

NEW GORBALS HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

Registered Housing Association No.: HAL211

Financial Services Authority No.: 2309S

Charity No.: SC041164

BAKER TILLY UK AUDIT LLP
Chartered Accountants

Glasgow

NEW GORBALS HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

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Registration Particulars:

| | |
|--------------------------------------|---|
| Financial Services Authority | Industrial & Provident Schemes Act 1965 Registered Number: 2309S |
| Scottish Housing Regulator | Housing (Scotland) Act 2001 Registered Number: HAL211 |
| Office of Scottish Charity Regulator | Charity and Trustee Investment Act (Scotland) 2005 Scottish Charity Number: SC041164 |

NEW GORBALS HOUSING ASSOCIATION LIMITED

REPORT OF COMMITTEE OF MANAGEMENT

31 MARCH 2012

The Committee of Management present their 21st Annual Report together with the audited accounts for the year ended 31 March 2012.

Principal Activity

The principal activity of the Association is the provision of social housing:

- to improve the quality of the housing and management service for the people of the Gorbals area;
- to consolidate tenant control and involvement in the Association;
- to contribute to meeting the needs of people living in the Gorbals area;
- to provide housing at affordable and sustainable rent levels;
- to develop through conversions and new buildings other types of housing such as those for the elderly and single people, and for those seeking low cost home ownership.

Review

Following the implementation of the Statement of Recommended Practice – Accounting by registered social housing providers – Update 2010 (SORP 2010), the Association has implemented component accounting. As a result of the changes brought about by the SORP 2010 and the detailed guidance of the Technical Notes, the Association has adopted a new accounting policy, which has resulted in a prior period adjustment. The 2011 comparative figures have been restated. This is further explained in Note 25 to the financial statements.

We are now one year on (and three days, to be exact) from our acquisition of over 1,500 GHA homes in the Gorbals and this last year has been, as I said it would be, an extremely challenging one. Indeed, in many ways it has turned out to be our most challenging ever.

We made a lot of pledges to the GHA tenants who voted so overwhelmingly for transfer to us and we have been busy making sure these pledges are fulfilled. Many already have been fulfilled and those which have not are in the pipeline and will be delivered over the next year or so.

It has not only been the many challenges of the transfer and expansion which have been occupying us over the last year. We have also been extremely busy progressing our projects across the Gorbals, particularly with the near completion of the 49 unit new build at McNeil Street / Ballater Street and the commencement of the 201 unit Phase 1 new build in Laurieston. Indeed, we believe that the Laurieston new build may perhaps be the single biggest Housing Association new build project to go ahead in a single phase in Scotland, ever.

In amongst all of these demands we have tried to remain focused on what's important to our tenants, particularly as so many face financial difficulties and hardship. In this year's Business Plan we have made the alleviation of fuel poverty our top priority and, over the coming years, we will be looking at what we can do to maximise the energy efficiency of our housing stock and help our tenants operate their heating and energy systems as cheaply as possible.

NEW GORBALS HOUSING ASSOCIATION LIMITED

REPORT OF COMMITTEE OF MANAGEMENT

31 MARCH 2012 (Continued)

Turnover

Turnover of £9,841,376 (2011 £5,997,559) relates to the income from the letting of properties at affordable rents and the provision of factoring services. In addition to turnover in 2011 there was an exceptional credit of £17,848,996 relating to the dowry received for the second stage transfer undertaken in the year as included in note 23.

Financing and Liquidity

During the year further loans of £14,948,882 (2011: £3,562,157) were drawn down. Under the terms of the financing agreement, there are a number of financial and operational covenants that limit the Association's operating and financial flexibility. A failure to comply with any of these covenants could result in default under the agreement and an acceleration of repayment of the debt outstanding.

Treasury Management

The Association has an active treasury management function, which operates in accordance with the Treasury Policy approved by the Committee of Management. In this way the Association manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and liquid resources held.

The Association, as a matter of policy, does not enter into transactions of a speculative nature. At 31 March 2012 £8,456,034 (27%) (2011 £8,818,309 (53%)) of borrowings were subject to fixed rates of interest in excess of two years. At 31 March 2012 the Association had £nil (2011: £nil) in undrawn loan facilities.

Transfers to Designated Resources

The results for the year are shown in the Income and Expenditure Account on page 12.

Members of Committee of Management

The Members of the Committee of the Association during the year to 2012 were as follows:

| | | | |
|--------------------|-------------|------------|-------------------------------|
| (Chairperson) | E. Bradley | (Member) | W. Sharkey |
| (Vice Chairperson) | R. Shannon | (Member) | L. Malone |
| (Secretary) | J. Miller | (Member) | J. Hewitt – resigned May 2011 |
| (Member) | S. Cameron | (Member) | W. Campbell |
| (Member) | E Peden | (Member) | T. Smart |
| (Member) | A. Owsianka | (Member) | W. Findlay |
| (Member) | W. Muir | (Member) | N. McDaid |
| (Member) | L. Nimmo | (Co-optee) | K. Adams-McKenzie |

NEW GORBALS HOUSING ASSOCIATION LIMITED

REPORT OF COMMITTEE OF MANAGEMENT

31 MARCH 2012 (Continued)

Component Accounting

New Gorbals has adopted Component Accounting into its financial statements this year in compliance with the SORP 2010. Major Components (Note 1) of our buildings are identified and depreciated over specific economic life spans. Their replacement is then capitalised in the accounts as they occur. There are resulting prior year adjustments shown to the relevant notes to the accounts and detailed in Note 25.

Fixed Assets

Changes in fixed assets in the year are set out in notes 7 and 8 of the financial statements.

Future Developments

The Association will continue with its policy of improving the quality of housing and housing services within its area of activity working with its existing and new partners.

Credit Payment Policy

The Association's policy concerning the payment of its trade creditors complies with the Confederation of British Industry guidelines. The Association's standard payment terms are 30 days.

Estate Maintenance

The Association acts as factor to over one thousand owner-occupiers in the Gorbals area. Accounts are issued each year to recover the costs of common maintenance.

Maintenance Policies

The Association seeks to maintain its properties to the highest standard. To this end, programmes of cyclical repairs are carried out in the medium term to deal with the gradual and predictable deterioration of building components. It is expected that the cost of all these repairs would be charged to the Income and Expenditure Account.

In addition the Association has a long-term programme of major repairs to cover for works which have become necessary since the original development was completed, including works required by subsequent legislative changes. This includes replacement or repairs to features of the properties, which have come to the end of their economic lives. In line with the SORP 2010, replacements to building components (as identified in Note 1) are capitalised in the accounts as they occur. All other major repairs are charged to the Income and Expenditure account.

