

PARAGON HOUSING ASSOCIATION LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

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 2012

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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 2012

Flora Wallace	Chairperson
Helen Forrest	Vice Chairperson
Susan Robertson	Co-Treasurer
Michael Hesketh	Co-Treasurer
Jean Murray	
Elisabeth Campbell	
Fiona Speirs	
Sheila Davies	Resigned 24 th May 2012
Iris Abercrombie	
Jim Morrison	
Walter McLay	Elected 21st September 2011 (previously co-opted from 13th July 2011)
Tina Murphy ^{Note 1}	

Note 1: Changed status from general member to Clackmannanshire Council Representative from 4th June 2012

Cllr Kenneth Earle ^{Note 2} Representing Clackmannanshire Council
Note 2 Changed status from Clackmannanshire Council Representative to general membership from 13th June 2012 – co-opted - Replaced as council representative from June 2012 by Cllr Tina Murphy – see Note 1

Cllr Andrew Simpson ^{Note 3} Representing Stirling Council
Note 3: Resigned May 2012 as not standing for council re-election – replaced as council representative from 31st May 2012 by Cllr Christine Simpson

Cllr John McNally ^{Note 4} Representing Falkirk Council, Appointed 18th July 2011
Note 4: Replaced as council representative post election from 13th June 2012 by Cllr Joan Paterson

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 plc
1 Balloon St
Manchester
M60 4EP

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 2012

The Management Committee present their report and audited financial statements for the year ended 31 March 2012.

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 membership of the Management Committee continues to be stable but with new members joining during the year. The members play an active and vital part in the successful running of the Association. The work of the Management Committee is supported by 4 sub committees, namely Finance & General Purposes, Housing Management & Investment, Audit and Health & Safety. These sub committees act with delegated authority in some areas and provide a layer of detailed scrutiny on issues of policy, performance and risk.

During 2011/12 members attended sessions relating to internal policy development, health and safety and took part in external events focusing on national policy developments such as Welfare Benefit Reforms and the Scottish Social Housing Charter. One member of the Committee is current working towards the nationally recognized SVQ "Governance of Scottish Housing Associations".

Principal Activity

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

Review of Operations

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 21 to the financial statements.

There was no change in the number of units (1411) owned from 2010/11. The Association's continued participation in the Scottish Government's Mortgage to Rent Scheme (which assists in the prevention of homelessness) resulted in the purchase of 3 properties which offset 3 Right to Buy sales.

A major programme of stock investment continued with the installation of new sanitaryware, doors, kitchens, central heating and landscape work. In preparation for future electrical works, a programme of isolator switch /consumer unit upgrades was commenced and affected over 1000 properties.

Ongoing surveys and audit programmes in relation to electrical safety, gas safety and asbestos were undertaken.

Good progress is being made towards the SHQS with 84% of all properties compliant at year end. There has been an improvement towards meeting the energy efficiency element with 94% of the stock passing at the year end. The main area to be tackled between April 2012 & March 2015 is the installation of door entry systems where none exist at communal block entrances. The current level of

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2012

compliance is 89.72% for the door entry element of the standard. The main challenge around achieving this is the involvement of owners in improvement works.

The Association is working successfully in partnership across a number of projects including the following:

- Older Persons Advice Service
- Working Rite

The Association continued to involve tenants in its work and take on board their views through a variety of methods including undertaking a wide range of surveys, focus group sessions and provision of information on services and performance. Activities included a successful Tenants Conference held in April 2012 in conjunction with other Forth Valley housing providers which focused on the Scottish Social Housing Charter.

A programme of ICT upgrade got underway with the upgrading of software packages and replacement of some hardware. A new Disaster Recovery system was put in place to improve business resilience. Future ICT upgrades are in the pipeline including a move towards improved service delivery through mobile working.

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. The Association acquired 3 additional properties through the Scottish Government's Mortgage to Rent Scheme.

The planned maintenance programme spend of £1.4m included central heating, windows & doors and sanitaryware, reflecting the work carried out towards the SHQS of which £1.1m has been capitalised.

Taken together with the component accounting prior year adjustment, this has resulted in a surplus of £884.9k.

Component Accounting

Paragon has adopted Component Accounting into its financial statements this year in compliance with the SORP 2010. Major Components (Note 1g(i)) 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 in the relevant notes to the accounts and detailed in Note 21. The effect of the Prior Period adjustment was to increase the Association's Reserves at 31 March 2011 by £4,321,259.

