

SALVATION ARMY HOUSING ASSOCIATION

**REPORT &
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 MARCH 2008**



SALVATION ARMY HOUSING ASSOCIATION

CONTENTS

Pages

Legal and administrative details	2 – 3
Report of the Board	4 – 14
Board's statement on the annual review of the effectiveness of the Association's internal control systems	15 – 17
Independent auditors' report	18 – 19
Income and expenditure account	20
Balance sheet	21
Cash flow statement	22
Notes to the financial statements	23 – 41

SALVATION ARMY HOUSING ASSOCIATION

LEGAL AND ADMINISTRATIVE DETAILS

Salvation Army Housing Association is registered under the Industrial and Provident Societies Act 1965 and is also registered with the Housing Corporation.

Industrial and Provident Society Registration No: 15210R.

Housing Corporation Registration No: LH2429

THE BOARD

Colonel L Fisher – Chairman

Mr A Fellows

Mr R Jones

Major P Smith

Lieutenant Colonel K Burridge (Resigned 25 July 2007)

Ms R Millward

Mr L Spencer

Ms K Hyman

Mr N Parrington

Ms S Nurse

Mr G Birkett (Resigned 28 November 2007)

Mr G Roper

Major J Cowell

Major R Irving (Appointed 6 June 2007)

EXECUTIVE OFFICERS

Mr N Parrington Chief Executive

Mrs M Manfield-Cooke Deputy Chief Executive

Mr N Hills Director of Finance

Mrs G Bray Director of Supported Housing

Mr P Rajput Director of Corporate Services and Company Secretary

THE EXECUTIVE OFFICERS OF THE ASSOCIATION

The executive officers of the Association held no interest in the Association's share capital. They act within the authority delegated by the Board.

SALVATION ARMY HOUSING ASSOCIATION

LEGAL AND ADMINISTRATIVE DETAILS *(continued)*

BANKERS

Barclays Bank Plc
Social Housing Team
1 Churchill Place
Canary Wharf
London
E14 5HP

Allied Irish Bank (GB)
36-38 Station Road
Solihull
West Midlands
B91 3SB

AUDITORS

Nexia Smith & Williamson
25 Moorgate
London
EC2R 6AY

TAXATION ADVISERS

Smith & Williamson
25 Moorgate
London
EC2R 6AY

CORPORATE SOLICITORS

Devonshires
Salisbury House
London Wall
London
EC2M 5QY

EMPLOYMENT SOLICITORS

Maclay, Murray & Spens LLP
1 London Wall
London
EC2Y 5AB

COMPANY SECRETARY

Mr Puneet Rajput
Salvation Army Housing Association
Barber Surgeon's Hall
1a Monkwell Square
London
EC2Y 5BL

HEAD OFFICE

Barber Surgeon's Hall
1A Monkwell Square
London
EC2Y 5BL

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD

The Board presents its report together with audited financial statements for the year ended 31 March 2008.

Statement of the Board's responsibilities

The Industrial and Provident Societies Acts and housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period.

In preparing those financial statements the Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for maintaining an adequate system of internal control and keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002, paragraph 17 of Schedule 1 to Housing Act 1996, the Accounting Requirements for Registered Social Landlords General Determination 2006. The Board is 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.

Board members

Board members who have served during the year are shown on page 2.

Principal activities

The Association's principal activities are the development and management of Social Housing, primarily for single people. This includes residential centres for homeless people, foyers offering support and training, housing with appropriate support services for vulnerable people, special housing for the elderly as well as self contained rented homes at rents affordable to low paid workers.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review – Nature of Business

The Association has the following mix of housing stock in management.

	2008	2007
Housing accommodation	1,236	1,236
Residential Centre bed spaces	2,009	2,071
Foyer accommodation	134	134
Residential Care Home bed spaces	77	77
Total	3,456	3,518

The Association operates nationally across 63 local authorities.

The Association's stock has principally been developed during the past twenty-five years and consists of almost 3,500 units of accommodation, providing a home predominantly for single homeless people within a supported housing environment.

Only 9% of the stock is considered to be non-compliant with Decent Homes Standard (DHS) as of January 2008. Non-compliance, as described within the standard is due to failures within:

- Thermal Comfort (Heating, Windows, Insulation, Doors)
- Modern Facilities (Kitchens and Bathrooms)

In March 2008, the Board of Management agreed a five year investment model to ensure decency related compliance for all homes, inclusive of backlog repairs and decency related improvements.

During the year the Association had 158 (2007: 403) lettings taking place in general needs housing and 6,848 (2007: 6,814) in supported housing.

The Association is regulated by the Housing Corporation and complies with its Regulatory Code. Performance is assessed by means of annual assessments against four main criteria i.e. governance, viability, management and development. The Corporation uses a "traffic light" system to measure compliance. The association maintains its four green lights from the Corporation in this respect.

Housing associations are subject to a rolling programme of inspections by the Audit Commission who assess how good is the service to tenants and whether the association is working towards continuous improvement.

The Association is managed by a executive management team (EMT) headed by a Chief Executive and supported by a Deputy Chief Executive and Directors of Supported Housing, Finance and Corporate Services (Company Secretary).

The detailed objectives and strategies of the Association are set out in a business plan that is reviewed annually and approved by the Board. A summarised version of this document is available on application to the Company Secretary. The Business Plan focuses on risk, controls, and quality assurance as well as the key corporate objectives.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review – Objectives & Strategy

The business planning process includes an assessment of strengths and weaknesses, opportunities and threats which are discussed annually between the senior management team and the Board.

The Association's main objectives and strategies for both the past year and the coming year are summarised as follows.

	Objectives	Strategy
Development	To remain a provider in receipt of Housing Corporation capital grant.	<ul style="list-style-type: none"> • Meet Corporation delivery standards. • Successful delivery of the programme in terms of programme, budget and quality. • Develop alliances with local authorities and other stakeholders in order to meet their homeless needs.
	To continue to deliver an annual programme of new homes into management each year.	<ul style="list-style-type: none"> • Delivery of stock types to provide accommodation for single homeless.
	To continue to access social housing grant for: <ul style="list-style-type: none"> • The refurbishment and upgrade to modern standards of existing homeless hostels owned by ourselves, or transferred to us by our strategic partner, the Salvation Army. • The provision of new high quality accommodation for the homeless which meets both the requirements of national strategies and the demand of local communities. 	<ul style="list-style-type: none"> • Develop and maintain the existing relationship with our key strategic partner, the Salvation Army. • Utilisation of modern methods of construction and Egan principles. • Review current design brief to ensure adherence to good practice quality standards and customer and other stakeholder requirements.
Asset management	To achieve full compliance with Decent Homes Standard by 2010.	<ul style="list-style-type: none"> • Provide loft and cavity wall insulation where necessary to fully comply with current standard. • In addition, refurbishment programmes for installation of new central heating systems, kitchens and bathrooms where applicable are programmed to ensure future compliance.
	To plan major refurbishment programmes over the next 5 years	<ul style="list-style-type: none"> • Continually review findings of November 2007 Stock Condition Survey (60% sample of stock) and address any potential Decent Homes failings. • Group work of a similar nature together to get economies of scale. • Address different work required within individual properties at same time to minimise disruption to tenants. • Validate findings of Stock Condition Survey. • Compare Estimated cost with provision within business plan and plan works accordingly.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review – Objectives & Strategy (continued)