Employee Involvement and Health & Safety

The Association encourages employee involvement in all major initiatives.

Quality and Integrity of Personnel

The integrity and competence of personnel are ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the Director.

NEW GORBALS HOUSING ASSOCIATION LIMITED

REPORT OF COMMITTEE OF MANAGEMENT

31 MARCH 2012 (Continued)

Going Concern

The Committee of Management has reviewed the results for this year and has also reviewed the projections for the next five years. It, therefore, has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in these financial statements.

Budgetary Process

Each year the Committee of Management approves the annual budget and rolling three-year strategic plan. Key risk areas are identified. Performance is monitored and relevant action taken throughout the year through quarterly reporting to the Committee of variances from the budget, updated forecasts for the year together with information on the key risk areas. Approval procedures are in place in respect of major areas of risk such as major contract tenders, expenditure and treasury management.

Rental income

The Association's Rent Policy is a points system based on the size, type and facilities of the accommodation. The policy ensures that the rent structure is easy to administer and covers the wide variations within the Association's properties. The point's value is reviewed annually to ensure that the rents cover the required costs. This policy follows the generally accepted practice/principles of the Housing Movement.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Association may continue. It is the policy of the Association that training, career development and promotion opportunities should be available to all employees.

Information for auditors

As far as the Committee members are aware there is no relevant audit information of which the auditors are unaware and the Committee members have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to ensure that the auditors are aware of any such information.

Auditors

Baker Tilly UK Audit LLP has indicated its willingness to continue in office as auditors to the Association.

On behalf of the Committee of Management

187 Crown Street
Gorbals
Glasgow


J Miller
Secretary

Date:10/3/12.....

NEW GORBALS HOUSING ASSOCIATION LIMITED

STATEMENT OF COMMITTEE RESPONSIBILITIES

31 MARCH 2012

The Committee of Management is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Under the legislation relating to Industrial and Provident Societies the Committee of Management are required 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 of that period. In preparing those financial statements the Committee of Management are required to:

- select suitable accounting policies and apply them consistently;
- observe the methods and principles in the RSL SORP;
- make reasonable and prudent judgements and estimates;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Committee of Management is also responsible for:

- keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the RSL and 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) 2007;
- safeguarding the Association's assets; and
- taking reasonable steps for the prevention and detection of fraud.

NEW GORBALS HOUSING ASSOCIATION LIMITED

COMMITTEE OF MANAGEMENT'S STATEMENT ON INTERNAL FINANCIAL CONTROL

31 MARCH 2012

The Committee of Management acknowledge their ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the various business environments 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 proper authorisation and recording of transactions;
- the maintenance of proper accounting records; and
- the safeguarding of assets (against unauthorised use or disposition).

It is the Committee of Management'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 include ensuring that;

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

NEW GORBALS HOUSING ASSOCIATION LIMITED

COMMITTEE OF MANAGEMENT'S STATEMENT ON INTERNAL FINANCIAL CONTROL

31 MARCH 2012

(Continued)

The Committee of Management have implemented a system of internal financial control in the Association during the year ended 31 March 2012. This was reviewed between the year-end and the below date. The proper implementation of this will ensure that there are no weaknesses in internal financial controls, which could result in material losses, contingencies, or uncertainties, which require disclosure in the financial statements, or in the auditors' report on the financial statements.

By order of the Committee of Management


J Miller

Date:10/12/12.....

NEW GORBALS HOUSING ASSOCIATION LIMITED

AUDITORS' REPORT ON CORPORATE GOVERNANCE MATTERS

Corporate Governance

In addition to our audit of the accounts, we have reviewed the Committee of Management's statement on pages 8 and 9 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 Bulletin 2009/4 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 pages 8 and 9 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.

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP
Statutory Auditors
Chartered Accountants
Glasgow
G2 3EH

Date: *11 September 2012*

NEW GORBALS HOUSING ASSOCIATION LIMITED

AUDITORS' REPORT TO THE MEMBERS OF

NEW GORBALS HOUSING ASSOCIATION LIMITED

We have audited the financial statements of New Gorbals Housing Association Limited for the year ended 31 March 2012 on pages 12 to 36. 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 auditor's 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 the Committee of Management and auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 7, the Committee of Management are responsible for the preparation of the financial statements and for being satisfied that they 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 of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, Schedule 7 of 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 have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Association has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account of the Association; or
- we have not received all the information and explanations we require for our audit.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP
Statutory Auditor
Breckenridge House
274 Sauchiehall Street
Glasgow
G2 3EH

Date: *11 September 2012*

NEW GORBALS HOUSING ASSOCIATION LIMITED

INCOME & EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2012

| | Notes | 2012 £ | 2011 As restated £ |
|---|-------|-------------|--------------------------|
| Turnover | 2 | 9,841,376 | 5,997,559 |
| Exceptional item: Dowry received for second stage transfer | 23 | - | 17,848,996 |
| | | <hr/> | <hr/> |
| | | 9,841,376 | 23,846,555 |
| Less: Operating costs | 2 | (9,135,288) | (4,967,651) |
| Operating Surplus | 2 | 706,088 | 18,878,904 |
| Gain on sale of fixed assets | | 107,030 | 26,500 |
| Interest receivable | | 331,631 | 4,653 |
| Interest payable | 4 | (785,879) | (372,051) |
| Other finance income | 14 | 13,000 | - |
| | | <hr/> | <hr/> |
| Surplus on ordinary activities before tax | | 371,870 | 18,538,006 |
| Taxation on surplus on ordinary activities | 5 | - | - |
| | | <hr/> | <hr/> |
| Surplus for year after tax | 18 | 371,870 | 18,538,006 |
| | | <hr/> | <hr/> |

The results for 2011 and 2012 relate wholly to continuing activities.

**STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS FOR THE YEAR
ENDING 31 MARCH 2012**

| | 2012 £ | 2011 As restated £ |
|---|-----------|--------------------------|
| Surplus for the year | 371,870 | 18,538,006 |
| Prior period adjustment (note 25) | (679,822) | - |
| Actuarial loss on pension scheme (note 14) | (155,000) | 116,000 |
| | <hr/> | <hr/> |
| Total surpluses and deficits recognised since last reporting period | (462,952) | 18,654,006 |
| | <hr/> | <hr/> |

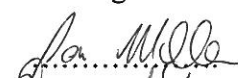


NEW GORBALS HOUSING ASSOCIATION LIMITED

BALANCE SHEET

AS AT 31 MARCH 2012

| | Notes | 2012 | 2011 |
|--|-------|---------------------|---------------------|
| | | £ | As restated £ |
| Tangible Fixed Assets | | | |
| Housing properties | | | |
| - gross cost less depreciation | 7 | 83,391,976 | 78,723,767 |
| SHG and other grants | 7 | <u>(65,438,365)</u> | <u>(61,831,137)</u> |
| | | 17,953,610 | 16,892,630 |
| Other fixed assets | 8 | <u>827,830</u> | <u>643,390</u> |
| | | 18,781,441 | <u>17,536,020</u> |
| Current Assets | | | |
| Stock | 9 | 270,565 | |
| Debtors | 10 | 12,213,404 | 1,089,115 |
| Cash at hand and in Bank | | <u>22,574,400</u> | <u>19,940,076</u> |
| | | 35,058,369 | 21,029,191 |
| Current Liabilities | | | |
| Creditors due within one year | 11 | <u>(2,763,289)</u> | <u>(2,319,660)</u> |
| Net current assets | | <u>32,295,080</u> | <u>18,709,531</u> |
| Total assets less current liabilities | | 51,076,521 | 36,245,551 |
| Creditors due after more than one year | 12 | (30,645,930) | (16,184,840) |
| Pension liability | 14 | <u>(227,000)</u> | <u>(229,000)</u> |
| Net Assets | | <u>20,203,591</u> | <u>19,831,711</u> |
| Capital and Reserves | | | |
| Share capital | 17 | 172 | 162 |
| Designated reserves | 6 | 20,004,128 | 20,004,128 |
| Revenue reserve | 18 | 199,291 | (401,579) |
| Pensions reserve | | <u>-</u> | <u>229,000</u> |
| Total shareholders' funds | | <u>20,203,591</u> | <u>19,831,711</u> |

These financial statements were approved by the Committee of Management and authorised for issue on 10.11.12 and signed on their behalf by:

Secretary: 
 Member: 
 Member: 

NEW GORBALS HOUSING ASSOCIATION LIMITED

CASH FLOW STATEMENT

YEAR TO 31 MARCH 2012

| | 2012 | | 2011 |
|--|------------------|---------------------|-------------------|
| | £ | £ | As restated £ |
| Net cash (outflow)/inflow from operating activities | | (9,803,062) | 19,192,638 |
| Returns on investments and servicing of finance | | | |
| Interest received | 331,631 | | 4,653 |
| Interest paid out | <u>(785,879)</u> | | <u>(372,051)</u> |
| Net cash outflow from returns on investments and servicing of finance | | (454,248) | (367,398) |
| Taxation | | | |
| Corporation tax paid | - | | (74,528) |
| Less: Grants received | <u>-</u> | | <u>-</u> |
| Net cash (outflow) on taxation | | - | (74,528) |
| Investing activities | | | |
| Payments to acquire housing properties | (5,241,080) | | (2,512,098) |
| Purchase of other fixed assets | (244,939) | | (38,523) |
| HAG and other grants received | 3,607,228 | | 2,305,386 |
| Sales of tangible fixed assets – properties | 107,030 | | 26,500 |
| Net cash outflow from investing activities | | <u>(1,771,761)</u> | <u>(218,735)</u> |
| Net cash (outflow)/inflow before financing | | <u>(12,029,071)</u> | <u>18,531,977</u> |
| Financing | | | |
| Issue of share capital | 13 | | 12 |
| Loans repaid | (518,221) | | (4,054,358) |
| Loans received | 14,948,882 | | 3,562,157 |
| Net cash inflow/(outflow) from financing | | <u>14,484,674</u> | <u>(492,189)</u> |
| Increase in cash | | <u>2,401,603</u> | <u>18,039,788</u> |

Further details are given in note 19.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

1. Principal Accounting Policies

The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered with the Financial Services Authority. The accounts have been prepared in compliance with The Registered Social Landlords Accounting Requirements (Scotland) Order 2007 and The Statement of Recommended Practice (SORP), "Accounting by Registered Social Housing Providers Update 2010" and applicable Accounting Standards. The Association has adopted early the requirements of the SORP Update 2010 in respect of "Commercial acquisitions".

a) Basis of Preparation

The accounts are prepared under the historical cost convention and on a going concern basis.

b) Turnover

Turnover relates to the income from the letting of properties at affordable rents, and the supply of factoring services. In addition, last year a dowry was received in respect of the stock transfer and recognised as turnover in line with the statement of recognised produce: Accounting by Registered Social Housing Landlords Update 2010.

c) Fixed assets - Housing land and buildings

Properties included in housing properties are stated at cost. The cost of such properties includes the following:

- (i) cost of acquiring land and buildings
- (ii) development expenditure including applicable overheads
- (iii) interest charged on the loans raised to finance the scheme

These costs are either termed "qualifying costs" by the grant awarding body for approved HAG schemes and are considered for mortgage loans by the relevant lending authorities or they are met out of the Association's reserves.

Shared ownership properties are included in housing properties at cost, less any provisions needed for depreciation or impairment.

All invoices and architects' certificates relating to capital expenditure incurred in the year at gross value before retentions are included in the financial statements for the year, provided that the dates of issue or valuations are prior to the year end.

Development costs are capitalised to the extent that they are attributable to specific schemes and where such costs are not felt to be excessive.

If expenditure does not qualify for HAG, it is nevertheless capitalised.

Expenditure on schemes which are subsequently aborted is written off in the year in which it is recognised that the scheme will not be developed to completion.

Interest on the loan financing the development is capitalised up to the relevant date of completion.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

d) Housing Association Grants

Housing Association Grants (HAG) are used to reduce the bank loan in respect of an approved scheme. The amount of HAG is calculated on the qualifying cost of the scheme in accordance with instructions issued by the grant awarding body. HAG and other grants are repayable under certain circumstances. These include the disposal of the properties to which the grants relate.

e) Depreciation

Housing Land and Buildings

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 each major component that makes up the housing property as follows;

| | |
|----------------------------|-----------------|
| Land | Not depreciated |
| Structure | Over 50 years |
| Windows | Over 45 years |
| Central heating - pipework | Over 45 years |
| Roof | Over 40 years |
| Lifts | Over 30 years |
| Bathroom | Over 25 years |
| District Boilers | Over 20 years |
| Electric Heating | Over 15 years |
| Boilers | Over 15 years |
| Kitchens | Over 15 years |
| Overbath Shower | Over 7 years |

Other Fixed Assets

A full year's depreciation is charged in the year of acquisition but no charge is made in the year of disposal. Depreciation is charged at rates estimated to write off costs less the estimated residual value over the expected useful life, as follows:

| | |
|------------------------------------|---------------------|
| Office Premises | - 2% straight line |
| Furniture and Fittings & equipment | - 25% straight line |

f) Impairment of fixed assets

Reviews for impairment of housing properties are carried out on an annual basis and any impairment in an income-generating unit is recognised by a charge to the income and expenditure account. Impairment is recognised where the carrying value of an income-generating unit exceeds the higher of its net realisable value or its value in use. Value in use represents the net present value of expected future cash flows from these units.

