

PARAGON HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

Registered Housing Association No. 298

Financial Services Authority No. 2521R (S)

Charity No. SCO36262

BAKER TILLY UK AUDIT LLP
Chartered Accountants

Edinburgh

PARAGON HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

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Registration Particulars:

Financial Services Authority	Industrial and Provident Societies Act 1965 Registered Number 2521R (S)
Scottish Housing Regulator	Housing (Scotland) Act 2001 Registered Number 298
Charity Number	SCO36262

PARAGON HOUSING ASSOCIATION LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

31 MARCH 2010

Committee of Management

Flora Wallace	Chairperson
Helen Forrest	Vice Chairperson
Jean Murray	
Tina Murphy	
Susan Robertson	Treasurer
Elisabeth Campbell	
Cllr Kenneth Earle	Representing Clackmannanshire Council
Fiona Speirs	
Moirra Calder	
Sheila Davies	
Jim Morrison	
Lillian Gray	Co-opted (Resigned November 2009)
Iris Abercrombie	
Cllr Andrew Simpson	Representing Stirling Council from Oct 2008
Simone Greenshaw	Appointed September 2009

Executive Officers

Margaret Torrance	Director
Linda Banks	Finance and Investment Manager
Sheelagh Norris	Housing Manager
William Baxter	Programme and Regeneration Manager
Linda Duncan	Policy & Compliance Manager

Registered Office

Invergrange House
Station Road
Grangemouth
FK3 8DG

Bankers

The Co-operative Bank
Britannia House
10 Town Road
Hanley
Stoke-on-Trent
ST1 2QQ

Royal Bank of Scotland plc
Grangemouth Branch
2 La Porte Precinct
Grangemouth
FK3 8AS

Solicitors

HBJ Gateley Wareing
Exchange Tower
19 Canning Street
Edinburgh
EH3 8EH

External Auditors

Baker Tilly UK Audit LLP
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Internal Auditors

Alexander Sloan
38 Cadogan Street
Glasgow
G2 7HF

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2010

The Management Committee present their report and audited financial statements for the year ended 31 March 2010.

Structure, Governance and Management

Paragon Housing Association Ltd is incorporated under the Industrial and Provident Societies Act 1965 and is registered by the Financial Services Authority. Paragon is a Registered Social Landlord and a registered charity and was established under a Memorandum of Association which established the objects and powers of the Association.

The Management Committee plays a vital part in the successful running of the Association and members take part in skills development sessions. Flora Wallace, Chairperson, successfully obtained her formal SQA qualification in the "Governance of Scottish Housing Associations."

Principal Activity

The principal activity of the Association is the provision of social rented accommodation.

Review of Operations

During the period 2009/10 the Association continued to experience some modest growth in size with a net gain of 23 properties from the previous year end. This reflects continuing activity in the Scottish Government's Mortgage to Rent Scheme, which assists in the prevention of homelessness, and the completion of a partnership new build project at Craigmyle Rd, Grangemouth.

The planned stock investment programme continued with the installation of doors, windows, heating, insulation and other cyclical maintenance projects. Grant funding from the Scottish Government's Energy Assistance Package and Centrica's contribution to the Carbon Emissions Reduction Target assisted with the insulation measures.

Good progress was made towards achieving the Scottish Housing Quality Standard by the 2015 deadline and as at 31st March 2010, 76% of the Association's stock is SHQS compliant.

Partnership working across the Forth Valley continued. The Association is working successfully in partnership across a number of projects including the following:

- the development of an environmental improvement , security and employment project in Grangemouth in partnership with the Paragon Grangemouth Tenants and Residents Association and Falkirk Council.
- 15 properties in Grangemouth were developed through a "turnkey" project with Link as developer.
- continuing participation in the award winning Older Persons Advice Project developed by Linkwide.
- participation in the Green Action Volunteers Project conservation, tourism and volunteering project for 16 to 24 year olds.
- partnering with a number of other housing associations in a tenancy sustainment project, the Homeless Prevention Service, which is delivered by specialist support staff provided by the Cymenians.
- contributions continue to be made to the development of local authority plans and strategies.

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2010

During the year the Association's lender, the Britannia Building Society merged with the Co-operative Bank plc.

Staff training continued with an in house programme and external courses attended. Sessions have included health and safety, operational training in a number of areas and regular policy briefings.

Financial Review

The Income & Expenditure Account and Balance Sheet for the year reflects the continued investment put into the housing stock through the Association's acquisition of 23 additional properties. The delay in concluding a new funding facility and issues surrounding way leave permissions for the installation of gas supplies delayed some on site starts. Therefore the level of expenditure on the planned maintenance programme of work during the last quarter of the year does not reflect the investment taking place as at the year end, with £1.2m spend carried into 2010/11. The housing properties – depreciated cost in the fixed assets has increased mainly through the Association's involvement in the Scottish Government's Mortgage to Rent Scheme; the above has resulted in a surplus of £850k. As a result, £200k was transferred into designated reserves in recognition of future planned maintenance requirements.

Future Developments

The Association plans to continue to deliver its major programme of planned maintenance and improvements including windows/doors, central heating, re-roofing, external fabric, insulation upgrading, DES installations and substantial investment in the Plean Amenity Complex.