	Objectives	Strategy
	To deliver a five year planned maintenance programme.	<ul style="list-style-type: none"> • Review findings of recent 10% sample stock condition survey and prioritise works which address any potential Decent Homes target failings. • Group work of a similar nature together to get economies of scale. • Address different work required within individual properties at same time to minimise disruption to residents. • Validate findings of recent 10% sample stock condition survey and increase sample by further 20%. • Compare estimated cost with provision within business plan and plan works accordingly.
	Reduce day-to-day maintenance liabilities	<ul style="list-style-type: none"> • Identify which of our properties incur high annual maintenance expenditure. • Interrogate SCS to identify future maintenance liabilities of our properties. • Consider strategies for reducing day-to-day maintenance liabilities such as changing client groups, disposals, etc. • Annually review the effectiveness of the Association's contractors and consultants.
Corporate responsibility	To keep up to date best practice in the Association's governance	<ul style="list-style-type: none"> • To meet as a minimum requirements of the regulatory code. • Update the Association's constitution and governing instrument.
	To ensure effective resources available to enable provision of quality service	<ul style="list-style-type: none"> • To restructure the Association in response to the recommendations of the Audit Commission in it's inspection of the Association and the challenges of stock rationalisation. • Implement a business continuity plan.
Housing Management & Agency Services	To provide high quality customer focused services	<ul style="list-style-type: none"> • Monitor performance against targets. • To review effectiveness and range of services offered through tenant involvement.
	To support community regeneration	<ul style="list-style-type: none"> • Work with local authorities and local partners including implementation of Bridging the Gap initiative.
	To seek continuous improvement	<ul style="list-style-type: none"> • Use Best Value (plan, do, check) techniques to challenge and improve services to tenants. • Annually review all policies .

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review – Objectives & Strategy (continued)

	Objectives	Strategy
Finance	To generate surpluses sufficient to maintain adequate financial strength, support development programme and meet lenders covenants	<ul style="list-style-type: none"> • Continuous update of 30 year financial plan. • Detailed financial appraisals of all new schemes prior to approval to proceed. • Monitor progress against Annual Efficiency programme • Assessment of impact of new schemes on financial plan.
	To have funding in place to finance development programme over next 5 years	<ul style="list-style-type: none"> • Ensure existing facilities are adequate in respect of development planning and arrange new facilities where necessary. • Renegotiate existing facilities with lenders to improve covenant terms.
	To implement rent restructuring by 2012	<ul style="list-style-type: none"> • Manage rent plan to meet rent restructuring rules. • To update financial plan with forecast rents from rent model.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review – Performance Measures

The next table lists some of the key indicators used by the executive management team and the Board to monitor achievement of these objectives.

Objectives	Indicators
Development	<ul style="list-style-type: none"> • Clients charter status • Eco-homes compliance • Scheme Development monitoring • Consultant and contractor performance • Customer satisfaction
Asset management	<ul style="list-style-type: none"> • Customer satisfaction • Stock condition inspections • Repair response times • Average Standard Assessment Procedure (SAP) ratings • Units failing Decent Homes Standard • Responsive maintenance spend against budget • Cyclical maintenance spend against budget • Planned maintenance spend against budget • Benchmarking of voids or responsive repairs costs against other RSLs
Corporate responsibility	<ul style="list-style-type: none"> • % attendance at Board and Committee meetings • % staff turnover • Board and staff profile by gender, ethnicity and disability • Average no. of sickness days
Housing management & Agency Services	<ul style="list-style-type: none"> • Rent collection rate • Current arrears as % of gross annual debit • Former arrears as % of gross annual debit • Movement to bad debt provision • Average re-let times • Voids available/unavailable to let • Lettings by ethnicity • Repair response times • Repair appointments made and kept • Supporting people • Customer satisfaction
Financial	<ul style="list-style-type: none"> • Management accounts/budgets • Loan covenants • Treasury management

The Monitoring Committee receives regular key performance indicators graphically showing performance against set targets and trends.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review – Performance in the year

Turnover and operating surplus by activity is shown in Note 2.

Total turnover has decreased by 0.63% over the period. The decrease in operating surplus is 26.3%. This is due to closure of a 121 bedspace hostel in Swindon in 2007, and refurbishment of Cambria House (64 bedspaces) during the year. Turnover for 2006/07 also included capital contributions to development schemes in the sum of £816,000. There have been no such receipts during 2007/08.

The major repair programme is planned within the annual budget but the level of activity for the year impacts directly on the operating surplus.

All performance targets were reviewed during the year by the Executive Management Team and Monitoring Committee within the Balanced Scorecard performance framework. An operational review group has also been implemented during the year. The performance management team consists of an Assistant Director, and Principal Managers, and is chaired by the Director of Finance.

The Association has continued to benefit from year on year efficiency savings particularly in areas of treasury management and lower void levels to further release resources into tenant funded activity and improved service delivery.

Operating & Financial Review – Risk Management

The Association is committed to the identification and where possible, the minimisation of risk, and adopts a policy of being risk averse.

The Board, through the Audit Committee and Performance Management Team, reviews the risk strategy and associated risk management framework on a regular basis.

Risks are recorded on a risk map and analysed according to their impact and likelihood of occurring. The Risk Assurance Framework details the agreed method of risk management, the assessment of controls effectiveness and action plan, together with responsibilities for monitoring and review. The Risk Map is reviewed on a six monthly basis.

Currently the major risk faced by SAHA as a supported housing provider includes the uncertainties surrounding combined levels of supporting people funding and the impact of reduced funding levels on SAHA and its managing agents.

The Controls Assurance Framework identifies the controls in place to mitigate each risk crystallising.

Investment for the future

The Board is committed to spending in line with the stock condition plan incorporated within the business plan each year to maintain and improve its existing housing stock. It endeavours to maintain a balance of 40:60 in spreading this expenditure between day to day responsive repairs and planned works such as replacements of roofs, kitchens, bathrooms and heating systems.

The Association has been successful in obtaining development funding from the Communities and Local Government, and is preparing to submit further bids to the Housing Corporation during the year.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review – Risk Management (*continued*)

Capital structure and treasury policy

Borrowings at the year end were £23.4m and total facilities available were £31.3m. This debt is borrowed wholly from banks in the UK.

Treasury management is the responsibility of the Finance Director. The Treasury Management policy is reviewed annually and approved by Board. The current policy is to maintain between 25% - 75% of borrowings at fixed rates of interest. The actual level of fixed rate borrowings is currently 51%.

An Annual Financial Strategy is prepared by the Finance Director as part of the Treasury Management policy reporting requirements.

Maturity profile: the next table provides an analysis of when the debt falls due for repayment:

	2008	2007
	£000's	£000's
< 1 year	685	810
1 - 2 years	717	743
3 - 5 years	2,387	3,247
> 5 years	19,640	22,782
	£23,429	£27,582

The Association does not use hedging instruments other than to occasionally fix variable rate debt at the time of drawdown dependent on Treasury Management decisions. A rule change would be required to enable hedging to be undertaken at other times and it is not intended to seek such a change as it is considered by the Board that adequate control over interest rate arrangement currently exists.

The Association borrows only in sterling and so does not have any currency risk.

Surpluses are invested in approved UK institutions meeting the credit rating criteria determined within the Treasury Management Policy.

