

PROSPECT COMMUNITY HOUSING LIMITED
FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

Financial Services Authority No 2290 R (S)
Register Housing Association No. HAL 204
Scottish Charity No. SC029797

BAKER TILLY UK AUDIT LLP
Chartered Accountants

Edinburgh

PROSPECT COMMUNITY HOUSING LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

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Registration Particulars:

Financial Services Authority	Industrial and Provident Societies Act 1965 Registered Number 2290 R (S)
Housing (Scotland) Act 2001	Housing (Scotland) Act 2001 Registered Number HAL 204
Charity Number	SC029797

Bankers:

Royal Bank of Scotland
540a Lanark Road
Edinburgh
EH13 5EL

Auditors:

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

Registered Office:

6 Westburn Avenue
Edinburgh
EH14 2TH

Solicitors:

T C Young	Anderson Strathern
69a George Street	1 Rutland Court
Edinburgh	Edinburgh
EH2 2JG	EH3 8EY

**PROSPECT COMMUNITY HOUSING LIMITED
REPORT OF THE COMMITTEE OF MANAGEMENT
FOR THE YEAR ENDED 31 MARCH 2011**

The Committee have pleasure in presenting their twenty-second report on the Association's affairs.

BUSINESS OVERVIEW

Constitution & Legal Framework

Prospect Community Housing was founded in 1988. It was constituted under the Industrial & Provident Societies Act in that year. It is a registered Scottish Charity.

Area of Operation

Prospect Community Housing has grown steadily since 1988 to become a medium sized Housing Association, managing nearly 900 homes and providing factoring services to a further 57 in West Edinburgh.

Principal Activities

The principal activities of Prospect are the provision, management and maintenance of high quality rented housing at rents which are affordable to people on low incomes and contributing to the physical, economic and social regeneration of West Edinburgh.

REVIEW OF BUSINESS

Growth and Innovation

Prospect continued its growth and development activities during the year, investing a further £ 369,672 in the building and refurbishment of homes in the Wester Hailes area for rent, including the commencement of our kitchen and boiler replacement programme. At 31 March 2011 Prospect had 898 homes in management.

Prospect continued its investment in the maintenance of its existing properties, spending £ 502,768 on routine maintenance and major repair works and the upgrading of environmental areas around its stock. This investment was not only consistent with Prospect's aim to maintain its properties to the highest standard, but also contributed to its proactive strategy of minimising the potential cost and disruption of anti-social behaviour.

A total of £ 26,766 was invested in IT equipment and systems as part of an ongoing programme of upgrades and renewal.

Investment also continued in the provision of varied and targeted training programmes for both staff and committee members.

Performance

Performance in key areas is monitored and reviewed on a quarterly basis. Improvements have been made in the following key areas during the year: -

INDICATOR	2010/11	2009/10	2008/9	2007/8	TARGET	BENCHMARK MEDIAN
Current Tenant Rent Arrears as % income	3.65	3.9	3.7	4.59	4.0	3.96
Voids turnaround times (days)	19.3	21.0	23.8	31	21	23.22
% rent loss due to voids	0.3	0.4	0.5	0.69	1.0	0.58
% of maintenance response times met - urgent repairs	96.3	97.5	95.9	99.6	98	97.3
Staff costs as % of turnover	28.6	32.8	30.9	31.4	29.7	30.9

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Risks

Prospect has a comprehensive system of risk management which is kept under regular review. Risks which are currently considered high in both likelihood and potential impact are:

RISK	CONTROL ACTIONS
➤ High levels of rent arrears leading to loss of income, poor performance and tenant debt.	➤ Priority given to arrears control by staff. Employment of Money Advice Officer (MAO). Improved performance during year.
➤ High dependency on Housing Benefit (HB) leading to complications and delays in collection and monitoring of income, increased arrears and loss of income.	➤ Pro-active approach to changes in circumstances. Maintenance of positive working relationships with HB staff. Active involvement of MAO.
➤ Low income of tenant group leading to rent arrears and loss of income.	➤ Rents kept at levels affordable to those on low incomes. Investment in energy efficiency measures to minimise household running costs.
➤ Other Housing Associations winning projects in the Wester Hailes / West Edinburgh area leading to the loss of Prospect's development programme and unmet staff costs.	➤ Pro-active and creative approach to programme development. Active lobbying and maintenance of reputation and profile locally and nationally.
➤ Uncertainty about the future of housing in Scotland following recent announcements about reduction in HAG levels.	➤ Investigate alternative building methods to reduce costs. Investigate alternative tenures.
➤ Uncertainties caused by Credit Crunch and economic down-turn leading to financial constraints or difficulties.	➤ Prudent approach to business and decision making. Ensuring all loan covenants are met. Ensuring ongoing improvements to Key Performance Indicators.
➤ Reliance on Estates Team to generate efficiencies and savings	➤ Strategy has been developed incrementally and developed further in 2010/11. Ongoing review of service and costs to ensure value for money.
➤ Increasing cost of pension provision and uncertainty about long term viability of scheme.	➤ Review of pension provision underway by Management Committee. Costs included in budget figures and 25 year projections.

Grants and Funding

Prospect continues to develop new properties and engage in regeneration work which attracts capital grant from the Scottish Government through the City of Edinburgh Council. This funding is supplemented by loans raised from commercial lenders. In addition Prospect receives grant funding from a variety of sources to support its wider role activities.

Partnership Working

Prospect continued to develop its collaborative approach to its work by actively contributing to the Rowan Group of Edinburgh based Housing Associations; West Edinburgh Community Planning Partnership structures, including the Voluntary Sector Forum and Neighbourhood Service Partnership; the Edinburgh Affordable Housing Partnership; and others.