A strategic review with the participation of Management Committee and staff is scheduled.

Discussions are ongoing with the Link Group regarding the further development of the very successful partnership working to date.

As part of ongoing staff development, Management Team members plan to undertake a formal qualification in coaching with the support of SHARE.

Going Concern

During 2009/10 the Association continued to negotiate additional funding in the region of £5 million with lenders in order to finance development activities, mortgage to rent activities and stock investment. A stock revaluation demonstrated a considerable appreciation in the asset base.

A preferred funder, the Co-operative Bank was selected. As the facilities agreement was not fully concluded by the end of the financial year, the Association rescheduled several projects to ensure that covenants were not breached, a good standard of maintenance could be continued and that progress towards meeting the SHQS continued. This has resulted in a surplus for 2009/10 however this will be offset with a planned deficit for 2010/11.

The drawdown of the additional funding was made during July 2010 and the Association continues to hold significant unencumbered assets. With this injection of capital, the investment programme can continue to successfully progress towards achieving the Scottish Housing Quality Standard, development and mortgage to rent activities will continue and the organisation remains financially stable going forward. This view is supported by the most recent review of the 30 year cashflow going forward.

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2010

It is therefore the opinion of the Management Committee that the organisation is a going concern.

Reserves Statement

The Association has primarily been established through a series of Large Scale Voluntary Transfers (LSVT). As such, it is mainly debt funded and has limited revenue reserves. This is one of the defining characteristics of an LSVT housing association.

The Association's 30 year consolidated Business Plan predicts a series of planned surpluses and deficits across the plan period. This plan predicts that the Association can meet its commitments to maintain the housing stock to a good standard. The value of the ongoing programme of work fluctuates year on year in accordance with the improvement and maintenance programme as determined by life cycle costings and statutory requirements such as achieving the Scottish Housing Quality Standard.

In addition to working capital, general reserves will be held for programmes identified by the Management Committee. A target of three months operating costs to be held in general reserves and reviewed annually.

The designated reserves will be used for future major repairs and maintenance or any other purpose as determined by the Management Committee. As there is no definitive statement as to the appropriate level of transfer to designated reserves this will be an annual assessment to be made by the Management Committee taking account of factors such as risk, future maintenance requirements, etc. Investment in the region of £6.6 million is planned over the next 3 financial years.

In addition, the Association will hold Restricted Reserves for specific purposes such as the requirements of regulators or funders. This will be reviewed annually.

Treasury management

The Association, as a matter of policy, does not enter into transactions of a speculative nature. At 31 March 2010, the Association has an appropriate mix of fixed and variable rate finance. As at 31st March 2010 the Association holds loans in the proportion of 55% at fixed rate and 45% at variable rate.

Risk Policy and major risks facing the Association

The Association has a Risk Management Strategy and Risk Register in place. These are regularly reviewed and a regular risk report is scrutinised by the Audit Committee. A programme of internal audit is in place.

The main risks facing the Association surround achieving the Scottish Housing Quality Standard in the required timescales, the uncertainties of current economic climate, challenges coming forward through changes in national housing policy and the management of gas safety. All of the risks have been identified and appropriate action is being taken to monitor and control these.

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.

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2010

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. The cost of these repairs would be charged to the Income and Expenditure Account, unless it was agreed they could be capitalised within the terms outlined in the SORP.

Rent Policy

The majority of the Association's housing stock has been acquired through large scale voluntary transfer. The contract conditions attached require that rents charged at transfer were those applied by the former landlord, Scottish Homes. The original rents were based on a formula based on Gross Annual Value.

The annual rent increase policy is predicated on the original business plans underpinning the transfers allowing for an inflation (RPI) plus margin increase uplift on an annual basis. There is also a facility for one of increases in respect of improvements. This is only used for the first time installation of central heating. This is part of the contract documentation.

The Association carries out an annual rent review which includes consideration of issues such as viability, affordability and market comparison against other social housing providers on a geographic and peer group basis. Tenants are consulted as part of this process. This information is then used to fix the level of the annual rent increase. The rent increase for 2010/11 was 4% .

Creditor Payment Policy

The payment policy, which the Association follows, is to pay all purchases within 28 days, although some payments are settled in 7 days, and/or in accordance with creditor terms of business. Invoices were paid within the 28 days the exception being where accounts were in dispute e.g. awaiting credit notes.

Employee involvement and Health and Safety

Paragon Housing Association encourages employee involvement in all major initiatives and involves staff in the formulation of strategic objectives.

A Health & Safety Sub Committee meeting is held quarterly where staff and Committee members can and do raise health and safety issues. There are frequent reviews of policies and practices in relation to health & safety. Regular health and safety audits are carried out by an independent consultant.

Staff and Management Committee members are involved in the Healthy Working Lives project and are working towards a Bronze level award.

Changes in fixed assets

Changes in fixed assets are set out in note 8.

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2010

The Committee of Management and Executive Officers

The Management Committee and executive officers of the Association are listed on page 1.

Each member of the Committee of Management holds one fully paid share of £1 in the Association. The executive officers of the Association 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 Committee.