There has been no breach of private finance loan covenants during the year. Gearing is 18% against the covenant of 60%. Cash at bank is £7.4m against the covenant requirement of £1m. The five year plan submitted to the Housing Corporation confirms compliance against covenants for the forecast period.

Cash flows

The Association experienced a net decrease in cash and bank balances in the year of £5m. This was primarily due to the repayment of a loan.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review (continued)

Current liquidity

Cash and bank balances at the year-end were £7.4m. Net current assets were £4.7m.

STATEMENT OF COMPLIANCE

The board confirms that this Operating and Financial Review has been prepared in accordance with the principles set out in Part 2 of the 2008 SORP for Registered Social Landlords. The statement has also been produced in accordance with Reporting Standard 1: Operating and Financial Review, issued by the Accounting Standards Board.

Movement in fixed assets

Details of movements in fixed assets are set out in Notes 10, 11 and 12.

Housing Association Governance

The Association has adopted recommendations for best practice in governance contained in the National Housing Federation's Code of Governance, published in 2004. The Association's Board comprises 12 members.

Board members are drawn from a wide background bringing together professional, commercial and local experience. The Board met formally six times during the year. The Board has five standing committees: Chairs', Urgency, Monitoring, Audit and Remuneration.

The Board is responsible for the Association's strategy and policy framework. It delegates the day-to-day management and implementation of that framework to the Chief Executive and other executive officers who attend meetings of the Board.

Committees

The Chairs' Committee, comprising four members met twice during the year.

The Urgency Committee, comprising four members, which is only convened in exceptional circumstances when there are urgent matters of high importance to decide, did not meet during the year.

The Monitoring Committee, comprising four members and four co-opted members met four times during the year.

The Audit Committee, comprising four members and two co-opted members met four times during the year.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review – Committees (*continued*)

The Remuneration Committee, comprising four members and one co-opted member met four times during the year.

Policy on employment

The Association's aim to provide the highest possible service delivery is dependent upon a skilled, informed and committed workforce. It recognises employees as being a major strength and places great emphasis on ensuring staff are appropriately trained and supported, through supervision, team meetings, appraisals and identifying training needs, all on a regular basis.

The Association is continually developing and expanding training opportunities for staff, with national training programmes, workshops, individual training courses and coaching.

Diversity is embraced by the Association and implemented in all areas of everyday practice with all staff regularly undertaking Diversity training.

The Association strives to ensure that staff are working in a safe environment and are adequately trained in Health & Safety, to carry out their every day tasks with minimal risk to themselves and others.

Rent policy

The Association has produced a ten-year rent plan covering the period 2003-2012. The plan incorporates the principles of Rent Restructuring, as determined by the Housing Corporation's response to the December 2000 housing policy statement, 'Quality and Choice: a decent home for all – The way forward for housing'.

The plan provides details of current and future rent levels, which allows the Association to meet its obligations to residents, to maintain its stock and to continue to be financially viable; including meeting commitments to lenders.

Reserves policy

The Association retains any surplus over expenditure by making a transfer to reserves. The classification of reserves depends on the source of the surplus and whether any restriction is placed on its use.

The Association designates surpluses to specific reserves, in accordance with the SORP, when there is an expectation that the designated reserves will be transferred back in future periods to match expenditure charged to the income and expenditure account. Any surplus generated which is subject to external restrictions is held by the Association as a restricted reserve.

During the year, the Association transferred £1,372,965 to the Major Repairs Reserve and transferred £1,555,981 from the Major Repairs Reserve. It also transferred £5,108 to the Catherine Baird Court Reserve.

SALVATION ARMY HOUSING ASSOCIATION

REPORT OF THE BOARD (continued)

Operating & Financial Review (continued)

Treasury Management Policy

The Association has a Treasury Management Policy governing all of its borrowings and investments. It has been prepared by Sector Treasury Services Ltd and is based on guidance issued by CIPFA.

The policy of the Association is to achieve a satisfactory return while minimising risk. The overriding principle is to avoid risk rather than to maximise return. In the case of borrowing, the objective is to minimise cost consistent with ensuring the stability of the Association's financial position by sound debt management techniques. Borrowings will be within the limits set out in the Rules of the Association and the Housing Corporation and subject to a Strategy agreed annually by Board.

The Association will not undertake currency risk and accordingly will not borrow or deposit funds denominated in foreign currencies.

Long term stock and maintenance repair policy

The surveys form the core of the property condition information on which the Association's Asset Management Strategy is based.

Internal control

The Board's statement on the annual review of the effectiveness of the Association's Internal Control Systems appears on pages 15 – 17.

Members of the Board Statement


The Members of the Board have taken all of the necessary steps to make themselves aware of any information relevant to the audit.

The Members of the Board confirm that they have given the Auditors Nexia Smith & Williamson all relevant information they need in connection with performing the audit.

Auditors

A resolution to reappoint them as auditors for 2008/09 will be laid before the Annual General Meeting.

BY ORDER OF THE BOARD



Company Secretary
Mr P Rajput

SALVATION ARMY HOUSING ASSOCIATION

BOARD'S STATEMENT ON THE ANNUAL REVIEW OF THE EFFECTIVENESS OF THE ASSOCIATION'S INTERNAL CONTROL SYSTEMS for the year ended 31 MARCH 2008

The Board acknowledges that it is responsible for the Association's System of Internal Control and for reviewing its effectiveness.

However, the Board accepts that such a system is designed to manage rather than to eliminate the risk of failure to achieve business objectives. Therefore, such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

The process the Association follows for identifying, evaluating and managing the significant risks it faces is ongoing; has been in place for the year under review and up to the date of approval of the Annual Report and Accounts; and is regularly reviewed by the Board.

The Board approved a fraud policy at the September 2007 meeting which covered employee responsibilities in respect of fraud and the necessary actions to be taken. The Fraud Register is completed whenever fraud or attempted fraud is detected. This register is regularly reviewed by the Audit Committee.

In order to fulfil its responsibility, the Board approve the following key policies which are essential to achieve effective internal control:

- Governance Handbook
- Financial Regulations
- Treasury Management Policy
- Fraud Policy
- Risk Management Policy
- Health & Safety Policy
- Shareholding Membership Policy
- Confidentiality Policy
- Diversity Policy

The Board has a separately designated Audit Committee, it engages the services of an Internal Audit function and has adopted a strategic approach to risk management and performance improvement.

Assurances are gained from a number of functions and processes. These provide key sources of evidence for the Board to utilise in reviewing the effectiveness of SAHA's System of Internal Controls. The relevant functions and sources are as follows:

Audit Committee

The Board has a designated Audit Committee. This committee is responsible for reviewing the adequacy and effectiveness of the Association's System of Internal Controls and reporting its conclusions to the Board. This committee receives reports from both the Internal and External auditors. The Director of Finance attends this meeting, supported by the Chief Executive and other Directors as required.

SALVATION ARMY HOUSING ASSOCIATION

BOARD'S STATEMENT ON THE ANNUAL REVIEW OF THE EFFECTIVENESS OF THE ASSOCIATION'S INTERNAL CONTROL SYSTEMS for the year ended 31 MARCH 2008 (continued)

Internal Audit Function

The Association purchases an externally provided Internal Audit service. The work is carried out in accordance with the Housing Corporation's Code of Audit Practice and the Institute of Internal Auditors' Standards and Guidelines.

