



**Scott-Moncrieff**  
business advisers and accountants

**CAIRN HOUSING ASSOCIATION LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

**Scottish Charity Number SC016647**

**CAIRN HOUSING ASSOCIATION LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

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**CAIRN HOUSING ASSOCIATION LIMITED**

**BOARD OF MANAGEMENT, EXECUTIVES AND ADVISERS**

**Board of Management**

Mr K Ward, Chairperson  
Mr D Venters  
Mr J Woods  
Mr E T M Bell-Scott  
Mr S E G Guest  
Ms G Walch  
Mr M Allan  
Prof A Belcher (resigned 6 November 2015)  
Mr D Jamieson  
Mr W Gillespie  
Mr G Colgan  
Mrs H Barton (elected 25 September 2015)  
Mrs M Mackenzie (elected 25 September 2015)

**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

**Secretary**

Mr J MacGilp

**Head Office**

Citypoint  
65 Haymarket Terrace  
Edinburgh  
EH12 5HD

**Auditor**

Scott-Moncrieff  
Chartered Accountants  
25 Bothwell Street  
Glasgow  
G2 6NL

**Bankers**

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

**Other Lenders**

Santander plc

**Registration numbers**

Financial Conduct Authority  
The Scottish Housing Regulator  
Registered Scottish Charity

2335R(S)  
HEP218  
SC016647

## **CAIRN HOUSING ASSOCIATION LIMITED**

### **REPORT OF THE BOARD OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT)**

**For the year ended 31 March 2016**

The Board of Management presents their Report and the audited financial statements for the year ended 31 March 2016.

#### **Principal activities**

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

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

The financial year to 31 March 2016 has been a further year of change and improvement for Cairn Housing Association Limited. The past year has seen a continued focus on driving up standards in customer service and improving core business performance and resilience and the effective use of our resources to ensure Cairn Housing Association Limited is fit for the future.

Highlights during the year have included:-

- Investment in our existing homes has been a major focus in the last year, with a programme of over £7 million of improvement works including bathrooms, kitchens, communal boilers, lift installations and insulation works all of which have directly enhanced the quality of life for our customers.
- The Association has produced a new Asset Management Strategy which will inform our work in informing future stock investment programmes and exploring options for decisions about the future of certain housing stock. The transfer of our two Care Homes to another provider was completed during the year.
- We developed a new Value for Money Statement in the last year as a draft for consultation with staff, members and customers. This will help shape our approach to value for money and affordability and cost efficiencies in the coming years.
- Cairn's Customer Panel continues its important work in scrutinising specific areas of the business and developing action plans to help us improve services further.
- Customers First is one of our core values, and Customer Service is a priority for the Association and our contact centre, CairnConnect, continues to support local teams in improving the customer experience and reducing customer effort. Service specific Net Promoter Scores continue to demonstrate high levels of satisfaction.
- Business Performance on all Key Performance Indicators continue to improve, with excellent results on income management, the repairs service and a very significant improvement in void relet performance.
- Investing in, and developing, our people has been an important area of work and the delivery of our revised People Strategy. During the year Cairn won the CIH Excellence Award for Building Skills & Capacity.
- As part of our commitment to high quality governance, we have continued our proactive approach to Board development and succession planning with the appointment of two new Board members during the year.
- A new Community Development Strategy was agreed and important work on financial inclusion and benefits continued to provide direct support and assistance to more vulnerable customers.

The operating surplus increased from £2.53 million in 2015 to £2.63 million in 2016. The Association generated a surplus for the year of £2.02 million (2015: £1.02 million). The surplus for the year has been taken to the Revenue Reserve.

## **CAIRN HOUSING ASSOCIATION LIMITED**

### **REPORT OF THE BOARD OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT)**

**For the year ended 31 March 2016**

#### **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 finance and strategy and set a direction to continue to build a resilient and successful organisation. The Board and the management team of Cairn Housing Association Limited are confident about the future and are focussed on delivering our vision of Great Homes, Great Services, Great People. We remain determined and focussed on our commitment to continue to modernise and change where required and to operate the business in the long term interests of current and future customers in communities throughout Scotland.

#### **Future developments**

As part of our business and financial planning we have the financial capacity to increase our newbuild development activity in the coming years. We intend to build at least 80 new units per year from 2018 and will also look at other funding models to assess the options of providing even more new homes. We will also be exploring growth and partnerships more generally to ensure the future and to be able to have a greater impact on the quality of lives of our customers and communities.

#### **Risks and Uncertainties**

Cairn continues to be a strong and resilient social business. There are a number of opportunities ahead such as increased grant funding for newbuild development and other growth and partnership opportunities. We will continue to robustly manage our risk profile and take mitigating actions as required. We will continue to develop our business continuity planning and oversee key risks such as securing income to the organisation and our response to ongoing changes to welfare and Social Security; the wider financial environment, regulatory compliance and proactive asset management.

#### **Key Performance Indicators**

Cairn continues to closely monitor Key Performance indicators, including those required under the Annual report on The Scottish Social Housing Charter. We also pay particular attention to key financial indicators on gearing and interest cover to ensure ongoing financial stability

#### **Governance**

Cairn Housing Association Limited has a Board of Management elected by the members of the Association. It is the responsibility of the Board to direct the strategy, set policy, overall direction and monitor the business plan of the Association and its subsidiary companies. The Board also ensures appropriate levels of assurance and risk management, including external advice where appropriate, and compliance with regulatory standards. The members of the Board of Management are currently unpaid, other than expenses.

As part of our commitment to continuous improvement we have once again set challenging business targets, which are regularly monitored and reviewed by the Board of Management and Senior Management Team.

Our governing body is our Board of Management which is responsible to the wider membership. Board of Management members undergo annual appraisals and an annual board succession and development plan is produced each year.

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

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

## **CAIRN HOUSING ASSOCIATION LIMITED**

### **REPORT OF THE BOARD OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT)**

**For the year ended 31 March 2016**

#### **Statement of the 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 surplus or deficit of the Association for that period. In preparing those financial statements the Board is required to:

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

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **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 Association's main activities is on-going. Reports are made to the Audit and Performance 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.

**CAIRN HOUSING ASSOCIATION LIMITED**

**REPORT OF THE BOARD OF MANAGEMENT (INCORPORATING THE STRATEGIC REPORT)**

**For the year ended 31 March 2016**

**Disclosure of information to the auditor**

To the knowledge and belief of each of the persons who are members of the Board of Management at the time the report is approved:

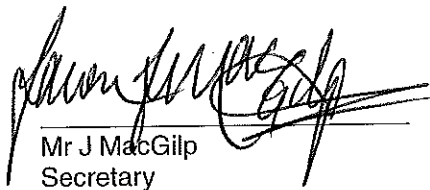
- So far as the Board members are aware, there is no relevant information of which the Association's auditor is unaware; and
- He/she has taken all the steps that he/she ought to have taken as a Board member in order to make himself/herself aware of any relevant information, and to establish that the Association's auditor is aware of the information.

