u><u>1,303,151</u></u>

LORETTO HOUSING ASSOCIATION


BALANCE SHEET AS AT 31st MARCH 2013

	Notes	£	2013 £	£	Restated 2012 £
TANGIBLE FIXED ASSETS					
Housing Properties - Depreciated Cost	10.(a)		69,817,764		62,809,932
Less: Social Housing Grant	10.(a)		(52,679,610)		(47,784,399)
: Other Public Grants	10.(a)		(2,505,139)		(2,478,578)
			<u>14,633,015</u>		<u>12,546,955</u>
Other fixed assets	10.(b)		1,887,134		1,931,023
			<u>16,520,149</u>		<u>14,477,978</u>
CURRENT ASSETS					
Debtors	14.	1,014,802		780,606	
Cash at bank and in hand		631,666		1,336,852	
			<u>1,646,469</u>	<u>2,117,458</u>	
CREDITORS: Amounts falling due within one year	15.	(2,463,563)		(1,540,055)	
NET CURRENT (LIABILITIES)/ASSETS			<u>(817,094)</u>		<u>577,403</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>15,703,056</u>		<u>15,055,381</u>
CREDITORS: Amounts falling due after more than one year	16.		(7,089,955)		(6,909,784)
PROVISIONS FOR LIABILITIES AND CHARGES					
Provisions	23	(1,109,257)		(471,071)	
			<u>(1,109,257)</u>		<u>(471,071)</u>
NET ASSETS			<u>7,503,844</u>		<u>7,674,526</u>
CAPITAL AND RESERVES					
Share Capital	18.		277		292
Designated Reserves	19.(a)		2,323,488		2,875,704
Revenue Reserves	19.(b)		5,180,079		4,798,530
			<u>7,503,844</u>		<u>7,674,526</u>

The Financial Statements were approved by the Management Committee and signed on their behalf on 28 August 2013.


Chairperson


Vice-Chairperson


Secretary

LORETTO HOUSING ASSOCIATION

CASH FLOW STATEMENT FOR THE YEAR ENDED

31st MARCH 2013

	Notes	2013 £	2012 £
Net Cash Inflow from Operating Activities	17.	1,919,924	371,506
Returns on Investment and Servicing of Finance			
Interest Received		15,597	14,939
Interest Paid		(247,178)	(158,233)
Net Cash Outflow from Investment and Servicing of Finance		(231,581)	(143,294)
Capital Expenditure and Financial Investment			
Acquisition and Construction of Properties		(7,792,607)	(2,476,889)
Purchase of Other Fixed Assets		(69,784)	(23,648)
Social Housing Grant Received		4,897,814	1,179,161
Social Housing Grant Repaid		(14,778)	14,778
Other Grants Received		26,561	1,053,851
Net Cash Outflow from Capital Expenditure and Financial Investment		(2,952,794)	(252,747)
Net Cash Outflow before use of Liquid Resources and Financing		(1,264,451)	(24,535)
Financing			
Loan Advances Received		950,000	1,098,000
Loan Principal Repayments		(390,747)	(219,639)
Share Capital Issued		12	19
Net Cash Inflow from Financing		559,265	878,380
(Decrease) / Increase in Cash	17.	(705,186)	853,845

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

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 2010, and on the historical cost basis. They also comply with the Determination of Accounting Requirements 2012. 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. Housing under construction and Land are not depreciated. The Association depreciates housing properties by major component on a straight line basis over the estimated useful economic lives of each identified component. All components are categorised as Housing Properties within note 10. Impairment reviews are carried out if events or circumstances indicate that the carrying value of the components listed below is higher than the recoverable amount.

<i>Component</i>	<i>Useful Economic Life</i>
Central Heating	30 years
Boilers	15 years
Windows	40 years
Kitchens	15 years
Bathrooms	20 years
Internal Doors	40 years
Rewiring	30 years

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

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:-

Computer Equipment	- 25% Straight Line
Office Equipment	- 10% Reducing Balance

Office Premises are stated at cost, less social housing and other grants, and less accumulated depreciation. Land is not depreciated. The Association depreciates Office Premises by major component on straight line basis over the useful economic life of each component. All component are categorised as Office Property within Note 11.

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 attributed to individual components is written off to the Income and Expenditure Account when these components are replaced.

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.