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 and DES installations.

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2012

Going Concern

In March 2012 the Association made a further drawdown of £1.2m from the additional £5m of funding arranged with the Co-operative Bank in 2010/11. This funding was put in place to finance development activities, mortgage to rent activities and stock investment and continues to grow the successful relationship between the Association and the Bank.

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. The Association still continues to hold significant unencumbered assets. The organisation remains financially stable going forward albeit the Welfare Benefit Reforms will bring new challenges. 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.

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. Investment in the region of £6 million is planned over the next 3 financial years (capital spend of £3.5m & revenue spend of £2.5m).

The designated reserves may be used as determined by the Management Committee. This year the Management Committee has transferred £240k to the designated reserves for payment towards the Pension Deficit over the next 3 years. 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 etc.

In addition, the Association may 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 2012, the Association has an appropriate mix of fixed and variable rate finance. As at 31st March 2012 the Association holds loans in the proportion of 49% at fixed rate and 51% at variable rate.

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2012

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. The Audit Committee also consider emerging risks as part of this process.

The Audit Committee also undertook a specific review of the requirements of the Bribery Act 2010 and incorporated this into a risk assessment of fraud, bribery and corruption which was approved by the Management Committee.

A programme of internal audit is in place. During 2011/12 the following areas were included in the internal audit programme;

- Right to Buy
- Reactive Repairs
- Arrears
- Gas Safety
- Fraud Prevention
- Wider Role

The internal audit service was formally reviewed by the Audit Committee and recommendations were made to the Management Committee on the future provision of the service.

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

No new significant emerging risks were identified during the year as potential risks arising from the Welfare Reform Act in particular had been previously noted. However further work is ongoing to quantify the impact of this to ensure an effective response is in place to respond to the challenges posed.

The Scottish Government's guidance on the grant funding for adaptations was welcome however the future operation of this scheme is still under review.

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 components 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 1g(i)) are capitalised in the accounts as they occur. All other major repairs are charged to the Income and Expenditure account.

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2012

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 off increases in respect of improvements. This is only used for the first time installation of central heating.

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 general rent increase for 2012/13 is 5.1% however a number of properties had a one off increase of 4% applied in relation to the first time installation of central heating system. This equates to an average increase 5.26% across all stock. This compares with a rent increase of 5.6% for 2011/12.

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, 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. Staff and Committee members regularly take part in health and safety training and there are regular briefings on health safety topics.

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.

The Association is taking part in the national "Healthy Working Lives" scheme and were awarded the Silver Award in 2011. Work is now underway towards achieving the Gold Award and Mentally Healthy Workplace Award. As part of this the Association has registered for the Work Positive Programme.

Changes in fixed assets

Changes in fixed assets are set out in note 7.

The Committee of Management and Executive Officers

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

PARAGON HOUSING ASSOCIATION LIMITED

REPORT OF MANAGEMENT COMMITTEE

31 March 2012

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.

New members are elected at the Association's AGM and an induction session is held with them. This includes a stock tour to which all Management Committee members are invited.

Internal Financial Control (page 10)

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 misstatement 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 2012

Surplus for the year and transfers

The results for the year are shown in the Income and Expenditure Account on page 14. The surplus for the year of £884,945 has been dealt with as follows:

	2012	Restated 2011
	£	£
Surplus for the year	884,945	902,399
Transfer to designated reserves (Note 5)	(240,000)	(50,000)
Transfer from designated reserves (Note 5)	682,000	-
Net movement in revenue reserve	<u>1,326,945</u>	<u>852,399</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: 15th August 2012

 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;
- state whether applicable accounting standards have been followed, subject to only 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 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 Acts 1965-2002, 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: 15th August 2012



Secretary

PARAGON HOUSING ASSOCIATION LIMITED

MANAGEMENT COMMITTEE'S STATEMENT ON INTERNAL FINANCIAL CONTROL

31 MARCH 2012

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 misstatement 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 is carried out, 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 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 2012. 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: 15th August 2012



Secretary

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 10 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 page 10 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 Auditor

First Floor, Quay 2

139 Fountainbridge

Edinburgh

EH3 9QG

Date: *23 August 2012*

PARAGON HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON HOUSING ASSOCIATION

We have audited the financial statements of Paragon Housing Association Limited for the year ended 31 March 2012 on pages 14 to 34. 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 Committee of Management's Responsibilities Statement set out on page 9 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.

