

**CAIRN HOUSING ASSOCIATION LIMITED**

**REPORT and FINANCIAL STATEMENTS**

**For the year ended 31 March 2010**

**CAIRN HOUSING ASSOCIATION LIMITED**

**REPORT and FINANCIAL STATEMENTS**

**For the year ended 31 March 2010**

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**CAIRN HOUSING ASSOCIATION LIMITED**

**COMMITTEE OF MANAGEMENT, EXECUTIVES AND ADVISERS**

**Committee of Management**

Miss M N Notman, Chairperson  
Mrs A G Gaunt  
Mr W R K Hay  
Mr R F McDonald  
Ms J E Price  
Mrs J Slater  
Mr A C Fraser  
Mr D Venters  
Mr K Ward  
Mr D Ferguson  
Mrs S Gilmore  
Mr T Hainey

**Executive Officers**

Mr B Gegan, Chief Executive and Secretary  
Mrs Irene Hughes, Deputy Chief Executive

**Head Office**

22 York Place  
Edinburgh  
EH1 3EP

**Auditor**

Chiene + Tait  
Chartered Accountants and Statutory Auditor  
61 Dublin Street  
Edinburgh EH3 6NL

**Solicitors**

Blair Cadell WS  
South Forrest Solicitors  
T C Young, Solicitors  
Brodie LLP  
Mackenzie Law Practice

**Bankers**

The Royal Bank of Scotland plc  
36 St Andrew Square  
Edinburgh  
EH2 2YB

**Other Lenders**

Abbey National Treasury Services plc  
Dunfermline Building Society

**Registration numbers**

Industrial & Provident Society  
The Scottish Housing Regulator  
Scottish Charity Number

2335R(S)  
HEP218  
SC016647

# **CAIRN HOUSING ASSOCIATION LIMITED**

## **REPORT of the COMMITTEE OF MANAGEMENT**

### **For the year ended 31 March 2010**

The Committee of Management presents its report and the audited financial statements for the year ended 31 March 2010.

#### **Principal Activities**

The principal activities of the Association are the provision of affordable housing and related services for tenants and other parties.

#### **Review of the business**

2009/10 will be recognised as a pivotal year in the history of Cairn Housing Association. Once again, the financial climate throughout the financial year to 31 March 2010 has proven extremely challenging. The global recession and credit crisis has produced greater risks in relation to the rental income stream and treasury management in particular.

The year has again been dominated by two principal issues. Firstly, the Inspection process carried out by the Scottish Housing Regulator, and secondly, the implementation of "Project Transform Cairn".

Following the inspection process, resources were concentrated on addressing the recommendations in the inspection report by the implementation of the consequent improvement plan. This plan has to be fully delivered by 1 December 2011 at the latest, and it is currently on schedule to meet that target. The inspection process has afforded us the opportunity to look more closely at our core functions and the organisation will emerge from the process a stronger, leaner business more capable to meet the challenges of the future economic environment.

One of the key recommendations in the Inspection report was to seek organisational efficiencies and savings and to address this "Project Transform Cairn" was carried out during 2009/10 to ensure that our staffing resources were financially fit for purpose. The requisite changes have been made, and these are partially reflected in the 2009/10 accounts but will be fully reflected in future forecasts and budgets. As a result of this restructuring, Cairn Housing Association will emerge a more financially viable organisation, better able to tackle the challenges and grasp the opportunities which will arise in the coming years.

Over the course of 2009/10, good progress was made on a number of fronts:

- The costs of planned and responsive maintenance has been closely managed over the course of the year, resulting in expenditure consistent with budget targets.
- The development programme continued apace and 155 units for rent and 41 for shared equity were completed in the year. It has been acknowledged that future completion rates would be entirely dependent on a series of factors including subsidy levels, continuing low interest rates and the capacity to augment existing borrowing.
- Significant progress continued to be made in relation to modernising service delivery in the very-sheltered and care homes with payroll cost savings made and good reports received from the Care Commission.
- The Care & Repair service in the Highlands continued to grow in scale and reputation.
- Following the success of the multi trade contractor responsive repair arrangements in the central belt, this means of delivery will be rolled out in the north with a view to producing similar dividends in terms of quality of service and enhanced customer feedback.

Hard work and diligence has once again seen the Association return to surplus. Given the forthcoming cuts in public expenditure and the potential for increased costs of borrowing, it is important that the Association maintains a prudent approach to its treasury function, whilst continuing to improve its housing stock quality with the aim of achieving SHQS compliance in 2015.

## **CAIRN HOUSING ASSOCIATION LIMITED**

### **REPORT of the COMMITTEE OF MANAGEMENT (Contd.)**

#### **For the year ended 31 March 2010**

##### **Review of the business (Contd.)**

The future presents a series of key risks for Cairn HA, notably the imperative to successfully deliver our improvement plan and to sustain a balanced budget with a view to creating ongoing financial viability. There are also other key risks in relation to:

- Improving our customer engagement
- Maximising expenditure on planned maintenance and achieving SHQS compliance by 2015
- Our care and support services in relation to their efficacy and costs in a period of diminishing funding and changing models of service delivery
- Our capacity to continue to provide new homes
- Ensuring effective succession planning for the governing body and senior staff

A new business plan format has been adopted to reflect the guidance issued by the Scottish Housing Regulator in 2009 and also to address these key risks by identifying priority actions to be undertaken in the plan period. This will make the plan much more of a "living" document to be a constant source of reference and a management tool for all stakeholders.

