

CAIRN HOUSING ASSOCIATION LIMITED

REPORT and FINANCIAL STATEMENTS

For the year ended 31 March 2014

CAIRN HOUSING ASSOCIATION LIMITED

REPORT and FINANCIAL STATEMENTS

For the year ended 31 March 2014

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CAIRN HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT, EXECUTIVES AND ADVISERS

Board of Management

Mr K Ward, Chairperson
Mr D Venters
Mrs J Slater (retired 27 September 2013)
Mr T Hailey
Mr J Woods
Mr E T M Bell-Scott
Mr S E G Guest
Ms G Walch
Mr T O'Sullivan (resigned 27 September 2013)
Mr M Allan
Ms S Groat
Prof A Belcher (joined 24 October 2013)
Mr D Jamieson (joined 24 October 2013)
Mr W Gillespie (joined 24 October 2013)
Mr G Colgan (joined 24 October 2013)

Executive Officers

Mr J MacGilp, Chief Executive and Secretary
Mr D Adam, Director of Finance and Investment
Mr R Gaffney, Director of Business Services
Mr J Davidson, Director of Customer Services

Head Office

Citypoint
65 Haymarket Terrace
Edinburgh
EH12 5HD

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
Brodies LLP
Mackenzie Law Practice

Bankers

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

Other Lenders

Santander plc
Nationwide 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 BOARD OF MANAGEMENT

For the year ended 31 March 2014

The Board of Management presents its report and the audited financial statements for the year ended 31 March 2014.

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

The financial year to 31 March 2014 has been a further year of change and improvement for Cairn Housing Association.

The past year has been one of consolidation of previous changes in governance and management arrangements and a continued focus on driving up standards in customer service and the effective use of our resources to ensure Cairn Housing Association is fit for the future.

Highlights during the year have included:-

- The establishment of our new Customer Panel which has completed its first detailed scrutiny report – with a range of important recommendations to improve our management of customer complaints – all of which were accepted and are being implemented.
- The annual Customer Conference, held in Inverness, including sessions on a wide range of topics and involvement of partner organisations.
- An increase in overall tenant satisfaction from 74% three years ago, to 85%, confirmed by our most recent satisfaction survey.
- The launch of our new Customer Excellence Strategy with a range of actions to drive up satisfaction and service levels, including an important investment in a new customer contact centre later in 2014.
- Continued strengthening of our governance arrangements and a successful board recruitment exercise to further enhance the skills and experience within the Board of Management.
- Provision of IT Systems support to two other local housing associations.
- Continued investment in our people and development of our managers, and further actions as part of our *A Better Cairn* programme.
- A successful move of our Headquarters offices to Haymarket in Edinburgh, providing modern offices for customer access and an improved working environment for our staff. We also have plans for new offices in the West and a continued commitment to our office in Inverness servicing communities in the North.
- Continued focus on investment in our existing homes to improve the quality of customers' homes, with £5.0million invested and achievement of 84% whole house compliance to the Scottish Quality Housing Standard.
- The building of 16 high quality homes at Woodside of Culloden in Inverness to continue to contribute in meeting local housing need.
- The completion of the first full year of operating Cairn HomeWorks, our in-house maintenance service in the North.
- Important and sensitive decisions relating to the transfer of our Very Sheltered schemes to a new provider to ensure their future provision.
- Local consultation with customers in our sheltered schemes, in partnership with local authority partners, with a view to changing the housing support arrangements based around individual personal needs.
- Important decisions were made about the Pensions scheme for staff, to reduce future liabilities and to contain past service deficits, by switching to a new Defined Contribution scheme.

The Association generated a surplus of £554,600 (2013: £532,102).

The operating surplus in the accounts decreased from £1,746,430 in 2013 to £1,543,484 in 2014. The surplus for the year has been taken to revenue reserves.

CAIRN HOUSING ASSOCIATION LIMITED

REPORT of the BOARD OF MANAGEMENT

For the year ended 31 March 2014

Review of the business (cont'd)

The operating and financial environment continues to be challenging, but the Association has made a number of important decisions on finances and strategy and set a direction to build a secure future.