PARAGON HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON HOUSING ASSOCIATION

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
First Floor, Quay 2
139 Fountainbridge
Edinburgh
EH3 9QG

Date: *23 August 2012*

PARAGON HOUSING ASSOCIATION LIMITED

INCOME & EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £	2011 As restated £
Turnover	2	4,697,496	4,883,765
Less: Operating costs	2	<u>(3,232,407)</u>	<u>(4,087,210)</u>
Operating surplus		1,465,089	796,555
Gain on disposal of fixed assets		30,373	104,860
RTB Clawback Funds– Post Contracts set aside by Scottish Executive		-	606,652
Interest receivable and other income		18,365	14,855
Interest payable and similar charges	4	<u>(628,882)</u>	<u>(620,523)</u>
Surplus for the year	6	<u>884,945</u>	<u>902,399</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.

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

	2012 £	2011 As restated £
Surplus for the year	<u>884,945</u>	<u>902,399</u>
Prior period adjustment (Note 21)	4,321,259	-
Total surpluses and deficits recognised since last reporting period	<u><u>5,206,204</u></u>	<u><u>-</u></u>

PARAGON HOUSING ASSOCIATION LIMITED

BALANCE SHEET

AS AT 31 March 2012

	Notes	2012 £	2011 As restated £
Tangible Fixed Assets			
Housing properties – depreciated cost	7	23,545,912	22,726,710
Less: HAG and other capital grants	7	<u>(4,000,408)</u>	<u>(3,983,553)</u>
		19,545,504	18,743,157
Other Fixed Assets	7	<u>539,710</u>	<u>544,456</u>
		20,085,214	19,287,613
Current Assets			
Debtors	8	293,668	427,327
Cash at bank and in hand		<u>4,934,239</u>	<u>4,215,986</u>
		5,227,907	4,643,313
Creditors: amounts falling due within one year	9	<u>(1,658,211)</u>	<u>(1,640,949)</u>
Net current assets		<u>3,569,696</u>	<u>3,002,364</u>
Total assets less current liabilities		23,654,910	22,289,977
Creditors: amounts falling due after more than one year	10	<u>(16,673,613)</u>	<u>(16,193,625)</u>
Net Assets		<u>6,981,297</u>	<u>6,096,352</u>
Capital and Reserves			
Share capital	11	402	402
Designated reserves	5	240,000	682,000
Revenue reserves	6	<u>6,740,895</u>	<u>5,413,950</u>
		<u>6,981,297</u>	<u>6,096,352</u>

These financial statements were approved by the Management Committee and authorised for issue on 15th August 2012 and signed on their behalf by:

Committee Member: *Susan Robertson*
 Committee Member: *Beleu Yarnett*
 Secretary: *[Signature]*

PARAGON HOUSING ASSOCIATION LIMITED

CASH FLOW STATEMENT

YEAR TO 31 March 2012

	Notes	2012 £	2011 As restated £
Net cash inflow from operating activities	15(a)	2,008,420	1,560,691
Returns on investment and servicing of finance			
Interest received		18,365	14,855
Interest paid		(628,882)	(620,523)
Net cash (outflow) from returns on investments and servicing of finance		(610,517)	(605,668)
Capital Expenditure & Financial Investments			
Purchase and development of housing properties		(1,368,575)	(1,287,485)
Proceeds from sale of properties		67,479	155,710
Payments to acquire other tangible fixed assets		(17,127)	(80,692)
Capital Grants received		86,351	182,006
Net cash (outflow) from Capital Expenditures & Financial Investments		(1,231,872)	(1,030,461)
Net cash inflow/(outflow) before financing		166,031	(75,438)
Financing			
Loan principal repayments		(647,790)	(557,270)
New Loan Drawdowns		1,200,000	2,800,000
Shares issued		12	34
Net cash inflow from financing		552,222	2,242,764
Increase in cash and cash equivalents	15(b)	718,253	2,167,326

Further information is given in note 15.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

1. Accounting Policies

(a) Introduction and accounting basis

The principal accounting policies of the Association are set out in the paragraphs (b) to (m) below. The Association is incorporated under the Industrial and Provident Societies Act 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 Housing Providers, Update "2010", and applicable accounting standards.