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.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

Provisions 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.

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 for each year is made separately for each project.

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.

Development Interest

Interest incurred on financing a development is capitalised up to the date of practical completion of the scheme.

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

The proportion of the development cost of shared ownership properties expected to be disposed of as a first tranche sale is held in current assets until it is disposed of. The remaining part of the development cost is treated as a fixed asset. Surpluses made on the disposal of first tranche sales are taken to the Income and Expenditure Account in accordance with the Statement of Recommended Practice.

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

Deferred Income

Grant income received specifically for the provision of furniture at projects which is unspent at the year end is deferred and classed as a long term liability.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Notes	2013			2012 - Restated		
		Turnover £	Operating Costs £	Operating Surplus / (Deficit) £	Turnover £	Operating Costs £	Operating Surplus / (Deficit) £
Social Lettings	3.	4,215,278	3,904,199	311,079	4,232,223	3,714,155	518,068
Other Activities	4.	1,233,118	1,318,256	(85,138)	1,562,134	1,865,647	(303,513)
Total		5,448,396	5,222,455	225,941	5,794,357	5,579,802	214,555

3. PARTICULARS OF INCOME & EXPENDITURE FROM SOCIAL LETTINGS

	General Needs Housing £	Supported Housing £	Shared ownership £	2013 Total £	Restated 2012 Total £
Income from Lettings					
Rent Receivable Net of Identifiable Service Charges	1,960,751	1,752,015	7,002	3,719,768	3,510,651
Service Charges Receivable	337,920	301,946	5,532	645,398	481,782
Gross Rents Receivable	2,298,671	2,053,961	12,534	4,365,166	3,992,433
Less: Rent losses from voids	79,157	70,731	-	149,888	121,795
Net Rents Receivable	2,219,514	1,983,230	12,534	4,215,278	3,870,638
Revenue Grants from Scottish Ministers	-	-	-	-	192,404
Revenue Grants From Local Authorities and Other Agencies	-	-	-	-	169,181
Total Income From Social Letting	2,219,514	1,983,230	12,534	4,215,278	4,232,223
Expenditure on Social Letting Activities					
Service Costs	360,542	322,160	5,532	688,234	528,532
Management and maintenance administration costs	794,676	710,077	4,011	1,508,764	1,243,121
Reactive Maintenance	269,019	240,380	-	509,399	493,803
Bad Debts - Rents and Service Charges	52,795	47,175	-	99,970	130,599
Planned and Cyclical Maintenance, including Major Repairs	345,855	309,036	-	654,891	974,368
Depreciation of Social Housing	232,121	209,019	1,801	442,941	343,732
Operating Costs of Social Letting	2,055,008	1,837,847	11,344	3,904,199	3,714,155
Operating Surplus on Social Letting Activities	164,506	145,383	1,190	311,079	518,068
2012	319,639	197,484	945		

*Includes a loss on replacement of components of £50,992.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Grants From Scottish Ministers	Other Revenue Grants	Supporting People Income	Other Income	Total Turnover	Operating Costs Bad Debts	Operating Costs Other	Operating Surplus / (Deficit) 2013	Operating Surplus / (Deficit) 2012
	£	£	£	£	£	£	£	£	£
Support Activities	-	-	364,088	372,207	736,295	-	713,452	22,843	7,025
Care Activities	-	-	-	3,749	3,749	-	3,749	(0)	(110,957)
Other Agency or Management Services	-	-	-	456,156	456,156	-	467,172	(11,016)	-
Training	-	-	-	-	-	-	-	-	(9,668)
Other Income	-	-	-	36,918	36,918	-	133,883	(96,965)	-
Other Activities	-	-	-	-	-	-	-	-	(189,913)
Total From Other Activities	-	-	364,088	869,030	1,233,118	-	1,318,256	(85,138)	(303,513)
2012	-	-	284,598	1,277,536	1,562,134	-	1,865,647	(303,513)	

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

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.	2013	2012
	£	£

Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions)	<u>78,107</u>	<u>76,352</u>
-----------------------------------------------------------------------------------------------------------------	---------------	---------------

Pension contributions made on behalf on Officers with emoluments greater than £60,000	<u>6,318</u>	<u>6,393</u>
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Emoluments payable to Chief Executive (excluding pension contributions)	<u>78,107</u>	<u>76,352</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
£70,001 to £80,000	1	1