A Community Projects Officer post was established in 2006 to develop further this type of working with a range of partners in West Edinburgh for the benefit of Prospect's client group.

Sustainability

Prospect has made a commitment to Sustainable Development by including energy efficient technology in its most recent housing developments and by examining all aspects of its business and activities to minimise waste, pollution and energy consumption. A survey of existing properties is underway to examine ways to incorporate sustainable technology into older properties.

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FOR THE YEAR ENDED 31 MARCH 2011**

Income & Expenditure

Turnover

Rental and Service Charge Income Receivable increased by 1.77% to £ 3,326,827.

Surplus on Ordinary Activities

The surplus for the year of £ 740,872 before transfer to designated reserves is due to the receipt of a defect liability legal claim (£710,000), and reduced spend on major and reactive repairs and management costs, due to a reduction from the 2009/10 programme.

Revenue Reserves

Prospect aims to generate and maintain unrestricted revenue reserves which approximates to their requirements to meet a 4-month working capital requirement on an ongoing basis. The current average 4-month working capital requirement amounts to approximately £ 387,000. Current revenue reserves meet this aim and are backed by cash reserves.

Transfer to Designated Reserves

Prospect holds reserves to provide for anticipated levels of future major repair and replacement expenditure which tend to rise as properties age. These reserves are calculated as part of a longer-term strategy to meet costs when they are expected to arise. This strategy was further refined during the year.

Based on a net present value calculation reviewing our planned maintenance costs after a review of SHQS requirements, our aim is to establish a designated reserve over the next 3 to 5 years of approximately £ 4.3m. The Association aims to ensure that the longer-term planned maintenance works will be funded by existing cash holdings and anticipated future cash surpluses.

A total of £ 502,768 was drawn from the reserves during 2010/11 to pay for major repairs and replacements.

Balance Sheet

Fixed Assets, stated at Net Book Value, decreased by £ 128,105 from £ 11,764,812 to £ 11,636,707 financed by Housing Association Grants, Loan Finance and Prospect's own resources. A drawdown of £1,000,000 loan finance took place during the year. The Association plans to adopt component accounting from 1st April 2011.

The Association considered it appropriate to assume that the proposed developments would not go ahead. Consequently all costs incurred to date of £293,368 have been written off in 2010/11.

Reserves

Reserves increased by £ 740,872 to £ 4,157,848, including designated reserves of £2,249,596 (2010 - £2,052,364), held to fund future repairs and replacements.

Treasury Management

Prospect, as a matter of policy, does not enter into transactions of a speculative nature. At 31 March 2011, the Association has an appropriate mix of fixed and variable rate finance.

Maintenance policies

Prospect seeks to maintain its properties to the highest standard. To this end, programmes of planned maintenance 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 will be charged to the Income and Expenditure account.

In addition, Prospect 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 were charged to the Income and Expenditure account, unless it was agreed they can be capitalised within the terms outlined in the SORP.

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Rent Policy

The aim of the Association is to have a common level of rents for all similar properties. The policy should be logical, easily applied and allow for regional variations in marketability.

Income from rents should also be sufficient to meet the financial commitments of the Association in order to maintain continued financial viability.

Committee Recruitment and Induction

New Board members are elected at the Association's Annual General Meeting. All new members undergo induction training.

Committee Training

Prospect invests substantially in terms of time and money in ensuring our Committee members have the skills and knowledge required to manage a successful business and these expectations are set out in a Training Policy. Training during the financial year under review has focussed on governance issues, reflecting the importance placed on this area. Committee members' attendance at training events is monitored regularly and feedback obtained and actioned.

Corporate Rules

The governing document of the Association is the Rules, which are based on the SFHA standard set of Charitable Rules and adapted through time by properly constituted meetings of the members of the Association. The Rules are the equivalent of a company's Articles and Memorandum of Association. A copy of the Rules can be obtained on request at the Registered Office.

Future Prospects

Business Plan Objectives

Prospect's Management Committee have determined that by 2012 Prospect will:

- o Own more homes to provide affordable housing for those who need and contribute to our long-term financial stability;
- o Have more people in West Edinburgh benefiting from our services;
- o Build on our links with other agencies and services to improve and extend choice and opportunity for people in West Edinburgh;
- o Retain our expertise, experience and knowledge to produce sustainable homes, services and communities;
- o Improve service delivery, tenant satisfaction and engagement while reducing our costs and maintaining surpluses;
- o Make a real and positive difference to the lives of people in West Edinburgh - which go beyond what can be achieved by concentrating on housing provision alone;
- o Be a catalyst for change and improvement

These will be achieved by the following Activities and Goals:

1.1. Growth, Efficiency and Adding Value

- Ensure that Prospect continues as an independent and active organisation in tune with and responsive to local needs;
- Secure a development programme that will improve life chances and quality and house more people;
- Develop in house capacity for delivering quality and cost effective services;
- Work with others to improve and extend choice and opportunity.

1.2. Building on Organisational Skills and Maximising Impact

- Utilise in-house expertise, experience and knowledge to produce sustainable homes, services and communities;
- Implement the Estates Team Business plan to develop the team as a vehicle for improving service quality and tenant satisfaction and reducing costs;
- Improve and rationalise internal procedures, use of IT systems and inter-departmental working;
- Influence the policy framework at both a national and local level;

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1.3. Developing Service Quality & Innovation

- Train, develop, deploy and motivate staff to maximise service quality and cost effectiveness;
- Ensure that Sustainable Development principles inform all aspects of Prospect's activities;
- Explore innovative and pre-emptive approaches to service improvements;
- Listen to and act on the views of tenants and residents;

1.4. Developing "Anchor Organisation" Status and Wider Role Activities

- Maintain a high profile & reputation for active and positive community engagement,
- Be the first "port of call" & "preferred partner" for anyone wanting to engage in the area,
- Develop a range of initiatives which enhance & support quality of life in the area

1.5. Good Governance, Management, Financial Control and Viability

- Attract high calibre, committed and reliable individuals to serve as Committee Members
- Self assess Prospect against Governance Guidance Performance Standards and Performance Standards;
- Meet all financial and budgetary targets and ensure strategic management of assets;
- Reduce operating costs (net of planned maintenance and major repairs) by 1%;
- Continue to generate surpluses in our income and expenditure accounts by making efficiencies and carefully planning and managing our planned maintenance programme;
- Protect Prospect's charitable status by activating Prospect Community Projects if level of non charitable income and/or activities makes this necessary.