(b) Going Concern

In March 2012 the Association made a further drawdown of £1.2m from the additional £5m of funding arranged with the Co-operative Bank in 2010/11. This funding was put in place to finance development activities, mortgage to rent activities and stock investment and continues to grow the successful relationship between the Association and the Bank.

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. The Association still continues to hold significant unencumbered assets. The organisation remains financially stable going forward albeit the Welfare Benefit Reforms will bring new challenges. 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 7 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 2012

(f) **Fixed assets - Housing land and buildings (note 7)**

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. Grants are released over the useful life to match the components that the grant relates to.

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 60 years
Roof	Over 60 years
Cent Heat - Boiler	Over 15 years
Cent Heat - System	Over 25 years
Doors	Over 25 years

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

Windows	Over 35 years
Kitchens	Over 20 years
Sanitaryware	Over 30 year

(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.

Works to existing properties will generally be capitalised under the following circumstances:

- Where a component of the housing property that has been treated separately for depreciation purposes and depreciated over its useful economic life is replaced or restored; or
- Where the subsequent expenditure provides an enhancement of the economic benefits of the tangible fixed assets in excess of the previously assessed standard of performance. Such enhancement can occur if the improvements result in an increase in rental income, 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.

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, Doors, 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(g)(i). The new accounting policy is compliant with the SORP 2010.

(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.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

(i) **Reserves**

Designated reserve - Reserves for pension liability

The Association has set aside an amount based on the current requirement to pay an annual sum towards the Past Service Deficit of the pension scheme. This is based on a projected 3 year figure, adjusted annually by The Pensions Trust. The designated reserve will be reviewed annually by the Association.

(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.

(k) **Operating Leases**

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

(l) **Pensions**

The Association participates in the centralised multi-employer Scottish Housing Associations' Defined Benefit Pension Scheme (SHAPS) 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. Employer contributions are recognised as they become payable.

(m) **Housing Association Grants**

Housing Association Grants (HAG) are utilized to reduce the amount of mortgage loan in respect of approved schemes. The amount of HAG is calculated on the qualifying costs (note 1f) of the scheme in accordance with instructions issued from time to time. HAG and other grants are repayable under certain circumstances. These include the disposal of the properties to which the grants relate.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

2. Particulars of turnover, operating costs and operating surplus and surplus/(deficit) before taxation by class of business

	Turnover	Operating Costs	Operating Surplus	2011 Total As restated
	£	£	£	£
Social lettings (Note 3a)	4,632,277	(3,170,904)	1,461,373	843,655
Other activities (Note 3b)	65,219	(61,503)	3,716	(47,100)
2012 Total	<u>4,697,496</u>	<u>(3,232,407)</u>	<u>1,465,089</u>	<u>796,555</u>
2011 – as restated	<u>4,883,765</u>	<u>(4,087,210)</u>	<u>796,555</u>	

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

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

	General Needs Housing £	Supported Housing Accommodation £	2012 Total £	2011 Total As restated £
Income from lettings				
Rents receivable net of service charges	4,475,100	57,610	4,532,710	4,283,521
Less: Rent Losses from Voids	(16,987)	(32)	(17,019)	(8,856)
Net Rents receivable	<u>4,458,113</u>	<u>57,578</u>	<u>4,515,691</u>	<u>4,274,665</u>
Other revenue grants	3,174	-	3,174	100,036
Grants from Scottish Ministers	113,412	-	113,412	203,134
Total Income from Lettings	<u>4,574,699</u>	<u>57,578</u>	<u>4,632,277</u>	<u>4,577,835</u>
Expenditure on Letting Activities				
Management and maintenance administration costs	1,252,552	14,897	1,267,449	1,200,387
Reactive maintenance costs	735,199	14,005	749,204	612,211
Bad debts – rent and service charges	43,305	-	43,305	43,214
Planned and cyclical maintenance including major repair expenditure	646,302	-	646,302	1,444,828
Depreciation of social housing	458,365	6,279	464,644	433,540
Total Expenditure on Lettings	<u>3,135,723</u>	<u>35,181</u>	<u>3,170,904</u>	<u>3,734,180</u>
Operating Surplus on Letting Activities 2012	<u>1,438,976</u>	<u>22,397</u>	<u>1,461,373</u>	<u>843,655</u>
Operating Surplus on Letting Activities 2011 – as restated	820,830	22,825	843,655	