**Auditor**

A resolution to re-appoint the Auditor, Scott-Moncrieff, will be proposed at the Annual General Meeting.

The Report of the Board of Management (incorporating the Strategic Report) has been approved by the Board of Management:

**BY ORDER OF THE BOARD**



Mr J MacGilp  
Secretary

Date: 21 July 2016

## CAIRN HOUSING ASSOCIATION LIMITED

### 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 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Capital and Reserves, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice for Social Housing Providers issued in 2014.

This report is made solely to the Association's members, as a body, in accordance with the Co-operative and Community Benefit Societies Act 2014. 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 of Management and the auditor**

As explained more fully in the Statement of the Board's Responsibilities on page 4, the Board of Management are 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 (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **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 2016 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice for Social Housing Providers issued in 2014; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010, and the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator.



**CAIRN HOUSING ASSOCIATION LIMITED**

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

**Group accounts Section 99 (3) of the Co-operative and Community Benefit Societies Act 2014** We agree with the opinion of the Management Committee of the Association that it would be of no real value to the members of the Association to consolidate or include the accounts of the Association's subsidiary in group accounts required to be prepared under the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 for the year ended 31 March 2016, because of the immaterial nature of the subsidiary's transactions in the year.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014, 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.

Scott - Moncrieff

**Scott-Moncrieff**  
Chartered Accountants  
Statutory Auditor  
25 Bothwell Street  
Glasgow  
G2 6NL

Date: 21 July 2016

**CAIRN HOUSING ASSOCIATION LIMITED**

**REPORT OF THE AUDITOR TO THE MEMBERS OF CAIRN HOUSING ASSOCIATION LIMITED  
ON CORPORATE GOVERNANCE MATTERS**

**For the year ended 31 March 2016**

In addition to our audit of the Financial Statements, we have reviewed your statements on page 4 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

**Basis of Opinion**

We carried out our review having regard to the requirements on corporate governance matters within Bulletin 2009/4 issued by the Financial Reporting Council. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reason given for non-compliance.

**Opinion**

In our opinion the Statement on Internal Financial Control on page 4 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Through our enquiry of certain members of the Board and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Board's Statement on Internal Financial Control appropriately reflects the Association's compliance with the information required by the relevant Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls.

*Scott - Moncrieff*

**Scott-Moncrieff**  
Chartered Accountants  
Statutory Auditor  
25 Bothwell Street  
Glasgow  
G2 6NL

Dated: 21 July 2016

**CAIRN HOUSING ASSOCIATION LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 March 2016

		2016		Restated 2015		
		Continuing Operations £	Discontinued Operations £	Continuing Operations £	Discontinued Operations £	Total £
Turnover	4	15,523,200	536,014	16,778,994	215,081	16,994,075
Operating expenditure	4	(12,747,926)	(681,286)	(14,227,378)	(236,147)	(14,463,525)
Operating surplus	4	2,775,274	(145,272)	2,551,616	(21,066)	2,530,550
Gain on sale of property, plant and equipment	11	1,072,331	-	139,171	-	139,171
Interest receivable	12	35,936	-	11,334	-	11,334
Interest payable and similar charges	13	(1,717,715)	-	(1,657,295)	-	(1,657,295)
Surplus for the year before tax	14	2,165,826	(145,272)	1,044,826	(21,066)	1,023,760
Tax		(752)	-	-	-	-
Surplus after tax		2,165,074	(145,272)	1,044,826	(21,066)	1,023,760
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		2,165,074	(145,272)	1,044,826	(21,066)	1,023,760

The notes form part of these financial statements


CAIRN HOUSING ASSOCIATION LIMITED


STATEMENT OF FINANCIAL POSITION

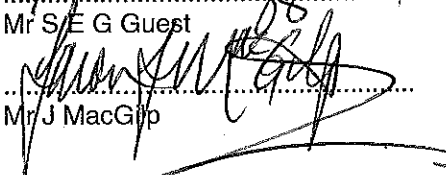
As at 31 March 2016

	Notes	2016		Restated 2015	
		£	£	£	£
<b>Tangible fixed assets and investments</b>					
Housing properties	15(a)		88,197,171		84,719,431
Investment properties	15(b)		8,940,976		8,940,976
Other fixed assets	15(c)		1,265,189		1,277,265
Fixed asset investments	15(d)		-		-
Investments	15(e)		1		1
			<u>98,403,337</u>		<u>94,937,673</u>
<b>Current assets</b>					
Debtors	16	1,244,383		1,727,737	
Cash and cash equivalents	17	786,775		3,507,141	
		<u>2,031,158</u>		<u>5,234,878</u>	
<b>Creditors: amounts falling due within one year</b>	18	<u>(4,099,309)</u>		<u>(5,854,343)</u>	
<b>Net current assets</b>			<u>(2,068,151)</u>		<u>(619,465)</u>
<b>Total assets less current liabilities</b>			<u>96,335,186</u>		<u>94,318,208</u>
<b>Creditors: amounts falling due after more than one year</b>	19		<u>(43,390,862)</u>		<u>(43,393,693)</u>
<b>Net assets</b>			<u>52,944,324</u>		<u>50,924,515</u>
<b>Capital and Reserves</b>					
Share capital	24		103		96
Revenue reserves			52,944,221		50,557,361
Restricted reserves			-		367,058
			<u>52,944,324</u>		<u>50,924,515</u>

Approved and authorised for issue by the Board of Management on 21 July 2016.

  
 .....  
 Mr K Ward Chairperson

  
 .....  
 Mr S/E G Guest Board Member

  
 .....  
 Mr J MacGill Secretary

The notes form part of these financial statements

**CAIRN HOUSING ASSOCIATION LIMITED**

**STATEMENT OF CHANGES IN CAPITAL AND RESERVES**

**As at 31 March 2016**

	Share Capital £	Restricted Reserves £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2015 as restated	96	367,058	50,557,361	50,924,515
Total Comprehensive Income for the year	-	-	2,019,802	2,019,802
Cancelled shares during the year	-	-	-	-
Shares issued during the year	7	-	-	7
Transfer between reserves	-	(367,058)	367,058	-
	<u>103</u>	<u>-</u>	<u>52,944,221</u>	<u>52,944,324</u>

**As at 31 March 2015**

	Share Capital £	Restricted Reserves £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2014 as restated	154	370,276	49,530,383	49,900,813
Total Comprehensive Income for the year	-	-	1,023,760	1,023,760
Cancelled shares during the year	(58)	-	-	(58)
Shares issued during the year	-	-	-	-
Transfer between reserves	-	(3,218)	3,218	-
	<u>96</u>	<u>367,058</u>	<u>50,557,361</u>	<u>50,924,515</u>