Impairment of assets would be recognised in the income and expenditure account.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

g) Major Repairs Reserve

Accrued major repair expenditure, being the Association's commitment to undertake major repairs to its properties, is set aside in a designated reserve.

h) Cyclical Maintenance Reserve

The reserve is based on the Associations' Liability to maintain the housing properties in accordance with a planned program of works.

i) Pension

The Association participates in the centralised Scottish Federation of Housing Association's (SHAPs) 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 to the independently administered Pensions Trust in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

The expected cost to the Association of pensions is charged to income so as to spread the cost of pensions over the service lives of the employees in the scheme taken as a whole.

The Association, as a result of staff transferring during the GHA stock transfer, is now an admitted member of Strathclyde Pension Fund (SPF). The basis of admittance is that of a closed scheme and only transferred employees who already are or wish to join can be a member of this scheme. Retirement benefits to these employees are funded by the contributions from all participating employers and employees in the Fund. Payments are made to the independently administered Fund in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating member employers. As a closed scheme a slightly higher calculated rate is payable by the Association to reflect the limited future membership of the scheme.

The Association has fully adopted accounting standard FRS17 'Retirement Benefits' for the SPF Scheme. The impact of this standard has been reflected throughout the financial statements.

The SPF Scheme is a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. The contributions are determined by qualified actuaries on the basis of periodic valuations using the projected unit method.

For defined benefit schemes the amount charged to the Income and Expenditure account in respect of pension costs and other post retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The interest cost and expected return on assets are included within other finance costs.

Defined benefit schemes are funded, with the assets held separately from the company in separate trustee administered funds. Full actuarial valuations, by a professionally qualified actuary, are obtained at least every three years, and updated to reflect current conditions at each balance sheet date. The pension scheme assets are measured at fair value. The pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

i) Pension (cont.)

A pension scheme asset is recognised on the balance sheet only to the extent that the surplus may be recovered by reduced future contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent that the company has a legal or constructive obligation to settle the liability.

A reserve equal to the amount of any pension liability is established.

j) Apportionment of Management Expenses

Direct employee administration and operating costs have been apportioned to the income and expenditure account cost centres on the basis of the time spent by the staff that are directly engaged in each of the operations dealt with in those accounts.

k) Allocation of Owner Occupier Income

Monies charged and received from owner-occupiers for common feu maintenance is credited into the income and expenditure account within the accounting period in which it is charged.

l) Sale of housing properties

Properties are disposed of under the appropriate legislation and guidance. All costs and grants relating to the share of property sold are removed from the financial statements at the date of sale, except for first tranche sales. Any grants received that cannot be repaid from the proceeds of sale are abated and the grants removed from the financial statements.

First tranche Shared Ownership disposals are credited to turnover on completion, the cost of construction of these sales is taken to operating costs. Disposals of subsequent tranches are treated as fixed asset disposals with the gain or loss on disposal taken to the income and expenditure account, in accordance with the Statement of Recommended Practice.

Disposals under shared equity schemes are accounted for in the income and expenditure account. The remaining equity in properties sold before 1 April 2008 is treated as a fixed asset investment, which is matched with the grant received. For properties sold after 1 April 2008 the standard security over the remaining equity lies with the Scottish Government and is therefore not reflected in the Association's balance sheet.

m) Improvements

In previous years, improvements are capitalised where these result in an enhancement of the economic benefits of the property. Such enhancement can occur if the improvements result in:-

- an increase in rental income or
- a material reduction in future maintenance costs or
- a significant extension of the life of the property.

Works to existing properties, which fail to meet the above criteria, are charged to the income and expenditure account.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

m) Improvements (cont.)

The adoption of Component Accounting during the year represents a change in accounting policy. Previously the major components of the Association's housing properties were deemed to be land and buildings. The major components are now deemed to be Land, Structure, Roofs, Windows, Kitchens, Bathrooms and Central Heating. Each component has a substantially different economic life and is depreciated over this individual life. Depreciation rates are shown in Note 1(e). The new accounting policy is compliant with the SORP 2010.

n) Value added tax

The Association is VAT registered. However, a large proportion of the Association's income, namely rents, is exempt for VAT purposes and therefore gives rise to a partial exemption calculation. Expenditure as a result is shown inclusive of VAT.

o) Stock

Stock represents new sums spent to date on shared equity properties. No element of profit is included in the valuation of stock.

2. Particulars of turnover, operating costs and operating surplus

| | Note | Turnover £ | Operating Costs £ | Operating Surplus/ (Deficit) £ | 2011 Total £ |
|--------------------------------|------|-------------------|-------------------------|---|--------------------|
| Social lettings | 3a | 8,893,362 | 7,931,422 | 961,940 | 1,193,334 |
| Other Activities - General | 3b | 948,014 | 1,203,866 | (255,852) | (163,426) |
| | | <u>9,841,376</u> | <u>9,135,288</u> | <u>706,088</u> | <u>1,029,908</u> |
| Other Activities – Exceptional | 3b | - | - | - | 17,848,996 |
| | | <u>9,841,376</u> | <u>9,135,288</u> | <u>706,088</u> | <u>18,878,904</u> |
| As restated 2011 | | <u>23,846,555</u> | <u>(4,967,651)</u> | <u>18,878,904</u> | |

NEW GORBALS HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2012
(Continued)**

3a. Particulars of income and expenditure from lettings

| | General Needs Housing | Supported Housing | Shared Ownership | 2012 Total | 2011 As restated Total |
|--|----------------------------------|------------------------------|-----------------------------|-----------------------|---------------------------------------|
| | £ | £ | £ | £ | £ |
| Income from lettings | | | | | |
| Rent receivable net of | | | | | |
| Identifiable Service Charges | 8,298,015 | 246,332 | 33,332 | 8,577,679 | 4,700,175 |
| Service Charges | 324,097 | 52,791 | 5,930 | 382,818 | 285,580 |
| Gross income from rents and service charges | 8,622,112 | 299,123 | 39,262 | 8,960,497 | 4,985,755 |
| Less: Voids | (57,322) | (9,813) | - | (67,135) | (9,545) |
| | 8,564,790 | 289,310 | 39,262 | 8,893,362 | 4,976,210 |
| Grants from the Scottish Ministers | - | - | - | - | - |
| Total Income from Social Letting Activities | 8,564,790 | 289,310 | 39,262 | 8,893,362 | 4,976,210 |
| Expenditure on Letting Activities | | | | | |
| Service costs | 2,109,462 | 61,647 | 6,016 | 2,177,125 | 635,726 |
| Management and maintenance administration costs | 2,437,483 | 67,560 | 23,164 | 2,528,207 | 1,456,964 |
| Planned and cyclical maintenance including major repair costs | 1,182,644 | 8,821 | - | 1,191,465 | 573,040 |
| Reactive maintenance costs | 1,374,340 | 17,133 | 36 | 1,391,509 | 504,943 |
| Bad debts – rents and service charges | 65,328 | 3,512 | 1,405 | 70,245 | 26,934 |
| Depreciation of social housing | 572,871 | - | - | 572,871 | 585,269 |
| Operating costs for social letting activities | 7,742,128 | 158,673 | 30,621 | 7,931,422 | 3,782,876 |
| Operating Surplus for social letting | 822,662 | 130,637 | 8,641 | 961,940 | 1,193,334 |
| Operating Surplus for social letting – 2011 as restated | 1,047,551 | 149,167 | (3,384) | 1,193,334 | |