Of the £1,392k Major Repairs spent in the year, £1,144k was capitalised (2011: £946k) and £248k was expensed (2011: £1,164k)

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

3 (b) Particulars of turnover, operating surplus/(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	Total Operating costs	Operating Surplus/ (Deficit)
	£	£	£	£	£	£	£	£	£
Wider role activities	24,072	-	-	-	24,072	-	(24,072)	(24,072)	-
Care and repair of property	-	-	-	-	-	-	-	-	-
Factoring	-	-	28,484	-	28,484	844	(23,017)	(22,173)	6,311
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	-	-	12,663	-	12,663	(7,803)	(7,455)	(15,258)	(2,595)
Total from other activities	24,072	-	41,147	-	65,219	(6,959)	(54,544)	(61,503)	3,716
Total from other activities - 2011	138,164	85,161	-	82,605	305,930	(24,062)	(328,968)	(353,030)	(47,100)

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

4. Interest payable

	2012	2011
	£	£
Loan Interest	609,579	551,657
Non Utilisation Interest	19,303	18,866
Arrangement Fee	<u>-</u>	<u>50,000</u>
Total	<u>628,882</u>	<u>620,523</u>

5 Designated Reserves

	1 April 2011	Transfer In	Transfer Out	31 March 2012
	£	£	£	£
Life Cycle Costing Reserve	650,000	-	650,000	-
Repair Condition	32,000	-	32,000	-
Pension Liability Reserve	-	240,000	-	240,000
Designated Reserve as at 31 March 2012	<u>682,000</u>	<u>240,000</u>	<u>682,000</u>	<u>240,000</u>

No restrictions are placed upon this reserve, but the committee has designated its use for specific purposes in respect of pension liability. The funds transferred out will be held in the general reserves. As detailed in the accounting policy, The Association has set aside an amount based on the current requirement to pay an annual sum towards the Past Service Deficit of the pension scheme. This is based on a projected 3 year figure, adjusted annually by The Pensions Trust.

6. Revenue Reserve

	2012	2011
	£	As restated £
As at 1 April 2011	1,092,691	4,561,551
Prior Year Adjustment (Note 21)	<u>4,321,259</u>	<u>-</u>
As at 1 April 2011 as restated	5,413,950	4,561,551
Surplus for the year	884,945	902,399
Transfer to Designated Reserves (Note 5)	(240,000)	(50,000)
Transfer from Designated Reserves (Note 5)	<u>682,000</u>	<u>-</u>
Revenue Reserve as at 31 March 2012	<u>6,740,895</u>	<u>5,413,950</u>

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

7. Tangible Fixed Assets

	Housing Properties Held for Letting	Housing Fixtures	Total	Office Property	Furniture, Fittings & Equipment	Total
Cost	£	£	£	£	£	£
At 1 April 2011	20,318,614	644,101	20,962,715	623,405	213,955	21,800,075
Prior Year Adjustment (Note 21)	5,351,892	(644,101)	4,707,791	-	-	4,707,791
As re-stated	25,670,506	-	25,670,506	623,405	213,955	26,507,866
Additions during year	1,368,575	-	1,368,575	3,580	13,547	1,385,702
Disposals in year	(44,203)	-	(44,203)	-	-	(44,203)
At 31 March 2012	26,994,878	-	26,994,878	626,985	227,502	27,849,365
Grants Received						
At 1 April 2011	(4,510,144)	-	(4,510,144)	-	-	(4,510,144)
Prior Year Adjustment (Note 21)	526,591	-	526,591	-	-	526,591
As re-stated	(3,983,553)	-	(3,983,553)	-	-	(3,983,553)
Received during the year	(86,351)	-	(86,351)	-	-	(86,351)
Amortisation of Grants	69,496	-	69,496	-	-	69,496
At 31 March 2012	(4,000,408)	-	(4,000,408)	-	-	(4,000,408)
Depreciation						
At 1 April 2011	(1,961,643)	(69,030)	(2,030,673)	(93,156)	(199,748)	(2,323,577)
Prior Year Adjustment (Note 21)	(982,153)	69,030	(913,123)	-	-	(913,123)
As re-stated	(2,943,796)	-	(2,943,796)	(93,156)	(199,748)	(3,236,700)
Charge for the year	(442,771)	-	(442,771)	(12,539)	(9,334)	(464,644)
Amortisation of Grants	(69,496)	-	(69,496)	-	-	(69,496)
Disposals	7,097	-	7,097	-	-	7,097
At 31 March 2012	(3,448,966)	-	(3,448,966)	(105,695)	(209,082)	(3,763,743)
Net Book Value						
At 31 March 2012	19,545,504	-	19,545,504	521,290	18,420	20,085,214
At 31 March 2011 as restated	18,743,157	-	18,743,157	530,249	14,207	19,287,613

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

Development administration costs capitalised amounted to £nil (2011: £nil).