6. EMPLOYEE INFORMATION

	2013	2012
	No.	No.
The average monthly number of full time equivalent persons employed during the year was	<u>54</u>	<u>57</u>

The average total number of Employees employed during the year was	<u>63</u>	<u>66</u>
--------------------------------------------------------------------	-----------	-----------

Staff Costs were:	£	£
Wages and Salaries	1,335,115	1,791,960
Social Security Costs	123,643	149,228
Other Pension Costs	248,764	250,078
Temporary, Agency and Seconded Staff	198,302	109,052
	<u>1,905,824</u>	<u>2,300,318</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. INTEREST PAYABLE

	2013	2012
	£	£
On Bank Loans & Overdrafts	220,565	152,579
On Other Loans	15,604	16,663
	<u>236,169</u>	<u>169,242</u>

8. (DEFICIT) / SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2013	2012
	£	£
(Deficit) / Surplus on Ordinary Activities before Taxation is stated after charging:-		
Depreciation - Tangible Owned Fixed Assets	505,621	474,827
Auditors' Remuneration - Audit Services	16,440	11,280
Operating Lease Rentals - Other	2,922	2,203
	<u>524,983</u>	<u>488,310</u>

9. TAX ON (DEFICIT) / SURPLUS 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 2013

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 £	Shared Ownership In course of Construction £	Total £
COST					
As at 1st April 2012 - Restated	62,668,247	2,828,967	425,033	-	65,922,247
Additions	648,707	7,143,900	-	-	7,792,607
Disposals	(452,649)	(20,773)	-	-	(473,422)
Schemes Completed	1,311,860	(1,311,860)	-	-	-
As at 31st March 2013	64,176,165	8,640,234	425,033	-	73,241,432
DEPRECIATION					
As at 1st April 2012	3,088,731	-	23,584	-	3,112,315
Charge for Year	391,948	-	-	-	391,948
Disposals	(80,595)	-	-	-	(80,595)
As at 31st March 2013	3,400,084	-	23,584	-	3,423,668
SOCIAL HOUSING GRANT					
As at 1st April 2012 - Restated	46,529,686	1,152,889	101,824	-	47,784,399
Additions	14,778	5,217,560	-	-	5,232,338
Disposals	(321,059)	(16,068)	-	-	(337,127)
Schemes Completed	501,488	(501,488)	-	-	-
As at 31st March 2013	46,724,893	5,852,893	101,824	-	52,679,610
OTHER CAPITAL GRANTS					
As at 1st April 2012 - Restated	1,782,145	696,433	-	-	2,478,578
Additions	-	26,561	-	-	26,561
Disposals	-	-	-	-	-
Schemes Completed	117,770	(117,770)	-	-	-
As at 31st March 2013	1,899,915	605,224	-	-	2,505,139
NET BOOK VALUE					
As at 31st March 2013	12,151,274	2,182,117	299,625	-	14,633,015
As at 31st March 2012	11,267,685	979,645	299,625	-	12,546,955

Additions to housing properties includes capitalised development administration costs of £203,459 (2012 - £170,559) and capitalised major repair costs to existing properties of £679,092 (2012 £0)

All land and housing properties are freehold.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. TANGIBLE FIXED ASSETS (Continued)

b) Other Tangible Assets	Computer Equipment £	Office Premises £	Furniture & Equipment £	Total £
COST				
As at 1st April 2012	746,791	2,319,549	89,619	3,155,959
Additions	69,784	-	-	69,784
As at 31st March 2013	<u>816,575</u>	<u>2,319,549</u>	<u>89,619</u>	<u>3,225,743</u>
AGGREGATE DEPRECIATION				
As at 1st April 2012	681,410	485,178	58,348	1,224,936
Charge for year	52,527	58,162	2,984	113,673
As at 31st March 2013	<u>733,937</u>	<u>543,340</u>	<u>61,332</u>	<u>1,338,609</u>
NET BOOK VALUE				
As at 31st March 2013	<u>82,638</u>	<u>1,776,209</u>	<u>28,287</u>	<u>1,887,134</u>
As at 31st March 2012	<u>65,381</u>	<u>1,834,371</u>	<u>31,271</u>	<u>1,931,023</u>