The amount of service charges receivable on housing accommodation not eligible for Housing Benefit was £nil (2011 - £nil).

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2012
 (Continued)

3b 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 | Other operating costs | Operating surplus or deficit | Operating surplus or deficit for previous period of account |
|---|--------------------------------|----------------------|--------------------------|----------------|----------------|-----------------------------|-----------------------|------------------------------|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Wider Action/wider role | - | - | - | - | - | - | - | - | - |
| Care and repair of property | - | - | - | - | - | - | - | - | - |
| Factoring | - | - | - | 912,052 | 912,052 | (10,963) | (874,996) | 26,093 | 3,906 |
| Development activities | - | - | - | - | - | - | - | - | - |
| Support activities | - | - | - | - | - | - | - | - | - |
| Care activities | - | - | - | - | - | - | - | - | - |
| Agency services for RSLs | - | - | - | - | - | - | - | - | 6,464 |
| Other agency/management services | - | - | - | - | - | - | - | - | - |
| Developments for sale to RSLs | - | - | - | - | - | - | - | - | - |
| Developments and improvements for sale to non Registered social landlords, (including first tranche shared ownership sales) | - | - | - | - | - | - | - | - | - |
| Stock transfer dowry (note 23) - Exceptional | - | - | - | - | - | - | - | - | 17,848,996 |
| Other activities | - | - | - | 35,962 | 35,962 | - | (317,907) | (281,945) | (173,796) |
| Total from other activities | - | - | - | 948,014 | 948,014 | (10,963) | (1,192,903) | (255,852) | 17,685,570 |
| 2011 | - | 127,691 | - | 18,742,654 | 18,870,345 | (21,882) | (1,162,893) | 17,685,570 | |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

4. Interest payable

| | 2012 | 2011 |
|-------------------------|---------|---------|
| | £ | £ |
| Total interest incurred | 785,879 | 372,051 |
| Capitalised interest | - | - |
| | - | - |

5. Taxation

The Association gained charitable status in the year ending 31 March 2010 and is no longer liable for tax on its ordinary activities.

6. Designated Reserves

| | Opening Balance | Transfer from Reserve | Closing Balance |
|--|--------------------|--------------------------|--------------------|
| | £ | £ | £ |
| Major Repair Reserve | 19,752,688 | - | 19,752,688 |
| Cyclical and current maintenance reserve | 251,440 | - | 251,440 |
| | 20,004,128 | - | 20,004,128 |

The major repair reserve is expected to be released in line with our major repair programme in 2012/13 and 2013/14.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

As at 31 MARCH 2012
(Continued)

7. Tangible Assets – Housing properties

| | Housing Properties held for letting £ | Shared Ownership Properties £ | Housing Properties under Construction | Total £ |
|-----------------------------------|--|--|---|-------------|
| Cost | | | | |
| At 1 April 2011 | 83,526,047 | 1,784,388 | 1,945,030 | 87,255,465 |
| Prior Period Adjustment (Note 25) | (4,724,328) | - | - | (4,724,328) |
| As re-stated | 78,801,719 | 1,784,388 | 1,945,030 | 82,531,137 |
| Additions during the year | 679,871 | - | 4,561,209 | 5,241,080 |
| At 31 March 2012 | 79,481,590 | 1,784,388 | 6,506,239 | 87,772,217 |
| Depreciation | | | | |
| At 1 April 2011 | 1,854,092 | 140,382 | - | 1,994,474 |
| Prior Period Adjustment (Note 25) | 1,812,896 | - | - | 1,812,896 |
| As re-stated | 3,666,988 | 140,382 | - | 3,807,370 |
| Provided during the year | 572,871 | - | - | 572,871 |
| At 31 March 2012 | 4,239,859 | 140,382 | - | 4,380,241 |
| Cost less depreciation | 75,241,731 | 1,644,006 | 6,506,239 | 83,391,976 |
| Grants | | | | |
| At 1 April 2011 | 64,990,378 | 1,141,591 | 1,556,570 | 67,688,539 |
| Prior Period Adjustment (Note 25) | (5,857,402) | - | - | (5,857,402) |
| As re-stated | 59,132,976 | 1,141,591 | 1,556,570 | 61,831,137 |
| Additions during the year | 86,536 | - | 3,520,692 | 3,607,228 |
| At 31 March 2012 | 59,219,512 | 1,141,591 | 5,077,262 | 65,438,365 |
| Net Book Value | | | | |
| As at 31 March 2012 | 16,022,219 | 502,415 | 1,428,977 | 17,953,611 |
| As at 31 March 2011 as restated | 16,001,755 | 502,415 | 388,460 | 16,892,630 |

None of the Associations properties is held under a lease.

Included within additions during the year is £115,775 of major repairs capitalised.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

8. Other Fixed Assets

| | Office premises £ | Furniture, fittings and office equipment £ | Total £ |
|---------------------------|----------------------------------|---|--------------------|
| Cost | | | |
| At 1 April 2011 | 704,253 | 480,784 | 1,185,037 |
| Additions during the year | 201,443 | 43,496 | 244,939 |
| At 31 March 2012 | <u>905,696</u> | <u>524,280</u> | <u>1,429,976</u> |
| Depreciation | | | |
| At 1 April 2011 | 122,827 | 418,820 | 541,647 |
| Provided during the year | 15,651 | 44,848 | 60,499 |
| At 31 March 2012 | <u>138,478</u> | <u>463,668</u> | <u>602,146</u> |
| Net Book Value | | | |
| As at 31 March 2012 | <u>767,218</u> | <u>60,612</u> | <u>827,830</u> |
| As at 31 March 2011 | <u>581,426</u> | <u>61,964</u> | <u>643,390</u> |

There are no fixed assets held under lease agreements.

