

Loretto Housing Association
Report and Financial Statements
For the year ended 31st March 2011

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 2011

MANAGEMENT COMMITTEE

Euan Ramsay	Chair
Bill O'Neil	Secretary
Janis McDonald	
Michael Burns	
Maureen Dowden	
Laura Edwards	
Hugh Rooney	
Lindsay Forrest	
David Comley	
Peter Bodkin	(Resigned April 2011)
Paul Whiteley	
Moir Smith	
Thomas Connelly	
Margo McCann	
Laura Forbes	
Louise Burke	(Appointed September 2010)
Tom McKeown	(Resigned August 2010)
Tom McFadyen	(Resigned August 2010)

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 2011

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

Legal Status

The Association is a registered non-profit making organisation under the Industrial and Provident Societies Act 1965 No.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 affordable rented accommodation and the provision of care and support services.

Review of Business and Future Developments

In both last year's and reviews from earlier years, we expressed concern that funding for both social care and housing was going to be reduced. We said that the sector was in for some very difficult times.

Our concerns were well founded, for Loretto Care turnover has fallen by £700,000 which represents an overall reduction of over 5.8% reduction. In some services the reduction in funding has been closer to 20%.

The scale of the reduction was twice what we had expected and comes on top of 3 or 4 years of smaller reductions.

In 2008/09 we reported that we had moved from the final salary pension basis to a career average basis, in last year's report we reported that we had radically reviewed staff's terms and conditions of employment. In the year passing we have embarked on a radical restructuring of Loretto Care's management of service delivery as well as the Learning and Development. We have retained much of the existing head office structure.

This restructure will see three tiers of management collapsed into two. In addition in some services we are reducing the number of support workers and replacing them with Support Assistants.

There are a significant number of redundancies in progress which will result in a substantial restructuring cost totalling £450,000; this will have an adverse affect on our ability to invest in improving services.

There is no doubt that these reductions in funding are unprecedented in recent times and will take a great deal of concerted effort on the part of all stakeholders to recover from.

We will spend the rest of this year bedding down these radical changes.

We reviewed the senior management structure again this year, a number of changes were made principally in the Care section which will help us focus on ensuring services are of a high quality but also to help retain existing work and get new work. The DCEO retains overall responsibility for Loretto Care, the Head of HR will in future report to the CEO.

We do not expect the overall funding position to improve; indeed we anticipate further reductions in funding next year.

LORETTO HOUSING ASSOCIATION

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

Review of Business and Future Developments (Contd.)

However the current downturn does not mean that the Association or Loretto Care will stop exploring new opportunities to ensure that those who need quality housing and or quality care receive it. An integral part of the new structure is the creation of a new post whose sole responsibility is developing new opportunities. This will be filled internally and will be operational by September 2011.

There are some service areas where there will be growth for example services to the elderly and those with dementia. We hope that we can make a contribution.

In respect of our property development activities we learned just before the turn of the year that subsidy levels for new house building are to be reduced to on average approximately £40,000 per new house, this is £25k less than we would previously have received. This change in subsidy means RSL's will have to borrow more and therefore increase rents. All this at a time when the government plans to reduce benefits for people when inflation is rising, we expect this will lead to increasing rent arrears and a diversion of housing management time to dealing with this.

We had two large housing schemes approved during 2009/10; one at Neilston Rd in Paisley will see us build 45 houses for rent as well as 10 flats for young people leaving care. We also will build 26 flats and houses in Tollcross Glasgow the majority of which will be allocated to adults suffering from Alcohol Related Brain Damage though 4 houses will be allocated to families.

We are also pleased to be working in partnership with Salvation Army Social Services and Glasgow Social Work in the reprovisioning of their emergency hostel at Hope House in Glasgow. We are remodeling our existing service at East Campbell St to accommodate residents moving from Hope House as well as procuring other housing.

We hope to have a forward development programme and made a number of submissions to Glasgow City Council under the Innovation and Investment Fund.

During the year passing we also started construction of 28 flats at Methlan Park in Dumbarton, these were complete in May 2011 and are now let.