The Internal Auditors report annually to the Audit Committee on the System of Internal Controls, with an opinion as to the adequacy and effectiveness of key internal controls systems. The Internal Auditors attend the Audit Committee to present reports and to report on management progress in implementing agreed recommendations. The work of the internal audit is planned, based on the results of an Audit Needs Assessment which in itself is derived from a review of the Association's main risks. A rolling programme is undertaken to cover the whole of the Association's system of control.

The Annual Internal Audit Report for the year ended 31 March 2008 states that in the opinion of the Internal Auditor, SAHA has an adequate, effective and reliable system of internal control which provides reasonable assurance that the objectives of the organisation will be achieved in an efficient and effective manner.

External Audit

The External Auditors, in arriving at their audit opinion on the financial statements, assess whether a satisfactory system of control over books of account and transactions has been maintained. Any material weaknesses in internal controls identified are reported to the Board and an action plan to address the weakness is agreed.

Risk Management

The Association has produced a Risk Map, identifying and evaluating the key risks threatening the achievement of our business objectives. The risks have been ranked in relation to probability and impact and the Association's response to these risks has been structured. The map is reviewed quarterly by the Performance Management Team and Executive Management Team. The updated Map is approved at Audit Committee and updated as circumstances change.

The Strategic Risk Map has now been extended to provide an overall Assurance Framework, where controls are mapped against risks and the corporate objectives they prevent being achieved. All controls are then assessed for effectiveness and the source of assurance for this effectiveness is recorded. This framework is reviewed and updated alongside the Risk Map.

The Executive Management Team meets monthly or more often if required. Part of the scope of EMT is to review, monitor and summarise assurances to the Board through the Audit Committee on the effectiveness of the Association's Internal Control systems, Risk Management and Continuous Improvement Strategy.

SALVATION ARMY HOUSING ASSOCIATION

BOARD'S STATEMENT ON THE ANNUAL REVIEW OF THE EFFECTIVENESS OF THE ASSOCIATION'S INTERNAL CONTROL SYSTEMS for the year ended 31 MARCH 2008 (continued)

Reports from the Housing Corporation

In accordance with guidance issued by the Housing Corporation, limited assurances are taken from reports issued by the Regulator. During the year, reports have been received and action plans implemented to address issues raised.

The Housing Corporation Assessment, dated September 2007, contains four green lights. The report states that the Association's performance is satisfactory.

Quality Management Systems / Performance Indicators

The Association has a Continuous Improvement Strategy and a Performance Management framework, following the principles of the Balanced Scorecard.

Work has also been undertaken to introduce a Performance Management framework following the principles of the Balanced Scorecard.

A Monitoring Committee meets to review operational performance, consider key business performance indicators and instigate appropriate actions. The purpose of this Committee is to provide an efficient, effective and equitable service to its residents, aiming for the highest standards through its strategy for Continuous Improvement.

Financial Controls include a budget preparation methodology clearly outlined in the Association's Budget Manual. The Budget is approved annually by Board. Monthly Management Accounts are produced and reviewed by EMT. A comprehensive quarterly Management Accounts report with 3-year rolling cashflow is submitted to Board for review. In addition to these reports the Board also receive the 5 year business plan developed from a recognised and validated 30-year planning model.

During the year a Performance Management Team has been inaugurated to appraise aspects of operational performance. The group comprises an Assistant Director, and Principal Managers, and is chaired by the Director of Finance.

Training & Personal Development

Training plans and personal development are key objectives within the HR Strategy encompassing both staff training needs analysis and Board Members' training. Regular staff one-to-one performance appraisals take place during the year and are monitored by Human Resources.

Nexia Smith & Williamson

Independent auditors' report to the members of Salvation Army Housing Association

We have audited the accounts of Salvation Army Housing Association for the year ended 31 March 2008 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 28. These accounts have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the Board and auditors

As described on page 4 the Association's board are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards and the relevant Statement of Recommended Practice.

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

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006. We also report to you if, in our opinion, the Board Report is not consistent with the accounts, if the association has not kept proper accounting records and if we have not received all the information and explanations we require for our audit.

We read the Board Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

Nexia Smith & Williamson

Independent auditors' report to the members of Salvation Army Housing Association (continued)

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

Opinion

In our opinion the accounts:

- give a true and fair view of the state of the Association's affairs as at 31 March 2008 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

Nexia Smith & Williamson

Nexia Smith & Williamson
Chartered Accountants
Registered Auditors

25 Moorgate
London
EC2R 6AY

Date: 11 August 2008

SALVATION ARMY HOUSING ASSOCIATION

INCOME AND EXPENDITURE ACCOUNT for the year ended 31 MARCH 2008

	Notes	2008 £	2007 £
Turnover	2/3	39,817,364	40,071,898
Operating costs	2/3	(38,164,022)	(37,828,975)
Operating surplus		1,653,342	2,242,923
(Deficit) / Surplus on disposal of fixed assets	5	(33,475)	40,371
Interest receivable and similar income	6	334,269	435,272
Interest payable and similar charges	7	(1,655,753)	(1,849,200)
Surplus for the year	8/19	298,383	869,366

All recognised gains and losses are reflected in the income and expenditure account and, therefore, no separate statement of total recognised gains and losses is produced.

All activities reported above, both in the current and preceding years, relate to continuing activities.


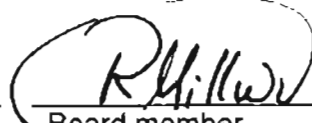

There is no difference between the surplus on ordinary activities and the retained surplus for the year stated above, and their historical cost equivalents.

SALVATION ARMY HOUSING ASSOCIATION

BALANCE SHEET as at 31 MARCH 2008

	Notes	2008 £	2007 £
Fixed assets			
Housing properties – depreciated cost	10	148,678,786	149,996,147
Social housing grant	10	(114,142,759)	(114,814,427)
Other public grants	10	(1,236,496)	(1,236,496)
		<hr/>	<hr/>
		33,299,531	33,945,224
Other fixed assets			
Investments	11	1,859,354	1,725,497
Other tangible fixed assets	12	371,588	400,059
		<hr/>	<hr/>
		35,530,473	36,070,780
Current assets			
Debtors	13	1,054,198	893,650
Cash at bank and in hand		7,417,591	12,366,352
		<hr/>	<hr/>
		8,471,789	13,260,002
Creditors: amounts falling due within one year	14	(3,728,885)	(5,444,618)
		<hr/>	<hr/>
Net current assets		4,742,904	7,815,384
		<hr/>	<hr/>
Total assets less current liabilities		40,273,377	43,886,164
		<hr/>	<hr/>
Creditors: amounts falling due after more than one year	15	24,961,581	28,872,745
Capital and reserves			
Called up share capital	16	49	55
Designated reserves	17	4,053,807	4,236,823
Restricted reserves	18	7,188,263	7,183,155
Income and expenditure reserve	19	4,069,677	3,593,386
		<hr/>	<hr/>
		40,273,377	43,886,164
		<hr/>	<hr/>

The financial statements were approved by the Board on 23 July 2008, and signed on its behalf by:

 <hr/> Chairman	 <hr/> Board member	 <hr/> Company Secretary
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SALVATION ARMY HOUSING ASSOCIATION

