



Scott-Moncrieff
business advisers and accountants

CAIRN HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2017

CAIRN HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2017

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CAIRN HOUSING ASSOCIATION LIMITED

BOARD OF MANAGEMENT, EXECUTIVES AND ADVISERS

Board of Management

Mr S E G Guest, Chairperson
Mr D Venters
Mr J Woods
Ms G Walch
Mr M Allan, Vice Chairperson
Mr D Jamieson
Mr W Gillespie
Mr G Colgan
Mrs H Barton
Mrs M Mackenzie
Mr A Lamont (elected 23 September 2016)
Mr N Wood (elected 23 September 2016)
Mr L Casserly (elected 23 September 2016)
Mr K Ward (retired 23 September 2016)
Mr E T M Bell-Scott (resigned 27 July 2016)

Executive Officers

Mr J MacGilp, Chief Executive and Secretary
Mr D Adam, Director of Finance and Investment
Mr J Davidson, Director of Customer Services
Mr R Gaffney, Director of Business Services (left 28 April 2017)

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 2017

The Board of Management present their Report and the audited financial statements for the year ended 31 March 2017.

Principal activities

The principal activity of the Association is 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 2017 has been a further year of sustained good business performance and service improvement for Cairn Housing Association Limited to the benefit of our tenants and other customers and the communities we work in.

Highlights during the year have included:-

- External recognition for our approach to customer services with the UK-wide Customer Service Excellence accreditation. This helps demonstrate our commitment to providing the best service to our tenants and supports one of our core values of Customer First.
- Delivery of a substantial investment programme of almost £7 million in our existing homes across Scotland. This has directly improved the quality of life for tenants and supported our commitment to our vision of Great Homes including investment in 314 new kitchens, 453 new bathrooms, energy efficiency work, and heating systems.
- Despite significant challenges through the impact of the UK Government's welfare changes and roll out of Universal Credit, our income management has held up well, with top 10 performance on rent collection at 103%.
- Our substantial improvements in reducing void re-let periods and void rent loss over the last two years has been embedded and sustained, with the average void re-let period at fourteen days over the last year.
- Cairn's work on staff engagement recently achieved recognition with the Best Companies awards, with One Star status and also winning a place in the prestigious Sunday Times Top 100 Best Companies for not-for-profit organisation.
- Building on previous years' overhead reductions, key decisions have been made by the Board to further reduce our overheads for the coming year as part of our ongoing Value for Money approach, ensuring long term business resilience and rent affordability.
- The Regulator has again categorised the Association as Low Engagement for the coming year based on their analysis of performance, management and governance over the year 2016/17. Compliance to regulatory standards and best practice will continue to drive our governance and management of the Association.
- A new development strategy has been produced which will drive our intended increase in new build development programme over the next few years as part of a controlled growth strategy and to meet local housing needs in communities across the country.
- Through our income maximisation and benefits advice service we have secured over £600,000 in additional benefits for our customers.
- The Association delivered thirteen successful Community Development projects in communities across Scotland.

The operating surplus decreased slightly from £2.63 million in 2016 to £2.46 million in 2017. The Association generated a surplus for the year of £847,554 (2016: £2.02 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 2017

Review of the business (cont'd)

The operating and financial environment continues to be challenging, but the Association continues to be self-aware and pro-active in making 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 will continue our commitment to continue to modernise and change where required - including for example exploring new Digital Services and Digital Working strategies - 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 new build development activity in the coming years. We intend to build at least 80 new units per year from 2018 and we intend to explore other funding models to support the provision of even more new homes. We will also be exploring 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 growth through new build development 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 our asset management strategy.

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, oversee the overall direction and monitor the business plan of the Association and its subsidiary company. 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. We have appointed three new Board members in the last 12 months as part of our ongoing Board succession and development planning.

Our commitment to continuous improvement drives us to set challenging business targets, which are regularly monitored and reviewed by the Board of Management and Senior Management Team.

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 2017

Statement of the Board of Management'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;
- 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 2017

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:

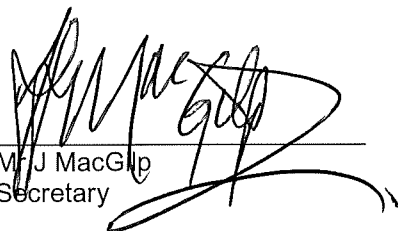
- So far as the Board members are aware, there is no relevant information of which the Association's auditor is unaware; and
- He/she has taken all the steps that he/she ought to have taken as a Board member in order to make himself/herself aware of any relevant information, and to establish that the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

Date: 3 August 2017

CAIRN HOUSING ASSOCIATION LIMITED

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

For the year ended 31 March 2017

We have audited the financial statements of Cairn Housing Association Limited for the year ended 31 March 2017 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 and United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members, as a body, in accordance with Section 87 of 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 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 (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.