From 2008 until the present day we also saw a huge change in terms of pension provision for our staff, contributions for both parties have increased and we have moved to a CARE scheme from the final salary scheme. We anticipate further changes over the coming year. This had put further pressure on the Associations costbase.

The management committee has been able to agree a budget and a five year plan which does see the Associations group finances being restored to health within the timescale of the plan. We expect there to be pressure on rents.

We changed our rules to conform to the new model rules. In particular we reduced the number of committee members to a maximum of 15.

Members received regular reports throughout the year in respect of performance including KPI's, and reports in respect of areas where there has been concern in respect of performance.

Committee attendance at approximately 60% was similar to previous years.

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

Management Committee and Executive Officers

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

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

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

Statement of Management Committee's Responsibilities

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

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

The Management Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the Financial Statements comply with the Industrial and Provident Societies Act 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. 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 2011

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

Secretary
31 August 2011

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 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
31 August 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LORETTO HOUSING ASSOCIATION

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

This report is made solely to the Association's members, as a body, in accordance with Section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Management Committee and Auditors

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit on the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Management Committee; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Management Committee's report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications of our report.

Opinion on the financial statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Association's affairs as at 31st March 2011 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

Matters on which we are required to report by exception

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

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
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
31 August 2011

LORETTO HOUSING ASSOCIATION

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

	Notes	£	2011 £	£	Restated 2010 £
TURNOVER	2.		5,737,368		5,721,082
Operating Costs	2.		<u>(5,024,466)</u>		<u>(5,341,949)</u>
OPERATING SURPLUS	8.		712,902		379,133
Release of Negative Goodwill	22.	43,663		67,012	
Exceptional Item	24.	879,671		-	
Interest Receivable and Other Income		9,630		2,966	
Interest Payable and Similar Charges	7.	<u>(123,808)</u>		<u>(179,036)</u>	
			<u>809,156</u>		<u>(109,058)</u>
SURPLUS ON ORDINARY ACTIVITIES AFTER TAXATION			<u>1,522,058</u>		<u>270,075</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 2011

	Notes	£	2011 £	£	Restated 2010 £
TANGIBLE FIXED ASSETS					
Housing Properties - Depreciated Cost	10.(a)		62,007,644		58,946,447
Less: Social Housing Grant	10.(a)		(47,042,180)		(45,790,181)
: Other Public Grants	10.(a)		(2,193,908)		(1,797,839)
			<u>12,771,556</u>		<u>11,358,427</u>
Other fixed assets	10.(b)		2,134,665		2,258,641
			<u>14,906,221</u>		<u>13,617,068</u>
CURRENT ASSETS					
Debtors	13.	1,155,797		569,520	
Cash at bank and in hand		498,633		1,484,255	
		<u>1,654,430</u>		<u>2,053,775</u>	
CREDITORS: Amounts falling due within one year	14.	(2,126,267)		(1,606,497)	
NET CURRENT (LIABILITIES)/ASSETS			<u>(471,837)</u>		<u>447,278</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			14,434,384		14,064,346
CREDITORS: Amounts falling due after more than one year	15.		(6,226,567)		(6,333,344)
PROVISIONS FOR LIABILITIES AND CHARGES					
Provision for Future Project Expenditure	23.	(535,914)		(1,537,504)	
			<u>(535,914)</u>		<u>(1,537,504)</u>
NET ASSETS			<u>7,671,903</u>		<u>6,193,498</u>
CAPITAL AND RESERVES					
Share Capital	17.		283		273
Designated Reserves	18.(a)		3,085,252		2,756,245
Revenue Reserves	18.(b)		3,109,341		1,916,290
Negative Goodwill	22.		1,477,027		1,520,690
			<u>7,671,903</u>		<u>6,193,498</u>

The Financial Statements were approved by the Management Committee and signed on their behalf on 31 August 2011.