The notes form part of these financial statements

**CAIRN HOUSING ASSOCIATION LIMITED**

**STATEMENT OF CASH FLOWS**

For the year ended 31 March 2016

	Notes	2016		Restated 2015	
		£	£	£	£
<b>Net cash generated from operating activities</b>	25		4,561,691		4,067,323
<b>Cash flow from investing activities</b>					
Payments to acquire and improve housing stock		(7,171,799)		(3,343,088)	
Purchase of other fixed assets		(301,864)		(262,848)	
HAG and other capital grants received		873,000		51,223	
Proceeds from sale of tangible fixed assets		2,674,265		1,225,660	
HAG repaid		-		(59,892)	
Interest received		35,936		11,334	
Taxation		-		-	
			(3,890,462)		(2,377,611)
<b>Cash flow from financing activities</b>					
Interest paid		(1,569,715)		(1,437,295)	
Housing loans repaid		(1,400,254)		(2,077,153)	
Taxation		-		-	
			(2,969,969)		(3,514,448)
<b>Net change in cash and cash equivalent</b>			(2,298,740)		(1,824,736)
Cash and cash equivalent at beginning of year			2,907,966		4,732,702
Cash and cash equivalent at end of the year			609,226		2,907,966

The notes form part of these financial statements

# CAIRN HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 1. General Information

The financial statements have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice) and comply with the requirements of the Determination of Housing Requirements 2014 as issued by the Scottish Housing Regulator and the Statement of Recommended Practice for Social Housing Providers issued in 2014. The principle accounting policies are set out below.

The Association is defined as a public benefit entity and thus the Association complies with all disclosure requirements relating to public benefit entities.

These financial statements represent the results of the Association only and are presented in £GPB.

The Association was incorporated in Scotland. The Association is a registered social landlord (HEP218) and a registered charity (SC016647). The registered address is Citypoint, 65 Haymarket Terrace, Edinburgh, EH12 5HD.

### 2. Principle Accounting policies

#### (a) Basis of accounting and consolidation

The financial statements are prepared under the historical cost convention, subject to the revaluation of certain fixed assets, and in accordance with applicable accounting standards and statements of recommended practice. However, please note that on transition to FRS 102, an existing use value has been used as deemed cost for housing properties. The effect of events relating to the year ended 31 March 2016, which occurred before the date of approval of the financial statements by the Board of Management have been included in the statements to the extent required to show a true and fair view of the state of affairs as at 31 March 2016 and of the results for the year ended on that date. The Association has a subsidiary company "Cairn Homes and Services Limited", however, due to the immaterial nature of the subsidiary's transactions, consolidated financial statements have not been prepared.

#### (b) Going concern

The financial statements have been prepared on a going concern basis by the Board of Management as surpluses are expected in 2016/17 and 2017/18, there is a healthy cash balance and the Association has recently completed a refinancing of its loans. Thus the Board continues to adopt the going concern basis of accounting in preparing the financial statements.

#### (c) Turnover

Turnover represents rental and service charge income, factoring service income, and fees or revenue grants receivable from local authorities and from The Scottish Government. Also included is any income from first tranche shared ownership disposals.

#### (d) Apportionment of management expenses

Direct employee, administration and operating costs have been apportioned to the relevant sections of the Statement of Comprehensive Income on the basis of costs of staff directly attributable to the operations dealt with in the financial statements.

#### (e) Interest receivable

Interest receivable is recognised in the Statement of Comprehensive Income using the effective interest method.

## CAIRN HOUSING ASSOCIATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

#### 2. Principal Accounting policies (cont'd)

##### (f) Interest payable

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

##### (g) Tangible fixed assets - housing properties

Housing properties are stated at deemed cost based on an Existing Use Value at 1 April 2014. From this date, housing properties have been accounted for under historical cost. The development cost of housing properties includes the following:

- (i) cost of acquiring land and buildings;
- (ii) development expenditure; and
- (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.

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.

##### (h) 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.

##### (i) Government Capital Grants

Government Capital Grants, at amounts approved by The Scottish Government or local authorities, are paid directly to the Association as required to meet its liabilities during the development process. This is treated as a deferred capital grant and is released to income in accordance with the accrual model over the useful life of the asset it relates to on completion of the development phase. The accrual model requires the Association to recognise income on a systematic basis over the period in which the Association recognises the related costs for which the grant is intended to compensate.

##### (j) Government Revenue Grants

Government revenue grants are recognised using the accrual model which means the Association recognises the grant in income on a systematic basis over the period in which the Association recognises the related costs for which the grant is intended to compensate.

##### (k) Non-government capital and revenue grants

Non-government capital and revenue grants are recognised using the performance model. If there are no performance conditions attached the grants are recognised as revenue when the grants are received or receivable.



# CAIRN HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 2. Principal Accounting Policies (cont'd)

#### (k) Non-government capital and revenue grants (cont'd)

A grant that imposes specific future performance related conditions on the recipient is recognised as revenue only when the performance related conditions are met.

A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

#### (l) Depreciation

##### Housing 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, the Net Book Value of the component being replaced is written off and is included in the depreciation charge for the year.

##### Shared ownership housing properties

Depreciated over 60 years.

##### 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 properties	Over 60 years
Office Furniture and equipment	4 to 10 years

## **CAIRN HOUSING ASSOCIATION LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

#### **2. Principal Accounting Policies (Cont'd)**

##### **(m) 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 sold is shown within Fixed Asset Investment and represents total costs incurred at the Statement of Financial Position date less grants received. Homestake allowances receivable to market the properties are taken to income as developments are completed and until that point are included within deferred income.

##### **(n) Pensions (Note 23)**

On 1 April 2014 the Association's defined benefit scheme was closed to future accrual, with the Association participating from that date 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.

Up until 1 April 2014, the Association participated in The Scottish Housing Associations' Defined Benefits Pension Scheme (SHAPS) and retirement benefits to employees of the Association are funded by the contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers 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.

Thus the Scheme is accounted for as a defined contribution scheme. However the Association has entered into a past service deficit repayment agreement with the Pension Trust and per FRS 102, this discounted past service deficit liability has been recognised in the Statement of Financial Position.

##### **(o) Operating leases**

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

##### **(p) Investment properties**

Investment properties are initially recorded at cost. Thereafter investment properties are held at market value with any changes in market value recognised in the Statement of Comprehensive Income.

##### **(q) Restricted reserves**

Restricted funds are to be used for specified purposes laid down by the donor.

##### **(r) Investments**

Fixed asset investments are stated at cost, less any provisions required where there has been a permanent diminution in their value.

## CAIRN HOUSING ASSOCIATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

#### 2. Principal Accounting Policies (Cont'd)

##### (s) Debtors

Short term debtors are measured at transaction price, less any impairment.