9. Stock – New supplied shared equity proportion

| | 2012 £ | 2011 £ |
|--|-------------------|-------------------|
| Cost | 740,195 | - |
| Less grants receivable from Scottish Ministers | <u>(469,630)</u> | <u>-</u> |
| | <u>270,565</u> | <u>-</u> |

10. Debtors

| Amounts falling due within one year: | 2012 £ | 2011 £ |
|---|-------------------|-------------------|
| Gross rents arrears | 794,554 | 146,558 |
| Less: bad debt provision | <u>(141,409)</u> | <u>(71,164)</u> |
| | 653,145 | 75,394 |
| Prepayments and accrued income | 57,270 | 79,583 |
| Other debtors | 11,502,989 | 934,138 |
| | <u>12,213,404</u> | <u>1,089,115</u> |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

| | 2012 £ | 2011 £ |
|--|-------------|-------------|
| 11. Creditors due within one year | | |
| Bank overdraft | 690,209 | 457,488 |
| Loans | 671,746 | 648,176 |
| Trade creditors | 543,351 | 715,371 |
| Accruals and deferred income | 206,429 | 137,514 |
| Other taxation and social security | 40,682 | 27,346 |
| Rents in advance | 142,035 | 77,399 |
| Other creditors | 268,084 | 44,979 |
| Capital works and retentions | 200,753 | 211,387 |
| | 2,763,289 | 2,319,660 |
| | | |
| 12. Creditors due after more than one year | | |
| | 2012 | 2011 |
| | £ | £ |
| Loans | 30,277,123 | 15,870,032 |
| Deferred income | 368,807 | 314,808 |
| | 30,645,930 | 16,184,840 |
| | | |
| Loans are secured by specific charges on the Association's properties at varying rates of interest ranging from 1.00% to 6.72% (2011: 1.20% to 6.72%). | | |
| | | |
| In one year or less | 671,746 | 648,176 |
| Between one and two years | 562,350 | 648,176 |
| Between two and five years | 2,586,964 | 674,327 |
| In five years or more | 27,127,808 | 14,547,530 |
| | 30,948,868 | 16,518,209 |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

13. Employees

| | 2012 | 2011 |
|--|-----------|-----------|
| | £ | £ |
| Staff costs during year | | |
| Wages and salaries | 1,637,214 | 1,037,720 |
| Social security costs | 140,100 | 85,593 |
| Other pension costs | 259,304 | 123,583 |
| | 2,036,618 | 1,246,896 |
| The average full time number of persons employed by the Association during the year were as follows: | No | No |
| Housing/Administrative and Finance Staff | 47 | 34 |

The Directors are defined as the members of the Committee of Management, the Housing Association Director and any other person reporting directly to the Housing Association Director or the Committee of Management whose total emoluments exceed £60,000 per year.

| | £ | £ |
|---|--------|--------|
| Aggregate Emoluments payable to Directors (including pension contributions and benefits in kind) | 78,747 | 76,938 |
| Emoluments payable to Highest Paid Director (excluding pension contributions) | 68,363 | 66,671 |

The emoluments of the directors whose emoluments, including pension contributions, were over £60,000

| | 2012 | 2011 |
|--------------------|------|------|
| | No | No |
| £60,001 to £70,000 | - | - |
| £70,001 to £80,000 | 1 | 1 |

The Director is an ordinary member of the Association's pension scheme described in note 14. No enhanced or special terms apply to memberships and he has no other pension arrangements to which the Association contribute. The Association's contributions for the Director in the year amounted to £10,383 (2011 - £10,267).

Total expenses reimbursed insofar as not chargeable to UK Income Tax

| | | |
|---------------------------|---|---|
| - Director | - | - |
| - Committee of Management | - | - |
| | - | - |

No member of the Committee of Management received any emoluments in respect of their services to the Association.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

14. Pension Fund – Scottish Housing Associations Pension Scheme

New Gorbals Housing Association Limited participates in the SHAPS (the "Scheme"). The Scheme is funded and is contracted out of the State Pension scheme.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to an individual participating employer 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.

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 last formal valuation of the Scheme was performed at 30 September 2009 by a professionally qualified actuary using the Projected Unit Credit method. The market value of the Scheme's assets as at the valuation date was £295 million. The valuation showed a shortfall of assets compared to liabilities of £160 million, 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 30 September 2011. 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 £341 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £207 million, equivalent to a past service funding level of 62.2%

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 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 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 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 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.

New Gorbals Housing Association Limited has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the SFHA Scheme based on the financial position of the Scheme as at 30 September 2011. As of this date the estimated employer debt for New Gorbals Housing Association Limited was £3,824,994.

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

14. Pension Fund – Scottish Housing Associations Pension Scheme (continued)

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.

New Gorbals Housing Association has elected to operate the final salary with a 1/60th accrual rate benefit option for active members as at 31 March 2011 and the same benefit structure for new entrants.

During the accounting period New Gorbals Housing Association paid contributions at the rate of 9.6% of pensionable salaries. Member contributions were 9.6%.

As at the balance sheet date there were 23 active members of the Scheme employed by New Gorbals Housing Association. The annual pensionable payroll in respect of these members was £819,228.

New Gorbals Housing Association continues to offer membership of the Scheme to its employees.

The key valuation assumptions used to determine the assets and liabilities of the Scottish Housing Associations' Pension Scheme are:

| 2009 Valuation Assumptions | % 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 post 6 April 2005 (for leavers before 1 October 1993 pension increases are 5.0%) | 2.2 |
| Rate of price inflation | 3.0 |

| Mortality Tables | |
|-------------------------|---|
| Non-pensioners | SAPS (S1PA) All Pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement |
| Pensioners | SAPS (S1PA) All Pensioners Year of Birth Long Cohort with 1% p.a. Minimum improvement |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

14. Pension Fund – Scottish Housing Associations Pension Scheme (continued)

| Contribution Rates for Future Service (payable from 1 April 2011) | % p.a. |
|---|--------|
| Final salary 1/60ths | 19.2 |
| Career average revalued earnings 1/60ths | 17.1 |
| Career average revalued earnings 1/70ths | 14.9 |
| Career average revalued earnings 1/80ths | 13.2 |
| Career average revalued earnings 1/120ths | 9.4 |
| Additional rate for deficit contributions* | 10.4 |

(*expressed in nominal pound terms (for each employer) increasing each 1 April in line with the rate of salary increases assumption. Earnings as at 30 September 2009 are used as the reference point for calculation the additional contributions).

New Gorbals Housing Association has been notified by the Pension Trust of the Scottish Housing Association Pension Scheme (SHAPS) that past service deficit contributions payable for the year to 31 March 2013 is £92,634.