Chairperson

Vice-Chairperson

Secretary

LORETTO HOUSING ASSOCIATION

CASH FLOW STATEMENT FOR THE YEAR ENDED
31st MARCH 2011

	Notes	£	2011 £	£	2010 £
Net Cash Inflow from Operating Activities	16.		1,643,386		594,337
Returns on Investment and Servicing of Finance					
Interest Received		9,630		2,966	
Interest Paid		(123,808)		(180,881)	
Net Cash Outflow from Investment and Servicing of Finance			(114,178)		(177,915)
Capital Expenditure and Financial Investment					
Acquisition and Construction of Properties		(3,316,201)		(1,213,444)	
Cash Received on Acquisition		-		23,350	
Purchase of Other Fixed Assets		(65,074)		(34,741)	
Social Housing Grant Received		1,225,330		1,031,489	
Other Grants Received		-		36,703	
Net Cash Outflow from Capital Expenditure and Financial Investment			(2,155,945)		(156,643)
Net Cash (Outflow) / Inflow before use of Liquid Resources and Financing			(626,737)		259,779
Financing					
Loan Principal Repayments		(273,797)		(237,031)	
Share Capital Issued		18		40	
Net Cash Outflow from Financing			(273,779)		(236,991)
(Decrease) / Increase in Cash	16.		(900,516)		22,788

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis Of Accounting

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

Basis Of Consolidation

The Financial Statements for Loretto 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 Scottish Housing Associations' Defined Benefits Pension Scheme and retirement benefits to employees of the Association are funded by the contributions from all participating employers and employees in the Scheme. Payments are made in accordance with periodic calculations by consulting Actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

Valuation Of Housing Properties

Housing Properties are stated at cost, less social housing and other public grants and less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the properties at an annual rate of 2%. 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 2011

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.

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

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.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

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. 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.

Deferred Income

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

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Notes	2011			2010 Restated		
		Turnover £	Operating Costs £	Operating Surplus / (Deficit) £	Turnover £	Operating Costs £	Operating Surplus / (Deficit) £
Social Lettings	3.	3,616,785	2,680,169	936,616	3,465,476	2,919,814	545,662
Other Activities	4.	2,120,583	2,344,297	(223,714)	2,255,606	2,422,135	(166,529)
Total		<u>5,737,368</u>	<u>5,024,466</u>	<u>712,902</u>	<u>5,721,082</u>	<u>5,341,949</u>	<u>379,133</u>

3. PARTICULARS OF INCOME & EXPENDITURE FROM SOCIAL LETTINGS

	General Needs Housing £	Supported Housing £	Shared ownership £	2011 Total £	Restated 2010 Total £
Income from Lettings					
Rent Receivable Net of Identifiable Service Charges	1,927,217	1,238,925	6,131	3,172,273	3,035,479
Service Charges Receivable	325,183	209,046	5,009	539,238	531,226
Gross Rents Receivable	<u>2,252,400</u>	<u>1,447,971</u>	<u>11,140</u>	<u>3,711,511</u>	<u>3,566,705</u>
Less: Rent losses from voids	57,659	37,067	-	94,726	101,229
Total Income From Social Letting	<u>2,194,741</u>	<u>1,410,904</u>	<u>11,140</u>	<u>3,616,785</u>	<u>3,465,476</u>
Expenditure on Social Letting Activities					
Service Costs	285,520	183,548	5,009	474,077	473,483
Management and maintenance administration costs	723,452	470,811	3,565	1,197,828	1,293,541
Reactive Maintenance	317,989	204,422	-	522,411	466,314
Bad Debts - Rents and Service Charges	(8,824)	(5,672)	-	(14,496)	20,379
Planned and Cyclical Maintenance, including Major Repairs	149,340	96,005	-	245,345	411,425
Depreciation of Social Housing	153,599	99,784	1,621	255,004	254,672
Impairment of Housing	-	-	-	-	-
Operating Costs of Social Letting	<u>1,621,076</u>	<u>1,048,898</u>	<u>10,195</u>	<u>2,680,169</u>	<u>2,919,814</u>
Operating Surplus on Social Letting Activities	<u>573,665</u>	<u>362,006</u>	<u>945</u>	<u>936,616</u>	<u>545,662</u>
2010	<u>309,484</u>	<u>235,233</u>	<u>945</u>		