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 2017 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been 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

For the year ended 31 March 2017

Group accounts Section 99 (3) of the Co-operative and Community Benefit Societies Act 2014

We agree with the opinion of the Board of Management 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 2017, 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: 3 August 2017

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 2017

In addition to our audit of the Financial Statements, we have reviewed your statement 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 of Management and Officers of the Association and examination of relevant documents, we have satisfied ourselves that the Board of Management'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: 3 August 2017

CAIRN HOUSING ASSOCIATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

		2017		2016	
		Continuing Operations £	Discontinued Operations £	Continuing Operations £	Discontinued Operations £
			Total £		Total £
Turnover	4	16,305,249	16,305,249	15,523,200	16,059,214
Operating expenditure	4	(13,844,028)	(13,844,028)	(12,747,926)	(13,429,212)
Operating surplus/(deficit)	4	2,461,221	2,461,221	2,775,274	2,630,002
Gain on sale of property, plant and equipment	11	100,386	100,386	1,072,331	1,072,331
Interest receivable	12	2,944	2,944	35,936	35,936
Interest payable and similar charges	13	(1,716,997)	(1,716,997)	(1,717,715)	(1,717,715)
Surplus for the year before tax		847,554	847,554	2,165,826	2,020,554
Tax	14	-	-	(752)	(752)
Surplus after tax		847,554	847,554	2,165,074	2,019,802
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		847,554	847,554	2,165,074	2,019,802

The notes form part of these financial statements

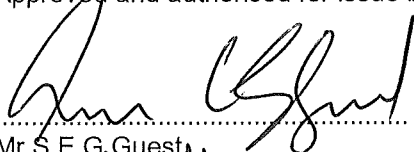
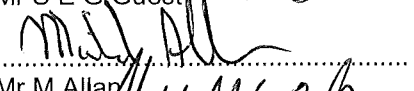
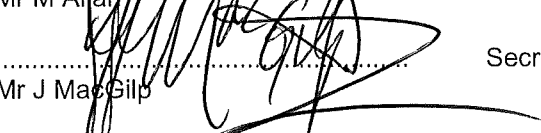
CAIRN HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Notes	£	2017 £	£	2016 £
Tangible fixed assets and investments					
Housing properties	15(a)		93,202,883		88,197,171
Investment properties	15(b)		9,076,133		8,940,976
Other fixed assets	15(c)		1,253,144		1,265,189
Investments	15(d)		1		1
			<u>103,532,161</u>		<u>98,403,337</u>
Current assets					
Debtors	16	1,980,384		1,244,383	
Cash at bank and in hand	17	1,335,579		786,775	
			<u>3,315,963</u>	<u>2,031,158</u>	
Creditors: amounts falling due within one year	18	(5,285,919)		(4,099,309)	
Net current liabilities			<u>(1,969,956)</u>	<u>(2,068,151)</u>	
Total assets less current liabilities			101,562,205		96,335,186
Creditors: amounts falling due after more than one year	19		(47,770,331)		(43,390,862)
Net assets			<u>53,791,874</u>		<u>52,944,324</u>
Capital and reserves					
Share capital	24		99		103
Revenue reserves	25		53,791,775		52,944,221
Restricted reserves	25		-		-
			<u>53,791,874</u>		<u>52,944,324</u>

Approved and authorised for issue by the Board of Management on 3 August 2017


 Chairperson
 Mr S E G Guest

 Board Member
 Mr M Allan

 Secretary
 Mr J MacGill

The notes form part of these financial statements

CAIRN HOUSING ASSOCIATION LIMITED

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

As at 31 March 2017

	Share capital £	Restricted reserves £	Revenue reserves £	Total reserves £
Balance at 1 April 2016	103	-	52,944,221	52,944,324
Total Comprehensive Income for the year	-	-	847,554	847,554
Cancelled shares during the year	(7)	-	-	(7)
Shares issued during the year	3	-	-	3
	<u>99</u>	<u>-</u>	<u>52,944,221</u>	<u>52,944,324</u>
Balance at 31 March 2017	<u>99</u>	<u>-</u>	<u>53,791,775</u>	<u>53,791,874</u>