As the economy moves out of recession, there continues to be greater risks in relation to the Association's rental income stream but our risk management strategy will be continually reviewed to identify such action as may be required. The Association is confident that with the measures it is implementing and operational initiatives being pursued, it can achieve the positive outcomes detailed in its 5 year financial projections notwithstanding ongoing economic volatility and uncertainty.

##### **Changes in fixed assets**

Details of fixed assets are set out in note 8.

##### **The Committee of Management and Executive Officers**

The Committee of Management and executive officers of the Association are listed on page 2.

Each member of the Committee of Management holds one fully paid share of £1 in the Association. The executive officers of the Association hold no interest in the Association's share capital and although not having the legal status of directors they act as executives within the authority delegated by the Committee.

##### **Statement of committee's responsibilities**

Housing Association 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 income and expenditure of the Association for that period. In preparing those financial statements the Committee 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 is responsible for ensuring that arrangements are made for keeping proper books of account with respect to the Association's transactions and its assets and liabilities and for maintaining a satisfactory system of control over the Association's books of account and transactions. The Committee 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.

**CAIRN HOUSING ASSOCIATION LIMITED**

**REPORT of the COMMITTEE OF MANAGEMENT (Contd.)**

**For the year ended 31 March 2010**

**Statement on internal financial control**

The Committee of Management is responsible for the Association's system of internal financial control.

Internal financial controls are those procedures established by management in order to provide reasonable assurance as to the safeguarding of assets and the maintenance of proper accounting records and the reliability of financial information used within the Association or for publication. Such a system of controls can provide only reasonable and not absolute assurance against material misstatement or loss.

The approach adopted by the Committee of Management to provide effective financial control can be summarised as follows:

- (a) An appropriate control environment has been created by careful recruitment and training of staff and provision of comprehensive guidance on the standards and controls to be applied throughout the Association. A comprehensive programme of internal audit covering over time all the main activities is ongoing within the Association. Reports are made to the Internal Audit Committee with appropriate action taken where necessary.
- (b) Management information systems have been developed to provide accurate and timeous data on all aspects of the business. Management accounts comparing actual results against budget are presented to the Committee of Management quarterly.
- (c) Major business risks and their financial implications are assessed by reference to established criteria.
- (d) The financial implications of major business risks are controlled by means of delegated authorities which reserve significant matters to the Committee of Management for decision, segregation of duties in appropriate areas and physical controls over assets and access to records as detailed in the Association's Financial Regulations.
- (e) The Committee of Management monitors the operation of the internal financial control system by considering regular reports from management and the external and internal auditors and ensures appropriate corrective action is taken to address any reported weaknesses.

While retaining overall responsibility for internal financial control, the Committee of Management has delegated the day to day administration of the Association to the executive officers.

The Committee of Management confirms it is satisfied with the effectiveness of the Association's system of internal financial control as it operated during the year under review.

**BY ORDER OF THE COMMITTEE**



**B Gegan  
Secretary**

 2010

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
CAIRN HOUSING ASSOCIATION LIMITED**



This report is issued in respect of an audit carried out under Section 9 of the Friendly and Industrial and Provident Societies Act 1968 and Section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005.

We have audited the financial statements of Cairn Housing Association Limited for the year ended 31 March 2010 set out on pages 8 to 24. These financial statements 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 Section 9 of the Friendly and Industrial and Provident Societies Act 1968, and to the Association's trustees as a body, in accordance with Section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 10 of the Charities Accounts (Scotland) Regulations 2006. 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, the Association's members as a body and its trustees 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**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001, the Registered Social Landlords Accounting Requirements (Scotland) Order 2007, the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 14 of the Charities Accounts (Scotland) Regulations 2006. We also report to you, if, in our opinion, the Committee of Management's Report is not consistent with the financial statements, if the Association has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Committee of Management's 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Committee of Management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Association's circumstances, consistently applied and adequately disclosed.

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

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

## CAIRN HOUSING ASSOCIATION LIMITED

### Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Association's affairs as at 31 March 2010 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001, the Registered Social Landlords Accounting Requirements (Scotland) Order 2007, the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 14 of the Charities Accounts (Scotland) Regulations 2006.

### Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Committee of Management's statement concerning internal financial control made under 'The Code of External Audit Practice' contained within the publication 'Raising Standards in Housing' which is the guidance issued by the Scottish Federation of Housing Associations. The object of our review is to draw attention to non-compliance with the guidance.

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Association's system of internal financial control or its corporate governance procedures.

### Opinion

With respect to the Committee of Management's statements on internal financial control, in our opinion, the Committee of Management has provided the disclosures required by the guidance and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.



**CHIENE + TAIT**  
**Chartered Accountants and Statutory Auditor**  
**61 Dublin Street**  
**Edinburgh EH3 6NL**

29 June 2010



**CAIRN HOUSING ASSOCIATION LIMITED**

**INCOME and EXPENDITURE ACCOUNT**

**For the year ended 31 March 2010**

	Notes	£	2010 £	£	2009 £
Turnover	2		14,035,174		12,813,980
Operating costs	2		12,405,613		11,446,022
Operating surplus			<u>1,629,561</u>		<u>1,367,958</u>
Gain on sale of housing properties	7		131,416		256,959
Interest receivable		6,845		102,272	
Interest payable and similar charges		<u>(1,201,153)</u>		<u>(1,734,754)</u>	
			<u>(1,194,308)</u>		<u>(1,632,482)</u>
Surplus/(deficit) for the year before tax			566,669		(7,565)
Taxation	5		<u>1,722</u>		-
Surplus/(deficit) for the year	14		<u><u>564,947</u></u>		<u><u>(7,565)</u></u>

The Association has no recognised gains or losses other than the surplus for the year.