12. CAPITAL COMMITMENTS

	2013 £	2012 £
Capital Expenditure that has been contracted for but has not been provided for in the Financial Statements	<u>6,700,299</u>	<u>3,526,506</u>

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

13. COMMITMENTS UNDER OPERATING LEASES

At the year end, the annual commitments under operating leases were as follows:-	2013 £	2012 £
Other		
Expiring between two and five years	<u>2,922</u>	<u>2,203</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. DEBTORS

	2013	2012
	£	£
Arrears of Rent & Service Charges	284,104	375,521
Less: Provision for Doubtful Debts	(182,024)	(198,410)
	<u>102,080</u>	<u>177,111</u>
Social Housing Grant Receivable	515,287	180,763
Other Debtors	397,436	422,732
	<u>1,014,802</u>	<u>780,606</u>

15. CREDITORS: Amounts falling due within one year

	2013	2012
	£	£
Housing Loans	427,048	380,041
Trade Creditors	996,716	425,163
Rent in Advance	151,841	207,576
Other Taxation and Social Security	38,172	39,401
Amounts Due to Group Undertakings	4,460	157,111
Other Creditors	392,094	105,671
Accruals and Deferred Income	453,231	225,092
	<u>2,463,563</u>	<u>1,540,055</u>

At the balance sheet date there were pension contributions outstanding of £80,061 (2012 £27,764)

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	2013	2012
	£	£
Housing Loans	5,591,997	5,079,751
Future Project Income	1,497,957	1,830,033
	<u>7,089,955</u>	<u>6,909,784</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	427,048	380,041
Between one and two years	383,665	384,676
Between two and five years	832,812	873,389
In five years or more	4,375,520	3,821,686
	<u>6,019,045</u>	<u>5,459,792</u>
Less: Amount shown in Current Liabilities	427,048	380,041
	<u>5,591,997</u>	<u>5,079,751</u>

Future Project Income has been deferred in accordance with the Statement of Recommended Practice. In the case of the contribution towards future alarm and furniture replacement within the relevant service charge, income is received in advance and is deferred until the goods/services have been provided.

Due to the nature of the future spend, the timing is unpredictable. In the absence of a reliable forecast, the full deferred amount has been included within long term liabilities without further maturity analysis which could, if estimated, be misleading.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. CASH FLOW STATEMENT

<i>Reconciliation of operating surplus to net cash inflow from operating activities</i>	2013 £	2012 £
Operating Surplus	225,941	214,555
Depreciation and loss on component replacements	561,321	474,827
Change in Provisions for liabilities and charges	462,150	285,669
Change in properties developed for resale	-	(82,766)
Change in Debtors	100,328	(282,573)
Change in Creditors	570,212	(317,158)
Change in Amounts Due from Subsidiary		78,962
Share Capital Written Off	(27)	(10)
Net Cash Inflow from Operating Activities	1,919,924	371,506

<i>Reconciliation of net cash flow to movement in net debt</i>	2013 £	£	2012 £	£
(Decrease) / Increase in Cash	(705,186)		853,845	
Cash flow from change in debt	(559,253)		(878,361)	
Movement in net debt during year	(1,264,439)		(24,516)	
Net debt at 1st April 2012	(4,122,940)		(4,351,263)	
Net debt at 31st March 2013	(5,387,379)		(4,375,779)	

<i>Analysis of changes in net debt</i>	At 01.04.12 £	Cash Flows £	Other Changes £	At 31.03.13 £
Cash at bank and in hand	1,336,852	(705,186)		631,666
Bank Overdrafts	-	-		-
	<u>1,336,852</u>	<u>(705,186)</u>		<u>631,666</u>
Liquid Resources	-	-		-
Debt: Due within one year	(380,041)	390,747	(437,754)	(427,048)
Due after more than one year	(5,079,751)	(950,000)	437,754	(5,591,997)
Net Debt	(4,122,940)	(1,264,439)	-	(5,387,379)

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. SHARE CAPITAL

Shares of £1 each Issued and Fully Paid	£
At 1st April 2012	292
Issued in year	12
Cancelled in year	(27)
At 31st March 2013	<u>277</u>

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

19. RESERVES

(a) Designated Reserves	Major Repairs £	Total £
At 1st April 2012	2,875,704	2,875,704
Transfer to / (from) Revenue Reserves	(552,216)	(552,216)
At 31st March 2013	<u>2,323,488</u>	<u>2,323,488</u>