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Grants From Scottish Ministers £	Other Revenue Grants £	Supporting People Income £	Other Income £	Total Turnover £	Operating Costs Bad Debts £	Operating Costs Other £	Operating Surplus / (Deficit) 2011 £	Restated Operating Surplus / (Deficit) 2010 £
Support Activities	-	-	370,283	477,143	847,426	-	847,426	-	-
Care Activities	-	-	-	1,053,723	1,053,723	-	1,130,140	(76,417)	(1,493)
Training	-	-	-	217,346	217,346	-	269,972	(52,626)	(109,368)
Other Activities	-	-	-	2,088	2,088	-	96,759	(94,671)	(55,668)
Total From Other Activities	-	-	370,283	1,750,300	2,120,583	-	2,344,297	(223,714)	(166,529)
2010- Restated	-	-	352,657	1,902,949	2,255,606	-	2,422,135	(166,529)	

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. OFFICERS' EMOLUMENTS

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

2011	2010
£	£

Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions)	<u>135,798</u>	<u>136,314</u>
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Pension contributions made on behalf on Officers with emoluments greater than £60,000	<u>18,648</u>	<u>21,252</u>
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Emoluments payable to Chief Executive (excluding pension contributions)	<u>75,341</u>	<u>75,907</u>
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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

	2011	2010
	No.	No.
The average monthly number of full time equivalent persons employed during the year was	<u>60</u>	<u>66</u>

The average total number of Employees employed during the year was	<u>73</u>	<u>77</u>
--	-----------	-----------

Staff Costs were:	£	£
Wages and Salaries	1,882,856	1,935,396
Social Security Costs	152,195	162,266
Other Pension Costs	160,826	196,584
Temporary, Agency and Seconded Staff	72,633	121,914
	<u>2,268,510</u>	<u>2,416,160</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. INTEREST PAYABLE

	2011	2010
	£	£
On Bank Loans & Overdrafts	105,855	159,926
On Other Loans	17,953	19,110
	<u>123,808</u>	<u>179,036</u>

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

Interest capitalised was incurred at varying rates of interest.

8. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2011	2010
	£	£
Surplus on Ordinary Activities before Taxation is stated after charging:-		
Depreciation - Tangible Owned Fixed Assets	444,054	441,182
Auditors' Remuneration - Audit Services	8,754	8,752
Operating Lease Rentals - Other	1,648	1,648
	<u>454,456</u>	<u>451,582</u>

9. TAX ON SURPLUS ON ORDINARY ACTIVITIES

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

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

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 2010	59,820,440	496,412	425,033	60,741,885
Additions	131,781	3,184,420	-	3,316,201
Schemes Completed	107,068	(107,068)	-	-
As at 31st March 2011	<u>60,059,289</u>	<u>3,573,764</u>	<u>425,033</u>	<u>64,058,086</u>
DEPRECIATION				
As at 1st April 2010	1,775,096	-	20,342	1,795,438
Charge for Year	253,383	-	1,621	255,004
As at 31st March 2011	<u>2,028,479</u>	<u>-</u>	<u>21,963</u>	<u>2,050,442</u>
SOCIAL HOUSING GRANT				
As at 1st April 2010	45,046,358	465,509	278,314	45,790,181
Additions	153,357	1,098,642	-	1,251,999
Schemes Completed	68,900	(68,900)	-	-
As at 31st March 2011	<u>45,268,615</u>	<u>1,495,251</u>	<u>278,314</u>	<u>47,042,180</u>
OTHER CAPITAL GRANTS				
As at 1st April 2010	1,782,145	15,694	-	1,797,839
Additions	-	396,069	-	396,069
As at 31st March 2011	<u>1,782,145</u>	<u>411,763</u>	<u>-</u>	<u>2,193,908</u>
NET BOOK VALUE				
As at 31st March 2011	<u>10,980,050</u>	<u>1,666,750</u>	<u>124,756</u>	<u>12,771,556</u>
As at 31st March 2010	<u>11,216,841</u>	<u>15,209</u>	<u>126,377</u>	<u>11,358,427</u>

Additions to housing properties includes capitalised development administration costs of £92,451 (2010 - £87,862) and capitalised major repair costs to existing properties of £nil (2010 £nil)