CASH FLOW STATEMENT for the year ended 31 MARCH 2008

	Notes	2008 £	2007 £
Net cash inflow from operating activities	24(a)	755,226	4,308,732
Returns on investments and servicing of finance	25(a)	(1,409,351)	(1,393,071)
Capital expenditure	25(b)	(258,529)	829,779
		<hr/>	<hr/>
		(912,654)	3,745,440
Financing	25(c)	(4,036,107)	(802,213)
		<hr/>	<hr/>
(Decrease)/Increase in cash		(4,948,761)	2,943,227
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
(Decrease) / Increase in cash in the year	26(a) (b)	(4,948,761)	2,943,227
Decrease / (Increase) in housing loans	26(a) (b)	<u>4,036,101</u>	<u>(1,297,784)</u>
Movement in net debt in the year	26(a) (b)	(912,660)	1,645,443
Net debt at 1 April 2007	26(a) (b)	(17,316,096)	(18,961,539)
		<hr/>	<hr/>
Net debt at 31 March 2008	26(a) (b)	<u>(18,228,756)</u>	<u>(17,316,096)</u>

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the Statement of Recommended Practice (SORP) Accounting by Registered Social Landlord 2008, and comply with the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006.

A summary of the more important accounting policies is set out below:

Basis of accounting

The financial statements have been prepared on the historical cost basis of accounting. The accounts have not been consolidated to include the results of the subsidiary, Kingsown Property Limited. This is because the business of the Association and the subsidiary are so different that they cannot reasonably be created as a single undertaking and the results of the subsidiary are not material to the Association.

Turnover

Turnover represents rental income receivable, service charges receivable, miscellaneous income, fees and grants receivable from Local Authorities, the Housing Corporation and other funding sources.

Fixed assets and depreciation

Housing properties are stated at cost. The cost of housing properties net of SHG and similar grants and the residual value of land is depreciated over the life of the property with the economic life of freehold properties being estimated at 50 years.

Housing properties held under a lease are depreciated over the shorter of their useful economic life and the term of the lease subject to any residual value of the lease.

Other tangible fixed assets

Office premises, computers, Office Equipment and Furniture are stated at cost less accumulated depreciation. Depreciation is charged on a straight line to write down the cost of the assets to estimated residual value over the expected economic lives of the assets at the following rates:

Office Premises	2 %	per annum
Office Equipment and Furniture	20 %	per annum
Computers	33 %	per annum
Office renovation	20 %	per annum

Investments

Investments in endowment policies are recorded at cost, being the premiums paid. The SORP recommends that investments be stated at market value. There is not a readily ascertainable market value for the endowment policies and the Association believes that the historic cost premium payments are the best prudent estimate of market value.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008(continued)

1. **Accounting policies (continued)**

Sales of housing properties

Where housing properties held as fixed assets are disposed of during the year, the surplus or deficit is accounted for on the face of the income and expenditure account.

Social housing grant and other grants

Social Housing Grant (SHG) is paid by the Housing Corporation to reduce the cost of development and is, therefore, shown as a deduction from the cost of housing properties on the Balance Sheet. Where a property is disposed of and has been financed wholly or partly by Social Housing Grant, the amount of Social Housing Grant is accumulated within the Recycled Capital Grant Fund, to be used for further developments. If the grant is not recycled within three years of disposal, it may become repayable.

Capitalisation of interest

Interest on the loans financing a development is capitalised up to the date of practical completion of the scheme. Interest on the loans after this date is charged to the Income and Expenditure account.

Work to existing housing properties

Improvements to housing properties are capitalised where it can be shown there is an enhancement of economic benefit to SAHA of the asset, resulting in an increase in the net rental stream over the life of the property. Where the works are either repairs or replacement with no additional financial benefit to the Association, the costs are charged to the income and expenditure account.

Capitalisation of development overheads

Development overheads are capitalised to the extent that they are identified as incremental costs to the Association and would have been avoided only if the property/development had not been constructed or acquired.

Leased assets

Rentals paid under operating leases are charged to the Income and Expenditure Account on an accruals basis.

Designated reserves

Retained surpluses, for which there is an expectation that they will be transferred back in the future periods, to match expenditure charged to the income and expenditure account, are held as Designated Reserves. The movement in the designated Property Reserve and Major Repairs Reserve are shown in Note 17.

Restricted reserves

The Association holds retained surpluses, which are subject to external restriction, as restricted reserves. Movements on restricted reserves are shown in Note 18.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

1. **Accounting policies (continued)**

VAT

The Association is registered as a VAT Group with its subsidiary company Kingsown Property Limited, and no vatable supplies are made outside the Group. Expenditure is therefore shown inclusive of VAT.

Schemes managed by agents

The Association has a number of agreements with third parties to manage schemes on its behalf and has assessed that, in substance; a transfer to the managing agents of the risks and benefits attached to schemes has not taken place. These accounts are therefore drawn up on the basis that it is appropriate to include the transactions managed by the agents. The value of the transactions associated with agency-managed schemes is disclosed in note 3. Debtors and creditors of agency managed schemes held in the books and records of the agent have not been consolidated.

Pension costs

The Association operates a defined benefit final salary scheme, the Social Housing Pension Scheme ("SHPS"), the cost of which is written off to the Income and Expenditure Account on an accruals basis. The assets of the scheme are held separately from those of the Association in an independently administered fund. Staff who are not members of the SHPS qualify for employers contributions, provided that they make personal contributions, to be deducted from monthly salary, to an approved pension scheme. In this case, the Association will pay at twice the rate of the personal contribution, up to a maximum payment of 13.9% of gross annual salary.

Management expenses

Management expenses are allocated to activities either directly or on the basis of staff time spent on the activity.

Income from Supporting People and support services

Supporting People contract income and income from charges for support services are recognised when receivable and included in turnover. Charges for support services, if the services are provided within the tenancy agreement, are shown as 'Charges for support services'. If support is provided under a contract separate from the tenancy agreement the related income is shown under 'Supporting People'.

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

2. Particulars of turnover, operating costs and operating surplus for the year

	2008			2007		
	Turnover £	Operating costs £	Operating surplus/ (deficit) £	Turnover £	Operating costs £	Operating surplus/ (deficit) £
Social housing lettings:						
Housing accommodation	5,147,864	(4,455,760)	692,104	4,818,666	(4,711,743)	106,923
Supported housing	14,035,788	(13,151,392)	884,396	13,090,118	(12,798,917)	291,201
Foyers	785,619	(899,965)	(114,346)	729,442	(926,242)	(196,800)
	<u>19,969,271</u>	<u>(18,507,117)</u>	<u>1,462,154</u>	<u>18,638,226</u>	<u>(18,436,902)</u>	<u>201,324</u>
Other social housing activities:						
Supporting People contract income	15,112,445	(18,018,730)	(2,906,285)	15,482,573	(17,684,692)	(2,202,119)
Gift Aid	300,000	---	300,000	300,000	---	300,000
Contributions from Agencies	2,053,178	---	2,053,178	2,119,491	---	2,119,491
Capital donations	---	---	---	816,123	---	816,123
Other income	1,173,246	(197,649)	975,597	1,323,279	(200,405)	1,122,874
	<u>1,209,224</u>	<u>(1,440,526)</u>	<u>(231,302)</u>	<u>1,392,206</u>	<u>(1,506,976)</u>	<u>(114,770)</u>
Non social housing activities:						
Care services	39,817,364	(38,164,022)	1,653,342	40,071,898	(37,828,975)	2,242,923
	<u>39,817,364</u>	<u>(38,164,022)</u>	<u>1,653,342</u>	<u>40,071,898</u>	<u>(37,828,975)</u>	<u>2,242,923</u>