The retained surplus for the year reported in the income and expenditure account is identical to the historical cost surplus.

The notes on pages 11 to 24 form part of these financial statements

CAIRN HOUSING ASSOCIATION LIMITED

BALANCE SHEET

As at 31 March 2010

	Notes	2010	2009 (restated, note 15)
		£	£
<b>Tangible fixed assets and investments</b>			
Housing properties - depreciated gross cost	8(a)	163,319,180	149,748,205
<u>Less: HAG and other grants</u>	8(a)	<u>104,707,028</u>	<u>99,634,980</u>
		58,612,152	50,113,225
Homestake properties	8(a)	-	-
Other fixed assets	8(b)	1,766,117	1,788,703
Investments	8(c)	1	1
		<u>60,378,270</u>	<u>51,901,929</u>
<b>Current assets</b>			
Debtors	9	2,651,547	4,506,819
Amount held on short term deposit		1,000,000	-
Cash at bank and in hand		432,720	777,737
		<u>4,084,267</u>	<u>5,284,556</u>
<b>Creditors: amounts falling due within one year</b>	10	<u>3,906,772</u>	<u>4,363,795</u>
<b>Net current assets</b>		177,495	920,761
<b>Total assets less current liabilities</b>		60,555,765	52,822,690
<b>Creditors: amounts falling due after more than one year</b>	11	43,714,258	36,546,119
<b>Net assets</b>		<u>16,841,507</u>	<u>16,276,571</u>
<b>Capital and Reserves</b>			
Share capital	13	144	155
Revenue reserves	14	16,841,363	16,276,416
		<u>16,841,507</u>	<u>16,276,571</u>

Approved by the Committee of Management at a meeting on 25 June 2010.

*Marion M. Notman*

Miss M N Notman

Chairman

*William J. Hay*

Mr W Hay

Committee Member

*Brian Gegan*

Mr B Gegan

Secretary

The notes on pages 11 to 24 form part of these financial statements

**CAIRN HOUSING ASSOCIATION LIMITED**

**CASH FLOW STATEMENT**

**For the year ended 31 March 2010**

	Notes	2010 £	2009 £
<b>Cash inflow from operating activities</b>	21	3,602,908	1,875,009
<b>Returns from investments and servicing of finance:</b>			
Interest received		6,845	102,272
Interest and similar charges paid		<u>(1,301,409)</u>	<u>(1,642,534)</u>
<b>Net cash outflow from returns from investments and servicing of finance</b>		(1,294,564)	(1,540,262)
<b>Capital expenditure and financial investment</b>	22	<u>(7,792,727)</u>	<u>(8,963,133)</u>
<b>Cash outflow before acquisitions and disposals</b>		(5,484,383)	(8,628,386)
<b>Financing</b>	23	<u>7,550,786</u>	<u>6,489,051</u>
<b>Increase/(decrease) in cash</b>	24	<u><u>2,066,403</u></u>	<u><u>(2,139,335)</u></u>

The notes on pages 11 to 24 form part of these financial statements

# **CAIRN HOUSING ASSOCIATION LIMITED**

## **NOTES to the FINANCIAL STATEMENTS**

### **For the year ended 31 March 2010**

The Association is incorporated under the Industrial and Provident Societies Acts and is registered with the Financial Services Authority. The financial statements have been prepared in compliance with the Registered Social Landlords Accounting Requirements (Scotland) Order 2007 and the Statement of Recommended Practice "Accounting by Registered Social Landlords" 2008 (SORP 2008).

#### **1. Accounting Policies**

The principal accounting policies of the Association are set out below.

##### **(a) Basis of Accounting**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and statements of recommended practice. The Association has established a subsidiary company "Cairn Homes and Services Limited" as part of its review of the activities of the Association and the need for a specialist vehicle through which to deliver certain activities; however the company has not yet traded and therefore consolidated financial statements have not been prepared.

##### **(b) Tangible fixed assets - housing properties**

Housing properties are stated at cost, or in the case of properties transferred to the Association under a Transfer of Engagements, at fair value at the date of transfer. The development cost of housing properties includes the following:

- (i) cost of acquiring land and buildings;
- (ii) development expenditure;
- (iii) internal administration costs relating to the acquisition and development of housing properties.

These costs are termed "qualifying costs" by the Scottish Government for approved Housing Association Grant schemes.

Expenditure on schemes is written off in the year unless it is recognised that the schemes will be developed to completion.

Refurbishment expenditure on existing properties is capitalised to the extent that the expenditure represents improvements to the properties.

##### **(c) Shared Ownership Transactions**

First tranche proceeds arising from part-owners' purchases of equity in shared ownership schemes are regarded as sales of assets held for sale and are treated as turnover. The percentage of development costs representing the estimated first tranche percentages to be sold are shown as current assets until sold. Remaining costs are treated as fixed assets and sales taking place after the initial purchases are accounted for as disposals of fixed assets.