Training and Recruitment of Management Committee

The Association is governed by an experienced Management Committee supported by a sub committee structure. Training needs of the Management Committee and staff are regularly reviewed and an annual training programme established. The Association's Chairperson achieved a SQA qualification in the "Governance of Scottish Housing Associations" through SHARE.

New members are elected at the Association's AGM and an induction session is held with them including a stock tour.

Internal Financial Control (page 9)

The Committee is responsible for the Association's system of internal financial control, and has reviewed its effectiveness from information provided by management staff.

Any system can only provide reasonable and not absolute assurance against material mis-statement or loss.

The financial controls system within the Association is fundamentally simple and appropriate to the size and complexity of the organisation. It includes a combination of regular review of financial results compared with an agreed budget and authorisation of all expenditure by senior staff and Committee. In addition, a programme of internal audit reviews examines the operations of controls across all areas of activity on a cyclical basis.

Related Party Transactions

Some members of the Management Committee are tenants. Their tenancies are on the Association's normal tenancy terms and they cannot use their positions to their advantage. Some members of the Committee are also members of Falkirk, Stirling or Clackmannanshire Councils with which the Association continues to undertake arms length transactions.

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2010

Surplus for the year and transfers

The results for the year are shown in the Income and Expenditure Account on page 12. The surplus for the year of £850,220 has been dealt with as follows:

	2010 £	2009 £
Surplus for the year	850,220	733,992
Transfer to designated reserves (Note 5)	(200,000)	(552,377)
Transfer from designated reserves (Note 5)	-	502,377
Net movement in revenue reserve	<u>650,220</u>	<u>683,992</u>

Statement as to disclosure of information to auditors

The Management Committee members who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Committee members have confirmed that they have taken all the steps that they ought to have taken as members in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditors

Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

On behalf of the Management Committee

Date:

2/9/10

Secretary



PARAGON HOUSING ASSOCIATION LIMITED

STATEMENT OF MANAGEMENT COMMITTEE'S RESPONSIBILITIES

Statute requires the Management Committee to prepare financial statements for each financial year which give a true and fair view of affairs of the Association and of the surplus or deficit for that period. In preparing those financial statements, the Management Committee are required to fulfil the following obligations:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Management Committee confirm that the financial statements comply with the requirements.

The Management Committee are 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.

By order of the Management Committee

Date:

2/9/10

Secretary



PARAGON HOUSING ASSOCIATION LIMITED

MANAGEMENT COMMITTEE'S STATEMENT ON INTERNAL FINANCIAL CONTROL

31 MARCH 2010

The Management Committee 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 maintenance of proper accounting records; and
- 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 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.
- Forecasts and budgets are prepared regularly which allow the Committee and staff to monitor the key business risks and financial objectives and progress towards the 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 variance from budgets are investigated as appropriate.
- Assessment of major business risks, including new initiatives, major financial commitments and treasury management using laid down criteria.
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures.
- The Committee review reports from management and from external auditors to provide reasonable assurance that control procedures are in place and are being followed.
- The Association now has a formal audit needs assessment in place and internal audit work has been carried out during the year.
- Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The Management have reviewed the system of internal financial control in the Association during the year ended 31 March 2010. No weaknesses were found in internal financial controls which could result in material losses, contingencies, or uncertainties which require disclosure in the financial statements or in the auditor's report on the financial statements.

The arrangements comply with the requirements contained in the Scottish Housing Regulators and the Scottish Federation of Housing Association's publication "Raising Standards in Housing".

By order of the Committee of Management

Date: 2/9/10



PARAGON HOUSING ASSOCIATION LIMITED

AUDITORS' REPORT ON CORPORATE GOVERNANCE MATTERS

Corporate Governance

In addition to our audit of the financial statements, we have reviewed the Committee of Management's statement on page 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 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 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

Registered Auditors

Chartered Accountants

Edinburgh

Date: *6 September 2010*

PARAGON HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON HOUSING ASSOCIATION

We have audited the financial statements on pages 13 to 33, which have been prepared under the accounting policies set out on pages 16 to 19.

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 responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report and for the opinion we have formed.

Respective responsibilities of the Committee of Management and auditors

The Committee of Management's responsibilities for preparing the Report of Management Committee and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Committee of Management's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. We also report to you if, in our opinion, a satisfactory system of internal control over transactions has not been maintained, if the Association has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error or other irregularity. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

PARAGON HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON HOUSING ASSOCIATION

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Association's affairs as at 31 March 2010 and of its surplus for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, Schedule 7 to the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP

Registered Auditor

Chartered Accountants

First Floor, Quay 2

139 Fountainbridge

Edinburgh

EH3 9QG

Date: *6 September 2010*

one page

PARAGON HOUSING ASSOCIATION LIMITED

INCOME & EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 £	2009 £
Turnover	2	4,248,311	4,160,839
Less: Operating costs	2	<u>(2,994,979)</u>	<u>(2,639,740)</u>
Operating surplus		1,253,332	1,521,099
Gain on disposal of fixed assets		16,111	73,654
Interest receivable and other income		13,585	76,199
Interest payable and similar charges	4	<u>(432,808)</u>	<u>(936,960)</u>
Surplus for the year	7	<u>850,220</u>	<u>733,992</u>

All activities relate to continuing activities. There are no recognised surpluses or deficits in the current or preceding year other than those included in the income and expenditure account.