All land and housing properties are freehold.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. TANGIBLE FIXED ASSETS (Continued)

b) Other Tangible Assets

	Computer Equipment £	Office Premises £	Office Furniture & Equipment £	Total £
COST				
As at 1st April 2010	670,369	2,319,549	77,319	3,067,237
Additions	64,071	-	1,003	65,074
As at 31st March 2011	<u>734,440</u>	<u>2,319,549</u>	<u>78,322</u>	<u>3,132,311</u>
AGGREGATE DEPRECIATION				
As at 1st April 2010	470,828	284,430	53,338	808,596
Charge for year	140,223	46,391	2,436	189,050
As at 31st March 2011	<u>611,051</u>	<u>330,821</u>	<u>55,774</u>	<u>997,646</u>
NET BOOK VALUE				
As at 31st March 2011	<u>123,389</u>	<u>1,988,728</u>	<u>22,548</u>	<u>2,134,665</u>
As at 31st March 2010	<u>199,541</u>	<u>2,035,119</u>	<u>23,981</u>	<u>2,258,641</u>

12. COMMITMENTS UNDER OPERATING LEASES

At the year end, the annual commitments under operating leases were as follows:-	2011 £	2010 £
Other		
Expiring between two and five years	<u>2,203</u>	<u>2,169</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. DEBTORS

	2011	2010
	£	£
Arrears of Rent & Service Charges	249,023	314,718
Less: Provision for Doubtful Debts	(123,177)	(150,301)
	<u>125,846</u>	<u>164,417</u>
Social Housing Grant Receivable	238,527	198,073
Other Debtors	791,424	207,030
	<u>1,155,797</u>	<u>569,520</u>

14. CREDITORS: Amounts falling due within one year

	2011	2010
	£	£
Bank Overdrafts (secured)	268,465	353,571
Housing Loans	267,663	246,984
Trade Creditors	807,671	276,282
Rent in Advance	181,176	193,845
Social Housing Grant in Advance	217,716	-
Other Taxation and Social Security	40,179	48,535
Amounts Due to Group Undertakings	78,149	171,562
Other Creditors	92,266	216,910
Accruals and Deferred Income	172,982	98,808
	<u>2,126,267</u>	<u>1,606,497</u>

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

At the balance sheet date there were pension contributions outstanding of £19,647 (2010 £23,730)

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	2011	Restated 2010
	£	£
Housing Loans	4,313,768	4,608,244
Future Project Income	1,912,799	1,725,100
	<u>6,226,567</u>	<u>6,333,344</u>
<p>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:-</p>		
Within one year	267,663	246,984
Between one and two years	271,391	250,824
Between two and five years	771,744	778,822
In five years or more	3,270,633	3,578,598
	<u>4,581,431</u>	<u>4,855,228</u>
Less: Amount shown in Current Liabilities	267,663	246,984
	<u>4,313,768</u>	<u>4,608,244</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 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. CASH FLOW STATEMENT

<i>Reconciliation of operating surplus to net cash inflow from operating activities</i>	2011 £	Restated 2010 £
Operating Surplus	712,902	379,133
Depreciation	444,054	441,182
Change in Provisions for liabilities and charges	(121,919)	(40,849)
Change in Long-term liabilities	187,699	105,574
Change in properties developed for resale	-	-
Change in Debtors	54,177	51,918
Change in Creditors	459,894	(154,042)
Change in amounts due to/from subsidiary	(93,413)	(188,518)
Share Capital Written Off	(8)	(61)
Net Cash Inflow from Operating Activities	<u>1,643,386</u>	<u>594,337</u>

<i>Reconciliation of net cash flow to movement in net debt</i>	2011 £	£	2010 £	£
(Decrease) / Increase in Cash	(900,516)		22,788	
Cash flow from change in debt	<u>273,797</u>		<u>237,031</u>	
Movement in net debt during year		(626,719)		259,819
Net debt at 1st April 2010		(3,724,544)		(3,985,363)
Net debt at 31st March 2011		<u>(4,351,263)</u>		<u>(3,725,544)</u>