2014 is a year of choices and opportunity for the country and for the Association. The Board and the management team of Cairn Housing Association are confident about the future. We remain determined and focussed on our commitment to continue to operate the business in the long term in interests of current and future customers and in communities throughout Scotland.

Changes in fixed assets

Details of fixed assets are set out in note 8. Details of housing property components and their estimated useful lives are given in the accounting policy in relation to component accounting in note 1.

The Board of Management and Executive Officers

The Board of Management and executive officers of the Association are listed on page 2. Each member of the Board 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 Board.

Statement of Board's responsibilities

Housing Association legislation requires the Board 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 Board 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 Board 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 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.

CAIRN HOUSING ASSOCIATION LIMITED

REPORT of the BOARD OF MANAGEMENT

For the year ended 31 March 2014

Statement on internal financial control

The Board 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 Board 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 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 Board 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 Board 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 Board 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 Board of Management has delegated the day to day administration of the Association to the executive officers.

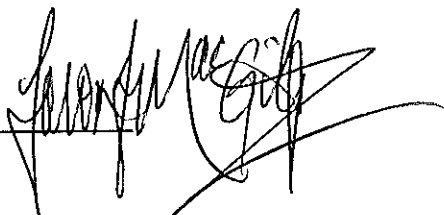
The Board of Management confirms it is satisfied with the effectiveness of the Association's system of internal financial control as it operated during the year under review.

BY ORDER OF THE BOARD

Mr J MacGillp FCIH

Secretary

22/8/2014



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



We have audited the financial statements of Cairn Housing Association Limited for the year ended 31 March 2014 which comprise (state the primary financial statements such as the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses) and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the board and the auditor

As explained more fully in the Statement of Board's Responsibilities on page 4, the board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Board of Management to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2014 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, Part 6 of the Housing (Scotland) Act 2010, and the Determination of Accounting Requirements - April 2012.

Matters on which we are required to report by exception

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

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

Chris & Tait

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

28 August 2014

CAIRN HOUSING ASSOCIATION LIMITED

INCOME and EXPENDITURE ACCOUNT

For the year ended 31 March 2014

	Notes	£	2014 £	£	2013 £
Turnover	2		16,100,378		15,713,155
Operating costs	2		14,556,894		13,966,725
			<hr/>		<hr/>
Operating surplus			1,543,484		1,746,430
Gain on sale	6		443,760		223,930
Interest receivable		83,518		46,539	
Interest payable and similar charges		(1,516,162)		(1,484,797)	
		<hr/>	(1,432,644)	<hr/>	(1,438,258)
Surplus for the year	14		<hr/> <hr/>		<hr/> <hr/>
			554,600		532,102

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 results for the year relate wholly to continuing activities.

The notes on pages 10 to 26 form part of these financial statements

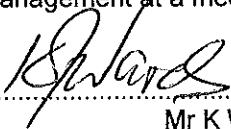
CAIRN HOUSING ASSOCIATION LIMITED

BALANCE SHEET

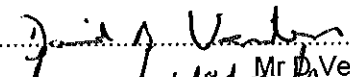
As at 31 March 2014

	Notes	£	2014 £	£	2013 £
Tangible fixed assets and investments					
Housing properties - depreciated gross cost	8(a)		174,174,928		174,180,845
<u>Less: HAG and other grants</u>	8(a)		113,947,129		112,482,800
			<u>60,227,799</u>		<u>61,698,045</u>
Homestake properties	8(a)		-		-
Other fixed assets	8(b)		1,237,241		1,657,364
Investments	8(c)		2		2
			<u>61,465,042</u>		<u>63,355,411</u>
Current assets					
Debtors	9	1,710,863		2,781,420	
Amount held on short term deposit		4,000,000		6,000,000	
Cash at bank and in hand		732,702		249,655	
			<u>6,443,565</u>	<u>9,031,075</u>	
Creditors: amounts falling due within one year	10	5,279,253		8,170,198	
Net current assets			<u>1,164,312</u>		<u>860,877</u>
Total assets less current liabilities			62,629,354		64,216,288
Creditors: amounts falling due after more than one year	11		42,471,414		44,612,955
Net assets			<u>20,157,940</u>		<u>19,603,333</u>
Capital and Reserves					
Share capital	13		154		147
Revenue reserves	14		20,157,786		19,603,186
			<u>20,157,940</u>		<u>19,603,333</u>