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>
Balance at 31 March 2016	<u>103</u>	<u>-</u>	<u>52,944,221</u>	<u>52,944,324</u>

The notes form part of these financial statements

CAIRN HOUSING ASSOCIATION LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

	Notes	2017	2016
		£	£
Net cash generated from operating activities	26	4,844,322	4,561,691
Cash flow from investing activities			
Payments to acquire and improve housing stock		(8,058,143)	(7,171,799)
Purchase of other fixed assets		(153,811)	(301,864)
HAG and other capital grants received		933,929	873,000
Proceeds from sale of tangible fixed assets		520,327	2,674,265
HAG repaid		(187,711)	-
Interest received		2,944	35,936
Purchase of investment property		(83,457)	-
		(7,025,922)	(3,890,462)
Taxation paid		(752)	-
Cash flow from financing activities			
Interest paid		(1,573,997)	(1,569,715)
Housing loans repaid		(1,115,695)	(1,400,254)
Housing loans received		5,000,000	-
		2,310,308	(2,969,969)
Net change in cash and cash equivalent		127,956	(2,298,740)
Cash and cash equivalent at beginning of year		609,226	2,907,966
Cash and cash equivalent at end of the year		737,182	609,226

The notes form part of these financial statements

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

1. General Information

The financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 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 preparation of these financial statements in compliance with FRS 102 requires the use of certain accounting estimates. It also requires management to exercise judgement in applying the Association's accounting policies (note 3).

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 is a Co-operative and Community Benefit Society Limited by shares and is 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. The effect of events relating to the year ended 31 March 2017, 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 2017 and of the results for the year ended on that date. The Association has a subsidiary company "Cairn Homes and Services Limited". 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 2017/18 and 2018/19, 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, fees receivable and revenue grants receivable from local authorities and from the Scottish Government. Also included is any income from first tranche shared ownership disposals and management fees from the factoring of properties for private owners as the provision of factoring services is accounted for on an agency basis.

(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.

The costs of cyclical and major repairs are charged to the Statement of Comprehensive Income in the year which they are incurred.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. Principal Accounting policies (cont'd)

(e) Interest receivable

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

(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.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. Principal Accounting Policies (cont'd)

(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. 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 in accordance with the RSL SORP.

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 2017

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.

Once the first tranche has been sold the Association no longer has any rights or obligations nor risks or rewards. As a result the remaining cost and associated grant are derecognised in the financial statements. 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 properties held for commercial lettings and 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 2017

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 2017

3. Judgements in applying policies and key sources of estimation uncertainty (Cont'd)

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

<u>Estimate</u>	<u>Basis of estimation</u>
Valuation of housing properties	Housing Properties are held at deemed cost which is based on an existing use valuation at the date of transition to FRS 102 of 1 April 2014.
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 are 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

2017	Turnover £	Operating Expenditure £	Operating Surplus £
Social lettings (note 5)	14,398,101	12,431,693	1,966,408
Other activities (note 6)	1,907,148	1,412,335	494,813
	<u>16,305,249</u>	<u>13,844,028</u>	<u>2,461,221</u>
2016	Turnover £	Operating Expenditure £	Operating Surplus £
Social lettings (note 5)	13,939,868	11,928,426	2,011,442
Other activities (note 6)	2,119,346	1,500,786	618,560
	<u>16,059,214</u>	<u>13,429,212</u>	<u>2,630,002</u>