PARAGON HOUSING ASSOCIATION LIMITED

BALANCE SHEET

AS AT 31 March 2010

	Notes	2010 £	2009 £
Tangible Fixed Assets			
Housing properties – depreciated cost	8	18,614,446	15,926,940
Less: HAG and other capital grants	8	(4,328,138)	(2,526,089)
		<u>14,286,308</u>	<u>13,400,851</u>
 Other Fixed Assets	 8	 <u>481,762</u>	 <u>488,428</u>
		<u>14,768,070</u>	<u>13,889,279</u>
 Current Assets			
Debtors	9	304,998	379,637
Cash at bank and in hand		<u>2,048,660</u>	<u>2,163,677</u>
		2,353,658	2,543,314
Creditors: amounts falling due within one year	10	<u>(1,353,759)</u>	<u>(1,109,186)</u>
 Net current assets		 <u>999,899</u>	 <u>1,434,128</u>
 Total assets less current liabilities		 <u>15,767,969</u>	 <u>15,323,407</u>
 Creditors: amounts falling due after more than one year	11	 <u>(14,391,789)</u>	 <u>(14,797,430)</u>
 Net Assets		 <u>1,376,180</u>	 <u>525,977</u>
 Capital and Reserves			
Share capital	12	392	409
Designated reserves	5	600,000	400,000
Restricted reserves	6	32,000	32,000
Revenue reserves	7	<u>743,788</u>	<u>93,568</u>
		<u>1,376,180</u>	<u>525,977</u>

These financial statements were approved by the Management Committee and authorised for issue on 18 August 2010 and signed on their behalf by:

Committee Member *Gloria Wallace*
 Committee Member *Susan Robertson*
 Secretary 

PARAGON HOUSING ASSOCIATION LIMITED

CASH FLOW STATEMENT

YEAR TO 31 March 2010

	Notes	2010 £	2009 £
Net cash inflow from operating activities	16(a)	<u>1,782,179</u>	<u>1,536,212</u>
Returns on investment and servicing of finance			
Interest received		13,585	76,199
Interest paid		<u>(432,808)</u>	<u>(936,960)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(419,223)</u>	<u>(860,761)</u>
Investing activities			
Purchase and development of housing properties		(2,926,862)	(941,911)
Proceeds from sale of properties		52,280	135,828
Payments to acquire other tangible fixed assets		(12,024)	(1,722)
Capital Grants received		<u>1,802,049</u>	<u>509,512</u>
Net cash outflow from investing activities		<u>(1,084,557)</u>	<u>(298,293)</u>
Net cash inflow before financing		<u>278,399</u>	<u>377,158</u>
Financing			
Loan principal repayments		(393,423)	(370,129)
Shares issued		7	13
Net cash outflow from financing		<u>(393,416)</u>	<u>(370,116)</u>
(Decrease)/increase in cash and cash equivalents		<u>(115,017)</u>	<u>7,042</u>

Further information is given in note 16.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

1. Accounting Policies

(a) Introduction and accounting basis

The principal accounting policies of the Association are set out in the paragraphs (b) to (o) below. The Association is incorporated under the Industrial and Provident Societies Act 1965 and is registered by The Financial Service Authority. The accounts have been prepared under the historical cost convention, and in compliance with The Registered Social Landlords Accounting Requirements (Scotland) Order 2007 and The Statement of Recommended Practice (SORP), "Accounting by Registered Social Landlords", and applicable accounting standards.

(b) Going Concern

During 2009/10 the Association continued to negotiate additional funding in the region of £5 million with lenders in order to finance development activities, mortgage to rent activities and stock investment. A stock revaluation demonstrated a considerable appreciation in the asset base.

A preferred funder, the Co-operative Bank, was selected. As the facilities agreement was not fully concluded by the end of the financial year, the Association rescheduled several projects to ensure that covenants were not breached, a good standard of maintenance could be continued and that progress towards meeting the SHQS continued. This has resulted in a surplus for 2009/10 however this will be offset with a planned deficit for 2010/11.

The additional funding agreement was concluded in July 2010. The Association continues to hold significant unencumbered assets. With this injection of capital, the investment programme can continue to successfully progress towards achieving the Scottish Housing Quality Standard, development and mortgage to rent activities will continue and the organization remains financially stable going forward. This view is supported by the most recent review of the 30 year cashflow going forward.

It is therefore the opinion of the Management Committee that the organisation is a going concern, and as such the financial statements have been prepared on this basis.

(c) Turnover

Turnover represents rental and service charge income receivable from tenants. Tenant service charges are levied on a basis intended to cover appropriate service costs each year.

(d) Finance

The financial statements have been prepared on the basis that the capital expenditure referred to in note 8 will be grant aided, funded by loans or met out of reserves, or from proceeds of sales.