In order to ensure that the above priorities are progressed, they have been broken down into tasks and allocated to appropriate staff members, through agreed work plans with regularly reviewed performance targets, throughout the organisation.

Statement of Committee of Management Responsibilities

The legislation requires the Committee of Management to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing these Financial Statements, the Committee of Management is required to: -

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

The Committee of Management is 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 legislation. 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.

Results for the Period

The attached Financial Statements are for the period of twelve months to 31 March 2011.

Credit Payment Policy

The Association's policy concerning the payment of its trade creditors complies with the Confederation of British Industry guidelines. The average payment period is 15 days (2010: 12 days).

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Employee Involvement and Health & Safety

Prospect Community Housing encourages employee involvement in all major initiatives. Staff have opportunities to discuss and contribute to strategic objectives through Working Groups, Departmental and Staff Meetings and Review Days. Current Working Groups on which staff are represented include:

- Health and Safety
- Communications
- Tenant Participation
- Sustainability
- IT
- Estates Team Working Group

A Health and Safety Committee, which comprises staff and Committee members, meets quarterly to review health and safety issues. Each department has an elected representative on this Committee who raises health and safety issues on behalf of staff members.

Committee of Management members at 31 March 2011

Vera Geddes, Chairperson

Mo Connolly, Secretary

Sheila Bunt

Patt Kerr

Bruce Penman

Naomi MacKenzie (appointed 14.7.10)

Marnie Roadburg (appointed 24.11.10)

Peter Matthews, Vice Chairperson

Alan Gee, Treasurer

Bill Buchanan

Rod Mackenzie

Shulah Allan

David Arnot (appointed 30.6.10)

Sam Martinez (resigned 7.9.10)

Disclosure of Information to Auditors

Members of the Management Committee who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the 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.

Auditor

A resolution will be put to the Annual General Meeting proposing the appointment of auditors to be determined through a tender process.

By Order of the Committee

Mo Connolly, Secretary

6 Westburn Avenue, Edinburgh, EH14 2TH

29 June 2011

PROSPECT COMMUNITY HOUSING LIMITED**COMMITTEE OF MANAGEMENT STATEMENT ON INTERNAL FINANCIAL CONTROLS****FOR THE YEAR ENDED 31 MARCH 2011**

The Committee of Management acknowledge their ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- The reliability of financial information used within the Association or for publication;
- The maintenance of proper accounting records; and
- The safeguarding of assets (against unauthorised use or disposition).

It is the Committee of Management's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial 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. Annual appraisal procedures have been established to maintain standards of performance.
- Forecasts and budgets are prepared regularly which allow the Committee of Management and staff to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term; regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information and significant variances from budgets are investigated as appropriate.
- All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through relevant sub-committees comprising Committee of Management members and others.
- The Committee of Management reviews reports from management, directors, staff and from the external auditors to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Association.
- Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The Committee of Management has reviewed the system of internal financial control in the Association during the year ended 31 March 2011. 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 auditors' report on the financial statements.

The above arrangements are considered appropriate to the scale and range of the Association's activities, and comply with the requirements contained in the Scottish Housing Regulator's Guidance, and the SFHA's publication "Raising Standards in Housing".

By order of the Committee of Management

Mo Connolly
Secretary

29 June 2011

PROSPECT COMMUNITY HOUSING LIMITED**INDEPENDENT AUDITOR'S REPORT ON CORPORATE GOVERNANCE MATTERS*****Corporate Governance Matters***

In addition to our audit of the accounts, we have reviewed the Committee of Management's statement on page 7 concerning the Association's compliance with the information required by the section on Internal Financial Control within SFHA's publication 'Raising Standards in Housing'.

Basis of Opinion

We carried out our review having regard to the Bulletin 2006/5 issued by the Auditing Standards 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 statements on Internal Financial Control on page 7 has provided the disclosures required by the section on Internal Control within the 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
Statutory Auditor
Chartered Accountants**

Edinburgh

PROSPECT COMMUNITY HOUSING LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS
OF PROSPECT COMMUNITY HOUSING LIMITED**

We have audited the financial statements of Prospect Community Housing Limited for the year ended 31 March 2011 on pages 10 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Committee of Management and auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 5, 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 2011 and of its income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Industrial and Provident Societies Acts 1965 to 2002, Schedule 7 of the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 requires us to report to you if, in our opinion:

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

BAKER TILLY UK AUDIT LLP
Statutory Auditor
First Floor, Quay 2
139 Fountainbridge
Edinburgh, EH3 9QG

Date:

PROSPECT COMMUNITY HOUSING LIMITED
INCOME & EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011		2010	
		£	£	£	£
TURNOVER	2		3,424,398		3,380,265
Operating costs	2		<u>(2,978,747)</u>		<u>(2,680,735)</u>
OPERATING SURPLUS			445,651		699,530
Extraordinary Income	23	710,000		-	
Loss on Disposal of Property		(683)		-	
Interest receivable		408		5,452	
Interest payable and other charges	4		<u>(414,504)</u>		<u>(446,417)</u>
			<u>295,221</u>		<u>(440,965)</u>
 SURPLUS FOR THE YEAR	 13		 <u>740,872</u>		 <u>258,565</u>

The above results relate wholly to continuing activities.