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

3. Particulars of income and expenditure from social housing lettings	General needs		Supported housing agency managed schemes		Supported housing direct managed schemes		Foyers		2008 Total		2007 Total	
	£	£	£	£	£	£	£	£	£	£	£	£
Rent receivable net of identifiable service charges	4,365,019	5,542,134	325,225	432,009	10,664,387	9,122,700						
Charges for services	635,791	7,935,827	182,243	359,430	9,113,291	9,174,202						
Support income	147,054	---	---	---	147,054	154,775						
Net rental income	5,147,864	13,477,961	507,468	791,439	19,924,732	18,451,677						
Other revenue grants	---	50,359	---	(5,820)	44,539	186,549						
Turnover from social housing lettings	5,147,864	13,528,320	507,468	785,619	19,969,271	18,638,226						
Management Services	1,193,034	2,208,833	98,116	316,508	3,816,491	3,608,934						
Maintenance	753,144	8,309,490	162,225	339,773	9,564,632	9,225,679						
Major repairs expenditure	1,213,284	1,324,087	69,387	147,622	2,754,380	2,640,039						
Bad debts	831,312	741,325	---	41,905	1,614,542	2,214,173						
Depreciation of housing properties	124,581	---	7,643	35,105	167,329	148,304						
Foyer training	340,405	230,286	---	8,052	578,743	589,871						
	---	---	---	11,000	11,000	9,902						
Operating costs on social housing	4,455,760	12,814,021	337,371	899,965	18,507,117	18,436,902						
Operating surplus/(deficit) on social housing lettings	692,104	714,299	170,097	(114,346)	1,462,154	201,324						
Voids	(95,909)	(1,390,703)	(4,182)	(34,275)	(1,525,069)	(1,561,155)						

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

4. Directors emoluments and employee information

Directors emoluments

The directors are defined for the purpose of this note as the members of the Board, the Chief Executive and any other person who is a member of the senior management team. None of the Board members received any emoluments. The emoluments of the Chief Executive and the senior management team were as follows:

	2008	2007
	£	£
Emoluments (including pension contributions and benefits in kind)	475,759	463,461
	<hr/>	<hr/>
Total employer's pension contributions in respect of directors	47,906	45,588
	<hr/>	<hr/>
Emoluments of highest paid director, the Chief Executive (excluding pension contributions, including benefits in kind)	112,192	102,237
	<hr/>	<hr/>
Employer's pension contributions in respect of the Chief Executive	13,483	10,486
	<hr/>	<hr/>

The Chief Executive is a member of the Social Housing Pension Scheme. He is an ordinary member of the pension scheme and no enhanced or special terms apply.

Employee information

	2008	2007
	Number Full-time equivalent	Number Full time equivalent
Staff engaged in managing or maintaining housing stock	28	29
Staff engaged in developing or selling housing stock	2	4
Staff providing central administration services	26	22
Staff providing support & services	52	51
	<hr/>	<hr/>
	108	106
	<hr/>	<hr/>

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

4. Directors emoluments and employee information (*continued*)

The above employee numbers do not include temporary agency staff.

	2008 £	2007 £
Staff costs		
Wages and salaries	3,035,944	2,912,783
Social security costs	274,381	261,735
Other pension costs (see note 21)	175,807	171,603
	<u>3,486,132</u>	<u>3,346,121</u>
Temporary agency costs	492,070	690,703
	<u>492,070</u>	<u>690,703</u>
5. (Deficit) / surplus on disposal of fixed assets	2008 £	2007 £
Proceeds from disposal of housing property	---	2,100,000
Costs of sale	---	(2,197,153)
Incidental selling costs	---	(25,116)
	<u>---</u>	<u>(122,269)</u>
Deficit on disposal of housing property	---	(122,269)
Surplus Grant released on sale of property	---	161,942
(Deficit) / surplus on disposal of other fixed assets	(33,475)	698
	<u>(33,475)</u>	<u>698</u>
(Deficit) / surplus for the year	(33,475)	40,371
	<u>(33,475)</u>	<u>40,371</u>
6. Interest receivable and similar income	2008 £	2007 £
Bank deposit interest	334,269	435,272
	<u>334,269</u>	<u>435,272</u>
7. Interest payable and similar charges	2008 £	2007 £
On loans, repayable wholly or partly in more than 5 yrs:		
Loan interest	(1,655,753)	(1,849,200)
	<u>(1,655,753)</u>	<u>(1,849,200)</u>

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

8. Surplus for the year	2008	2007
The surplus for the year is stated after charging:		
	£	£
Depreciation – housing properties	578,743	589,871
Depreciation – other fixed assets	186,618	171,973
Auditors' remuneration (including VAT)		
Audit services	24,120	23,250
Tax services	3,437	2,750
Management fee to Kingsown Property Limited	(33,420)	(32,095)
Operating lease rentals - land and buildings	102,650	68,059
- other	302,458	349,159
Hire charges on rental of equipment	1,041,951	1,046,616
	1,041,951	1,046,616

9. Taxation

Salvation Army Housing Association is an exempt charity registered with the Housing Corporation and is exempt from liability to taxation on its income and capital gains.

10. Housing properties	Completed housing properties	Housing properties in construction	2008 Total	2007 Total
	£	£	£	£
<u>Cost</u>				
At 1 April	152,944,627	732,846	153,677,473	154,744,327
Additions during the year	—	161,142	161,142	1,986,975
Disposals during the year	(899,760)	—	(899,760)	(3,053,829)
Transferred on completion	654,869	(654,869)	—	—
At 31 March	152,699,736	239,119	152,938,855	153,677,473
<u>Depreciation</u>				
At 1 April	3,681,326	—	3,681,326	3,091,455
Charge for the year	578,743	—	578,743	589,871
At 31 March	4,260,069	—	4,260,069	3,681,326
Depreciated Cost	148,439,667	239,119	148,678,786	149,996,147
<u>Social housing grants</u>				
At 1 April	114,767,904	46,523	114,814,427	116,322,166
Receivable during the year	—	158,095	158,095	1,588,199
Transferred to Revenue account on disposal	(829,763)	—	(829,763)	(3,095,938)
Transferred on completion	158,095	(158,095)	—	—
At 31 March	114,096,236	46,523	114,142,759	114,814,427

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

10. Housing properties	Completed housing properties £	Housing properties in construction £	2008 Total £	2007 Total £
Other public grants				
At 1 April & 31 March	1,161,496	75,000	1,236,496	1,236,496
Net book value				
At 31 March 2008	33,181,935	117,596	33,299,531	
At 31 March 2007	33,333,900	611,324	33,945,224	

Additions to properties included £nil (2007: £99,281) for administrative, direct and other indirect costs.