# **CAIRN HOUSING ASSOCIATION LIMITED**

## **NOTES to the FINANCIAL STATEMENTS (Contd.)**

### **For the year ended 31 March 2010**

#### **1. Accounting Policies (Contd.)**

##### **(d) Housing Association Grants**

Housing Association Grants (HAG) are made by the Scottish Government and certain local authorities and are utilised to reduce the capital costs of an approved scheme to an amount of required loan finance which it is estimated can be serviced by the net annual income of the scheme. The amount of HAG is calculated on qualifying costs of the scheme in accordance with instructions issued from time to time by the Scottish Government.

HAG is repayable under certain circumstances, primarily following sale of property, but will normally be restricted to net proceeds of sale.

Notional acquisition and development allowances are determined by the Scottish Government and are advanced as HAG. They are intended to finance certain internal administrative costs relating to the acquisition and development of housing properties for approved schemes. Notional development allowances become available in instalments according to the progress of work on the scheme. Actual development costs are added to housing properties. Income and costs are also shown in the Income and Expenditure Account.

##### **(e) Depreciation**

###### **Housing properties**

Financial Reporting Standard (FRS) 15 requires all fixed assets to be depreciated over their estimated economic life, taking account of any residual value of the assets. Housing properties are considered to have a high residual value, and a useful economic life in excess of 50 years. The depreciation charge is therefore immaterial and no charge has been made.

Where no charge for depreciation is made and where the useful economic life exceeds 50 years an impairment review under FRS 11 should be carried out on an annual basis. Such a review has been performed and this shows that the value of the properties exceeds the carrying value in the financial statements.

Expenditure on equipment included within housing properties and refurbishment expenditure incurred on properties is capitalised. Depreciation is charged on the equipment, improvements and replacements at rates intended to write off the cost evenly over expected useful lives of 10 years.

###### **Heritable office property**

The Association does not depreciate its heritable office property as in the opinion of the Committee of Management the value of the property is not less than its net book value.

###### **Office Furniture and equipment**

Depreciation is provided at a rate calculated to write off the cost of furniture and equipment evenly over its expected useful life of 5 to 10 years.

###### **Motor vehicles**

Depreciation is provided at a rate calculated to write off the cost of the motor vehicles evenly over their expected life of 5 years.

###### **Computer equipment**

Depreciation is provided at a rate calculated to write off the cost of the computer equipment evenly over its expected useful life of 4 - 6 years.

# CAIRN HOUSING ASSOCIATION LIMITED

## NOTES to the FINANCIAL STATEMENTS (Contd.)

### For the year ended 31 March 2010

#### 1. Accounting Policies (Contd.)

##### (f) Homestake

Properties developed under the Scottish Government's shared equity Homestake initiative are funded by grant and ultimate sales proceeds.

The net investment in Homestake properties not yet completed or sold is shown within debtors in current assets and represents total costs incurred at the balance sheet date less grants receivable. Homestake allowances receivable to market the properties are taken to income as developments are completed and until that point are included within deferred income.

##### (g) Negative Goodwill

Negative goodwill arising on the transfer of engagements represents the fair value of the identifiable net assets acquired and in accordance with SORP 2008 was shown as a reserve rather than as a negative asset on the balance sheet in accordance with FRS 10. The Committee was of the opinion that this treatment better presented a true and fair view of the substance of the transaction as the transfer of a business for no consideration rather than an acquisition in the conventional manner. Negative goodwill was then amortised to the revenue reserve over the same period for which the non-monetary assets acquired were recovered, whether through depreciation or sale.

In a change of accounting policy, where the transfer of net assets or liabilities under a transfer of engagements represents the gift of those net assets or liabilities by the transferring association, the Committee will now recognise the gift as a gain or loss in the income and expenditure account in the year of acquisition. This policy anticipates the changes to be made in SORP 2010. No negative goodwill falls to be recognised as a gain or loss in the current year but previously recognised negative goodwill has been transferred to the revenue reserve in accordance with this revised policy (see note 15) and comparative figures have been restated accordingly.

#### 2. Particulars of turnover, operating costs and operating surplus/(deficit)

	Turnover	Operating Costs	Operating surplus or (deficit) 2010	Operating surplus or (deficit) 2009
	£	£	£	£
Social lettings (note 3)	12,349,326	10,552,592	1,796,734	1,422,712
Other activities (note 4)	1,685,848	1,853,021	(167,173)	(54,754)
Total	14,035,174	12,405,613	1,629,561	1,367,958
2009	12,813,980	11,446,022	1,367,958	

During the year housing benefit of £13,470 (2009: £4,326) was received and passed on to the relevant care providers, the Association only acting as collection agent.