Interest of £nil (2011: £nil) has been included in the cost of housing properties.

Included within Grants Received at cost at 31 March 2012 is £2,267,595 (2011: £2,181,245) for properties acquired under the Mortgage to Rent scheme with £86,350 (2011: £182,006) being received in the year.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

8. Debtors	2012 £	2011 £
Amounts falling due within one year:		
Gross rents in arrears	232,863	240,526
Less bad debt provision	(84,080)	(79,201)
	148,783	161,325
Grants receivable	13,236	129,692
Other debtors and prepayments	131,649	136,310
	293,668	427,327
9. Creditors due within one year	2012 £	2011 £
Loans (Note 10)	720,011	647,789
Prepaid rent	101,270	77,576
Trade Creditors	534,639	680,124
Other Creditors	125,074	121,204
Grants in advance	-	23,636
Accruals	177,217	90,620
	1,658,211	1,640,949
10. Creditors due outwith one year	2012 £	2011 £
Loans	16,673,613	16,193,625
	16,673,613	16,193,625
Loans are secured by specific charges on the Association's properties and are repayable at varying rates of interest from 2.10651% to 7.24% in instalments.		
Less than one year (Note 9)	720,011	647,789
Between one and two years	808,030	669,236
Between two and five years	2,646,254	2,402,306
In five years or more	13,219,329	13,122,083
	17,393,624	16,841,414
11. Share Capital	2012 £	2011 £
Shares of £1 fully paid and issued at 1 April 2011	402	392
Shares issued during year	12	34
Shares cancelled during year	(12)	(24)
Shares issued at 31 March 2012	402	402

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 2012

12. Employees

	2012	2011
	£	£
Wages and salaries	698,977	708,547
Social security costs	58,231	56,100
Other pension costs	129,907	98,047
Agency costs	<u>45,815</u>	<u>14,558</u>
	<u>932,930</u>	<u>877,252</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 and Regeneration	4	4
Administrative	<u>7</u>	<u>7</u>
	<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.

	2012	2011
	£	£
Emoluments payable to Director (incl. Pension contributions & Benefits in Kind)	<u>66,159</u>	<u>69,025</u>
Emoluments payable to highest paid Director (excluding Pension contributions)	<u>60,364</u>	<u>59,814</u>
Total expenses reimbursed to directors in so far as not chargeable to UK income tax	<u>51</u>	<u>155</u>

There is only one Director. 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 £5,795 (2011: £9,211)

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

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

13. Pension Fund

Paragon Housing Association participates in the Scottish Housing Associations' Pension Scheme ('the Scheme'). The Scheme is funded and is contracted-out of the State Pension scheme.

The Scheme is a multi-employer defined benefit scheme.

The Scheme offers five benefit structures to employers, namely:

- Final salary with a 1/60th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate.
- Career average revalued earnings with a 1/70th accrual rate.
- Career average revalued earnings with a 1/80th accrual rate.
- Career average revalued earnings with a 1/120th accrual rate, contracted-in.

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

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 as at 30 September 2009 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £295 million. The valuation revealed a shortfall of assets compared with the value of 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.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

13. Pension Fund (continued)

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.

Paragon Housing Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme based on the financial position of the scheme as at 30 September 2011. As of this date the estimated employer debt for Paragon Housing Association was £3,016,069.

Paragon Housing Association have been noted by the Pensions Trust of the SHAPS scheme that past service deficit contributions payable for the year to 31 March 2013 is £74,545 and that further amounts may be payable for the next 14 years.

Paragon Housing Association has elected to operate the final salary with a 1/60th accrual rate benefit option for active members at 1st April 2011.

During the accounting period Paragon 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 17 active members of the Scheme employed by Paragon Housing Association. The annual pensionable payroll in respect of these members was £604,512.