(b) Revenue Reserves	Total £
At 1st April 2012 - restated	4,798,530
(Deficit) / Surplus for the year	(170,667)
Transfer (to) / from Designated Reserves	552,216
At 31st March 2013	<u>5,180,079</u>

20. HOUSING STOCK

The number of units of accommodation in management at the year end was:-	2013 No.	2012 No.
General Needs - New Build	625	630
Shared Ownership	4	5
Supported Housing	460	411
	<u>1,089</u>	<u>1,046</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. RELATED PARTY TRANSACTIONS

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

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

3 members are tenants of the Association

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.

22. FIXED ASSET INVESTMENT

The Association has a 100% owned subsidiary Loretto Care Limited, a charitable company limited by guarantee. Loretto Care's Articles of Association stipulate that the Association has the power to appoint Loretto Care's directors, thereby creating control. In addition, 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 31st March 2013 were as follows:

	2013	2012
	£	£
Capital & Reserves	<u>1,079,826</u>	<u>660,053</u>
Surplus for the year	<u>419,773</u>	<u>35,057</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. PROVISIONS FOR LIABILITIES AND CHARGES

	2013	2012
	£	£
a) <i>Future Project Expenditure</i>		
Balance as at 1st April 2012	471,071	535,914
Increase / (decrease) in Provision	155,186	(64,843)
	<u>626,257</u>	<u>471,071</u>
Balance as at 31st March 2013	<u>626,257</u>	<u>471,071</u>
b) <i>VAT</i>		
Balance as at 1st April 2012	-	-
Increase in Provision	483,000	-
	<u>483,000</u>	<u>-</u>
Balance as at 31st March 2013	<u>483,000</u>	<u>-</u>
Total provisions at 31 March 2013 and 31 March 2012	<u>1,109,257</u>	<u>471,071</u>

24. 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.

25. CASH AT BANK AND IN HAND

	2013	2012
	£	£
Held by Loretto Housing Association	2,422,742	2,613,750
Less: Held on behalf of Loretto Care	(1,791,076)	(1,276,898)
	<u>631,666</u>	<u>1,336,852</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. PENSION SCHEME

In April 2013 Loretto Housing Association Limited gave the Pension Trust notice of its decision to close the Scottish Housing Associations' Pension Scheme career average earnings option to new members and existing members from 30 June 2013.

The Association remains a participant of the Scheme but has switched from a defined benefit option to a defined contribution (DC) benefit option for all future pension accrual.

The past service deficit contribution in respect of the defined benefit option remains payable on a monthly basis through the existing recovery plan. The Association is currently paying £161,468 per annum in this respect. Following the updated valuation at 30th September 2012, the Association will pay £408,313 per annum from April 2014, increasing by 3% per annum under the new recovery plan.

In respect of the defined contribution benefit option from 1 July 2013 member and employer rates are at the percentages noted below:

Contribution rates (future service):

- Employer 5%
- Member 4.7%

In May 2013 Loretto Housing Association Limited gave the Pension Trust notice of its decision to close the Growth Plan to new members and existing members from 30 June 2013.

As a result, Loretto Housing Association Limited will need to pay the Pension Trust the debt on withdrawal which is estimated to be £46,000. This amount has been included in the financial statements within "Other Creditors" in Note 15.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS

General

Loretto Housing Association 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.

Loretto Housing Association Limited elected to operate the career average revalued earnings with a 1/60th accrual rate benefit structure for active members as at 1 April 2010 and the career average revalued earnings with a 1/60th accrual rate benefit structure for new entrants from 1 April 2010. Loretto Housing Association Limited moved to the Scottish Housing Association Defined Contribution Scheme for existing employees and new entrants from 1 July 2013.

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 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 28 active members of the Scheme employed by Loretto Housing Association. The annual pensionable payroll in respect of these members was £947,853. 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 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.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The last formal valuation of the Scheme was performed as at 30th September 2012 by a professionally qualified actuary using the Projected Unit Credit method.. The market value of the Scheme's assets at the valuation date was £394m. The valuation revealed a shortfall of assets compared with the value of liabilities of £304m (equivalent to a past service funding level of 56.4%).