**CAIRN HOUSING ASSOCIATION LIMITED**  
**NOTES to the FINANCIAL STATEMENTS (Contd.)**  
**For the year ended 31 March 2010**

**3. Particulars of turnover, operating costs and operating surplus or (deficit) from social letting activities**

	General Needs Housing	Supported accommodation Sheltered Housing £	Other supported £	Shared Ownership £	Other Housing* £	2010 £	2009 £
Rent receivable net of service charges	6,240,241	2,484,566	89,486	122,864	789,835	9,726,992	8,799,837
Service charges	130,412	1,355,440	29,472	8,493	993,113	2,516,930	2,187,333
Gross income from rents and service charges	6,370,653	3,840,006	118,958	131,357	1,782,948	12,243,922	10,987,170
Less: Voids	(41,180)	(138,068)	(4,701)	-	(14,538)	(198,487)	(233,429)
<b>Net income from rents and service charges</b>	<b>6,329,473</b>	<b>3,701,938</b>	<b>114,257</b>	<b>131,357</b>	<b>1,768,410</b>	<b>12,045,435</b>	<b>10,753,741</b>
Grants from the Scottish Ministers	113,815	182,777	-	3,828	3,471	303,891	281,712
Other revenue grants	-	-	-	-	-	-	-
<b>Total turnover from social letting activities</b>	<b>6,443,288</b>	<b>3,884,715</b>	<b>114,257</b>	<b>135,185</b>	<b>1,771,881</b>	<b>12,349,326</b>	<b>11,035,453</b>
Management and maintenance administration costs	1,985,943	1,542,155	17,292	97,220	262,491	3,905,101	3,771,715
Service costs (including depreciation)	148,477	1,289,203	115,523	14,848	836,039	2,404,090	2,076,136
Planned and cyclical maintenance including major repair costs	1,641,200	897,848	10,894	5,652	227,003	2,782,597	2,571,635
Planned and cyclical maintenance capitalised	(917,296)	-	-	-	-	(917,296)	(1,186,737)
Responsive maintenance costs	954,283	430,157	10,188	21,896	104,003	1,520,527	1,661,368
Bad debts (rents and service charges)	99,949	3,497	1,274	1,913	-	106,633	47,557
Depreciation of social housing	671,513	77,122	-	-	2,305	750,940	671,067
<b>Operating costs for social letting activities</b>	<b>4,584,069</b>	<b>4,239,982</b>	<b>155,171</b>	<b>141,529</b>	<b>1,431,841</b>	<b>10,552,592</b>	<b>9,612,741</b>
<b>Operating surplus or (deficit) for social lettings</b>	<b>1,859,219</b>	<b>(355,267)</b>	<b>(40,914)</b>	<b>(6,344)</b>	<b>340,040</b>	<b>1,796,734</b>	<b>1,422,712</b>
<b>Operating surplus or (deficit) for social lettings - 2009</b>	<b>1,414,018</b>	<b>(327,403)</b>	<b>31,590</b>	<b>830</b>	<b>303,677</b>	<b>1,422,712</b>	
<b>Number of units in management:</b>							
2010	2,066	1,062	23	68	161	3,380	
2009	1,939	1,070	19	71	154	3,253	

\*Other housing refers to care homes, very sheltered accommodation and accommodation leased to and managed by other bodies.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2010

4. Particulars of turnover, operating costs and operating surplus or (deficit) from other activities

	Grants from Scottish Ministers £	Other revenue grants £	Supporting people income £	Other income £	Total turnover £	Operating costs - bad debts £	Other operating costs £	Operating surplus or (deficit) 2010 £	Operating surplus or (deficit) 2009 £
Care and repair of property	-	214,831	-	-	214,831	-	198,187	16,644	(11,306)
Development and construction of property activities	236,387	-	-	-	236,387	-	481,154	(244,767)	(132,787)
Support activities	-	-	803,465	-	803,465	-	840,585	(37,120)	(758)
Care activities	-	333,095	-	-	333,095	-	333,095	-	-
Other activities (including legacies)	-	-	-	98,070	98,070	-	-	98,070	90,097
<b>Total from other activities</b>	<b>236,387</b>	<b>547,926</b>	<b>803,465</b>	<b>98,070</b>	<b>1,685,848</b>	<b>-</b>	<b>1,853,021</b>	<b>(167,173)</b>	<b>(54,754)</b>
<b>Total from other activities for the previous period of account</b>	<b>328,707</b>	<b>466,939</b>	<b>892,784</b>	<b>90,097</b>	<b>1,778,527</b>	<b>-</b>	<b>1,833,281</b>	<b>(54,754)</b>	

The other activity headings as noted in The Registered Social Landlords Accounting Requirements (Scotland) Order 2007 do not apply.



**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES to the FINANCIAL STATEMENTS (Contd.)**

**For the year ended 31 March 2010**

**5. Taxation**

	<b>2010</b>	<b>2009</b>
	£	£
Current tax charge:		
On results for the year	788	-
Under/(over) in previous years	934	-
	<u>1,722</u>	<u>-</u>

The Association is a Scottish Charity and no liability to Corporation Tax arises on housing activities in the year.

**6. Employees**

	<b>2010</b>	<b>2009</b>
	£	£
Staff costs during year:		
Wages and salaries	4,394,728	4,254,151
Social security costs	296,360	309,456
Other pension costs	352,176	355,311
Redundancy and compensation payments	117,284	-
	<u>5,160,548</u>	<u>4,918,918</u>

	<b>No.</b>	<b>No.</b>
Average weekly number (full time equivalent) of employees of the Association including staff on an agency basis during the year was		
Office staff	92	92
Housing managers and other staff	116	120
	<u>208</u>	<u>212</u>

**7. Gain on sale of housing properties**

	<b>2010</b>	<b>2009</b>
	£	£
Gain on right to buy sales	94,261	131,971
Gain on shared ownership tranches	37,155	124,988
	<u>131,416</u>	<u>256,959</u>

At the year end two former Outlook properties were being marketed for sale.