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. Particulars of turnover, operating expenditure and operating surplus or (deficit) from social letting activities	General Needs Housing £	Amenity Housing £	Sheltered Housing £	Supported Housing £	Shared Ownership £	2017 £	2016 £
Rent receivable net of service charges	8,765,666	1,526,127	1,747,451	216,894	101,558	12,357,696	11,966,292
Service charges net of voids	178,423	562,098	820,441	144,343	4,704	1,710,009	1,851,460
Gross income from rents and service charges	8,944,089	2,088,225	2,567,892	361,237	106,262	14,067,705	13,817,752
Less: Rental voids	(40,228)	(37,026)	(41,921)	(31,873)	(4,697)	(155,745)	(99,029)
Net income from rents and service charges	8,903,861	2,051,199	2,525,971	329,364	101,565	13,911,960	13,718,723
Release of deferred capital government grant	16,319	-	-	-	-	16,319	-
Grants from the Scottish Ministers	107,991	98,207	255,425	8,199	-	469,822	221,145
Total turnover from social letting activities	9,028,171	2,149,406	2,781,396	337,563	101,565	14,398,101	13,939,868
Management and maintenance admin costs	3,322,547	745,320	932,704	58,425	44,047	5,103,043	5,062,577
Service costs	51,803	584,527	997,113	127,870	3,339	1,764,652	2,235,291
Planned and cyclical maintenance	2,784,663	1,951,140	2,530,279	18,047	2,027	7,286,156	6,367,532
Planned and cyclical maintenance capitalised	(2,179,633)	(1,837,373)	(2,388,918)	(6,568)	-	(6,412,492)	(5,622,215)
Responsive maintenance costs	1,234,009	286,523	342,190	20,425	12,681	1,895,828	1,718,558
Responsive maintenance capitalised	(38,784)	(14,016)	(4,042)	(430)	-	(57,272)	(80,480)
Bad debt provision	(48,887)	-	-	-	-	(48,887)	2,584
Write offs	120,130	22,692	26,102	29,624	9,220	207,768	143,805
Non-refundable rent	(21,195)	(19,394)	(16,808)	(16,827)	(9)	(74,233)	(76,714)
Depreciation of social housing	2,108,973	356,496	260,910	23,708	17,043	2,767,130	2,177,488
Operating expenditure for social letting activities	7,333,626	2,075,915	2,679,530	254,274	88,348	12,431,693	11,928,426
Operating surplus for social lettings	1,694,545	73,491	101,866	83,289	13,217	1,966,408	
Operating surplus or (deficit) for social lettings – 2016	1,888,752	61,938	179,942	(112,161)	(7,029)		2,011,442
Number of units in management:							
2017	2,104	472	590	37	43	3,246	
2016	2,094	472	590	37	48	3,241	

Included in depreciation of social housing is £858,799 (2016: £529,902) relating to the loss on disposal of components.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

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) 2017 £	Operating surplus or (deficit) 2016 £
Care and repair of property	-	474,077	-	-	474,077	-	433,828	40,249	23,779
Commercial rent from investment properties	-	-	-	786,288	786,288	-	553,924	232,364	303,376
Development and construction of property activities	-	-	-	-	-	-	-	-	-
Support activities	-	-	102,981	-	102,981	-	160,360	(57,379)	(40,039)
Care activities	-	-	-	-	-	-	-	-	-
Factoring activities	-	-	-	-	-	-	-	-	-
HAG creditor release	-	-	-	98,690	98,690	1,009	52,203	45,478	18,544
Service charge admin recharge	-	-	-	-	-	-	-	-	214,625
Third party recharge costs	-	-	-	181,583	181,583	-	85,259	96,324	22,015
Other activities	-	-	-	63,156	63,156	-	40,448	22,708	31,804
	-	-	-	200,373	200,373	10,406	74,898	115,069	44,456
Total from other activities 2017	-	474,077	102,981	1,330,090	1,907,148	11,415	1,400,920	494,813	
Total from other activities 2016	-	686,406	96,996	1,335,944	2,119,346	(1,665)	1,502,451		618,560

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 2017

7. Continuing and discontinued operations

	Continued operations £	Discontinued operations £	2017 Total £
Turnover	16,305,249	-	16,305,249
Operating expenditure	(13,844,028)	-	(13,844,028)
Operating surplus	<u>2,461,221</u>	<u>-</u>	<u>2,461,221</u>

	Continued operations £	Discontinued operations £	2016 Total £
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>

8. Employees

	2017 £	2016 £
Staff costs during year:		
Wages and salaries	3,678,351	4,086,867
Social security costs	335,179	373,971
Pension costs	343,382	333,902
Pension costs – Past service scheme expenses	18,472	19,466
Pension costs – Past service deficit measurement (note 23)	6,000	(26,000)
Death in service	43,462	43,408
Accrued holiday pay	85,613	126,165
Agency costs	59,338	251,458
Redundancy and compensation payments (including NI)	30,096	69,295
	<u>4,599,893</u>	<u>5,278,532</u>

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

During the past year post service deficit contributions of £572,155 (2016: £556,028) were paid. Of this payment £553,683 (2016: £536,562) was a payment in respect of the SHAPS past service deficit liability. The remainder of £18,472 (2016: £19,466) 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 £143,000 (2016: £148,000) in the year.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

8. Employees (cont'd)

	2017 Ave No.	2017 FTE No.	2016 Ave No.	2016 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	92	80	97	86
HomeWorks staff	12	12	12	12
Housing managers and other staff	71	34	92	49
	<u>175</u>	<u>126</u>	<u>201</u>	<u>147</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 (as listed on page 1) of the Association only.