##### (t) Rental arrears

Rental arrears represent amounts due by tenants for rental of social housing properties at the year end. Rental arrears are reviewed regularly by management and written down to the amount deemed recoverable. Any provision deemed necessary is shown alongside gross rental arrears in Note 16.

##### (u) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

##### (v) Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

##### (w) Financial instruments

The Association only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans from banks.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a rental arrear deferred beyond normal Association terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets are derecognised when contractual rights to the cash flows from the assets expire, or when the Association has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

#### 3. Judgements in applying policies and key sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

# CAIRN HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

### 3. Judgements in applying policies and key sources of estimation uncertainty

The Board of Management are satisfied that the accounting policies are appropriate and applied consistently. Key sources of estimation have been applied as follows:

#### Estimate

Valuation of Housing Properties

#### Basis of estimation

Housing Properties are held at deemed cost which is based on an existing use valuation at the date of transition. The assumptions used in the existing use value were reviewed and are considered reasonable.

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment are based on the knowledge of senior management at the Association, with reference to expected asset life cycles.

The main components of housing properties and their useful lives

The cost of housing properties is split into separately identifiable components. These components were identified by knowledgeable and experienced staff members and based on costing models.

Recoverable amount of rental and other trade receivables

Rental arrears and other trade receivables are reviewed by appropriately experienced senior management team members on a case by case basis with the balance outstanding together with the payment history of the individual tenant being taken into account.

The obligations under the SHAPs pension scheme

This has relied on the actuarial assumptions of a qualified actuary which have been reviewed and are considered reasonable and appropriate.

The valuation of investment property

The investment property was valued by an appropriately qualified surveyor using market data at the date of valuation.

### 4. Particulars of turnover, operating expenditure and operating surplus

2016	Turnover £	Operating Expenditure £	Operating Surplus £
Social lettings (note 5)	14,647,706	12,332,888	2,314,818
Other activities (note 6)	1,411,508	1,096,324	315,184
	<u>16,059,214</u>	<u>13,429,212</u>	<u>2,630,002</u>
<b>2015 - Restated</b>	<b>Turnover £</b>	<b>Operating Expenditure £</b>	<b>Operating Surplus £</b>
Social lettings (note 5)	14,905,113	13,160,249	1,744,864
Other activities (note 6)	2,088,962	1,303,276	785,686
	<u>16,994,075</u>	<u>14,463,525</u>	<u>2,530,550</u>

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2016

	General Needs Housing £	Amenity Housing £	Sheltered Housing £	Supported Housing £	Shared Ownership £	Other Housing £	2016 £	Restated 2015 £
5. Particulars of turnover, operating expenditure and operating surplus or (deficit) from social letting activities								
Rent receivable net of service charges	8,450,099	1,415,765	1,736,988	255,314	108,126	651,146	12,617,438	12,434,555
Service charges net of voids	147,958	527,651	782,469	388,420	4,962	57,059	1,908,519	2,252,938
	<u>8,598,057</u>	<u>1,943,416</u>	<u>2,519,457</u>	<u>643,734</u>	<u>113,088</u>	<u>708,205</u>	<u>14,525,957</u>	<u>14,687,493</u>
Gross income from rents and service charges	(27,381)	(16,752)	(20,012)	(31,303)	(3,581)	(437)	(99,466)	(157,721)
Less: Rental voids								
<b>Net income from rents and service charges</b>	<b>8,570,676</b>	<b>1,926,664</b>	<b>2,499,445</b>	<b>612,431</b>	<b>109,507</b>	<b>707,768</b>	<b>14,426,491</b>	<b>14,529,772</b>
Grants from the Scottish Ministers	127,893	28,823	64,429	-	-	70	221,215	375,341
<b>Total turnover from social letting activities</b>	<b>8,698,569</b>	<b>1,955,487</b>	<b>2,563,874</b>	<b>612,431</b>	<b>109,507</b>	<b>707,838</b>	<b>14,647,706</b>	<b>14,905,113</b>
Management and maintenance admin costs	3,318,794	734,304	854,322	67,247	87,910	243,629	5,306,206	6,069,292
Service costs	194,040	599,528	872,018	563,122	6,583	52,516	2,287,807	2,615,351
Planned and cyclical maintenance	3,223,041	1,915,019	1,211,486	17,986	-	41,719	6,409,251	3,258,694
Planned and cyclical maintenance capitalised	(2,680,181)	(1,843,523)	(1,096,829)	(1,682)	-	-	(5,622,215)	(2,434,503)
Responsive maintenance costs	1,077,279	229,734	390,706	20,839	-	66,586	1,785,144	1,885,421
Responsive maintenance capitalised	(78,038)	(481)	(1,961)	-	-	-	(80,480)	-
Bad debt provision	2,584	-	-	-	-	-	2,584	(50,890)
Write offs	63,895	25,064	16,297	36,445	2,104	16	143,821	26,888
Non-refundable rent	(26,959)	(9,152)	(38,423)	(2,121)	(59)	(4)	(76,718)	(990)
Depreciation of social housing	1,715,362	243,056	176,316	22,756	19,998	-	2,177,488	1,790,986
<b>Operating expenditure for social letting activities</b>	<b>6,809,817</b>	<b>1,893,549</b>	<b>2,383,932</b>	<b>724,592</b>	<b>116,536</b>	<b>404,462</b>	<b>12,332,888</b>	<b>13,160,249</b>
<b>Operating surplus or (deficit) for social lettings</b>	<b>1,888,752</b>	<b>61,938</b>	<b>179,942</b>	<b>(112,161)</b>	<b>(7,029)</b>	<b>303,376</b>	<b>2,314,818</b>	<b>1,744,864</b>
<b>Operating surplus or (deficit) for social lettings – 2015 as restated</b>	<b>1,438,245</b>	<b>161,894</b>	<b>364,607</b>	<b>(58,136)</b>	<b>(53,668)</b>	<b>(108,078)</b>	<b>1,744,864</b>	
<b>Number of units in management:</b>								
2016	2,094	472	590	37	48	149	3,390	
2015	2,151	345	663	76	51	154	3,440	

Included in depreciation of social housing is £529,902 (2015: £313,422) relating to the loss on disposal of components.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

6. Particulars of turnover, operating expenditure and operating surplus or (deficit) from other activities

	Grants from Scottish Ministers £	Other Revenue Grants £	Supporting People Income £	Other Income £	Total turnover £	Operating Expenditure - bad debts £	Other operating expenditure £	Operating surplus or (deficit) 2016 £	Restated Operating surplus or (deficit) 2015 £
Care and repair of property	-	438,780	-	-	438,780	-	415,001	23,779	6,301
Development and construction of property activities	-	-	-	-	-	-	-	-	-
Support activities	-	-	96,996	-	96,996	-	137,035	(40,039)	33,315
Care activities	-	247,626	-	-	247,626	-	247,626	-	-
Factoring activities	-	-	-	84,108	84,108	(7,874)	73,438	18,544	10,625
HAG creditor release	-	-	-	214,625	214,625	-	-	214,625	596,188
Service charge admin recharge	-	-	-	155,180	155,180	-	133,165	22,015	28,932
Third party recharge costs	-	-	-	75,571	75,571	-	43,767	31,804	2,843
Other activities	-	-	-	98,622	98,622	6,209	47,957	44,456	107,482
<b>Total from other activities 2016</b>	-	686,406	96,996	628,106	1,411,508	(1,665)	1,097,989	315,184	785,686
<b>Total from other activities 2015 as restated</b>	-	845,987	439,562	803,413	2,088,962	(10,094)	1,313,370	785,686	

The other activity headings as noted in The Scottish Housing Regulator's Determination of Accounting Requirements (2014) do not apply.