Approved by the Board of Management at a meeting on 22 August 2014


.....
Mr K Ward

Chairman


.....
Mr D Venters

Board Member


.....
Mr S MacGilp

Secretary

The notes on pages 10 to 26 form part of these financial statements

CAIRN HOUSING ASSOCIATION LIMITED

CASH FLOW STATEMENT

For the year ended 31 March 2014

	Notes	£	2014 £	£	2013 £
Cash inflow from operating activities	21		2,847,524		4,807,928
Returns from investments and servicing of finance:					
Interest received		83,518		46,539	
Interest and similar charges paid		(1,476,162)		(1,489,626)	
Net cash outflow from returns from investments and servicing of finance			(1,392,644)		(1,443,087)
Capital expenditure and financial investment	22		(775,939)		(1,540,577)
Cash inflow before financing			678,941		1,824,264
Financing	23		(2,195,894)		3,228,832
(Decrease)/increase in cash	24		(1,516,953)		5,053,096

The notes on pages 10 to 26 form part of these financial statements

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS

For the year ended 31 March 2014

The Association is incorporated under the Industrial and Provident Societies Acts and is registered with the Financial Conduct Authority. The financial statements have been prepared in compliance with the Scottish Housing Regulator's Determination of Accounting Requirements (2012) and the Statement of Recommended Practice "Accounting by Registered Social Landlords" 2010 (SORP 2010).

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 a subsidiary company "Cairn Homes and Services Limited" however the company has not yet traded and therefore consolidated financial statements have not been prepared.

The financial statements have been prepared on a going concern basis. The Board of Management has assessed the Association's ability to continue as a going concern and has a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. Thus the Board continues to adopt the going concern basis of accounting in preparing the financial statements.

(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 administrative 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 or replacement of components.

(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.

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014**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.

(e) DepreciationHousing properties

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties held for letting on practical completion of construction.

Freehold land is not depreciated.

Housing properties held for letting are considered to comprise the following components which are depreciated over estimated economic lives as follows:

Component	Useful Economic Life
Structure	60 years
Kitchens	20 years
Bathrooms	25 years
Central Heating Systems (excl boilers)	30 years
Boilers	25 years
Lifts	25 years
Roofs	60 years
Windows and Doors	25 years
Rewiring	30 years

In the year of replacement any remaining component Net Book Value is written off as part of the depreciation charge.

Impairment reviews are carried out on an annual basis on assets whose useful economic lives are expected to exceed 50 years, in accordance with Financial Reporting Standard 11.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014

1. Accounting Policies (Contd.)

Other fixed assets

Depreciation is provided on other fixed assets at rates calculated to write off cost evenly over expected useful lives as follows:

Heritable office property	The Association does not depreciate its heritable office property; however the offices are subjected to an annual impairment review. Where, in the opinion of the Board of Management, the estimated market value of the offices is below their book value an impairment charge will be recognised.
Office Furniture and equipment	5 to 10 years
Motor vehicles	5 years
Computer equipment	4 to 6 years

(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) Pensions

During the year to 31 March 2014, the Association participated in the Scottish Housing Associations' Pension Scheme which is a defined benefits pension scheme. The scheme is a multi-employer scheme and meets the exemption criteria under Financial Reporting Standard 17 "Retirement Benefits" so that the accounting charge for the period represents the employer contributions payable. On 1 April 2014 the defined benefit scheme was closed to future accrual, with the Association participating in a Defined Contribution Scheme within the Scottish Housing Associations' Pension Scheme, for existing members. All new staff members are eligible to participate in a defined contribution scheme provided by Standard Life.