There are no recognised surpluses or deficits apart from those included on the above Income and Expenditure Account for the twelve months ended 31 March 2011.

BALANCE SHEET AS AT 31 MARCH 2011

	Notes	2011		2010	
		£	£	£	£
FIXED ASSETS					
Housing properties - depreciated cost	7a	51,586,843		51,736,704	
Less: HAG	7a	(38,810,355)		(38,851,201)	
Other public grants	7a	<u>(2,056,506)</u>		<u>(2,056,506)</u>	
	7a		10,719,982		10,828,997
Office Accommodation	7b		820,936		841,544
Other fixed assets	7c		<u>95,789</u>		<u>94,271</u>
			11,636,707		11,764,812
CURRENT ASSETS					
Debtors	8	224,873		255,194	
Cash at bank and in hand	16c	<u>1,840,524</u>		<u>481,187</u>	
		2,065,397		736,381	
CREDITORS:					
Amounts falling due within one year	9	<u>(727,345)</u>		<u>(732,805)</u>	
NET CURRENT ASSETS			<u>1,338,052</u>		<u>3,576</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			12,974,759		11,768,388
CREDITORS:					
Amounts falling due after more than one year	10		<u>(8,816,830)</u>		<u>(8,351,333)</u>
NET ASSETS			<u>4,157,929</u>		<u>3,417,055</u>
CAPITAL AND RESERVES					
Share Capital	11		81		79
Designated Reserves	12		2,249,596		2,052,364
Revenue Reserves	13		<u>1,908,252</u>		<u>1,364,612</u>
			<u>4,157,929</u>		<u>3,417,055</u>

Approved by the Management Committee and authorised for issue on 29 June 2011 and signed on their behalf by:

V. Geddes

M Connolly

A. Gee

Chairperson

Secretary

Treasurer

PROSPECT COMMUNITY HOUSING LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2011**

	Note	£	2011 £	£	2010 £
Net cash inflow from operating activities	16(a)		1,405,857		876,075
Returns on investment and servicing of finance					
Interest received		408		5,452	
Interest paid	4	(414,504)		(446,417)	
Net cash outflow from returns on investment and servicing of finance			(414,096)		(440,965)
Capital expenditure					
Cash paid for construction and purchases	7a	(26,304)		(320,680)	
Net Purchase of other fixed assets	7c	(51,656)		(10,656)	
Other public grants (repaid)/received	7a	(40,846)		157,200	
Net cash outflow from capital expenditure			(118,806)		(174,136)
Net Cash inflow before financing			<u>872,955</u>		<u>260,974</u>
Financing					
Issue of Share Capital	11	6		3	
Loan received	10	1,000,000		-	
Loan repayments	10	(513,624)		(513,010)	
Net cash inflow/(outflow) from financing			<u>486,382</u>		<u>(513,007)</u>
Increase/(Decrease) in cash	16(b)		<u>1,359,337</u>		<u>(252,033)</u>

Further details are given in note 16.

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

1. ACCOUNTING POLICIES

The Association is registered under the Industrial and Provident Societies Act 1965 and is registered with the Financial Services Authority. The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards and comply with the Registered Social Landlords (Accounting Requirements) (Scotland) Order 2007 and The Statement of Recommended Practice (SORP), "Accounting by Registered Social Landlords" 2008. The principal accounting policies are set out below:

a. Basis of Accounting

The Financial Statements are prepared on the historical cost basis of accounting.

b. Going Concern

The Management Committee have reviewed the detailed financial projections included in the Business Plan 2011-14 with particular focus on the cash flow position and believe that it is appropriate to prepare the financial statements on a going concern basis.

The Association generated a surplus in the year of £740,872, had year-end cash balances of £1,840,524, net current assets of £1,338,052 and net assets of £4,157,929 of which £1,908,252 were unrestricted revenue reserves.

The Association plans to embark on a development programme in 2012/13 which will require additional loan financing and grant funding. Further detailed projections will be considered during 2011/12.

c. Turnover

Turnover represents rental and service charge income receivable, fees receivable and revenue grants receivable from Scottish Housing Regulator, local authorities and other agencies. Tenant service charges are levied on a basis intended to cover appropriate service costs each year.

d. Group Accounts

The Association is registered in Scotland and forms part of a group, the other member is Prospect Community Projects Limited. Prospect Community Housing Limited is considered to be the ultimate parent undertaking of the group. These financial statements present the information only relating to Prospect Community Housing Limited. Prospect Community Projects Limited has not been consolidated due to the highly immaterial nature of amounts involved.

e. Housing Association Grant

Housing Association Grants (HAG) are utilised to reduce the amount of mortgage loan in respect of an approved scheme to the amount which it is estimated can be serviced by the net annual income of the scheme. The amount of HAG is calculated on the qualifying costs Note 1 (f) of the scheme in accordance with instructions issued from time to time by the Grant awarding body. HAG is paid directly to the Association as required to meet its liabilities during the development process.

f. Fixed Assets – Housing Land And Buildings

Housing properties are included at cost, including: -

- i. cost of acquiring land and buildings;
- ii. development expenditure including clerk of works costs;
- iii. investigation costs incurred on sites not yet acquired where the committee considers that acquisition will follow in the foreseeable future;

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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1. ACCOUNTING POLICIES (continued)

- iv. interest is capitalised from first draw down of private finance up to the date all houses are available for letting in accordance with the funding arrangements agreed by the Grant awarding body.
- v. capitalisation of staff costs.