Expenditure on major repairs of housing properties comprises the following:

	2008 £	2007 £
Total capitalised costs in respect of existing properties	161,142	1,986,975
Costs charged to the income and expenditure account	1,614,542	2,214,173
Total expenditure on housing properties	1,775,684	4,201,148
Housing properties at net book value comprise:		
Freeholds	18,929,794	19,320,334
Long leaseholds	9,750,295	9,906,828
Short leaseholds	4,619,442	4,718,062
	33,299,531	33,945,224

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

11. Other fixed assets	2008	2007
	£	£
Investments		
Cost of shares in wholly owned subsidiary (see note (a) below)	50	50
Endowment policies (see note (b) below)	1,859,304	1,725,447
	<hr/>	<hr/>
	1,859,354	1,725,497
	<hr/>	<hr/>

- a) Kingsown Property Limited, a wholly owned subsidiary of Salvation Army Housing Association is a company registered in England and Wales – Registered No. 2304488. The company is not a Registered Social Landlord.

Authorised share capital: 500,000 ordinary shares of £1 each
 Issued share capital 200,000 ordinary shares of £1 each

The issued share capital is held by Salvation Army Housing Association. Under section 14 Paragraph 2(a) of Friendly and Industrial and Provident Societies Act 1968, Salvation Army Housing Association is exempt from preparing Group Accounts including Kingsown Property Limited.

	2008	2007
	£	£
Kingsown Property Limited		
Profit / (Loss) for the year before tax	164,621	(213,873)
Net assets	757,263	592,642
Revenue reserves	557,263	392,642
	<hr/>	<hr/>

Operating lease payments made to the subsidiary for the year amounted to £1,041,951 (2007: £1,046,616). The Association also received a £300,000 gift aid donation from its subsidiary (2007: £300,000). At 31 March 2008 the amount owed by Kingsown to the Association was £322,588 (2007: £210,187).

b) Endowment policies

This asset represents premiums paid on with profit-life assurance policies that are assured on the lives of certain former staff members. The beneficial interest in these policies is vested in the Association. The aggregate surrender value of these policies as at 31 March 2008 was £2,255,635 (2007: £1,938,039).

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

12. Other tangible fixed assets	Office Property £	Office Equipment £	Office Furniture £	Scheme Furniture £	2008 Total £	2007 Total £
Cost						
At 1 April	145,000	457,191	243,132	294,318	1,139,641	1,020,780
Additions during the year	---	137,415	20,452	33,755	191,622	146,667
Disposals during the year	---	(290,579)	(60,746)	(189,955)	(541,280)	(27,806)
At 31 March	145,000	304,027	202,838	138,118	789,983	1,139,641
Depreciation						
Depreciation at 1 April	14,500	399,357	136,201	189,524	739,582	593,677
Charge for the year	2,900	83,787	70,925	29,006	186,618	171,973
Eliminated on disposal	---	(287,273)	(58,310)	(162,222)	(507,805)	(26,068)
At 31 March	17,400	195,871	148,816	56,308	418,395	739,582
Net book value						
At 31 March 2008	127,600	108,156	54,022	81,810	371,588	
At 31 March 2007	130,500	57,834	106,931	104,794	400,059	

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

13. Debtors: amounts falling due within one year	2008	2007
	£	£
Rental debtors	346,161	394,394
Provision for bad debts	(190,634)	(128,782)
	<hr/>	<hr/>
	155,527	265,612
Prepayments and accrued income	898,671	628,038
	<hr/>	<hr/>
	1,054,198	893,650
	<hr/>	<hr/>

The total Social Housing Grant receivable, both capital and revenue, for the year was £549,062 (2007: £997,278). The cumulative amount of Social Housing Grant receivable at 31 March 2008 is £119,371,631 (2007: £118,822,569).

14. Creditors: amounts falling due within one year	2008	2007
	£	£
Trade creditors	1,301,604	2,465,043
Contracts for capital work	164,162	590,055
Prepayment for rent and service charges	149,598	103,433
Other creditors and accruals	1,428,755	1,476,384
Loan capital repayments	684,766	809,703
	<hr/>	<hr/>
	3,728,885	5,444,618
	<hr/>	<hr/>

15. Creditors: amounts falling due after more than one year

Housing loans from the Local Authorities and other private sources are secured by charges on the Association's specific housing properties and are repayable at varying rates of interest between 5.1% and 10.9% as follows:

	2008	2007
	£	£
Housing Loans		
Loans repayable between 1 and 2 years	717,457	743,702
Loans repayable between 3 and 5 years	2,387,205	3,246,811
Over five years:	19,640,159	22,782,232
	<hr/>	<hr/>
	22,744,821	26,772,745
Recycled capital grant fund*	2,216,760	2,100,000
	<hr/>	<hr/>
	24,961,581	28,872,745
	<hr/>	<hr/>

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

15. **Creditors:** amounts falling due after more than one year (*continued*)

	2008 £	2007 £
*Recycled capital grant fund		
At 1 April	2,100,000	---
Additions for the year in respect of allocated interest	116,760	2,100,000
At 31 March	<u>2,216,760</u>	<u>2,100,000</u>

16. **Called up share capital**

	2008 £	2007 £
Each member of the Association holds one share of £1 in the Association		
Allotted, issued and fully paid:		
At 1 April	55	52
Issued during the year	1	4
Surrendered in the year	(7)	(1)
At 31 March	<u>49</u>	<u>55</u>

The shares have limited rights. They carry no entitlement to dividend, interest or bonus, they are not repayable and do not participate in winding up. The voting rights of the shares are entitlement to vote at the Annual General Meeting and Special General Meetings of Salvation Army Housing Association.

17. **Designated reserves**

	Property reserve £	Major repairs reserve £	Total £
Balance at 1 April 2007	1,209,926	3,026,897	4,236,823
Transfers (to) income and expenditure account (Note 19)	---	(1,505,623)	(1,505,623)
Transfers from income and expenditure account (Note 19)	---	1,322,607	1,322,607
Net transfer (to) income and expenditure account	---	(183,016)	(183,016)
Balance at 31 March 2008	<u>1,209,926</u>	<u>2,843,881</u>	<u>4,053,807</u>

Property reserve

This represents that proportion of the cost of properties which was financed by the Association's own resources.

Major repairs reserve

This represents amounts set aside by the Association for future major repairs expenditure on housing properties developed under the 1988 Housing Act arrangements.

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

18. Restricted reserves	Catherine Baird Court reserve £	Property reserve £	Total £
Balance at 1 April 2007	89,510	7,093,645	7,183,155
Transfer from income and expenditure account (note 19)	5,108	—	5,108
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2008	94,618	7,093,645	7,188,263
	<hr/>	<hr/>	<hr/>

Property reserve

This represents that proportion of the cost of properties, which was financed by charitable donations.

Catherine Baird Court reserve

This represents funds left by way of a specific legacy for the benefit of Catherine Baird Court. The reserve will be utilised to fund both capital and revenue expenditure under the direction of the Tenant / Association Joint Committee.

19. Income & Expenditure reserve	2008 £	2007 £
Balance at 1 April	3,593,386	2,820,189
Surplus for the year (page 20)	298,383	869,366
Transfer from designated reserves (Note 17)	1,505,623	2,026,706
Transfer to designated reserves (Note 17)	(1,322,607)	(1,338,998)
Transfer to restricted reserves (Note 18)	(5,108)	(783,877)
	<hr/>	<hr/>
Balance at 31 March	4,069,677	3,593,386
	<hr/>	<hr/>

20. Capital commitments	2008 £	2007 £
Capital expenditure that has been contracted for but has not been provided for in these financial statements	---	255,676
Capital expenditure that has been authorised by the Board but has not been contracted for	—	46,953
	<hr/>	<hr/>
	---	302,629
	<hr/>	<hr/>

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

20. Capital commitments (*continued*)

Capital commitments amounting to £nil (2007: £302,629) will be financed by Social Housing Grant (SHG) allocations of £nil (2007: £255,676) from the Housing Corporation and £nil from the Association's own resources.