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

	Turnover £	Operating Costs £	Operating Surplus or Deficit March 2014 £	Operating Surplus or Deficit March 2013 £
Social lettings (note 3)	14,549,128	12,993,993	1,555,135	1,780,240
Other activities (note 4)	1,551,250	1,562,901	(11,651)	(33,810)
Total	16,100,378	14,556,894	1,543,484	1,746,430
2013	15,713,155	13,966,725	1,746,430	

CAIRN HOUSING ASSOCIATION LIMITED
NOTES to the FINANCIAL STATEMENTS (Contd.)
For the year ended 31 March 2014

3. Particulars of turnover, operating costs and operating surplus or (deficit) from social letting activities	Supported accommodation				Other Housing*	2014 £	2013 £
	General Needs Housing £	Sheltered/Retirement Housing £	Other supported £	Shared Ownership £			
Rent receivable net of service charges	8,304,642	2,767,096	96,739	116,903	861,814	12,147,194	11,571,756
Service charges net of voids	139,393	1,141,168	32,009	2,989	929,193	2,244,752	2,487,101
Gross income from rents and service charges	8,444,035	3,908,264	128,748	119,892	1,791,007	14,391,946	14,058,857
Less: Rental voids	(41,016)	(68,086)	(5,676)	(713)	(40,295)	(155,786)	(143,705)
Net income from rents and service charges	8,403,019	3,840,178	123,072	119,179	1,750,712	14,236,160	13,915,152
Grants from the Scottish Ministers	246,457	65,779	-	-	732	312,968	254,563
Total turnover from social letting activities	8,649,476	3,905,957	123,072	119,179	1,751,444	14,549,128	14,169,715
Management and maintenance admin costs	3,470,298	1,550,036	35,333	92,173	225,807	5,373,647	4,749,138
Service costs	206,031	1,034,551	104,215	9,734	1,021,840	2,376,371	2,367,832
Planned and cyclical maintenance	1,485,548	1,520,615	9,855	9,624	54,686	3,080,328	3,509,416
Planned and cyclical maintenance capitalised	(909,213)	(1,132,101)	-	-	-	(2,041,314)	(2,157,716)
Responsive maintenance costs	1,259,254	519,800	14,793	-	140,259	1,934,106	1,726,437
Bad debts (rents and service charges)	41,210	37,956	-	1,126	(568)	79,724	12,320
Depreciation of social housing	1,510,356	442,633	4,118	-	234,024	2,191,131	2,182,048
Operating costs for social letting activities	7,063,484	3,973,490	168,314	112,657	1,676,048	12,993,993	12,389,475
Operating surplus or (deficit) for social lettings	1,585,992	(67,533)	(45,242)	6,522	75,396	1,555,135	1,780,240
Operating surplus or (deficit) for social lettings – 2013	2,210,647	(628,606)	11,791	11,534	174,874	1,780,240	
Number of units in management:							
2014	2,259	1,009	23	60	147	3,498	
2013	2,258	1,010	23	60	144	3,495	

*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 2014

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) 2014 £	Operating surplus or (deficit) 2013 £
Care and repair of property	-	357,676	-	-	357,676	-	345,792	11,884	4,899
Development and construction of property activities	-	-	-	-	-	17,917	-	(17,917)	(48,143)
Support activities	-	-	591,311	-	591,311	-	615,988	(24,677)	(100,771)
Care activities	-	439,408	-	-	439,408	-	439,408	-	-
Factoring activities	-	-	-	53,361	53,361	6,907	48,510	(2,056)	11,025
Other activities	-	-	-	109,494	109,494	9,342	79,037	21,115	99,180
Total from other activities	-	797,084	591,311	162,855	1,551,250	34,166	1,528,735	(11,651)	(33,810)
Total from other activities for the previous period of account	-	712,250	691,217	139,973	1,543,440	29,768	1,547,482	(33,810)	

The other activity headings as noted in The Scottish Housing Regulator's Determination of Accounting Requirements (2012) do not apply.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014

5. Employees

	2014 £	2013 £
Staff costs during year:		
Wages and salaries	4,765,285	4,594,445
Social security costs	359,583	340,169
Other pension costs	231,800	219,667
Pension Costs – Past service deficit payments	286,580	271,060
Agency Costs	222,916	169,889
Redundancy and compensation payments (Including NI)	23,957	175,845
	<u>5,890,121</u>	<u>5,771,075</u>

	2014 Ave No.	2014 FTE No.	2013 Ave No.	2013 FTE No.
Average weekly number and the full time equivalent (FTE) employees of the Association including staff on an agency basis during the year was				
Office staff	96	87	89	85
HomeWorks Staff	7	7	8	8
Housing managers and other staff	156	107	148	111
	<u>259</u>	<u>201</u>	<u>245</u>	<u>204</u>