Financial Assumptions

The key financial assumptions underlying the valuation as at 30th September 2012 were as follows:

	% p.a.
- Investment return pre-retirement	5.3
- Investment return post-retirement - non pensioners	3.4
- Investment return post-retirement - pensioners	3.4
- Rate of Salary increases	4.1
- Rate of price inflation	
RPI	2.6
CPI	2.0

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.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

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	24.6
Career average 60ths	22.4
Career average 70ths	19.2
Career average 80ths	16.9
Career average 120ths	11.4

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.

The trustees have recently supplied Loretto Housing Association Limited with an updated contribution figure to the past service deficit. From 1 April 2014 Loretto Housing Association Limited will be required to pay £408,313 per annum as a contribution to the past service deficit. This will represent an increase 153% in Loretto Housing Association Limited's contribution to the past service deficit. The deficit contribution will increase each April by 3%

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.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS

Growth Plan

In the year to 31 March 2013 Loretto Housing Association Limited participated in the Pension Trust's Growth Plan (the Plan). The Plan is funded and is not contracted-out of the State scheme. The Plan is a multi-employer pension plan.

Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by the purchase of an annuity.

The rules of the Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities, known as Technical Provisions.

The Trustee commissions an actuarial valuation of the Growth Plan every 3 years. The purpose of the actuarial valuation is to determine the financial position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Plan allow for the declaration of bonuses and/or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses/investments credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

The rules of the Growth Plan state that the proportion of obligatory contributions to be borne by the Member and the Member's Employer shall be determined by way of agreement between them. Such agreement shall require the Employer to pay part of such contributions and may provide that the Employer shall pay the whole of them.

Loretto Housing Association Limited paid contributions at a rate of nil% during the accounting period. Members paid contributions at a rate of 2% during the accounting period.

As at the Balance Sheet date there were 2 active members of the Plan employed by Loretto Housing Association Limited. Loretto Housing Association Limited continues to offer membership of the plan to its employees.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Plan is a multi-employer scheme, where the assets are co-mingled for investment purposes, and benefits are paid out of the Plan's total assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS

Growth Plan (Contd.)

The valuation results at 30 September 2011 were completed in 2012 and have been formalised. The valuation of the Plan was performed by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £928 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £148 million, equivalent to a past service funding level of 84%.

The Scheme Actuary has prepared a funding position update as at 30 September 2012. The market value of the Plan's assets at that date was £790 million and the Plan's Technical Provisions (i.e. past service liabilities) were £984 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £194 million, equivalent to a funding level of 80%.

Financial Assumptions

The financial assumptions underlying the valuation as at 30th September 2012 were as follows:

	% p.a.
-Rate of return pre retirement	4.9
-Rate of return post retirement - Active/Deferred	4.6
-Rate of return post retirement - Pensioners	4.8
-Bonuses on accrued benefits	0
-Rate of price inflation	2.9
-Consumer Prices Index	2.4

In determining the investment return assumptions the Trustee considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustee has incorporated an element of prudence into the pre and post retirement investment return assumptions; such that there is a 60% expectation that the return will be in excess of that assumed and a 40% chance that the return will be lower than that assumed over the next 10 years.

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.

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). A copy of the recovery plan in respect of the September 2011 valuation was forwarded to The Pensions Regulator on 2 October 2012, as is required by legislation.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Plan and The Pensions Act 2011 has more recently altered the definition of Series 3 of the Growth Plan so that a liability arises to employers from membership of any Series except Series 4. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

27. RETIREMENT BENEFIT OBLIGATIONS

Growth Plan (Continued)

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buy-out 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 Plan. 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 Plan's liability attributable to employment with the leaving employer compared to the total amount of the Plan'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 Plan liabilities, Plan 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.

When an employer withdraws from a multi-employer defined benefit pension scheme which is in deficit, the employer is required by law to pay its share of the deficit, calculated on a statutory basis (known as the buy-out basis). The calculation basis that applies to the Growth Plan was amended due to a change in the definition of money purchase contained in the Pensions Act 2011 but the regulations that will determine exactly how the change will apply in practice are still awaited. As the law stands, it is not yet clear whether the statutory calculation should include or exclude Series 3 liabilities. However, based upon current advice, the most likely interpretation is that Series 3 liabilities will have to be included in the calculation of an employer's debt on withdrawal.