All invoices and Architects' certificates relating to capital expenditure incurred in the year at gross value before retention's are included in the accounts, provided the dates of issue or valuation are prior to the year-end. Related HAG advances receivable are also included.

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

This is the first year the Association has capitalised kitchens and boilers as it moves towards full component accounting in 2011/12.

h. Sale of housing properties

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

i. Depreciation

(i) Housing Properties

Housing properties are stated at cost, less Housing Association grants and other contribution, less accumulated depreciation. Depreciation is charged on a straight-line basis over the expected economic useful lives of the properties at annual rates of 2%. No depreciation is charged on the cost of the land.

(ii) Other Fixed Assets

Expenditure incurred is written-off at the following annual percentages of cost: -

-	Office equipment;	15%;
-	Computer equipment;	25%;
-	Office accommodation;	2%;
-	Estate Assets	25%;
-	Kitchens	5%;
-	Boilers	6.66%.

Depreciation is charged for each month that the asset is in use.

j. Development Costs and Allowances

Development allowances are intended to finance certain internal administrative costs relating to the acquisition and development of housing land and buildings for approved schemes. Notional development allowances become available in instalments according to the progress of work on the scheme and are included in HAG or are treated as deferred allowances in designated reserves while actual development costs are added to housing properties. Deferred Development Allowances are used to fund future development costs.

k. Designated Reserves

The Whole Life Costing System does not differentiate between cyclical maintenance and major repairs. The Association has, therefore, consolidated its designated reserves to show a Major Repairs Reserve which reflects better the basis on which the provision has been designated. This reserve is based on

**PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011**

1. ACCOUNTING POLICIES (continued)

estimated future costs to be incurred by the Association, in respect of existing housing accommodation for all repairs, including improvement or replacement, with a cycle of two or more years.

Designated Reserves also include provisions set aside for scheme asset replacements.

l. Leases

Assets leased under finance leases are not included in the balance sheet, as the total cost and depreciation charge are not considered to be material to an understanding of the accounts. Instead rentals are included in management expenses in the year in which incurred.

m. Cash at Bank and in Hand

Cash includes all short-term bank deposits maturing within one month, which the Committee regards as part of the Association's bank balances. This treatment is not in accordance with FRS1 (revised 1996) which requires such deposits to be shown in the Cash Flow Statement as cash and cash equivalents. The Committee considers that the FRS treatment would be misleading in this case.

n. Value Added Tax

The Association is VAT registered but a large proportion of its income is exempt for VAT purposes. Consequently little VAT paid is recoverable and expenditure is therefore shown inclusive of VAT. Any VAT recovered is included in Miscellaneous Income.

o. 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 employees and employers 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 costs to the Association of pensions are charged to the Income and Expenditure Account so as to spread the costs of pensions over the service lives of employees.

p. Capitalisation of interest

Interest on capital borrowed to finance developments during the period of development, has been capitalised and included in the cost of housing properties.

q. Taxation

The Association has charitable status and is therefore not required to account for tax on its exempt activities.

r. 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.

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

1. ACCOUNTING POLICIES (continued)

s. 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 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.

t. Allocation of Office Costs

Office costs are allocated to Major Repairs, Development and Maintenance at 20%, 4% and 25% respectively based on staff time profiles.

2. ANALYSIS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT

	Turnover	Operating Costs	Operating Surplus/(Deficit)	Operating Surplus/(Deficit) 2010
	£	£	£	£
Social Lettings (note 3a)	3,302,316	(2,459,546)	842,770	788,937
Other Activities (note 3b)	<u>122,082</u>	<u>(519,201)</u>	<u>(397,119)</u>	<u>(89,407)</u>
2011 Total	<u>3,424,398</u>	<u>(2,978,747)</u>	<u>445,651</u>	<u>699,530</u>
2010 Total	<u>3,380,265</u>	<u>(2,680,735)</u>	<u>699,530</u>	

As a result of the fact that grant funding is extremely unlikely in the short to medium term, the Association considered it appropriate to assume that proposed developments would not go ahead. Consequently all costs incurred to date of £293,368 on these developments have been written-off in 2010/11 within operating costs.

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011
(Continued)

3(a) PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM SOCIAL LETTING ACTIVITIES

	2011 General Needs Housing £	2011 Shared Ownership £	2011 Total £	2010 Total £
Rent Receivable net of Service Charges	3,104,781	28,599	3,133,380	3,075,655
Service Charges	193,447	-	193,447	193,329
Gross income from rents and service charges	3,298,228	28,599	3,326,827	3,268,984
Less Voids	(24,511)	-	(24,511)	(29,350)
Net income from rents & service charges	3,273,717	28,599	3,302,316	3,239,634
Management/Maintenance Administration Costs	1,020,904	9,604	1,030,508	976,409
Service Costs	158,934	-	158,934	191,442
Planned & Cyclical Maintenance including Major Repair Costs	502,768	-	502,768	596,059
Reactive Maintenance Costs	571,243	-	571,243	492,844
Bad Debts-Rents & Service Charges	19,926	-	19,926	21,128
Depreciation of Social Housing	176,167	-	176,167	172,815
Operating costs for social lettings Activities	2,449,942	9,604	2,459,546	2,450,697
Operating surplus for social lettings 2011	823,775	18,995	842,770	788,937
Operating surplus for social lettings 2010	769,985	18,952	788,937	

The amount of service charges receivable on housing accommodation not eligible for Housing Benefit was £Nil (2010 – £Nil)

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011
(Continued)

3(b) TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICITS FROM OTHER ACTIVITIES