<i>Analysis of changes in net debt</i>	At 01.04.10 £	Cash Flows £	Other Changes £	At 31.03.11 £
Cash at bank and in hand	1,484,255	(985,622)		498,633
Bank Overdrafts	<u>(353,571)</u>	<u>85,106</u>		<u>(268,465)</u>
	1,130,684	(900,516)		230,168
Debt: Due within one year	(246,984)	246,984	(267,663)	(267,663)
Due after more than one year	<u>(4,608,244)</u>	<u>26,813</u>	<u>267,663</u>	<u>(4,313,768)</u>
Net Debt	<u>(3,724,544)</u>	<u>(626,719)</u>	<u>-</u>	<u>(4,351,263)</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. SHARE CAPITAL

Shares of £1 each Issued and Fully Paid	£
At 1st April 2010	273
Issued in year	18
Cancelled in year	(8)
At 31st March 2011	<u>283</u>

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

18. RESERVES

(a) Designated Reserves	Property Improvement Reserve £	Cyclical Maintenance £	Major Repairs £	Total £
At 1st April 2010	63,340	34,759	2,658,146	2,756,245
Transfer to / (from) Revenue Res	(63,340)	(34,759)	427,106	329,007
At 31st March 2011	<u>-</u>	<u>-</u>	<u>3,085,252</u>	<u>3,085,252</u>

(b) Revenue Reserves	Total £
At 1st April 2010	1,916,290
Surplus for the year	1,522,058
Transfer (to) / from Designated Reserves	(329,007)
At 31st March 2011	<u>3,109,341</u>

19. HOUSING STOCK

The number of units of accommodation in management at the year end was:-	2011 No.	2010 No.
General Needs - New Build	572	568
Shared Ownership	14	14
Supported Housing	434	434
	<u>1,020</u>	<u>1,016</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. 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:

4 members are tenants of the Association

1 member is an employee of a relevant local authority

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.

21. FIXED ASSET INVESTMENT

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 31st March 2011 were as follows:

	2011	2010
	£	£
Capital & Reserves	<u>624,996</u>	<u>410,799</u>
Surplus for the year	<u>214,197</u>	<u>(144,089)</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. NEGATIVE GOODWILL

	2011 £
Balance as at 1st April 2010	1,520,690
Release during the year	(43,663)
	<u>1,477,027</u>
As at 31st March 2011	<u>1,477,027</u>

23. PROVISIONS FOR LIABILITIES AND CHARGES

	2011 £	Restated 2010 £
Future Project Expenditure		
Balance as at 1st April 2010	1,537,504	1,578,353
Decrease in Provision	(1,001,590)	(40,849)
	<u>535,914</u>	<u>1,537,504</u>
Balance as at 31st March 2011	<u>535,914</u>	<u>1,537,504</u>

24. EXCEPTIONAL ITEM

During the year, the Association released £879,671 from its care equalisation provisions. The release represents surpluses generated from the Association's care service activity in prior years that were initially considered repayable to funders. At 31 March 2011 the Management Committee believes that these surpluses generated are no longer repayable to any funder and therefore, have been recognised as income in the year.

25. PRIOR YEAR ADJUSTMENT

The 2010 figures have been restated to reflect the following adjustments:

Recognise funds granted to Loretto Care, in respect of care activities, in the Income and Expenditure account

Previously when care activity surpluses were transferred from Loretto Housing Association to Loretto Care (the new care service provider) the release from care equalisation provision and transfer to Loretto Care were netted off and thus not reported in the income and expenditure account. The effect of this adjustment is to incorporate care activity expenditure of £147,928 and to increase the transfer from equalisation by £147,928 - a net effect of nil on the income and Expenditure Account. There is no effect on the Balance Sheet.

Change in accounting treatment for furniture and alarm provisions

Previously monies set aside to fund future furniture and alarm replacements were included within Provisions in the Balance Sheet. A review of the Association's provisions was undertaken in 2011 and it was concluded that the furniture and alarm provision balances did not qualify as a provision under FRS 12. The monies set aside represent deferred income. The effect of this adjustment is the Balance Sheet provisions have decreased by £1,725,100 and long term liabilities increased by a corresponding amount.

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. 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.

- The Association is currently in dispute with another organisation regarding costs incurred during one of the Association's development projects. At the time of signing the accounts the dispute was unresolved and in the opinion of the Management Committee it is not possible to provide a reliable estimate of any liability that may arise.