Owing to this situation, we have included 2 figures/calculations, namely:

- The cost of withdrawal if we include Series 3 liabilities in the calculation
- The cost of withdrawal if we exclude Series 3 liabilities from the calculation

If an employer withdraws from the Growth Plan prior to the implementation of the regulations, the debt will be calculated on both bases and we would request payment of the higher amount with any adjustment being made when the regulations are implemented.

On 27 March 2013 Loretto Housing Association Limited decided to withdraw from the Growth Plan from 1 July 2013. Loretto Housing Association has been notified that the estimated employer debt is £46,000. This amount has been included in the financial statements within "Other Creditors" in Note 15.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. PRIOR YEAR ADJUSTMENT

Following a review of the complex calculations used in the year ended 31 March 2012 to incorporate Component Accounting in accordance with the Statement of Recommended Practice (SORP) it was identified that an error had led to Social Housing Grant of £176,490 relating to pre-2012 Shared Ownership Disposals not to be properly accounted for. In order to correct this error a prior year adjustment has been incorporated which reduces Social Housing Grant and increases Revenue Reserves by £176,490.

The Association also identified costs and related grant receipts which had been capitalised in the year to 31 March 2013 but did not meet the definition of property improvements per the SORP as the work was not component replacements nor did it result in future economic benefit to the Association. In order to correct this a prior year adjustment has been made to remove the costs (£614,424), Social Housing Grant (£192,404) and Other Grant (£169,181) from Housing Properties and reduce Revenue Reserves by £252,839.

The figures in the 2012 Financial Statements were adjusted for the above restatements as follows:

	Reported in 2012 accounts £	Restated 2012 figures £	Value of restatement £
Balance Sheet			
Housing Properties - Depreciated Cost	63,424,356	62,809,932	614,424
Social Housing Grant	48,153,293	47,784,399	(368,894)
Other Public Grants	2,647,759	2,478,578	(169,181)
Revenue reserves	4,874,879	4,798,530	(76,349)
Income and Expenditure Account			
Revenue Grants from Scottish Ministers	-	192,404	192,404
Revenue Grants From Local Authorities and Other Agencies	-	169,181	169,181
Planned and Cyclical Maintenance, including Major Repairs	359,944	974,368	614,424

The reported 2012 surplus of £663,603 has been reduced by £252,839 and now stands at £410,764. Overall, the prior year adjustment resulted in a reduction of £76,349 to revenue reserves.

29. EXCEPTIONAL ITEMS

a) VAT

Following a recent review of Loretto Housing's compliance with VAT regulations it has been established the Association may have a VAT liability. This has arisen from Management recharges by LHA for corporate services provided to Loretto Care, the Association's Care subsidiary. This only relates to charges prior to 2011. Loretto has adopted a prudent approach to assessing this liability which may transpire to be lower than indicated.

A provision of £483,000 has been incorporated into the accounts as shown in Note 23b.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2013

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. EXCEPTIONAL ITEMS (contd.)

b) *Release from Deferred Income and Equalisation Accounts*

During the year, the Association released the following amounts from Deferred Income and Equalisation Accounts:

	2013	2012
	£	£
Mainstream Equalisation Account Deficit	(21,861)	42,512
Supported Furniture Equalisation Account	5,170	308,000
Mainstream Furniture Provision	9,503	-
Alarm Provision	266,451	-
Loretto Care Furniture Provision	47,702	-
	<u>306,965</u>	<u>350,512</u>

The release represents income received in prior years that was initially considered to be repayable to funders or had been deferred to match expenditure in the future. At 31 March 2013 the Management Committee believes that these sums are neither repayable to funders, nor will they be used for future furniture provision and as such they have been recognised as income in the year ending 31 March 2013.

c) <i>Total Exceptional Item</i>	<u>(176,035)</u>	<u>350,512</u>
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30. POST BALANCE SHEET EVENT

The Association is at an advanced stage in its negotiations with Wheatley Housing Group with regard to Loretto Housing Association becoming a subsidiary of Wheatley Housing Group.

Assuming all the necessary approvals are obtained, the required rule changes are planned to be formally approved at a Special Annual General Meeting of Loretto Housing Association on 25 September 2013. Loretto Care's status as a subsidiary of Loretto Housing Association is unaffected by the changes.