Pensions Fund – Strathclyde Pension Fund

Some of the Associations employees belong to the Strathclyde Pension Fund which is administered by Glasgow City Council and is a defined benefit scheme. The assets of the scheme are held separately from those of the Association in investments under the overall supervision of the Fund Trustees. The last full actuarial valuation was carried out at 31 March 2012. The next full actuarial valuation is due as at 31 March 2015. The following information was updated for FRS 17 purposes to 31 March 2012 by a qualified independent actuary

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. The principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

| | 2012 | 2011 |
|--|------|------|
| Discount rate | 4.8% | 5.5% |
| Expected rate of return on plan assets | 5.8% | 6.9% |
| Future salary increases | 4.8% | 5.1% |
| Inflation | 2.5% | 2.8% |

In valuing the liabilities of the pension fund at 31 March 2012, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 21.0 years (male), 23.4 years (female)
- Future retiree upon reaching 65: 23.3 years (male), 25.3 years (female).

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

14. Pension Fund – Scottish Housing Associations Pension Scheme (continued)

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The present value of the defined benefit obligation is as follows:

| Defined Benefit Plans | 2012 £000's | 2011 £000's |
|------------------------------------|----------------|----------------|
| Opening defined benefit obligation | 1,319 | 1,427 |
| Current service cost | 60 | - |
| Interest cost | 75 | 1 |
| Actuarial losses/(gains) | 170 | (109) |
| Contributions by members | 23 | - |
| Estimated benefits paid | (2) | - |
| Closing defined benefit obligation | <u>1,645</u> | <u>1,319</u> |

Movements in fair value of plan assets

| Defined Benefit plans | 2012 £000's | 2011 £000's |
|-----------------------------------|----------------|----------------|
| Opening fair value of plan assets | 1,224 | 1,215 |
| Expected return on plan assets | 88 | 1 |
| Actuarial gains | 15 | 7 |
| Contributions by the employer | 70 | 1 |
| Contributions by the members | 23 | - |
| Estimated benefits paid | (2) | - |
| Closing fair value of plan assets | <u>1,418</u> | <u>1,224</u> |

Expense recognised in the income and expenditure account

| | 2012 | | 2011 | |
|---|-----------|--------------|----------|--------------|
| | £000's | % of pay | £000's | % of pay |
| Current service cost | 60 | 18.1% | - | 19.1% |
| Interest on defined benefit pension plan obligation | 75 | 22.8% | 1 | 30.0% |
| Expected return on defined benefit pension plan asset | (88) | (26.7%) | (1) | (35.0%) |
| | <u>47</u> | <u>14.2%</u> | <u>-</u> | <u>14.1%</u> |
| Actual return on plan assets | <u>14</u> | | <u>8</u> | |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

14. Pension Fund – Scottish Housing Associations Pension Scheme (continued)

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is as follows:

| | 2012 £000's | 2011 £000's |
|---|----------------|----------------|
| Opening Actuarial Gains | 116 | - |
| Increase/(Decrease) in irrecoverable surplus from membership fall and other factors | - | - |
| Actuarial (Losses)/Gains recognised in STRGL | (155) | 116 |
| Cumulative Actuarial Gains and Losses | (39) | 116 |

The fair value of the plan assets and the return on those assets were as follows

| | 2012 | | 2011 | |
|-----------------|--------|----|--------|----|
| | £000's | % | £000's | % |
| Equities | 1,092 | 77 | 943 | 77 |
| Corporate bonds | 156 | 11 | 159 | 13 |
| Property | 99 | 7 | 73 | 6 |
| Cash | 71 | 5 | 49 | 4 |
| | 1,418 | | 1,224 | |

Movement in surplus during the year

| | 2012 £'000's | 2011 £'000's |
|--------------------------------|-----------------|-----------------|
| (Deficit) at beginning of year | (229) | (346) |
| Adjustment to opening deficit | 134 | - |
| Current service cost | (60) | - |
| Employer contributions | 70 | 1 |
| Net return on assets | 13 | - |
| Actuarial (losses)/gain | (155) | 116 |
| (Deficit) at end of the year | (227) | (229) |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

14. Pension Fund – Scottish Housing Associations Pension Scheme (continued)

History of experience of gains and losses

| | 2012 | 2011 |
|--|-------|-------|
| Difference between expected and actual return on scheme assets - amount £000's | 15 | 7 |
| - % of scheme assets | 0.00% | 0.00% |
| Experience gain/(loss) arising on scheme - amount £000's | (1) | (1) |
| - % of scheme liabilities | 0.01% | 0.01% |
| Total amount of actuarial gain/(loss) – amount £000's | (155) | 116 |
| - % of scheme liabilities | 0.01% | 0.01% |

The amounts recognised in the balance sheet are as follows:

| | 2012 £000's | 2011 £000's |
|-------------------------------------|----------------|----------------|
| Present value of scheme liabilities | (1,645) | (1,319) |
| Fair value of scheme assets | 1,418 | 1,224 |
| (Deficit) | (227) | (95) |

New Gorbals Housing Association Limited expects to contribute £74,359 (2011 - £70,359) to the Strathclyde Pension Fund in the coming year.

15. Related Parties

Tenants, sharing owners and owners who are members of the Committee of Management are not treated differently to any other tenants or owners. City Councilors who are members of the Committee of Management declare their interests relating to relevant decisions taken by the Association or the City Council.

16. Auditors' Remuneration

| | 2012 £ | 2011 £ |
|---|-----------|-----------|
| The remuneration of the auditors (including expenses and including VAT for the year) | 14,515 | 11,088 |
| Remuneration of the auditors in respect of services other than those of auditors- corporation tax | - | - |
| | 14,515 | 11,088 |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

| 17. Share Capital | 2012 | 2011 |
|---|------|------|
| | £ | £ |
| Shares of £1 fully paid and issued at beginning of year | 162 | 162 |
| Shares issued during year | 13 | 12 |
| Shares cancelled during the year | (3) | (12) |
| | 172 | 162 |

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. Revenue reserve

| | 2012 | 2011 |
|--|-----------|------------------|
| | £ | As restated £ |
| At 1 April 2011 as originally reported | 278,243 | (223,389) |
| Prior Year Adjustment (Note 25) | (679,822) | - |
| At 1 April 2011 – as restated | (401,579) | (223,389) |
| Surplus for year | 371,870 | 18,538,006 |
| Transfer to designated reserves | - | (18,487,196) |
| Transfer from/(to) pension reserve | 229,000 | (229,000) |
| At 31 March 2012 | 199,291 | (401,579) |