6. Gain on sale of housing properties

	2014 £	2013 £
Gain on sale of other fixed assets	245,575	87,799
Gain on right to buy sales	189,744	61,260
Gain on shared ownership tranches	8,441	74,871
	<u>443,760</u>	<u>223,930</u>

7. Taxation

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

CAIRN HOUSING ASSOCIATION LIMITED
NOTES to the FINANCIAL STATEMENTS (Contd.)
For the year ended 31 March 2014

8. Tangible fixed assets

(a) Housing properties

Cost or valuation

At start of year

Additions during year

- new developments

- improvements to existing property (replacement components)

- replacement components

Disposals during year

Reallocation

Completed during year

Sale of tranches/houses

At end of year

Depreciation

At start of year

Charge for year

Disposals

At end of year

Depreciated gross cost

Housing Association Grant

At start of year

Additions during year

On disposals

Adjustment to creditor

Completed during year

At end of year

Net book value

At 31 March 2014

At 31 March 2013

At 31 March 2014, remaining properties received under a transfer of engagements in a prior year are included in properties held for letting at net book value of £3,625,666 the fair value of those properties at the date of transfer (2013: £3,625,666).

Shared Ownership held for letting £	Housing Properties held for letting £	in course of construction £	Housing Properties Total £	Homestake £
3,408,039	178,878,247	1,182,076	183,468,362	12,652,659
-	194,170	9,512	203,682	122,339
-	2,041,314	-	2,041,314	-
-	(71,554)	-	(71,554)	-
(141,000)	141,000	-	-	-
-	1,191,588	(1,191,588)	-	-
(9,750)	(50,032)	-	(59,782)	(682,630)
3,257,289	182,324,733	-	185,582,022	12,092,368
-	9,287,517	-	9,287,517	-
-	2,191,131	-	2,191,131	-
-	(71,554)	-	(71,554)	-
-	11,407,094	-	11,407,094	-
3,257,289	170,917,639	-	174,174,928	12,092,368
2,100,126	109,660,046	722,628	112,482,800	12,652,659
-	1,551,081	-	1,551,081	126,237
(86,752)	-	-	(86,752)	-
-	-	-	-	(686,528)
-	722,628	(722,628)	-	-
2,013,374	111,933,755	-	113,947,129	12,092,368
1,243,915	58,983,884	-	60,227,799	-
1,307,913	59,930,684	459,448	61,698,045	-

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014

8. Tangible Fixed Assets (contd.)	Heritable Office Property	Furniture and Equipment	Other Fixed Assets Total
(b) Other fixed assets	£	£	£
Cost			
At start of year	1,497,531	611,489	2,109,020
Additions during year	-	407,609	407,609
Disposals during year	(591,425)	(78,055)	(669,480)
At end of year	906,106	941,043	1,847,149
Depreciation			
At start of year	-	451,656	451,656
Provided during year	-	146,307	146,307
Disposals during year	-	(78,055)	(78,055)
Impairment	90,000	-	90,000
At end of year	90,000	519,908	609,908
Net book value			
At 31 March 2014	816,106	421,135	1,237,241
At 31 March 2013	1,497,531	159,833	1,657,364

(c) Investments	2014	2013
	£	£
Investment in subsidiary undertaking: Cairn Homes and Services Limited	1	1
Investment in land bank fund: The Highland Housing Alliance	1	1
	2	2

(d) Securities

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

9. Debtors	2014	2013
	£	£
Rent arrears	708,070	578,550
Less: provision for bad debts	373,697	335,264
	334,373	243,286
HAG receivable	448,910	1,202,058
Homestake work in progress	-	416,940
Sundry debtors and prepayments	927,580	919,136
	1,710,863	2,781,420

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014

10. Creditors: amounts falling due within one year	2014	2013
	£	£
Current instalments due on loans (note 12)	2,079,921	1,989,825
Prepaid rents and service charges	670,547	587,233
Legacy funds	370,276	390,296
Sundry creditors, accruals and deferred income	1,094,567	2,241,531
HAG repayable	1,063,942	2,961,313
	<u>5,279,253</u>	<u>8,170,198</u>