27. CASH AT BANK AND IN HAND

	2011	2010
	£	£
Held by Loretto Housing Association	1,654,021	1,834,299
Less: Held on behalf of Loretto Care	(1,155,388)	(350,044)
	<u>498,633</u>	<u>1,484,255</u>

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. 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.

At 1 April 2010, Loretto Housing Association changed from the final salary with a 1/60th accrual rate benefit structure 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 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 8.6% of pensionable salaries. Member contributions were 8.5%.

As at the balance sheet date there were 34 active members of the Scheme employed by Loretto Housing Association. The annual pensionable payroll in respect of these members was £1,081,342. 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 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

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

Financial Assumptions

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

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

The valuation was carried out using the SAPS (S1PA) All pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement for non-pensioners and pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions:

	<i>Males</i>	<i>Females</i>
	<i>Assumed life expectancy in years at age 65</i>	<i>Assumed life expectancy in years at age 65</i>
Non-pensioners	18.1	20.6
Pensioners	18.1	20.6

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Valuation Results

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

<i>Benefit Structure</i>	<i>Long-term joint contribution rate (% of pensionable)</i>
Final salary - 60ths	19.2
Career average 60ths	17.1
Career average 70ths	14.9
Career average 80ths	13.2
Career average 120ths	9.4

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

Following consideration of the results of the valuation it was agreed that the shortfall of £160m would be dealt with by the payment of additional contributions of 10.4% of pensionable salaries per annum with effect from 1st April 2011, increasing each 1 April in line with the rate of salary increases assumption.

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

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

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

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. RETIREMENT BENEFIT OBLIGATIONS

Growth Plan

Loretto Housing Association participates in the Pension Trust's Growth 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 Growth 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 Growth 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

Loretto Housing Association paid contributions of £Nil during the accounting period. Members paid contributions of £9637 during the accounting period.

As at the Balance Sheet date there was 4 active member(s) of the Plan employed by Loretto Housing Association. Loretto Housing Association 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. 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 2005 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £675 million and the Plan's Technical Provisions (i.e. past service liabilities) were £704 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £29 million, equivalent to a past service funding level of 96%

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. RETIREMENT BENEFIT OBLIGATIONS

Growth Plan (Contd.)

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Plan as at 30th September 2007. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £807 million and indicated a surplus of assets compared to liabilities of approximately £40 million, equivalent to a funding level of 105.2%. Annual funding updates of the Growth Plan 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 Plan since the last full valuation.

Since the contribution rates payable to the Plan have been determined by reference to the last full actuarial valuation the following notes relate to the formal actuarial valuation as at 30th September 2005.

Financial Assumptions

The financial assumptions underlying the valuation as at 30th September 2005 were as follows:

	% p.a.
Investment return pre retirement	6.6
Investment return post retirement	4.5
Bonuses on accrued benefits	0.0
Rate of price inflation	2.5

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.

In view of the small funding deficit and the level of prudence implicit in the assumptions used to calculate the Plan liabilities the Trustee has prepared a recovery plan on the basis that no additional contributions from participating employers are required at this point in time. In reaching this decision the Trustee has taken actuarial advice and has been advised that the shortfall of £29 million will be cleared within 5 years if the investment returns from assets are in line with the "best estimate" assumptions. "Best estimate" means that there is a 50% expectation that the return will be in excess of that assumed and a 50% expectation that the return will be lower than that assumed over the next 10 years. These "best estimate" assumptions are 7.6% per annum pre retirement and 4.8% per annum post retirement.

A copy of the recovery plan 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).

LORETTO HOUSING ASSOCIATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. RETIREMENT BENEFIT OBLIGATIONS

Growth Plan (Continued)

The Regulator has reviewed the recovery plan for the Growth Plan and confirmed that, in respect of the September 2005 actuarial valuation, it does not propose to issue any scheme funding directions under Part 3 of the Pensions Act 2004.

The next full actuarial valuation will be carried out as at 30 September 2008.

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. The Trustee's current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

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 pre October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre October 2001 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.