19. Notes to the Cash Flow Statement

| | 2012 | 2011 |
|--|--------------|------------------|
| | £ | As restated £ |
| (a) Reconciliation of operating surplus to net cash inflow from operating activities | | |
| Surplus for year before taxation | 371,870 | 18,538,006 |
| Profit on sale of fixed assets | (107,030) | (26,500) |
| Add: Interest payable | 785,879 | 372,051 |
| Less: Interest receivable | (331,631) | (4,653) |
| Less: Other finance income | (13,000) | - |
| Operating surplus for the year | 706,088 | 18,878,904 |
| Depreciation | 633,370 | 639,013 |
| Cancellation of share capital | (3) | (12) |
| (Increase)/Decrease in debtors | (11,124,289) | 477,167 |
| Increase/(Decrease) in creditors | 187,338 | (1,031,434) |
| Increase in deferred income | 53,999 | - |
| (Increase) in stock | (270,565) | - |
| Increase in pension liability | 11,000 | 229,000 |
| Net cash (outflow)/inflow from operating activities | (9,803,062) | 19,192,638 |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

19. Notes to the Cash Flow Statement (cont.)

(b) Reconciliation of net cash flow to movement in net debt

| | | |
|-------------------------------|---------------------|-------------------|
| Increase in cash for the year | 2,401,603 | 18,038,788 |
| Loans received | (14,948,882) | (3,562,156) |
| Loan repayments | 518,221 | 4,054,357 |
| Change in net debt | <u>(12,029,058)</u> | <u>18,530,989</u> |
| Net debt as at 1 April 2011 | 2,964,380 | (15,566,609) |
| Net debt as at 31 March 2012 | <u>(9,064,678)</u> | <u>2,964,380</u> |

(c) Analysis of Changes in net debt

| | As at 31 March 2011 £ | Cash Flow £ | Other Changes £ | As at 31 March 2012 £ |
|--------------------------|-----------------------------|---------------------|-----------------------|-----------------------------|
| Cash at bank and in hand | 19,940,076 | 2,634,324 | - | 22,574,400 |
| Bank Overdrafts | (457,488) | (232,721) | - | (690,209) |
| Debt due within one year | (648,176) | 518,221 | (541,791) | (671,746) |
| Debt due after one year | <u>(15,870,032)</u> | <u>(14,948,882)</u> | 541,791 | <u>(30,277,123)</u> |
| | <u>2,964,380</u> | <u>(12,029,058)</u> | - | <u>(9,064,678)</u> |

20. Capital Commitments

| | 2012 £ | 2011 £ |
|--|-------------------|-------------------|
| Expenditure authorised by the Committee of Management less certified | <u>51,200,000</u> | <u>57,100,000</u> |

This will be funded by £44.3m of Housing Association Grant funding and £12.8m of private finance.

21. Contingent Liabilities

Communities Scotland Stock Transfer

Various financial provisions were incorporated in the legal documentation when the Association acquired housing stock from Communities Scotland in 2002. The Association is required to account for major repair, capital expenditure and sales of properties under the Right to Buy legislation. At 31 March 2012, the Association had not breached these provisions.

Housing Association Grant allocated to components (as detailed in Note 1 (d)) that have subsequently been replaced by the Association are recognised in the Income and Expenditure account, with the cost of the replacement and any additional funding for this replacement being capitalised. The recycled grant recognised in the Income and Expenditure account at 31 March 2012 was £156,052 (2011: £156,052).

At 31 March 2012, the Association had no other contingent liabilities (2011 - £nil).

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

22. Unit numbers

| | 2012 | 2011 |
|------------------|-------|-------|
| | £ | £ |
| General needs | 2,488 | 2,505 |
| Supported | 84 | 104 |
| Shared ownership | 24 | 24 |
| | 2,596 | 2,633 |

23. Stock Transfer

During the previous year, on 28 March 2011, the Association undertook a Stock Transfer with Glasgow Housing Association. The Association acquired property, fixtures and fittings, rent arrears and a pension liability. The Association received a dowry payment along with the stock transfer. Funds of £17,922,975 were paid to the Association to take the stock in recognition of future repair and improvement work that is required to these properties. The transfer included £117,060 in relation to rent arrears acquired and £37,961 for a prepayment of a lease. Off set against this was a pension deficit of £229,000 related to the transfer of staff to the Association from Glasgow Housing Association.

At the year end the Association had the following balances included within the balance sheet relating to the Stock Transfer undertaken at the year end:

| | £ |
|--------------------------------|------------|
| Rent arrears | 117,060 |
| Prepayments and accrued income | 37,961 |
| Cash balances | 17,922,975 |
| Pension liability | (229,000) |
| Stock transfer dowry | 17,848,996 |

24. Reconciliation of Funds

| | 2012 | 2011 |
|--|------------|------------------|
| | £ | As restated £ |
| At 1 April 2011 as originally reported | 20,511,533 | 1,293,705 |
| Prior Year Adjustment (Note 25) | (679,822) | - |
| At 1 April 2011 as restated | 19,831,711 | 1,293,705 |
| Surplus for year | 371,870 | 18,538,006 |
| New Shares Issued | 13 | 12 |
| Shares Cancelled | (3) | (12) |
| Net Change in Funds | 371,880 | 18,538,006 |
| At 31 March 2012 | 20,203,591 | 19,831,711 |

NEW GORBALS HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2012

(Continued)

25. Prior Period Adjustment- Component Accounting

Following the implementation of the Statement of Recommended Practice – Accounting by registered social housing providers – Update 2010 (SORP 2010), the Association has implemented component accounting. As a result of the changes brought about by the SORP 2010 and the detailed guidance of the Technical Notes, the Association has adopted a new accounting policy, which has resulted in a prior period adjustment.

The principle of component accounting is to account separately for each major component of a property asset with substantially different useful economic lives, and to depreciate them over their useful economic life. This has resulted in major works expenditure written off in prior years being capitalised, and an additional depreciation charge being recognised. In total this has led to an adjustment as at 31 March 2010 of a reduction of fixed assets of £601,411. This is represented by a decrease in cost of £4,832,298 a reduction in HAG of £5,857,402 and an increase in accumulated depreciation of £1,626,515.

The effect of this change on the comparative year's figures of 2011 has been to:

| | £ |
|---|-----------------|
| Increase depreciation charge | (186,381) |
| Decrease major works charged against income | <u>107,970</u> |
| Decrease in the surplus for the year | <u>(78,411)</u> |

In addition the effect upon the balance sheet has been to:

| | |
|--|--------------------|
| Decrease fixed asset cost | (4,724,328) |
| Decrease fixed asset HAG | 5,857,402 |
| Increase fixed asset depreciation | <u>(1,812,896)</u> |
| Net movement in the balance sheet - decrease | <u>(679,822)</u> |