11. Creditors: amounts falling due after more than one year	2014	2013
	£	£
Sundry creditors, accruals and deferred income	144,460	-
Housing loans (note 12)	42,326,954	44,612,955
	<u>42,471,414</u>	<u>44,612,955</u>

12. Loans	2014	2013
	£	£
Loans on mortgage secured by charges on the Association's housing land and buildings:		
Loans advanced by:		
Private lenders	<u>44,406,875</u>	<u>46,602,780</u>
Amounts falling due in:		
One year (note 10)	2,079,921	1,989,825
One year or more but less than two years	2,084,323	2,130,352
Two years or more but less than five years	6,279,735	6,420,773
Five years or more	33,962,896	36,061,830
	<u>44,406,875</u>	<u>46,602,780</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 1.07% and 5.80%.

13. Share capital	2014	2013
	£	£
Shares of £1 each issued and fully paid		
At 1 April 2013	147	139
Cancelled during the year	(4)	(2)
Issued during the year	11	10
	<u>154</u>	<u>147</u>
At 31 March 2014		

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 2014

14. Revenue reserve	2014	2013
	£	£
At 1 April	19,603,186	19,071,084
Surplus for year	554,600	532,102
	<hr/>	<hr/>
At 31 March	<u>20,157,786</u>	<u>19,603,186</u>

15. Capital commitments

Amounts committed but not provided in the financial statements amounted to £1.24 million (2013: £1.30 million). These amounts are expected to be financed from Housing Association Grant and agreed loan facilities.

	2014	2013
	£	£
Contracted	440,000	1,300,000
Authorised but not committed	800,000	-
	<hr/>	<hr/>
	<u>1,240,000</u>	<u>1,300,000</u>

16. Pension scheme

(i) SHAP scheme

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

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

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

The last formal valuation of the Scheme was performed as at 30 September 2012 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £394 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £304 million, equivalent to a past service funding level of 56.4%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2013. 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 £470 million and indicated a decrease in the shortfall of assets compared to liabilities to approximately £272 million, equivalent to a past service funding level of 63%.

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014**16. Pension scheme (continued)**

The Scheme offers six benefit structures to employers, namely:

- Final salary with a 1/60th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate.
- Career average revalued earnings with a 1/70th accrual rate.
- Career average revalued earnings with a 1/80th accrual rate
- Career average revalued earnings with a 1/120th accrual rate, contracted in,
- Defined Contribution (DC) option.

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. The DC option can be introduced by the employer on the first day of any month after giving a minimum of three months' prior notice.

During the accounting period, the Association elected to operate the final salary structure with a 1/60th accrual rate. The Association paid contributions at the rate of 9.6% of pensionable salaries plus additional deficit contributions. Member contributions were 9.6%.

As at the balance sheet date there were 91 active members of the Scheme employed by the Association. The annual pensionable payroll in respect of these members was £2,745,833. The Association has closed the scheme to future accrual from 1 April 2014.

From 1 April 2014 the Association transferred all existing members to the Defined Contribution option, and has closed this scheme to new entrants from 1 April 2014.

Financial assumptions

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

	% pa
- Investment return pre-retirement	5.3
- Investment return post-retirement – Non - pensioners	3.4
- Investment return post-retirement - Pensioners	3.4
- Rate of salary increases	4.1
- Rate of pension increases	
Pension accrued pre 6 April 2005 in excess of GMP	2.0
Pension accrued post 6 April 2005	1.7
(for leavers before 1 October 1993 pension increases are 5.0%)	
- Rate of price inflation	2.6

Mortality Tables

Non Pensioners – 44% of S1PMA (males) and S1PFA (females) projected using CMI_2011 with a long term improvement of 1.50% p.a. for males and 1.25% p.a. for females.

Pensioners – 90% of S1PMA (males) and S1PFA (females) projected using CMI_2011 with a long term rate of improvement of 1.50% p.a. for males and 1.25% p.a. for females.

Contribution Rates for Future Service (payable from 1 April 2014)

	%
- Defined Contribution	variable

Contribution Rates for Past Service Deficit (payable from 1 April 2014)

	£
- Defined Benefit	540,371

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014

16. Pension scheme (continued)

Employer debt regulations

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

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

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

The Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme based on the financial position of the Scheme as at 30 September 2013. As of this date the estimated employer debt for Association was £13,126,968.