	2017 £	2016 £
Aggregate emoluments payable to the key management team (which includes all the officers earning > £60k) (excluding pension contributions) amounted to:	<u>343,434</u>	<u>328,657</u>
Total emoluments payable to the Chief executive (excluding pension contributions) amounted to:	<u>103,694</u>	<u>98,108</u>
The numbers of officers including the highest paid Officer who received emoluments (excluding pension contributions) in the following ranges were:	Number	Number
£70,001 - £80,000	1	3
£80,001 - £90,000	2	-
£90,001 - £100,000	-	1
£100,001 - £110,000	<u>1</u>	<u>-</u>

Total pension contributions to the key management team (which includes all officers earning > £60k) were £84,438 (2016: £77,688). No enhanced or special terms apply to membership and the key management team have no other pension arrangements to which the Association contributes.

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 £25,377 (2016: £23,107).

	£	£
Total Board of Management expenses reimbursed in so far as not chargeable to United Kingdom Income Tax	<u>13,072</u>	<u>12,328</u>

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

10. Auditor's remuneration (including VAT)

	2017	2016
	£	£
External Auditor		
- audit services	16,946	16,066
- non audit services	4,283	540
	<u> </u>	<u> </u>
Internal Auditor		
- audit services	10,159	13,111
	<u> </u>	<u> </u>

11. Gain/(Loss) on sale of housing properties

	2017	2016
	£	£
Loss on sale of office premises	-	(6,986)
Gain on sale properties held for letting	-	1,001,394
Gain on right to buy sales	70,559	6,816
Gain on shared ownership tranches	29,827	71,107
	<u> </u>	<u> </u>
	100,386	1,072,331
	<u> </u>	<u> </u>

12. Interest receivable

	2017	2016
	£	£
Interest receivable on bank deposits	2,944	35,936
	<u> </u>	<u> </u>

13. Interest payable and similar charges

	2017	2016
	£	£
On bank loans	1,573,997	1,569,715
Unwinding of discount factor – Past Service Pension (note 23)	143,000	148,000
	<u> </u>	<u> </u>
	1,716,997	1,717,715
	<u> </u>	<u> </u>

14. Taxation

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

	2017	2016
	£	£
Corporation Tax due on other activities	-	752
	<u> </u>	<u> </u>

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

15. Tangible fixed assets and investments

(a) Housing properties Cost or valuation	Housing Properties held for letting £	Shared Ownership held for letting £	Housing Properties in the course of construction £	Housing Properties Total £
At the start of the year	88,846,951	1,200,602	1,226,473	91,274,026
Additions during year	383,143	-	1,205,236	1,588,379
- new developments/components	6,469,764	-	-	6,469,764
- improvements to existing property (replacement components)	(117,851)	(122,358)	-	(240,209)
Disposals during year	(911,608)	-	-	(911,608)
- properties	1,543,841	-	(1,543,841)	-
- replacement components	-	(54,926)	-	(54,926)
Transfer to housing properties				
Transfer to investment property				
At the end of the year	96,214,240	1,023,318	887,868	98,125,426
Depreciation				
At the start of the year	3,036,860	39,995	-	3,076,855
Charge for year	1,891,288	17,043	-	1,908,331
Disposals during year	(3,925)	(4,054)	-	(7,979)
- properties	(52,809)	-	-	(52,809)
- replacement components	-	(1,855)	-	(1,855)
Transfer to investment property				
At the end of the year	4,871,414	51,129	-	4,922,543
Net book value				
At 31 March 2017	91,342,826	972,189	887,868	93,202,883
At 31 March 2016	85,810,091	1,160,607	1,226,473	88,197,171

Total cost of components capitalised for the year amounted to £6,469,764 (2016: £5,702,695). 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 (2016: £nil) and £nil capitalised administration costs (2016: £nil). All housing properties are freehold. Properties with a cost of £240,209 (2016: £1,473,143) and accumulated depreciation of £7,979 (2016: £24,910) have been disposed of in the year for net proceeds (after grant repaid of £187,711) of £332,616 (2016: £2,527,550 after grant repaid of £nil). Components with a cost of £911,608 (2016: £551,838) and accumulated depreciation of £52,809 (2016: £21,936) have been disposed of for £nil (2016: £nil) net proceeds.