	Grants from Scottish Ministers £	Other Revenue Grants £	Other Income £	Total Turnover £	Operating Costs – BadDebts £	Other Operating Costs £	Total Operating Costs £	Operating (Deficit)/ Surplus £	Operating Deficit 2010 £
Wider Role Activities undertaken to support the community, other than the provision, construction, improvement and management of housing	52,778	-	13,302	66,080	-	(106,873)	(106,873)	(40,793)	(38,766)
Factoring	-	-	13,891	13,891	-	(12,882)	(12,882)	1,009	-
Agency/management services for registered social landlords	-	-	940	940	-	(940)	(940)	-	-
Other Activities (inc rechargeables £21,211)	-	-	41,171	41,171	(24,883)	(373,623)	(398,506)	(357,335)	(50,641)
Total from other Activities	52,778	-	69,304	122,082	(24,883)	(494,318)	(519,201)	(397,119)	(89,407)
Total from other activities – 2010	<u>42,489</u>	<u>-</u>	<u>98,142</u>	<u>140,631</u>	<u>(29,210)</u>	<u>(200,828)</u>	<u>(230,038)</u>	<u>(89,407)</u>	

During the year Prospect, as the agent, received Stage III Grant (£28,075), (2010: £19,091). As this was transferred to the appropriate parties, the income and expenditure has not been included in the financial statements in accordance with SORP 2008.

4. INTEREST PAYABLE

	2011	2010
Total interest incurred on Loans	£ 414,504	£ 446,417

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

5. EMPLOYEES

	2011 £	2010 £
Staff costs during year		
Wages and Salaries	1,005,966	922,512
Social Security Costs	79,234	70,706
Other Pension Costs	111,995	112,388
	<u>1,197,195</u>	<u>1,105,606</u>

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

	No.	No.
Management & Finance	4	4
Property Services	19	16
Housing Management	8	8
Administration	6	6
	<u>37</u>	<u>34</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. (2010 : £60,000)

	2011 £	2010 £
Aggregate Emoluments payable to Directors (including pensions contributions and benefits in kind)	326,616	319,093
Pensions payable for Directors	39,959	38,271
Emoluments payable to Highest Paid Director (excluding pension contributions)	69,513	68,269

The Association's contributions to the pension scheme for the Highest Paid Director amounted to £9,563 (2010 : £9,180).

The highest paid Director is an ordinary member of the SFHA Pension Scheme, with no enhanced/special terms. No additional contributions are made by Prospect Community Housing for any individual pension arrangements for the highest paid Director.

Total expenses reimbursed insofar as not chargeable to UK Income Tax	<u>2,362</u>	<u>2,235</u>
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Expenses are incurred wholly, exclusively and necessarily on behalf of the Association.

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

6. AUDITOR'S REMUNERATION

	2011 £	2010 £
Received in capacity as Auditor	<u>8,958</u>	<u>8,107</u>

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

7. TANGIBLE FIXED ASSETS

**a) Housing Properties
Including Shared Ownership
Properties**

	2011 Held For Letting	2011 Fixtures in Held For Letting	2011 Environ- mentals	2011 In Course Of Construction	2011 Total	2010 Total
	£	£	£	£	£	£
COST						
At start of period	52,399,095	-	753,235	134,891	53,287,221	52,966,539
Additions during period	-	194,234	-	175,438	369,672	320,680
Disposals	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>(293,368)</u>	<u>(343,368)</u>	<u>-</u>
At end of period	<u>52,349,095</u>	<u>194,234</u>	<u>753,235</u>	<u>16,961</u>	<u>53,313,525</u>	<u>53,287,220</u>
DEPRECIATION						
At start of period	1,550,515	-	-	-	1,550,515	1,377,700
Charged during period	<u>172,665</u>	<u>3,502</u>	<u>-</u>	<u>-</u>	<u>176,167</u>	<u>172,815</u>
At end of period	<u>1,723,180</u>	<u>3,502</u>	<u>-</u>	<u>-</u>	<u>1,726,682</u>	<u>1,550,515</u>
Depreciated Cost	<u>50,625,915</u>	<u>190,732</u>	<u>753,235</u>	<u>16,961</u>	<u>51,586,843</u>	<u>51,736,704</u>
HOUSING ASSOCIATION GRANT						
At start of period	38,154,294	-	696,813	94	38,851,201	38,851,201
Abated	<u>(40,846)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,846)</u>	<u>-</u>
At end of period	<u>38,113,448</u>	<u>-</u>	<u>696,813</u>	<u>94</u>	<u>38,810,355</u>	<u>38,851,201</u>
OTHER PUBLIC GRANTS						
At start of period	2,051,759	-	-	4,747	2,056,506	1,899,306
Additions during period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,200</u>
At end of period	<u>2,051,759</u>	<u>-</u>	<u>-</u>	<u>4,747</u>	<u>2,056,506</u>	<u>2,056,506</u>
NET BOOK VALUE						
At end of period	<u>10,460,708</u>	<u>190,732</u>	<u>56,422</u>	<u>12,120</u>	<u>10,719,982</u>	<u>10,828,997</u>
At start of period	<u>10,642,525</u>	<u>-</u>	<u>56,422</u>	<u>130,050</u>	<u>10,828,997</u>	<u>10,838,332</u>

The above amounts include interest capitalised on development projects totalling £Nil. (2010 - £Nil).

The above amounts include staff costs capitalised on development projects totalling £28,397 (2010 - £32,302).

The shared ownership properties (12 units out of 899 units held for letting) are not disclosed separately as the amounts are not considered material.

At 31 March 2011, none of the cost of the properties included in letting properties were held under a lease (2010: none).

The Association agreed to write off costs incurred to date of £293,368 on proposed developments.