(ii) Pension Trust's Growth Plan

The Association participates in The Pensions Trust's Growth Plan (the Plan). The Plan is funded and is not contracted-out of the State scheme. The Plan is a multi-employer pension plan.

Contributions paid into the Plan up to and including September 2001 were converted to defined 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 Plan or by the purchase of an annuity.

The rules of the Plan allow for the declaration of bonuses and/or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses/investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

The Trustee commissions an actuarial valuation of the Plan every three years. The purpose of the actuarial valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the 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 assets to meet its past service liabilities, known as Technical Provisions.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

16. Pension scheme (continued)

The rules of the Plan state that the proportion of obligatory contributions to be borne by the member and the member's employer shall be determined by agreement between them. Such agreement shall require the employer to pay part of such contributions and may provide that the employer shall pay the whole of them.

The Association paid contributions at the rate of 0% during the accounting period, as the scheme was initially set up for AVC purposes. Members paid contributions at the rate of 4% during the accounting period.

As at the balance sheet date there was 1 active member of the Plan employed by the Association. The Association continues to offer membership of the Plan to its employees.

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. The Plan is a multi-employer scheme where the Plan assets are co-mingled for investment purposes, and benefits are paid from the total Plan assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The valuation results at 30 September 2011 were completed in 2012 and have been formalised. The valuation of the Plan was performed by a professionally qualified Actuary using the Projected Unit Method. The market value of the Plan's assets at the valuation date was £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £928 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £148 million, equivalent to a funding level of 84%.

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

	% pa
Investment return pre-retirement	4.9
Investment return post-retirement	
Actives/deferreds	4.2
Pensioners	4.2
Bonuses on accrued benefits	0.0
Inflation: Retail Prices Index (RPI)	2.9
Inflation: Consumer Prices Index (CPI)	2.4

In determining the investment return assumptions the Trustee considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustee has incorporated an element of prudence into the pre and post retirement investment return assumptions; such that there is a 60% expectation that the return will be in excess of that assumed and a 40% chance that the return will be lower than that assumed over the next 10 years.

The Scheme Actuary has prepared a funding position update as at 30 September 2012. The market value of the Plan's assets at that date was £790 million and the Plan's Technical Provisions (i.e. past service liabilities) were £984 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £194 million, equivalent to a funding level of 80%.

16. Pension scheme (continued)

If an actuarial valuation reveals a shortfall of assets compared to liabilities, the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

In view of the small funding deficit and the level of prudence implicit in the assumptions used to calculate the Plan liabilities the Trustee has prepared a recovery plan on the basis that no additional contributions from participating employers are required at this point in time. In reaching this decision the Trustee has taken actuarial advice and has been advised that the shortfall of £29 million (as at 30 September 2008) will be cleared within 10 years if the investment returns from assets are in-line with the 'best estimate' assumptions. 'Best estimate' means that there is a 50% expectation that the return will be in excess of that assumed and a 50% expectation that the return will be lower than that assumed over the next 10 years. These "best estimate" assumptions are 8.4% per annum pre-retirement, 5.1% per annum post retirement (actives and deferreds) and 5.6% per annum post-retirement (pensioners).

A copy of the recovery plan must be sent to The Pensions Regulator. The Pensions Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Plan liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Plan (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2011 valuation was forwarded to The Pensions Regulator on 2 October 2012.

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 Plan and The Pensions act 2011 has more recently altered the definition of Series 3 of the Growth Plan so that a liability arises to employers from membership of any Series except Series 4. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (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 Plan. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Plan's pre-October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre-October 2001 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 Plan liabilities, Plan 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, but at 31 March 2014 the estimated employer debt on withdrawal from the Growth Plan was £51,019.

17. Auditors' remuneration	2014	2013
	£	£
External Auditor		
- audit services	16,740	18,480
- other services	1,620	1,560
	<u> </u>	<u> </u>
Internal Auditor		
- audit services	19,947	17,629
	<u> </u>	<u> </u>

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014

18. Payments to members and Board members

No member of the Association received any fee or remuneration during the year (2013: £Nil). Members of the Board of Management were reimbursed for out of pocket travel expenses amounting to £12,180 (2013: £12,327).