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2016

**7. Continuing and discontinued operations**

	<b>Continued operations</b> £	<b>Discontinued operations</b> £	<b>2016 Total</b> £
Turnover	15,523,200	536,014	16,059,214
Operating expenditure	(12,747,926)	(681,286)	(13,429,212)
Operating surplus/(deficit)	<u>2,775,274</u>	<u>(145,272)</u>	<u>2,630,002</u>

	<b>Continued operations</b> £	<b>Discontinued operations</b> £	<b>Restated 2015 Total</b> £
Turnover	16,778,994	215,081	16,994,075
Operating expenditure	(14,227,378)	(236,147)	(14,463,525)
Operating surplus/(deficit)	<u>2,551,616</u>	<u>(21,066)</u>	<u>2,530,550</u>

**8. Employees**

	<b>2016</b> £	<b>Restated 2015</b> £
Staff costs during year:		
Wages and salaries	4,086,867	4,829,828
Social security costs	373,971	413,037
Pension costs	333,902	356,267
Pension costs – Past service scheme expenses	19,466	18,472
Pension costs – Past service deficit measurement	(26,000)	488,000
Death in service	43,408	41,957
Accrued Holiday pay	126,165	100,000
Agency Costs	251,458	305,121
Redundancy and compensation payments (Including NI)	69,295	113,592
	<u>5,278,532</u>	<u>6,666,274</u>

The SHAPs past service deficit liability is subject to remeasurement each financial year.

During the past year post service deficit contributions of £556,028 (2015: £540,371) were paid. Of this payment £536,562 (2015: £522,000) was a payment in respect of the SHAPS past service deficit liability. The remainder of £19,466 (2015: £18,371) was pension management costs which have been included in the pension contributions total included in staff costs above.

The unwinding of the discount has been charged to finance costs in the Statement of Comprehensive Income. This finance cost was £148,000 (2015: £220,000) in the year.

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2016

**8. Employees (cont'd)**

	<b>2016 Ave No.</b>	<b>2016 FTE No.</b>	<b>2015 Ave No.</b>	<b>2015 FTE No.</b>
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	97	86	96	86
HomeWorks Staff	12	12	12	8
Housing managers and other staff	92	49	140	97
	<u>201</u>	<u>147</u>	<u>248</u>	<u>191</u>

**9. Directors' emoluments**

The directors are defined as the members of the Board of Management, the chief executive and any other person reporting directly to the Chief Executive or the Board of Management whose total emoluments exceed £60,000 per year. No emoluments were paid to any member of the Board of Management during the year. The Association considers key management personnel to be the Board of Management and the senior management team of the Association only.

	<b>2016 £</b>	<b>2015 £</b>
Aggregate emoluments payable to officers (excluding pension contributions)	<u>328,657</u>	<u>317,187</u>
Total emoluments payable to the Chief executive (excluding pension contributions) amounted to:	<u>98,108</u>	<u>96,526</u>
	<b>Number</b>	<b>Number</b>
The numbers of officers including the highest paid Officer who received emoluments (excluding pension contributions) in the following ranges were:		
£70,001 - £80,000	3	3
£80,000 - £90,000	-	-
£90,000 - £100,000	<u>1</u>	<u>1</u>

Total pension contributions to directors whose emoluments exceeded £60,000 were £77,688 (2015: £67,870). No enhanced or special terms apply to membership and the directors have no other pension arrangements to which the Association contributes.

	<b>£</b>	<b>£</b>
Total Board of Management expenses reimbursed in so far as not chargeable to United Kingdom Income Tax	<u>12,328</u>	<u>13,679</u>

The Chief Executive is an ordinary member of the Association's pension scheme described in Note 23. The Association's contributions for the Chief Executive in the year amounted to £23,107 (2015: £20,616).



**CAIRN HOUSING ASSOCIATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

**10. Auditor's remuneration (including VAT)**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
External Auditor		
- audit services	16,066	15,040
- non audit services	540	-
	<u>16,606</u>	<u>15,040</u>
Internal Auditor		
- audit services	13,111	17,382
	<u>13,111</u>	<u>17,382</u>

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

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
(Loss) on sale of office premises	(6,986)	-
Gain on sale properties held for letting	1,001,394	-
Gain on right to buy sales	6,816	118,498
Gain on shared ownership tranches	71,107	20,673
	<u>1,072,331</u>	<u>139,171</u>

**12. Interest receivable**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Interest receivable on bank deposits	35,936	11,334
	<u>35,936</u>	<u>11,334</u>

**13. Interest payable and similar charges**

	<b>2016</b>	<b>Restated</b>
	<b>£</b>	<b>2015</b>
		<b>£</b>
On bank loans	1,569,715	1,437,295
Unwinding of discount factor – Past Service Pension (note 23)	148,000	220,000
	<u>1,717,715</u>	<u>1,657,295</u>

**14. Taxation**

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

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Corporation Tax due on other activities	752	-
	<u>752</u>	<u>-</u>

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

**15. Tangible fixed assets and investments**

**(a) Housing properties**

**Cost or valuation**  
At the start of the year as restated

Additions during year				
- new developments/components	242,631	-	-	
- improvements to existing property (replacement components)	5,702,695	-	-	
Disposals during year				
- properties	(1,438,334)	(34,809)	-	
- replacement components	(551,838)	-	-	
- reclassification	(69,787)	-	-	
- Transfer	108,773	-	(108,773)	
At the end of the year	<u>88,846,951</u>	<u>1,200,602</u>	<u>1,226,473</u>	<u>91,274,026</u>

**Depreciation**

At the start of the year as restated

Charge for year	1,456,990	20,574	-	
Disposals during year				
- properties	1,627,588	19,998	-	
- replacement components	(24,333)	(577)	-	
- reclassification	(21,936)	-	-	
	(1,449)	-	-	
At the end of the year	<u>3,036,860</u>	<u>39,995</u>	<u>-</u>	<u>3,076,855</u>

**Net book value**

At 31 March 2016

At 31 March 2015 as restated

Total cost of components capitalised for the year amounted to £5,702,695 (2015: £2,434,503). The amount spent on maintenance of housing properties held for letting can be seen in Note 5.