(e) Mortgages

Mortgage loans are advanced by private lenders under the terms of the individual mortgage deeds in respect of each property or housing scheme.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

(f) **Fixed assets - Housing land and buildings (note 8)**

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 to date of completion

These costs are either termed "qualifying costs" by Housing and Investment Division at the Scottish Government 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.

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.

Sale of Housing Properties

Properties are disposed of under the appropriate legislation and guidance. All costs and grants relating to the share of the 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.

(g) **Depreciation**

(i) **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% per annum on a straight line basis.

Depreciation on housing fixtures additions is charged at 20% on a straight line basis. No depreciation is charged on the cost of land.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

(ii) **Other fixed assets**

The Association's assets are written off evenly over their expected useful lives as follows:

Computer Equipment	-	33% on cost
Furniture, Fittings & Equipment	-	25% on cost
Office Property	-	2% on cost

A full year's depreciation is charged on these assets in the year of purchase, but no charge is made in the year of disposal.

The capitalisation limit used by the Association is £500.

(h) **Impairment of fixed assets**

Impairment is calculated as the difference between the carrying value of income generating units and the estimated value in use at the date an impairment loss is recognised. 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.

(i) **Reserves**

Designated reserve - Reserves for future life cycle costing

Accrued cyclical maintenance, being the Association's commitment to maintain its properties in accordance with planned programme of works, is set aside in a designated reserve, to the extent that it will not be met from revenue in the year in which it is incurred. In addition, an amount is set aside based on the Association's requirement to maintain housing properties in a state of repair, which at least maintains their residual value in prices prevailing at the time of acquisition and construction. The reserve represents amounts set aside in respect of future costs and will be transferred to General Reserves as appropriate.

The aim over the next 5 years is to achieve a position of holding reserves for planned and major repairs equal to the value of 3 month's working capital for these activities. However as the Association has mainly acquired properties through the LSVT route, progress will be dependent on the year on year level of activity as set out in the Business Plan.

Restricted reserve – Stock transfer condition reserve

This reserve relates to monies which have been received from Communities Scotland (now HID Scottish Government) in relation to the stock transferred from Communities Scotland. The Association was required to set this money aside for use on future investigation or repairs relating to environmental risk.

(j) **Apportionment of management expenses**

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

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

(k) **Financial commitments**

Assets held under finance leases, where substantially all the risks and rewards of ownership of the assets have passed to the Association and hire purchase contracts are capitalised in the balance sheet and are depreciated in the income and expenditure account over the period of their useful lives.

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

(l) **Pensions**

The Association participates in the centralised SFHA Defined Benefit Pension Scheme and retirement benefits to employees of the Association are funded by 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.

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

(m) **Improvements**

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 future 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.

(n) **Operating Leases**

Rentals paid in respect of operating leases are charged to the income and expenditure account as incurred.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

2. Particulars of turnover, operating costs and operating surplus and surplus before taxation by class of business

	Turnover	Operating Costs	Operating Surplus	2009 Total
	£	£	£	£
Social lettings (Note 3a)	4,156,638	(2,900,128)	1,256,510	1,537,466
Other activities (Note 3b)	91,673	(94,851)	(3,178)	(16,367)
2010 Total	4,248,311	(2,994,979)	1,253,332	1,521,099
2009	4,160,839	(2,639,740)	1,521,099	

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

3 (a) Particulars of turnover, operating costs and operating surplus from social letting activities

	General Needs Housing £	Supported Housing Accommodation £	2010 Total £	2009 Total £
Income from lettings				
Rents receivable net of service charges	3,998,986	50,439	4,049,425	3,861,813
Less: Rent Losses from Voids	(8,334)	(143)	(8,477)	(7,162)
Net Rents receivable	<u>3,990,652</u>	<u>50,296</u>	<u>4,040,948</u>	<u>3,854,651</u>
Other revenue grants	15,937	-	15,937	44,088
Grants from Scottish Ministers	99,753	-	99,753	172,550
Total Income from Lettings	<u>4,106,342</u>	<u>50,296</u>	<u>4,156,638</u>	<u>4,071,289</u>
Expenditure on Letting Activities				
Management and maintenance administration costs	1,211,865	14,490	1,226,355	1,179,932
Reactive maintenance costs	652,246	12,578	664,824	578,665
Bad debts – rent and service charges	23,515	-	23,515	25,204
Planned and cyclical maintenance including major repair expenditure	750,976	-	750,976	502,377
Depreciation of social housing	231,399	3,059	234,458	247,645
Total Expenditure on Lettings	<u>2,870,001</u>	<u>30,127</u>	<u>2,900,128</u>	<u>2,533,823</u>
Operating Surplus on Letting Activities 2010	<u>1,236,341</u>	<u>20,169</u>	<u>1,256,510</u>	<u>1,537,466</u>
Operating Surplus on Letting Activities 2009	<u>1,518,083</u>	<u>19,383</u>	<u>1,537,466</u>	

Of the £337k of major repairs expenditure in the year, £13k was capitalised and £324k was expensed.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