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

7b) Office Accommodation				2011	2010
				£	£
COST					
At start of period				1,027,469	1,027,469
At end of period				<u>1,027,469</u>	<u>1,027,469</u>
 AGGREGATE DEPRECIATION					
At start of period				185,925	165,327
Charged during period				<u>20,608</u>	<u>20,598</u>
At end of period				<u>206,533</u>	<u>185,925</u>
 NET BOOK VALUE					
At end of period				<u>820,936</u>	<u>841,544</u>
At start of period				<u>841,544</u>	<u>862,142</u>
 7c) Other Fixed Assets					
	2011	2011	2011	2011	2010
	Estate	Office	Computer	Total	Total
	Assets	Equipment	Equipment		
	£	£	£	£	£
COST					
At start of period	52,485	68,997	274,912	396,394	385,738
Additions during period	<u>12,357</u>	<u>12,533</u>	<u>26,766</u>	<u>51,656</u>	<u>10,656</u>
At end of period	<u>64,842</u>	<u>81,530</u>	<u>301,678</u>	<u>448,050</u>	<u>396,394</u>
 AGGREGATE DEPRECIATION					
At start of period	30,752	64,440	206,931	302,123	250,346
Charge for period	<u>10,662</u>	<u>2,696</u>	<u>36,780</u>	<u>50,138</u>	<u>51,777</u>
At end of period	<u>41,414</u>	<u>67,136</u>	<u>243,711</u>	<u>352,261</u>	<u>302,123</u>
 NET BOOK VALUE					
At 31 st March 2011	<u>23,428</u>	<u>14,394</u>	<u>57,967</u>	<u>95,789</u>	<u>94,271</u>
At 31 st March 2010	<u>21,733</u>	<u>4,557</u>	<u>67,981</u>	<u>94,271</u>	

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

8. DEBTORS

	2011	2010
	£	£
Rental arrears	124,787	132,892
Less: Bad debt provision	<u>(44,025)</u>	<u>(49,826)</u>
	80,762	83,066
Accrued income	6,753	14,044
Prepaid expenses	70,172	58,651
Other debtors	66,583	99,014
Other taxation	603	419
	<u>224,873</u>	<u>255,194</u>

9. CREDITORS: Amounts falling due within one year

	2011	2010
	£	£
Housing Loans (note 10)	534,504	513,625
Trade creditors	25,427	73,434
Other creditors	70,261	46,950
Rent received in advance	75,709	77,211
Accruals and retention unpaid	21,444	21,585
	<u>727,345</u>	<u>732,805</u>

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

	2011	2010
	£	£
Housing Loans	<u>9,351,334</u>	<u>8,864,958</u>
<p>Housing Loans are secured by a specific charge on the Association's properties. They are repayable at a rates of interest of between 0.37% over LIBOR and 6.165% in instalments due as follows: -</p>		
Due in 1 year	534,504	513,265
Between 1 – 2 years	536,264	513,388
Between two and five years	1,615,488	1,544,790
After five years	<u>6,665,078</u>	<u>6,293,515</u>
	9,351,344	8,864,958
Included in creditors: amounts falling due within one year	<u>(534,504)</u>	<u>(513,625)</u>
	<u>8,816,830</u>	<u>8,351,333</u>

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

11. SHARE CAPITAL

	2011	2010
	£	£
Shares of £1 each fully paid and issued		
At start of period	79	80
Issued during period	6	2
Cancelled during period	(4)	(3)
At end of period	<u>81</u>	<u>79</u>

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

12. DESIGNATED RESERVES

	2011	2010
	Total £	Total £
Major Repairs		
At start of period	2,052,364	2,136,423
Release to Revenue Reserve (Note 13)	(502,768)	(596,059)
Transfer from Revenue Reserve (Note 13)	<u>700,000</u>	<u>512,000</u>
At end of period	<u>2,249,596</u>	<u>2,052,364</u>

These reserves are designed to accommodate the necessary work required to ensure compliance with the Scottish Housing Quality Standards and include all known planned maintenance, environmental works funded out of the Associations own resources and other major repairs. The estimated costs of carrying out these works in the next 5 years is expected to be in the region of £4.2 million.

13. REVENUE RESERVE

	2011	2010
	£	£
At start of period	<u>1,364,612</u>	<u>1,021,988</u>
Surplus for the period	740,872	258,565
Transfer from Designated Reserve (Note 12)	502,768	596,059
Transfer to Designated Reserve (Note 12)	(700,000)	(512,000)
At 31 st March 2011	<u>1,908,252</u>	<u>1,364,612</u>

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

14. CAPITAL COMMITMENTS

	2011	2010
	£	£
Expenditure contracted less certified	<u>-</u>	<u>-</u>

15. CONTINGENT LIABILITIES

The Prospect Plus Savings and Loans scheme commenced on 1 May 2003. The Association has issued a guarantee to the bank supporting this scheme. The maximum liability under this scheme is £20,000.

Prospect Community Housing Limited has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the scheme based on the financial position of the scheme as at 30th September 2010. As of this date the estimated employer debt for Prospect Community Housing Limited was £3,446,720. Prospect has also been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Growth Plan, which was £34,590 as at 30 September 2010.