Additions to Housing Properties during the year includes £nil capitalised interest (2015 - £nil) and £nil capitalised administration costs (2015 - £nil). All housing properties are freehold. Properties with a cost of £1,473,143 (2015: £1,364,831) and accumulated depreciation of £24,910 (2015: £nil) have been disposed of in the year for net proceeds (after grant repaid of £nil) of £2,527,550 (2015: £1,225,660 after grant repaid of £59,892). Components with a cost of £551,838 (2015: £313,422) and accumulated depreciation of £21,936 (2015: £nil) have been disposed of for £nil (2015: £nil) net proceeds.

The housing properties were revalued as at 1 April 2014 (by Jones Lang LaSalle Limited) and this value was used as the deemed cost from that date in accordance with FRS 102.

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

<b>15 (b) Investment properties</b>	<b>2016</b>	<b>Restated</b>
	<b>£</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
At 1 April and 31 March	8,940,976	8,940,976

Investment properties are accommodation, offices and garages leased to 3<sup>rd</sup> parties. The turnover and operating expenditure in relation to these properties is disclosed in Note 5.

The investment properties were revalued as at 1 April 2014 (by Jones Lang LaSalle Limited) in accordance with FRS 102.

<b>(c) Other fixed assets</b>	<b>Heritable Office Property</b>	<b>Office Furniture and Equipment</b>	<b>Other Fixed Assets Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>			
At start of year	881,106	1,203,891	2,084,997
Additions during year	-	301,864	301,864
Disposals during year	(171,177)	-	(171,177)
Reclassified	69,787	-	69,787
Impairment	(35,000)	-	(35,000)
At end of year	<u>744,716</u>	<u>1,505,755</u>	<u>2,250,471</u>
<b>Depreciation</b>			
At start of year	179,959	627,773	807,732
Provided during year	11,832	181,746	193,578
Disposals during year	(17,477)	-	(17,477)
Reclassified	1,449	-	1,449
At end of year	<u>175,763</u>	<u>809,519</u>	<u>985,282</u>
<b>Net book value</b>			
At 31 March 2016	<u>568,953</u>	<u>696,236</u>	<u>1,265,189</u>
At 31 March 2015	<u>701,147</u>	<u>576,118</u>	<u>1,277,265</u>

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2016

**15. Tangible fixed assets and investments (cont'd)**

**(d) Fixed Asset Investments**

	2016 £	2015 £
Homestake units		
Cost	12,092,368	12,092,368
Housing Association Grant	(12,092,368)	(12,092,368)
	<u>          -</u>	<u>          -</u>

**(e) Investments**

	2016 £	2015 £
Investment in subsidiary undertaking:		
Cairn Homes and Services Limited	<u>          1</u>	<u>          1</u>

Cairn Housing Association Limited owns 1 ordinary £1 share in Cairn Homes and Services Limited (SC341478). The investment is held at cost. This represents a 100% shareholding in Cairn Homes and Services Limited, a company registered in Scotland, whose principal activity is that of renting and operating of Housing Association real estate. Cairn Homes and Services Limited made a loss of £2,623 (2015: £nil, as dormant) for the year ended 31 March 2016 and had net liabilities of £5,872 (2015: £3,249).

**(f) Securities**

Securities have been provided on various housing properties (see note 20).

**16. Debtors**

	2016 £	2015 £
Rent arrears	652,459	678,386
Less: provision for bad debts	(325,390)	(322,806)
	<u>          327,069</u>	<u>          355,580</u>
Amounts owed by subsidiary	5,105	3,250
Prepayments and accrued income	912,209	1,368,907
	<u>          1,244,383</u>	<u>          1,727,737</u>

**17. Cash and cash equivalents**

	2016 £	2015 £
Deposit accounts	500,000	3,000,000
Current account	286,775	507,141
	<u>          786,775</u>	<u>          3,507,141</u>
Overdraft	(177,549)	(599,175)
	<u>          609,226</u>	<u>          2,907,966</u>

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2016

**18. Creditors: amounts falling due within one year**

	2016 £	Restated 2015 £
Current instalments due on loans (note 20)	1,115,696	2,084,323
Overdraft	177,549	599,175
Trade creditors	123,175	331,515
Prepaid rents and service charges	464,942	461,860
Rents to be refunded	165,721	215,566
Accruals and deferred income	1,470,532	1,498,849
Other taxes and social security	14,052	2,798
HAG repayable	-	122,257
Past service pension liability (note 23)	547,978	538,000
Deferred Government capital grant (note 22)	19,664	-
	<u>4,099,309</u>	<u>5,854,343</u>
Secured creditors	<u>1,293,245</u>	<u>2,683,498</u>

**19. Creditors: amounts falling due after more than one year**

	2016 £	Restated 2015 £
Housing loans (note 20)	39,813,773	40,245,400
Past service pension liability (note 23)	2,672,530	3,097,070
Deferred Government capital grant (note 22)	904,559	51,223
	<u>43,390,862</u>	<u>43,393,693</u>
Secured creditors	<u>39,813,773</u>	<u>40,245,400</u>

**20. Loans**

	2016 £	2015 £
Loans or mortgages secured by charges on the Association's housing properties:		
Loans advanced by:		
Private lenders	<u>40,929,469</u>	<u>42,329,723</u>
Amounts falling due in:		
One year (note 18)	1,115,696	2,084,323
One year or more but less than two years (note 19)	1,115,696	2,088,761
Two years or more but less than five years (note 19)	3,347,088	6,587,925
Five years or more (note 19)	35,350,989	31,568,714
	<u>40,929,469</u>	<u>42,329,723</u>

The loans are advanced to finance the development and refurbishment of housing properties and are repayable by quarterly instalments of principal and interest. The loans bear interest at rates between 2.67% and 4.51%.

# CAIRN HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

<b>21. Financial Instruments</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Financial Assets</b>		
Financial assets measured at amortised cost	1,244,383	1,727,737
	<u>          </u>	<u>          </u>
<b>Financial Liabilities</b>		
Financial liabilities measured at amortised cost	46,551,896	49,194,015
	<u>          </u>	<u>          </u>

Financial assets measured at amortised cost comprised rental arrears, amounts owed by subsidiary and prepayments and accrued income.

Financial liabilities measured at amortised cost comprised bank loans and overdrafts, trade creditors, rent and service charges in advance, rents to be refunded, sundry creditors, accruals, HAG repayable and the SHAPS deficit repayment plan.