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

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

13. Pension Fund (continued)

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

Contribution Rates for Future Service (payable from 1 April 2011)	%
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 calculating the additional contributions.)

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

	2012	2011
14. Auditors' Remuneration	£	£
The remuneration of the auditors (including expenses and including VAT for the year)	<u>14,218</u>	<u>12,292</u>

15. Notes to the Cash Flow Statement

(a) Reconciliation of surplus to net cash inflow from operating activities

	2012	As restated 2011
	£	£
Operating Surplus for year	1,465,089	796,555
Depreciation	464,644	433,541
Shares Cancelled	(12)	(24)
Decrease/(Increase) in debtors	133,659	(122,329)
(Decrease) in creditors	(54,960)	(153,704)
RTB Clawback & Discount Written Back	-	<u>606,652</u>
Net cash inflow from operating activities	<u>2,008,420</u>	<u>1,560,691</u>

	2012	2011
	£	£
(b) Reconciliation of net cash flow to movement in net debt		
Increase in cash for the year	718,253	2,167,326
New Loan Draw Down	(1,200,000)	(2,800,000)
Loan repayments	<u>647,790</u>	<u>557,270</u>
Change in net debt	166,043	(75,404)
Net debt as at 1 April 2011	<u>(12,625,428)</u>	<u>(12,550,024)</u>
Net debt as at 31 March 2012	<u>(12,459,385)</u>	<u>(12,625,428)</u>

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

15. Notes to the Cash Flow Statement (continued)

(c) Analysis of Changes in net debt

	As at 1 April 2011 £	Cash Flow £	Other Changes £	As at 31 March 2012 £
Cash at bank and in hand	4,215,986	718,253	-	4,934,239
Debt due within one year	(647,789)	647,790	(720,012)	(720,011)
Debt due after one year	<u>(16,193,625)</u>	<u>(1,200,000)</u>	<u>720,012</u>	<u>(16,673,613)</u>
	<u>(12,625,428)</u>	<u>166,043</u>	<u>-</u>	<u>(12,459,385)</u>

16. Capital Commitments	2012 £	2011 £
Expenditure authorised by the committee of management contracted less certified	<u>Nil</u>	<u>Nil</u>

17. Housing Stock

The number of units in Management at 31 March 2012 was as follows:

	2012 No.	2011 No.
Supported	20	20
General Needs	<u>1,391</u>	<u>1,391</u>
Total	<u>1,411</u>	<u>1,411</u>

18. Leasing Commitments

At 31 March 2012 the Association had annual commitments under non-cancellable operating leases as detailed below:

	2012 £	Equipment 2011 £
Operating leases which expire:		
Within one year	-	-
Within two to five years	<u>28,084</u>	<u>27,515</u>
	<u>28,084</u>	<u>27,515</u>

Lease Commitments paid during 2011/12 was £27,582 (2010/11: £24,877).

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

19. Related Party Transactions

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

Flora Wallace
Jean Murray
Sheila Davies – Resigned 24th May 2012
Elisabeth Campbell
Iris Abercrombie
Jim Morrison
Michael Hesketh
Walter McLay

Their tenancies are on the Association's normal tenancy terms and they cannot use their positions to their advantage. Four members, Tina Murphy, Kenneth Earle, John McNally and Andrew Simpson, of the Committee were also members of Clackmannanshire, 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.

PARAGON HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 March 2012

20. Reconciliation of Funds

	2012 £	2011 as restated £
At 1 April 2011 as originally reported	1,775,093	-
Prior Year Adjustment (Note 21)	<u>4,321,259</u>	-
At 1 April 2011 as restated	6,096,352	5,193,943
Surplus for year	884,945	902,399
New Shares Issued	12	34
Shares Cancelled	(12)	(24)
At 31 March 2012	<u>6,981,297</u>	<u>6,096,352</u>

21. 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 an increase in fixed assets of £3,817,763. This is represented by:

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

	£
Increase depreciation charge	(157,206)
Decrease major works charged against income	<u>660,702</u>
Increase in the surplus for the year	<u>503,496</u>

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

Increase fixed asset cost	4,707,791
Decrease fixed asset non HAG grants	526,591
Increase fixed asset depreciation	<u>(913,123)</u>
Net movement in the balance sheet - increase	<u>4,321,259</u>