3 (b) Particulars of turnover, operating costs and operating surplus 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/ (Deficit)
	£	£	£	£	£	£	£	£
Wider role activities	20,601	-	-	-	20,601	-	(24,126)	(3,525)
Care and repair of property	-	-	-	-	-	-	-	-
Factoring	-	-	-	38,725	38,725	(10,265)	(23,490)	4,970
Development and construction of property activities	-	-	-	-	-	-	-	-
Support activities	-	-	-	-	-	-	-	-
Care activities	-	-	-	-	-	-	-	-
Agency management services – RSLs	-	-	-	-	-	-	-	-
Other agency/management services	-	-	-	-	-	-	-	-
Developments for sale to RSLs	-	-	-	-	-	-	-	-
Developments and improvements for sale to non RSLs	-	-	-	-	-	-	-	-
Other activities –insurance and tenant recharges	-	-	-	32,347	32,347	(11,807)	(25,163)	(4,623)
Total from other activities	20,601	-	-	71,072	91,673	(22,072)	(72,779)	(3,178)
Total from other activities - 2009	-	-	-	89,550	89,550	-	(105,917)	(16,367)

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

4. Interest payable

	2010 £	2009 £
Loan interest incurred	<u>432,808</u>	<u>936,960</u>

5. Designated Reserves

	At 1 April 2009 £	Transfer in £	Transfer out £	At 31 March 2010 £
Life cycle costing reserve	<u>400,000</u>	<u>200,000</u>	=	<u>600,000</u>

No restrictions are placed upon this reserve, but the committee has designated its use for specific purposes in respect of life cycle maintenance. The life cycle maintenance costs to be incurred over the next three years are expected to be around £6.6m.

6. Restricted Reserves

	At 1 April 2009 £	Transfer £	At 31 March 2010 £
Stock transfer condition reserve	<u>32,000</u>	<u>-</u>	<u>32,000</u>

This reserve is restricted for use on future investigation or repairs relating to environmental risk.

7. Revenue Reserve

	2010 £	2009 £
At 1 April 2009	93,568	(590,424)
Surplus for the year	850,220	733,992
Transfer to designated reserves (Note 5)	(200,000)	(552,377)
Transfer from designated reserves (Note 5)	-	502,377
Revenue Reserve as at 31 March 2010	<u>743,788</u>	<u>93,568</u>

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

8. Tangible Fixed Assets

	Housing Properties Held for Letting	Housing Fixtures	Total	Office Property	Furniture, Fittings & Equipment	Total
Cost	£	£	£	£	£	£
At 1 April 2009	17,146,627	348,459	17,495,086	549,921	208,162	18,253,169
Additions during year	2,913,519	13,343	2,926,862	-	12,024	2,938,886
Disposals in year	(26,104)	-	(26,104)	-	-	(26,104)
At 31 March 2010	20,034,042	361,802	20,395,844	549,921	220,186	21,165,951
Grants Received						
At 1 April 2009	(2,526,089)	-	(2,526,089)	-	-	(2,526,089)
Received during the year	(1,802,049)	-	(1,802,049)	-	-	(1,802,049)
At 31 March 2010	(4,328,138)	-	(4,328,138)	-	-	(4,328,138)
Depreciation						
At 1 April 2009	(1,533,986)	(34,160)	(1,568,146)	(69,829)	(199,826)	(1,837,801)
Charge for the year	(198,505)	(17,263)	(215,768)	(10,999)	(7,691)	(234,458)
Disposals	2,516	-	2,516	-	-	2,516
At 31 March 2010	(1,729,975)	(51,423)	(1,781,398)	(80,828)	(207,517)	(2,069,743)
Net Book Value						
At 31 March 2010	13,975,929	310,379	14,286,308	469,093	12,669	14,768,070
At 31 March 2009	13,081,807	319,044	13,400,851	480,092	8,336	13,889,279

None of the Association's land or properties was held under a lease.

Development administration costs capitalised amounted to £nil (2009 £nil).

Interest of £nil (2009 £nil) has been included in the cost of housing properties.

Included within Grants Received at 31 March 2010 is £1,999,238 (2009: £1,451,766) for properties constructed under the Mortgage to Rent scheme with £547,473 (2009: £505,362) being received in the year.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

9.	Debtors	2010 £	2009 £
	Amounts falling due within one year:		
	Gross rents in arrears	216,986	205,568
	Less bad debt provision	(62,050)	(55,922)
		<u>154,936</u>	<u>149,646</u>
	Grants receivable	5,326	93,186
	Other debtors and prepayments	144,736	136,805
		<u>304,998</u>	<u>379,637</u>
10.	Creditors due within one year		
	Loans (Note 11)	418,221	393,423
	Prepaid rent	76,709	78,541
	Other taxation and social security	-	28,401
	Other creditors	500,195	533,642
	Grants in advance	27,088	7,166
	Accruals	331,546	68,013
		<u>1,353,759</u>	<u>1,109,186</u>
11.	Creditors due outwith one year		
	Loans	14,180,463	14,598,686
	Other creditors	211,326	198,744
		<u>14,391,789</u>	<u>14,797,430</u>

Loans are secured by specific charges on the Association's properties and are repayable at varying rates of interest from 1.043% to 7.110% in instalments.