**CAIRN HOUSING ASSOCIATION LIMITED**  
**NOTES to the FINANCIAL STATEMENTS (Contd.)**  
**For the year ended 31 March 2010**

**8. Tangible fixed assets**

**(a) Housing properties**

**Cost or valuation**

	Shared Ownership held for letting £	Housing Properties held for letting £	in course of construction £	Housing properties total £	Homestake £
At start of year	3,662,414	134,297,554	14,501,355	152,461,323	8,036,728
Reclassification	-	(1,164,816)	-	(1,164,816)	1,164,816
Additions during year	-	476,657	14,233,090	14,709,747	5,917,254
- new developments	-	917,296	-	917,296	-
- improvements to existing property	-	3,791,211	(3,791,211)	-	-
Completed during year	-	3,791,211	(3,791,211)	-	-
Sale of tranches/houses	(29,500)	(25,016)	-	(54,516)	(3,465,227)
At end of year	3,632,914	138,292,886	24,943,234	166,869,034	11,653,571
<b>Depreciation</b>					
At start of year	-	2,713,118	-	2,713,118	-
Charge for year	-	836,736	-	836,736	-
At end of year	-	3,549,854	-	3,549,854	-
<b>Depreciated gross cost</b>	3,632,914	134,743,032	24,943,234	163,319,180	11,653,571
<b>Housing Association Grant</b>					
At start of year	2,316,121	85,049,332	12,269,527	99,634,980	8,036,728
Reclassification	-	(748,076)	-	(748,076)	748,076
Additions during year	-	-	5,858,558	5,858,558	2,868,767
On disposals	(38,434)	-	-	(38,434)	-
Completed during year	-	3,458,859	(3,458,859)	-	-
At end of year	2,277,687	87,760,115	14,669,226	104,707,028	11,653,571
<b>Net book value</b>					
At 31 March 2010	1,355,227	46,982,917	10,274,008	58,612,152	-
At 31 March 2009	1,346,293	46,535,104	2,231,828	50,113,225	-

At 31 March 2010, remaining properties received under a transfer of engagements in a prior year are included in properties held for letting at net book value of £4,291,875 the fair value of those properties at the date of transfer (2009: £4,291,875). Housing Association Grant of £2,625,639 had been received by the previous housing association in respect of these properties.

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES to the FINANCIAL STATEMENTS (Contd.)**

**For the year ended 31 March 2010**

	Heritable office property £	Furniture and equipment £	Motor vehicles £	Other fixed assets total £
<b>8. Tangible fixed assets (contd.)</b>				
<b>(b) Other fixed assets</b>				
<b>Cost</b>				
At start of year	1,655,203	252,554	76,412	1,984,169
Additions during year	-	80,542	-	80,542
Disposals during year	-	-	(22,245)	(22,245)
At end of year	1,655,203	333,096	54,167	2,042,466
<b>Depreciation</b>				
At start of year	-	139,063	56,403	195,466
Provided during year	-	86,880	7,350	94,230
Disposals during year	-	-	(13,347)	(13,347)
At end of year	-	225,943	50,406	276,349
<b>Net book value</b>				
At 31 March 2010	1,655,203	107,153	3,761	1,766,117
At 31 March 2009	1,655,203	113,491	20,009	1,788,703

**(c) Investments**

	2010 £	2009 £
Investment in subsidiary undertaking: Cairn Homes and Services Limited	1	1

**(d) Securities**

Securities have been provided on various housing properties (see note 12).

**9. Debtors**

	2010 £	2009 £
Rent arrears	564,168	470,164
Less: provision for bad debts	277,542	247,657
	286,626	222,507
HAG receivable	1,527,743	2,260,552
Homestake work in progress	399,601	1,145,151
Sundry debtors and prepayments	387,672	875,200
Service charge equalisation	49,905	3,409
	2,651,547	4,506,819

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES to the FINANCIAL STATEMENTS (Contd.)**

**For the year ended 31 March 2010**

<b>10. Creditors: amounts falling due within one year</b>	<b>2010</b>	<b>2009</b>
	£	£
Bank overdraft	-	1,411,420
Current instalments due on loans (note 12)	1,334,772	952,125
Prepaid rents and service charges	342,419	293,481
Corporation tax	1,722	-
Other taxes	15,000	-
Sundry creditors, accruals and deferred income	1,972,033	1,472,646
HAG repayable	240,826	234,123
	<u>3,906,772</u>	<u>4,363,795</u>

<b>11. Creditors: amounts falling due after more than one year</b>	<b>2010</b>	<b>2009</b>
	£	£
Housing loans (note 12)	<u>43,714,258</u>	<u>36,546,119</u>

<b>12. Loans</b>	<b>2010</b>	<b>2009</b>
	£	£
Loans on mortgage secured by charges on the Association's housing land and buildings:		
Loans advanced by:		
Private lenders	<u>45,049,030</u>	<u>37,498,244</u>
Amounts falling due in:		
One year (note 10)	1,334,772	952,125
One year or more but less than two years	1,362,977	1,100,666
Two years or more but less than five years	4,966,426	3,513,068
Five years or more	37,384,855	31,932,385
	<u>45,049,030</u>	<u>37,498,244</u>

Costs incurred towards the rearranging of loans and the setting up of new loans are fully written off.

The loans are advanced to finance the development and refurbishment of housing land and buildings and are repayable by quarterly instalments of principal and interest. The loans bear interest at rates between 0.54% and 5.24%.