19. Directors' emoluments

Directors are defined as the members of the Board of Management, the Executive Officers and any other officer of the Association whose total emoluments excluding pension contributions exceed £60,000 per annum. No emoluments were paid to any member of the Board of Management during the year and details of emoluments paid to the Executive Officers and other directors follow.

	2014 £	2013 £
Total emoluments [excluding pension contributions of £27,115 (2013: £29,690)]	310,548	332,542
Compensation payable to Officers	-	175,845
	<u>310,548</u>	<u>175,845</u>

The emoluments of the Chief Executive, excluding pension contributions, were £92,576 (2013: £93,938).

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

	2014	2013
£60,001 to £70,000	1	-
£70,001 to £80,000	2	3
£80,001 to £90,000	-	-
£90,001 to £100,000	1	1
	<u>4</u>	<u>4</u>

20. Operating Leases

At 31 March 2014 the Association had aggregate annual commitments under non-cancellable operating leases as set out below:

	Land & Buildings 2014 £	Other 2014 £	Land & Buildings 2013 £	Other 2013 £
Within a year	-	52,244	-	39,323
Within 2-5 years	-	12,866	-	18,022
After 5 years	183,782	-	183,782	-
	<u>183,782</u>	<u>65,110</u>	<u>183,782</u>	<u>57,345</u>

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014

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

	2014	2013
	£	£
Surplus for the year	554,600	532,102
Depreciation charges	2,337,438	2,271,954
Impairment charge	90,000	-
(Decrease)/Increase in creditors	(1,023,863)	1,058,391
(Increase) in debtors	(99,531)	(268,845)
Interest receivable	(83,518)	(46,539)
Interest payable and similar charges	1,516,162	1,484,797
(Gain) on sale of assets	(443,760)	(223,930)
Share capital cancelled	(4)	(2)
Net cash inflow from operating activities	<u>2,847,524</u>	<u>4,807,928</u>

22. Capital expenditure and financial investment

	2014	2013
	£	£
Payments to acquire and improve housing stock	(2,367,335)	(3,736,418)
Purchase of other fixed assets	(407,609)	(151,453)
Sale of other fixed assets	837,000	245,471
HAG and other capital grants received in year	308,490	264,128
Sale of houses (including Homestake)	940,267	1,910,156
HAG repaid	(86,752)	(72,461)
Net cash inflow from capital expenditure and financial investment	<u>(775,939)</u>	<u>(1,540,577)</u>

23. Financing

	2014	2013
	£	£
Housing loans drawn down	-	5,000,000
Housing loans repaid	(2,195,905)	(1,771,178)
Proceeds from shares	11	10
Net cash outflow from financing	<u>(2,195,894)</u>	<u>3,228,832</u>

24. Reconciliation of net cash flow to movement in net debt

	2014	2013
	£	£
(Decrease)/increase in cash in the year	(1,516,953)	5,053,096
Loans drawn down	-	(5,000,000)
Loans repaid	2,195,905	1,771,178
Net debt at 1 April 2013	<u>678,952</u>	<u>1,824,274</u>
	<u>(40,353,125)</u>	<u>(42,177,399)</u>
Net debt at 31 March 2014	<u>(39,674,173)</u>	<u>(40,353,125)</u>

CAIRN HOUSING ASSOCIATION LIMITED

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 31 March 2014

	At 1 April 2013 £	Cash Flows £	Non-Cash Changes £	At 31 March 2014 £
25. Analysis of net debt				
Amounts held on short term deposit	6,000,000	(2,000,000)	-	4,000,000
Cash at bank	249,655	483,047	-	732,702
Bank overdraft	-	-	-	-
	<u>6,249,655</u>	<u>(1,516,953)</u>	<u>-</u>	<u>4,732,702</u>
Debt due within 1 year	(1,989,825)	2,195,905	(2,286,001)	(2,079,921)
Debt due after 1 year	<u>(44,612,955)</u>	<u>-</u>	<u>2,286,001</u>	<u>(42,326,954)</u>
Total	<u><u>(40,353,125)</u></u>	<u><u>678,952</u></u>	<u><u>-</u></u>	<u><u>(39,674,173)</u></u>

26. Related parties

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