21. Pension obligations

The Pensions Trust, an independent administrator of Pension Funds, operates the Social Housing Pension Scheme (SHPS) and the Association participates in this Scheme. The SHPS is a multi-employer defined-benefit scheme.

The scheme is funded and is contracted out of the state scheme. The Association has elected to operate the final salary with both the 1/60th and 1/70th accrual rates, applicable to active members as at 31 March 2008, accrual rate dependent on individual choice. For new members to the Scheme as from 1 April 2007, the 1/70th accrual rate will apply.

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

From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate.

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

During the year the Association paid contributions at the rate of 13.9%. Member contributions varied between 4.3% and 8.6% depending on their age at the date of joining the scheme. As at the Balance Sheet date, there were 34 active members of the scheme employed by the Association which continues to offer membership to the scheme to its employees.

It is not possible, in the normal course of events, to identify the share of underlying assets and liabilities belonging to individual participating employers. Accordingly, due to the nature of the Scheme, the income and expenditure account charge for the year under FRS17, represents the employer contribution payable.

The last formal valuation of the scheme was performed at 30 September 2005 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the last valuation date was £1,278m. The valuation revealed a shortfall of assets compared to liabilities of £283m (equivalent to a post service funding level of 82%).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

21. Pension obligations (continued)

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2007. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £1.76m and indicated a decrease in the shortfall of assets compared to liabilities to approximately £209m, equivalent to a past service funding level of 89%. Annual funding updates of the SHPS Scheme are carried out using approximate actuarial techniques rather than member by member calculations, and will therefore not produce the same results as a full actuarial valuation. However, they will provide a good indication of the financial progress of the scheme since the last full valuation.

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

	% pa
Investment return pre-retirement	7.2
Investment return post-retirement	4.8
Rate of salary increases to 30 September 2010	5.0
Rate of salary increases from 1 October 2010	4.0
Rate of pension increases	2.5
Rate of price inflation	2.5

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

Benefit structure	Long-term joint contribution rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	17.6
Final salary with a 1/70th accrual rate	15.3

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £283m would be dealt with by the payment of deficit contributions of 4.4% of pensionable salaries with effect from 1 April 2007. These deficit contributions are in addition to the long-term joint contribution rates set out in the table above.

With effect from 1 April 2007, for the 1/60th option, the employer and employee contribution rates for the Association will be 13.9% and 6.6% to 8.6% of pensionable salaries respectively.

For the 1/70th option the employer and employee contribution rates for The Association will be 13.9% and 4.3% to 6.3% of pensionable salaries respectively.

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 Association has no plans to leave the scheme and accordingly has made no provision for such a liability.

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

21. Pension obligations (continued)

The total pension cost for Salvation Army Housing Association was £175,807 (2007: £169,526) covering 43 employees. The pension cost is assessed in accordance with the advice of a qualified actuary using the projected unit fund method and is not materially different from that arising from the current employer's contribution rate.

The Association also operates two defined contribution schemes for which the total employer cost for the year was £nil (2007: £2,077).

The net charge to income and expenditure account for all schemes is £175,807 (2007: £171,603).

22. Operating leases

The association has annual commitments under leases of:

	2008	2007
	£	£
Land and Buildings – Leases expiring:		
Within one year	7,150	14,324
One to second year	64,980	---
Second to fifth year	---	64,980
Over five years	---	---
	<hr/> 72,130	<hr/> 79,304
	<hr/> <hr/>	<hr/> <hr/>
	2008	2007
	£	£
Other operating leases – Leases expiring:		
Within one year	9,493	11,486
One to second year	115,256	1,463
Second to fifth year	151,999	226,562
Over five years	13,333	26,212
	<hr/> 290,081	<hr/> 265,723
	<hr/> <hr/>	<hr/> <hr/>

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

23. Housing stock

The number of units of housing, residential centre and foyer accommodation under development and in management at 31 March 2008 was:

	Number of Units in development		Number of Units in management	
	2008	2007	2008	2007
Housing accommodation for				
Owned and managed	---	---	1,236	1,236
Owned but not managed	---	---	---	---
Number of bed spaces:				
Owned and managed	---	---	72	72
Owned but not managed	---	6	1,937	1,999
Foyer Accommodation:				
Owned and managed	---	---	128	128
Owned but not managed	---	---	6	6
Residential care home bed				
Owned but not managed	---	---	77	77

24(a) Net cash inflow from operating activities	2008	2007
	£	£
Reconciliation of surplus to net cash		
Inflow from operating activities		
Operating surplus for the year	1,653,342	2,242,923
Depreciation (office equipment)	186,618	171,973
Depreciation (housing properties)	578,743	589,871
	2,418,703	3,004,767
(Increase)/decrease in debtors	(197,567)	249,956
(Decrease)/increase in creditors	(1,465,910)	1,054,009
	755,226	4,308,732
25(a) Returns on investments and servicing of finance	2008	2007
	£	£
Interest received	371,288	326,842
Interest paid	(1,780,639)	(1,719,913)
	(1,409,351)	(1,393,071)

SALVATION ARMY HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 MARCH 2008 (continued)

25(b)	Capital expenditure		2008	2007
			£	£
	Acquisition and construction of housing properties		738,618	(1,986,975)
	Proceeds from disposal of housing property		---	2,100,000
	Other fixed assets acquired:			
	Investments		(133,857)	(133,857)
	Office equipment		(191,622)	(146,667)
	Net social housing grants received		(671,668)	997,278
			<hr/>	<hr/>
			(258,529)	829,779
			<hr/>	<hr/>
25(c)	Financing		2008	2007
			£	£
	Shares issued		1	4
	Shares redeemed		(7)	(1)
	Net housing loans (repaid)		(4,036,101)	(802,216)
			<hr/>	<hr/>
			(4,036,107)	(802,213)
			<hr/>	<hr/>
26(a)	Analysis of changes in net debt 2008	At 1 April 2007	Cash flow	At 31 March 2008
		£	£	£
	Cash in hand and at bank	12,366,352	(4,948,761)	7,417,591
	Housing loans	(29,682,448)	4,036,101	(25,646,347)
		<hr/>	<hr/>	<hr/>
	Total	(17,316,096)	(912,660)	(18,228,756)
		<hr/>	<hr/>	<hr/>
26(b)	Analysis of changes in net debt 2007	At 1 April 2006	Cash flow	At 31 March 2007
		£	£	£
	Cash in hand and at bank	9,423,125	2,943,227	12,366,352
	Housing loans	(28,384,664)	(1,297,784)	(29,682,448)
		<hr/>	<hr/>	<hr/>
		(18,961,539)	1,645,443	(17,316,096)
		<hr/>	<hr/>	<hr/>

27. Contingent liabilities

As at 31 March 2008 there were no contingent liabilities (2007: Nil)

28. Related Parties

The Board has a tenant member who holds a tenancy agreement on the same terms as other similar tenants.