<b>22. Deferred capital grants</b>	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Deferred capital grants 1 April	51,223	-
Grants received in year	873,000	51,223
Grant released on disposal	-	-
	<u>          </u>	<u>          </u>
	924,223	51,223
	<u>          </u>	<u>          </u>
Split:		
< 1 year	19,664	-
1-2 years	19,664	1,090
2-5 years	58,992	3,270
> 5 years	825,903	46,863
	<u>          </u>	<u>          </u>
Total	924,223	51,223
	<u>          </u>	<u>          </u>

### 23. Pension scheme

#### (i) Defined Contribution Scheme

On 31 March 2014 the Association moved its pension provision from a defined benefit scheme via the Scottish Housing Associations' Pension Scheme to a defined contribution scheme via the Scottish Housing Associations' Pension Scheme and Standard Life.

79 members of staff are members of the Scottish Housing Association's Defined Contribution Pension Scheme. This scheme was closed to new entrants on 1 April 2014. The assets of the scheme are administered by The Pensions Trust and are independent of the Association.

29 members of staff are members of the Standard Life Group Personal Pension Scheme. This scheme is used for auto enrolment as well as being open to new members. The assets of the scheme are administered by Standard Life and are independent of the Association.

## CAIRN HOUSING ASSOCIATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

#### 23. Pension scheme (cont'd)

##### (ii) SHAP scheme

On 31 March 2014 the Association closed its participation in the Scottish Housing Associations' Pension Scheme ('the Scheme') to future accrual and moved to a defined contributions scheme.

Cairn Housing Association Limited participates in the Scottish Housing Pension Scheme (the scheme).

The Scheme is a multi-employer defined benefit scheme. The Scheme offers six 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
- Career average revalued earnings with a 1/80<sup>th</sup> accrual rate
- Career average revalued earnings with a 1/120<sup>th</sup> accrual rate contracted in
- Defined Contribution

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.

Cairn Housing Association Limited has elected to operate the Defined Contributions Option for existing and new entrants. However, the Association is still required to fund the past service deficit liability.

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

During the accounting period Cairn Housing Association Limited paid contributions at the rate of 12.3% of pensionable salaries. Member contributions were 12.3%. There was an additional annual employer past service deficit contribution of £536,562 (net of administration costs) made in the year ended 31 March 2016 (2015 - £522,000).

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers 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.

Thus the scheme is accounted for as a defined contribution scheme. However the Association has entered into a past service deficit repayment agreement with the Pension Trust and per FRS 102, this discounted past service deficit liability has been recognised in the Statement of Financial Position.

The last formal published 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 to liabilities of £304 million, equivalent to a past service funding level of 56.4%.

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

**23. Pension scheme (cont'd)**

***Financial Assumptions***

The key valuation assumptions used to determine the assets and liabilities of the Scheme as at 30 September 2012 are detailed below:

	% p.a.
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 price inflation:	
RPI	2.6
CPI	2.0

The valuation was carried out using the SAPS (S1PA). All pensioners Year of Birth Long Cohort with 1% p.a. minimum improvement for non-pensioners and pensioners.

The joint contribution rates required from employers and members to meet the cost of future benefit accrual for the Career average 1/80ths benefit structure was assessed as 16.9%.

This is split between employers and members. Accordingly the contribution rates for the Final Salary with 1/60th accrual from 1 April 2015 is 12.3% employer contributions and 12.3% member contributions.

**2015 valuation**

As highlighted at the 2015 Employer Forums, the triennial valuation has been undertaken against a challenging economic backdrop for defined benefit (DB) schemes like SHAPS. That said, the deficit has reduced from £304m as at 30 September 2012 to £198m as at 30 September 2015; an improvement in the funding position from 56% to 76%.

A summary of the headline provisional valuation results is set out in the table below:

<b>Valuation</b>	<b>2012</b>	<b>2015</b>
Assets (£ million)	394	612
(Liabilities) (£ million)	(698)	(810)
(Deficit) (£ million)	(304)	(198)*
Funding level	56%	76%
Aggregate annual deficit contributions for the year from 1 April 2017 (£ million)	28.7	28.7
	(26.3 on inception from 1 April 2014)	
Annual increases to deficit contributions	3.0%	3.0%
Proposed deficit contribution (recovery) plan) and date	30 September 2027	28 February 2022

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.



**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

**23. Pension scheme (cont'd)**

The Trustees have recently supplied Cairn Housing Association Limited with an estimated updated contribution figure to the past service deficit. The past service deficit contribution for 2016/17 is £553,683 (net of administration costs). From 1 April 2017 Cairn Housing Association Limited will be required to pay £554,142 (net of administration costs) per annum as a contribution to the past service deficit. This will increase by 3% per year. The deficit is now expected to be removed from the Scheme by 28 February 2022 (previously 30 September 2027). The past service deficit liability recognised in the financial statements is based on the revised estimated contribution schedule provided to the Association on 3 March 2016 by the Pensions Trust.

**Present Value of Provision**

**Reconciliation of Opening and Closing Provisions**

	2016 £	2015 £
Provision at start of period	3,635,070	3,449,070
Unwinding of the discount factor (interest expense)	148,000	220,000
Deficit contribution paid	(536,562)	(522,000)
Re-measurements – impact of changes in assumptions	(26,000)	488,000
	<u>3,220,508</u>	<u>3,635,070</u>
Provision at end of period	<u>3,220,508</u>	<u>3,635,070</u>
Split:		
< 1 year	547,978	538,000
1-2 years	536,155	547,978
2-5 years	1,630,897	1,619,655
> 5 years	505,478	929,437
	<u>3,220,508</u>	<u>3,635,070</u>
Total	<u>3,220,508</u>	<u>3,635,070</u>

**Impact on Statement of Comprehensive Income**

	2016 £	2015 £
Interest Expense	148,000	222,000
Re-measurements – impact of changes in assumptions	(26,000)	488,000
	<u>122,000</u>	<u>710,000</u>

Assumptions	2016	2015
Rate of discount	2.29%	2.22%

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

**24. Share capital**

	2016 £	2015 £
Shares of £1 each issued and fully paid		
At 1 April 2015	96	154
Cancelled during the year	-	(58)
Issued during the year	7	-
	<u>103</u>	<u>96</u>
At 31 March 2016	<u>103</u>	<u>96</u>

## CAIRN HOUSING ASSOCIATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

#### 24. Share capital (cont'd)

Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividend or distributions on a winding up. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid thereon becomes the property of the Association. Each member has a right to vote at members' meetings. Called up share capital on the Statement of Financial Position has been adjusted to reflect the number of shares held by active members.