	£	£
Less than one year (Note 10)	418,221	393,423
Between one and two years	444,626	418,221
Between two and five years	1,510,003	1,420,053
In five years or more	12,225,834	12,760,412
	<u>14,598,684</u>	<u>14,992,109</u>

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

12.	Share Capital	2010 £	2009 £
	Shares of £1 fully paid and issued at 1 April 2009	409	428
	Shares issued during year	7	13
	Shares cancelled during year	(24)	(32)
	Shares issued at 31 March 2010	<u>392</u>	<u>409</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.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

13. Employees

	2010	2009
	£	£
Wages and salaries	702,664	689,927
Social security costs	53,783	58,566
Other pension costs	95,190	87,506
Agency costs	<u>47,316</u>	<u>36,385</u>
	<u>898,953</u>	<u>872,384</u>

The average full time equivalent number of persons employed by the Association during the year were as follows:

	No.	No.
Housing Management	11	11
Property & Regeneration	4	4
Administrative	<u>7</u>	<u>7</u>
	<u>22</u>	<u>22</u>

The average number of persons employed by the Association during the year were as follows:

<u>22</u>	<u>22</u>
-----------	-----------

The Directors are defined as the members of the Management Committee, the Director and any other person reporting directly to the Directors or the Management Committee whose total emoluments exceed £60,000 per year. No individual earned over this total in the year.

	2010	2009
	£	£
Aggregate Emoluments payable to Directors (excluding Pension contributions and benefits in kind)	<u>244,373</u>	<u>237,974</u>

The Director is an ordinary member of the Association's pension scheme described below. No enhanced or special terms apply to membership and she has no other pension arrangements to which the Association contribute. The Association's contributions for the Director in the year amounted to £9,009 (2009: £8,685)

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

	2010	2009
	£	£
Total expenses reimbursed to directors in so far as not chargeable to UK income tax	<u>147</u>	<u>865</u>

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

14. Pension Fund

Paragon Housing Association Limited participates in the SFHA Pension Scheme.

The SFHA Pension Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

The Scheme offers three benefit structures to employers, namely:

- final salary with 1/60th accrual rate;
- career average revalued earnings with a 1/60th accrual rate; and
- career average revalued earnings with a 1/70th accrual rate.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Paragon has decided to operate the final salary with a 1/60th accrual rate benefit structure.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period Paragon Housing Association Limited paid contributions at the rate of 15.4% of pensionable salaries. Member contributions were 7.7% for the period to 31 March 2010.

As at the balance sheet date there were 17 active members employed by Paragon Housing Association Limited. Paragon Housing Association Limited continues to offer membership of the Scheme to its employees.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers. SFHA is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, benefits are paid from the total scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

14. Pension Fund (continued)

The last formal valuation of the Scheme was performed as at 30 September 2006 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the valuation date was £268 million. The valuation revealed a shortfall of £54 million of assets compared to liabilities, equivalent to a past service funding level of 83%.

The Scheme Actuary has prepared an Actuarial report that provides an approximate update on the funding position of the Scheme as at 30 September 2008. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed a decrease in the assets of the Scheme to £265 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £149 million, equivalent to a past service funding level of 63.9%.

The current triennial formal valuation of the Scheme, as at 30 September 2009, is being undertaken by a professionally qualified Actuary. The results of the valuation will be available in Autumn 2010. The provisional results of the triennial valuation reflect this showing a deficit of £160 million as at 30 September 2009. This means that the funding level of liabilities represented by assets is 64.8%. Therefore, the total contribution rate must increase on average by 7% of pensionable earnings for all existing benefit options structures from April 2011.

The financial assumptions underlying the valuation as at 30 September 2006 were as follows:

	% pa
Investment return pre retirement	7.2
Investment return post retirement	4.9
Rate of salary increases	4.6
Rate of pension increases	
pension accrued pre 6 April 2005	2.6
pension accrued from 6 April 2005	2.25
(for leavers before 1 October 1993 pension increases are 5.0%)	
Rate of price inflation	2.6

The valuation was carried out using the PA92C2025 short cohort mortality table for non-pensioners and PA92C2013 short cohort table for pensioners. The table below illustrates the assumed life expectancy in years for pension scheme members at age 65 using these mortality assumptions:

	Males	Females
	Assumed life expectancy in years at age 65	Assumed life expectancy in years at age 65
Non-pensioners	21.6	24.4
Pensioners	20.7	23.6

The long term contribution rate required from employers to meet the cost of future benefit accrual was assessed as 17.8% of pensionable salaries.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

14. Pension Fund (continued)

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 actuarial valuation it was agreed that the shortfall of £54 million would be dealt with by payment of additional contributions of 5.3% of pensionable salaries, with effect from 1 April 2008. It is the Scheme policy that the joint contribution rate payable is split between employers and members in the ratio 2:1. Accordingly the joint contribution rates from 1 April 2008 will be 23.1% comprising employer contributions of 15.4% and members contributions of 7.7%.

A small number of employers that have closed the Scheme to new entrants are required to pay an additional employer contribution loading of 3.5% to reflect the higher costs of a closed arrangement.

If the valuation assumptions are borne out in practice this pattern of contributions should be sufficient to eliminate the past service deficit, on an on-going funding basis, by 31 March 2020.