<b>13. Share capital</b>	<b>2010</b>	<b>2009</b>
	£	£
Shares of £1 each issued and fully paid		
At 1 April 2009	155	165
Cancelled during the year	(11)	(10)
At 31 March 2010	<u>144</u>	<u>155</u>

Shares carry no rights to dividends or to share in the assets of the Association.

# CAIRN HOUSING ASSOCIATION LIMITED

## NOTES to the FINANCIAL STATEMENTS (Contd.)

### For the year ended 31 March 2010

<b>14. Revenue reserve</b>	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>(restated)</b>
	<b>£</b>	<b>£</b>
At 1 April 2009		
As previously reported	11,730,457	11,738,022
Prior year adjustment – release of negative goodwill (note 15)	4,545,959	4,545,959
As restated	16,276,416	16,283,981
Surplus/(deficit) for year	564,947	(7,565)
At 31 March 2010	16,841,363	16,276,416
<b>15. Negative goodwill</b>		
At 1 April 2009		
As previously reported	4,545,959	4,545,959
Prior year adjustment – release to revenue reserve (note 14)	(4,545,959)	(4,545,959)
As restated	-	-

As explained in note 1(g) negative goodwill arising on the transfer of engagements is now treated as a gain in the year of acquisition and a prior year adjustment has been made to reserves to reflect this change in accounting policy.

### **16. Capital commitments**

Amounts contracted for but not provided in the financial statements amounted to £12.0 million (2009: £21 million). This amount is expected to be financed by approximately £5.6 million of HAG with the balance being funded from agreed loan facilities.

### **17. Pension scheme**

#### **(i) SFHA scheme**

The Association participates in the SFHA Pension Scheme (the "Scheme"). The Scheme is funded and is contracted out of the state scheme.

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

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

The last formal valuation of the Scheme was performed at 30 September 2006 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £268 million. The valuation revealed a shortfall of assets compared to liabilities of £54 million, equivalent to a part service funding level of 83.4%.

## CAIRN HOUSING ASSOCIATION LIMITED

### NOTES to the FINANCIAL STATEMENTS (Contd.)

#### For the year ended 31 March 2010

#### **17. Pension scheme (continued)**

The current triennial valuation of the Scheme, as at 30 September 2009, is being undertaken by a professionally qualified Actuary. The results of the valuation will be available in Autumn 2010; however the Association has been informed that provisional valuation results indicate that the funding level has fallen to 64.8% of liabilities and that the total contribution rate (employers' and employees' combined contributions) must increase on average by 7% of pensionable earnings from 1 April 2011. A period of consultation with employers has now commenced to consider the valuation results.

The Scheme offers three benefit structures to employers, namely:

- Final salary with a 1/60<sup>th</sup> accrual rate.
- Career average revalued earnings with a 1/60<sup>th</sup> accrual rate.
- Career average revalued earnings with a 1/70<sup>th</sup> accrual rate.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join. The Association has elected to operate the final salary benefit structure with the 1/60<sup>th</sup> accrual rate.

The Association paid contributions at the rate of 15.4% of pensionable salaries during the accounting period. Member contributions were 7.7%.

As at the balance sheet date there were 88 active members of the Scheme employed by the Association. The Association continues to offer membership of the Scheme to its employees.

#### **Financial assumptions**

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

	% pa
- Investment return pre-retirement	7.2
- Investment return post-retirement	4.9
- Rate of salary increases	4.6
- Rate of pension increases	
Pension accrued pre 6 April 2005	2.6
Pension accrued from 6 April 2005	2.25
(for leavers before 1 October 1993 pension increases are 5.00% pa)	
- Rate of price inflation	2.6

The valuation was carried out using the PA92C2025 short cohort mortality table for non-pensioners and PA92C2013 short cohort mortality table for pensioners.

The long-term joint contribution rate required to meet the cost of future benefit accrual was assessed as 17.8% per annum of pensionable salaries from employers and members continuing to participate in the final salary benefit structure.

#### **Employer debt regulations**

As a result of pension scheme legislation 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.

## CAIRN HOUSING ASSOCIATION LIMITED

### NOTES to the FINANCIAL STATEMENTS (Contd.)

#### For the year ended 31 March 2010

#### **17. Pension scheme (continued)**

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 currently participating 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. As the Association continues to offer membership of the Scheme to its employees it regards the crystallisation of the buy-out debt in relation to the Association as being remote and therefore no provision is required.

Having previously considered the crystallisation of the buy-out debt in relation to the transfer of engagements by Outlook Housing Limited on 1 April 2006 as being remote, no provision was required or made; however the Association was notified during 2009 that the buy-out debt in relation to Outlook Housing Limited had crystallised at the date of transfer. In order to resolve this matter, the Association agreed with the Pension Trustee that it would assume the ongoing pension liabilities of Outlook Housing Limited and in return the Pension Trustee reduced the crystallised buy-out debt to a nominal sum which was paid prior to 31 March 2010.

#### **(ii) Pension Trust's Growth Plan**

The Association also participates in the Pension Trust's Growth Plan as an Additional Voluntary Contribution (AVC) vehicle for employees. The Growth Plan is a multi-employer pension Plan where it is not possible to separately identify the assets and liabilities of the participating employers. The Growth Plan is in most respects a money purchase arrangement but it has some guarantees. Contributions paid into the Growth Plan up to and including September 2001 were converted to defined benefit amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by purchase of an annuity.