	2016 £	Restated 2015 £
<b>25. Net cash inflow from operating activities</b>		
Surplus for the year	2,019,802	1,023,760
<u>Adjustment for non cash items</u>		
Depreciation charges including loss on disposal of components	2,371,066	1,913,375
Impairment charge	35,000	25,000
(Decrease) in creditors	(272,166)	(350,671)
Decrease/(increase) in debtors	483,354	(16,874)
Share capital issued/(cancelled)	7	(58)
Investment disposed of	-	1
Carrying amount of tangible fixed asset disposals	1,601,933	1,086,489
SHAPS past service deficit movements	122,000	708,000
HAG abatement	(214,625)	-
<u>Adjustments for investing or financing activities</u>		
Proceeds from the sale of fixed assets	(2,581,897)	(1,225,660)
Release of deferred Government Grants	-	-
Interest payable	1,569,715	1,437,295
Interest receivable	(35,936)	(11,334)
SHAPS past service deficit payment	(536,562)	(522,000)
Net cash inflow from operating activities	<u>4,561,691</u>	<u>4,067,323</u>

#### 26. Payments to members, Board members and Key Management

No member of the Association received any fee or remuneration during the year (2015: £Nil). Members of the Board of Management were reimbursed for out of pocket travel and accommodation expenses amounting to £12,328 (2015: £7,075).

Some 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.

The total rent and service charge payable in the year relating to tenant Board members is £3,648 (2015: £3,545). The total rent and service charge arrears relating to tenant Board members included within debtors at the year end is £390 (2015: £474).

The total remuneration (including pension contributions and benefits in kind) paid to Key Management who are deemed to be the Executive Officers as noted on page 1 was £406,345 (2015: £385,057).

#### 27. Related parties

Cairn Homes and Services Limited is a 100% subsidiary of the Association. Cairn Homes and Services Association Limited was dormant last year but began to trade in 2015/16. The Association has made an advance to the company to enable it to pay its set up costs and recharged £611 of service costs in the year (2015: £nil). At the year-end £5,105 (2015: £3,250) was due to the Association and is included in debtors.

**CAIRN HOUSING ASSOCIATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2016

**28. Capital commitments**

	2016 £	2015 £
Contracted	730,733	1,245,749
Approved but not contracted for	-	775,000
	<u>730,733</u>	<u>2,020,749</u>

This is to be funded by:

HAG	-	873,000
Private finance	730,733	1,147,749
	<u>730,733</u>	<u>2,020,749</u>

Committed funding will be utilised within the coming year. There are no performance related conditions attached to this funding.

**29. Revenue commitments**

At 31 March 2016 the Association had total future minimum lease commitments under non-cancellable operating leases as set out below:

	Land & Buildings 2016 £	Other 2016 £	Restated Land & Buildings 2015 £	Restated Other 2015 £
Within a year	238,229	72,057	229,506	79,368
Within 2-5 years	919,150	-	918,025	-
After 5 years	374,855	-	577,500	-
	<u>1,532,234</u>	<u>72,057</u>	<u>1,725,031</u>	<u>79,368</u>

**30. Transition to FRS 102**

The Association has adopted Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for social housing providers (SORP 2014) for the year ended 31 March 2016. This has led to a number of changes in accounting policy, judgements and estimates and necessitates the prior year comparative amounts to be restated using these new policies in order that they give a comparable view of the prior year position.

The following changes to accounting policies and estimates have been applied:

In accordance with FRS 102 the Association does not present an Income and Expenditure Account or a Statement of Recognised Gains and Losses (STRGL) as was presented in the financial statements to 31 March 2015 as items that previously appeared in these statements are now included in the Statement of Comprehensive Income.

As permitted by FRS 102 the Association has renamed the Balance Sheet as the Statement of Financial Position.

## CAIRN HOUSING ASSOCIATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

#### 30. Transition to FRS 102 (cont'd)

As prescribed by FRS 102 the Association now prepares a Statement of Changes in Capital and Reserves whereas in the financial statements to 31 March 2015 capital and reserves were analysed as part of the notes to the financial statements.

Housing units have been valued on an existing use value at 1 April 2014 and this has been taken as deemed cost.

Investment properties have been revalued at the transition date of 1 April 2014.

Government Capital Grants were transferred to revenue reserves at 1 April 2014 as the Association opted to use an existing use value as deemed cost. This is in accordance with the SORP. From 1 April 2014, Government Capital Grants are now recognised in line with the accrual model. The accrual model results in the grant being recognised over the expected useful life of the housing property structure and other components (excluding land).

All employee benefits not paid to the employee at the year end must be accrued. As such, the Association accrues a monetary value for all unused holidays at the year end based on the individual employee's salary.

Revaluation reserves were transferred to the revenue reserve.

The Association participated in the SHAPs defined benefit pension scheme and makes annual contributions towards the past service deficit in line with the fund plan. Under FRS 102, the future discounted contributions in respect of the deficit must now be shown as a liability on the Statement of Financial Position with the actual payment being released to the Statement of Comprehensive Income as it falls due.

	£
<b>Capital and reserves as at 1 April 2014 as previously stated</b>	21,400,736
Effects of:	
Restatement of housing properties at deemed cost	(76,813,356)
Transfer of Government grant held for housing properties to the revenue reserve	105,089,072
Restatement of shared ownership at deemed cost	(1,678,137)
Transfer of Government grant held for shared ownership properties to the revenue reserve	2,013,374
Revaluation of investment properties	3,348,194
Recognition of holiday pay and TOIL accrual	(10,000)
Recognition of SHAPS past service deficit pension liability	(3,449,070)
<b>Restated capital and reserves as at 1 April 2014</b>	<u>49,900,813</u>

**CAIRN HOUSING ASSOCIATION LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2016**

**30. Transition to FRS 102 (cont'd)**

	£
<b>Capital and reserves as at 31 March 2015 as previously stated</b>	22,127,830
Effects of:	
<u>Prior year adjustments</u>	
Restatement of housing properties at deemed cost	(76,813,356)
Transfer of Government grant held for housing properties to the revenue reserve	105,089,072
Restatement of shared ownership at deemed cost	(1,678,137)
Transfer of Government grant held for shared ownership properties to the revenue reserve	2,013,374
Revaluation of investment properties	3,348,194
Recognition of holiday pay and TOIL accrual	(10,000)
Recognition of SHAPS past service deficit pension liability	(3,449,070)
<u>In year adjustments</u>	
Restatement of depreciation charge in housing properties and shared ownership properties	650,529
Restatement of housing property disposals	(77,921)
Increase in holiday pay and TOIL accrual	(90,000)
Movement in SHAPS past service deficit pension liability	(186,000)
<b>Restated capital and reserves as at 31 March 2015</b>	<u>50,924,515</u>

	£
<b>Surplus for the year ended 31 March 2015 as previously stated</b>	727,152
Effects of:	
Restatement of depreciation charge in housing properties and shared ownership properties	650,529
Restatement of housing property disposals	(77,921)
Increase in holiday pay and TOIL accrual	(90,000)
Movement in SHAPS past service deficit pension liability	(186,000)
<b>Restated surplus for the year ended 31 March 2015</b>	<u>1,023,760</u>