16. NOTES TO CASHFLOW STATEMENT

	2011	2010
	£	£
(a) Reconciliation of operating surplus to net cash inflow from activities		
Operating surplus	445,651	699,530
Loss on Disposal of Property	(683)	-
Depreciation	246,913	245,190
Decrease/(Increase) in debtors	30,321	(23,718)
(Decrease) in creditors	(26,341)	(44,925)
Extraordinary Income	710,000	-
Members shares cancelled	(4)	(2)
Net cash inflow from operating activities	<u>1,405,857</u>	<u>876,075</u>
(b) Reconciliation of net cash flow to movement in net debt		
Increase/(Decrease) in cash in the period	2011	2010
	1,359,337	(252,035)
Cash inflow from movement in debt	<u>513,624</u>	<u>513,010</u>
Movement in net debt in the year	1,872,961	260,975
Increase in loans during year	<u>(1,000,000)</u>	<u>-</u>
Net debt at 1 April 2010	<u>(8,383,771)</u>	<u>(8,644,746)</u>
Net debt at 31 March 2011	<u>(7,510,810)</u>	<u>(8,383,771)</u>

(c) Analysis of changes in net debt

	2010	Cash Flows	Other non	2011
	£	£	Cash changes	£
			£	
Cash at bank and in hand	481,187	1,359,337	-	1,840,524
Debt due within one year	(513,625)	513,625	(534,504)	(534,504)
Debt due after one year	(8,351,333)	(1,000,001)	534,504	(8,816,830)
	<u>(8,383,771)</u>	<u>872,961</u>	<u>-</u>	<u>(7,510,810)</u>

**PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011**

17. HOUSING STOCK

	2011	2010
	No.	No.
The number of units in Management at 31 March was as follows:		
General Needs	886	887
Shared Ownership	12	12
	898	899

18. SECURE TENANCY RENTS

	2011	2010
	£	£
Annual average secure tenancy rent for housing accommodation	3,488	3,426
Percentage increase from previous year	1.8%	6.16%

The rent increase this year was 1.95%

Void rents were excluded from this year's figures, causing a slight variance in the actual comparisons.

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

19. PENSION COMMITMENTS

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

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

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

The last formal valuation of the Scheme was performed 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 2010. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £335 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £162 million, equivalent to a past service funding level of 67.4%.

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.

PROSPECT COMMUNITY HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 MARCH 2011

The Scheme Actuary has calculated the employer debt that would have been payable if your organisation had withdrawn from the Scottish Housing Associations' Pension Scheme as at 30 September 2010.

The suggested Pensions Disclosure Note includes conditional paragraphs. The appropriate choice of paragraph for each employer will depend on the accounting treatment adopted by the employer, in particular whether or not a provision is made for the employer debt.

Under FRS17 an employer should only provide in the balance sheet for the potential debt on withdrawal if it was demonstrably committed as at the balance sheet date to an event that would make the liability crystallise. For example, if an employer had made the decision prior to the balance sheet date to close the Scheme to future accrual at some date in the future, then this would crystallise an employer debt on the date that the Scheme was closed to future accrual (unless the Scheme was fully funded on a buy-out basis as at the date the Scheme closed to future accrual).

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

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

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

Prospect 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 2010. As of this date the estimated employer debt for Prospect was £3,446,720.

Prospect participates in the Scottish Housing Associations' Pension Scheme.

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

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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.

Prospect has elected meantime to operate the final salary with a 1/60th accrual rate benefit option for active members as at 01 April 2011 and the final salary with a 1/60th accrual rate benefit option for new entrants from 01 April 2011. Prospect is reviewing this position and will make any necessary adjustments during 2011/12.

During the accounting period Prospect paid contributions at the rate of 15.4% of pensionable salaries. Member contributions were 7.7%.

As at the balance sheet date there were 25 active members of the Scheme employed by Prospect. The annual pensionable payroll in respect of these members was £716,372.

Prospect continues to offer membership of the Scheme to its employees.

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

2009 Valuation Assumptions	% p.a.
Investment return pre retirement	7.4
Investment return post retirement - Non-pensioners	4.6
Investment return post retirement - Pensioners	4.8
Rate of salary increases	4.5
Rate of pension increases	
- Pension accrued pre 6 April 2005 in excess of GMP	2.9
- Pension accrued post 6 April 2005 (for leavers before 1 October 1993 pension increases are 5.0%)	2.2
Rate of price inflation	3.0

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

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

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(* 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.)

The key valuation assumptions used to determine the assets and liabilities of the SFHA Pension Scheme are:

2006 Valuation Assumptions	% p.a.
Investment return pre retirement	7.2
Investment return post retirement	4.9
Rate of salary increases	4.6
Rate of pensions increases	
- Pension accrued pre 6 April 2005	2.6
- Pension accrued post 6 April 2005 (for leavers before 1 October 1993 pension increases are 5.0%)	2.2
Rate of price inflation	2.6

Mortality Tables	
Non-pensioners	PA92C2025 short
Pensioners	PA92C2013 short

Contribution Rates for Future Service	
Final salary 1/60ths	17.8
Career average revalued earnings 1/60ths	14.6
Career average revalued earnings 1/70ths	12.6
Additional rate for deficit contributions	5.3

Two members of staff of Prospect participate in the Pensions Trust Growth Plan but Prospect makes no contributions to this plan.

21. SUBSIDIARY DISCLOSURE

The Association has a subsidiary company, Prospect Community Projects Limited. This is a wholly owned subsidiary of the Association having a share capital of £1. The company is dormant.

The objective of this subsidiary is to carry out appropriate non-charitable activities.

The net assets of the company as at 31 March 2011 were £1.

Prospect Community Projects Limited has not been consolidated in the accounts of Prospect Community Housing Limited, for the year ended 31 March 2011, due to the immateriality of the amounts involved.

Prospect Community Housing Limited is considered to be the ultimate parent undertaking of the group. Separate Group accounts are not required as the Group has been exempted from this requirement by the Financial Services Authority.

22. RELATED PARTY TRANSACTIONS

The following members of the Committee of Management hold tenancies with the Association:

Rod MacKenzie	Sheila Bunt
Vera Geddes	Naomi Mackenzie
Alan Gee	Mo Connolly

All tenancies were granted under the Association's allocations policy.

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23. EXTRAORDINARY INCOME

A legal claim made against three parties associated with defective work on some of the Association's properties was resolved in 2010/11 by way of a settlement received for the sum of £710,000 from the three parties.