The Employer Debt Regulations were introduced in September 2005 following a change in legislation. This legislation was revised in the Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2008 (SI 2008/731) ('the Regulations') which came into force on 6 April 2008.

An employer debt will arise if one of the following events occurs at a time when the Scheme is not fully funded on a buy-out basis:

- a. The commencement of winding up of the Scheme.
- b. An employer becomes insolvent.
- c. An Employer Cessation Event.

An Employer Cessation Event occurs when an employer ceases to participate in the Scheme, i.e. it no longer has any active members in the Scheme at a point in time when there is at least one other employer that continues to employ active members in the Scheme.

The 2008 Regulations tighten the definition of an Employer Cessation Event. However, it remains the case that an employer will not be deemed to have withdrawn from the Scheme (and hence will not be liable for a debt on withdrawal) provided that it continues to employ at least one person who is an active member of the Scheme.

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).

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

14. Pension Fund (continued)

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.

Contingent Liability

Paragon Housing Association 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 2009. As of this date the estimated employer debt for Paragon Housing Association was £2,390,614.

	2010 £	2009 £
15. Auditors' Remuneration		
The remuneration of the auditors (including expenses and excluding VAT for the year)	<u>11,548</u>	<u>9,903</u>
Remuneration of the auditors in respect of services other than those of external auditors		
- Accounts preparation	953	897
- Business remodel	-	33,772
- Fundraising support	21,339	44,572
- RSL Training	<u>1,444</u>	<u>-</u>
	<u>23,736</u>	<u>79,241</u>
16. Notes to the Cash Flow Statement		
	2010 £	2009 £
(a) Reconciliation of surplus to net cash inflow from operating activities		
Operating Surplus for year	1,253,332	1,521,099
Depreciation	234,458	247,645
Shares Cancelled	(24)	(32)
Decrease in debtors	74,639	190,254
Increase/(Decrease) in creditors	<u>219,774</u>	<u>(422,754)</u>
Net cash inflow from operating activities	<u>1,782,179</u>	<u>1,536,212</u>

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

16.	Notes to the Cash Flow Statement (continued)	2010 £	2009 £
(b)	Reconciliation of net cash flow to movement in net debt		
	(Decrease)/Increase in cash for the year	(115,017)	7,042
	Loan repayments	<u>393,425</u>	<u>370,129</u>
	Change in net debt	278,408	377,171
	Net debt as at 1 April 2009	<u>(12,828,432)</u>	<u>(13,205,603)</u>
	Net debt as at 31 March 2010	<u>(12,550,024)</u>	<u>(12,828,432)</u>

(c) Analysis of Changes in net debt

	As at 1 April 2009 £	Cash Flow £	Other Changes £	As at 31 March 2010 £
Cash at bank and in hand	2,163,677	(115,017)	-	2,048,660
Debt due within one year	(393,423)	393,425	(418,221)	(418,219)
Debt due after one year	<u>(14,598,686)</u>	<u>-</u>	<u>418,221</u>	<u>(14,180,465)</u>
	<u>(12,828,432)</u>	<u>278,408</u>	<u>-</u>	<u>(12,550,024)</u>

17.	Capital Commitments	2010 £	2009 £
	Expenditure authorised by the committee of management contracted less certified	<u>Nil</u>	<u>Nil</u>

18. Housing Stock

The number of units in Management at 31 March 2010 was as follows:

	2010 No.	2009 No.
Supported	20	20
General Needs	<u>1,392</u>	<u>1,369</u>
Total	<u>1,412</u>	<u>1,389</u>

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2010

19. Leasing Commitments

At 31 March 2010 the Association had annual commitments under non-cancellable operating leases as detailed below:

	Equipment	
	2010	2009
	£	£
Operating leases which expire:		
Within one year	2,553	-
Within two to five years	<u>18,419</u>	<u>25,784</u>
	<u>20,972</u>	<u>25,784</u>

20. Related Party Transactions

The following members of the Committee of Management are also tenants of the Association:

Flora Wallace
Jean Murray
Sheila Davies
Elisabeth Campbell
Moirra Calder
Lillian Gray (resigned 11th November 2009)
Iris Abercrombie
Jim Morrison

Their tenancies are on the Association's normal tenancy terms and they cannot use their positions to their advantage. Two members, Kenneth Earle and Andrew Simpson, of the Committee are also members of Falkirk and Stirling Councils with which the Association continues to undertake arms length transactions on normal commercial terms and they cannot use their position to their advantage.

21. Contingent Liabilities

At 31 March 2010, apart from the matters outlined in Note 14 (above) on Pension Commitments, the Association had no other contingent liabilities (2009 £Nil).

22. Post Balance Sheet Event

On the 21st June 2010 the Association received a draft termination agreement from the Scottish Government. The agreement states that the excess Right to Buy receipts which are due and payable by the Housing Association to the Scottish Ministers pursuant to the Agreement will be used to support the Government's Economic Recovery Programme. The Association signed this agreement and returned to the Scottish Government. The agreement is expected to be issued to the Association signed by the Scottish Ministers when the excess Right to Buy receipts of £593,904 will be released in 2010/11 into a restricted reserve.