The rules of the Growth Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is met. The statutory funding objective is that a pension scheme should have sufficient funds to meet its past service liabilities, known as the Technical Provisions.

The funding position of the Growth Plan at 30 September 2005 revealed a small deficit and the 30 September 2006 update of the funding position indicates a small improvement. In these circumstances no additional contributions from participating employers are required at this time.

There is a potential buy-out debt on the Association in relation to pre October 2001 liabilities in the Plan, however the crystallisation of that debt is remote and no provision is required.

#### **18. Auditor's remuneration**

	<b>2010</b>	<b>2009</b>
	£	£
The remuneration of the external auditor for the year (including expenses and VAT)		
- for audit services	16,186	14,981
- for other services	2,933	2,368
	<u>19,119</u>	<u>17,349</u>

#### **19. Payments to members and committee members**

No member of the Association received any fee or remuneration during the year (2009: £Nil). Members of the Committee of Management were reimbursed for out of pocket travel expenses amounting to £11,928 (2009: £14,192).

# CAIRN HOUSING ASSOCIATION LIMITED

## NOTES to the FINANCIAL STATEMENTS (Contd.)

**For the year ended 31 March 2010**

### 20. Directors' emoluments

Directors are defined as the members of the Committee of Management, the Executive Officers (Chief Executive and his Deputy) and any other officer of the Association whose total emoluments exceed £60,000 per annum. No emoluments were paid to any member of the Committee of Management during the year and details of emoluments paid to the Executive Officers and other directors follow.

	2010 £	2009 £
Total emoluments [including pension contributions of £43,044 (2009: £41,107) and benefits in kind]	349,052	332,132

The emoluments of the Chief Executive, excluding pension contributions, were £86,308 (2009: £82,844).

The number of other directors whose emoluments, excluding pension contributions, were above £60,000 for the year were:

	2010	2009
£60,000 to £70,000	1	1
£70,000 to £80,000	2	2

### 21. Reconciliation of surplus for the year to cash inflow from operating activities

	2010 £	2009 £
Surplus/(deficit) for the year	566,669	(7,565)
Depreciation charges	930,966	877,099
(Decrease)/increase in creditors	663,581	(90,892)
Decrease/(increase) in debtors	423,410	(138,435)
Movement in service charge equalisation	(46,496)	(140,711)
Interest receivable	(6,845)	(102,272)
Interest payable and similar charges	1,201,153	1,734,754
(Gain) on sale of assets	(129,519)	(256,959)
Share capital cancelled	(11)	(10)
Net cash inflow from operating activities	3,602,908	1,875,009

### 22. Capital expenditure and financial investment

	2010 £	2009 £
Payments to acquire and improve housing stock	(20,798,747)	(19,474,908)
Purchase of other fixed assets	(80,542)	(33,935)
HAG and other capital grants received in year	9,460,134	8,617,870
Sale of houses (including Homestake)	3,651,159	1,828,523
Shared ownership receipts	-	314,885
Sale of other fixed assets	7,000	-
HAG repaid	(31,731)	(215,568)
Net cash outflow from capital expenditure and financial investment	(7,792,727)	(8,963,133)



# CAIRN HOUSING ASSOCIATION LIMITED

## NOTES to the FINANCIAL STATEMENTS (Contd.)

### For the year ended 31 March 2010

<b>23. Financing</b>	<b>2010</b>	<b>2009</b>
	£	£
Housing loans drawn down	8,379,669	7,353,096
Housing loans repaid	(828,883)	(864,045)
Proceeds from shares	-	-
<b>Net cash inflow from financing</b>	<b>7,550,786</b>	<b>6,489,051</b>

<b>24. Reconciliation of net cash flow to movement in net debt</b>	<b>2010</b>	<b>2009</b>
	£	£
Increase/(Decrease) in cash in the year	2,066,403	(2,239,335)
Loans drawn down	(8,379,669)	(7,353,096)
Loans repaid	828,883	864,045
	(5,484,383)	(8,728,386)
Net debt at 1 April 2009	(38,131,927)	(29,403,541)
Net debt at 31 March 2010	(43,616,310)	(38,131,927)

<b>25. Analysis of net debt</b>	<b>At 1 April 2009</b>	<b>Cash Flows</b>	<b>Non-Cash Changes</b>	<b>At 31 March 2010</b>
	£	£	£	£
Amounts held on short term deposit	-	1,000,000	-	1,000,000
Cash at bank	777,737	(345,017)	-	432,720
Bank overdraft	(1,411,420)	1,411,420	-	-
	(633,683)	2,066,403	-	1,432,720
Debt due within 1 year	(952,125)	828,883	(1,211,530)	(1,334,772)
Debt due after 1 year	(36,546,119)	(8,379,669)	1,211,530	(43,714,258)
<b>Total</b>	<b>(38,131,927)</b>	<b>(5,484,383)</b>	<b>-</b>	<b>(43,616,310)</b>

## 26. Related parties

Certain of the members of the Committee of Management are tenants of the Association. The tenancies of these Committee Members are on normal terms and the members cannot use their position to their advantage.

## 27. Contingent liabilities

There is an ongoing contractual dispute with a contractor. A claim has been made for £351,000 which Cairn Housing Association is robustly defending. No provision has been made in the accounts due to the uncertainty surrounding the final outcome of the claim.