The housing properties were revalued as at 1 April 2014 (by Jones Lang LaSalle Limited) on an existing value basis 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 2017

15 (b) Investment properties	2017 £	2016 £
At 1 April	8,940,976	8,940,976
Component additions during year	83,457	-
Transfer from shared ownership	53,071	-
Component disposals during year	(1,371)	-
	<u>9,076,133</u>	<u>8,940,976</u>

Investment properties are accommodation, offices and garages leased to 3rd parties. The turnover and operating expenditure in relation to these properties is disclosed in Note 6. There are 152 investment properties.

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

	Heritable Office Property £	Office Furniture and Equipment £	Other Fixed Assets Total £
15 (c) Other fixed assets			
Cost			
At start of year	744,716	1,505,755	2,250,471
Additions during year	-	153,811	153,811
At end of year	<u>744,716</u>	<u>1,659,566</u>	<u>2,404,282</u>
Depreciation			
At start of year	175,763	809,519	985,282
Provided during year	13,021	152,835	165,856
At end of year	<u>188,784</u>	<u>962,354</u>	<u>1,151,138</u>
Net book value			
At 31 March 2017	<u>555,932</u>	<u>697,212</u>	<u>1,253,144</u>
At 31 March 2016	<u>568,953</u>	<u>696,236</u>	<u>1,265,189</u>

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

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

15 (d) Investments	2017 £	2016 £
Investment in subsidiary undertaking: Cairn Homes and Services Limited	1	1

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 £4,230 (2016: £2,623) for the year ended 31 March 2017 and had net liabilities of £10,102 (2016: £5,872).

15 (e) Securities

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

16. Debtors	2017 £	2016 £
Rent arrears	620,859	652,459
Less: provision for bad debts	(286,351)	(325,390)
	334,508	327,069
Amounts owed by subsidiary	13,448	5,105
Prepayments and accrued income	1,632,428	912,209
	1,980,384	1,244,383

17. Cash and cash equivalents	2017 £	2016 £
Deposit accounts	-	500,000
Current account	1,335,579	286,775
	1,335,579	786,775
Overdraft	(598,397)	(177,549)
	737,182	609,226

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

18. Creditors: amounts falling due within one year	2017 £	2016 £
Current instalments due on loans (note 20)	1,115,696	1,115,696
Overdraft	598,397	177,549
Trade creditors	567,499	123,175
Prepaid rents and service charges	524,819	464,942
Rents to be refunded	57,446	165,721
Accruals	1,826,572	1,469,780
Other taxes and social security	10,085	14,052
Corporation tax creditor	-	752
Past service pension liability (note 23)	553,683	547,978
Deferred Government capital grant (note 22)	31,722	19,664
	<u>5,285,919</u>	<u>4,099,309</u>
Secured creditors	<u>1,714,093</u>	<u>1,293,245</u>

19. Creditors: amounts falling due after more than one year	2017 £	2016 £
Housing loans (note 20)	43,698,078	39,813,773
Past service pension liability (note 23)	2,262,142	2,672,530
Deferred Government capital grant (note 22)	1,810,111	904,559
	<u>47,770,331</u>	<u>43,390,862</u>
Secured creditors	<u>43,698,078</u>	<u>39,813,773</u>

20. Loans	2017 £	2016 £
Loans or mortgages secured by charges on the Association's housing properties:		
Loans advanced by:		
Private lenders	<u>44,813,774</u>	<u>40,929,469</u>
Amounts falling due in:		
One year (note 18)	1,115,696	1,115,696
One year or more but less than two years (note 19)	1,115,696	1,115,696
Two years or more but less than five years (note 19)	3,347,088	3,347,088
Five years or more (note 19)	39,235,294	35,350,989
	<u>44,813,774</u>	<u>40,929,469</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 2017

21. Financial Instruments	2017 £	2016 £
Financial Assets		
Cash and cash equivalents	737,182	609,226
Financial assets measured at amortised cost	1,563,498	1,169,127
	<u>2,300,680</u>	<u>1,778,353</u>
Financial Liabilities		
Financial liabilities measured at amortised cost	<u>50,679,513</u>	<u>46,086,954</u>

Financial assets measured at amortised cost comprised rental arrears, amounts owed by subsidiary 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, accruals and past service pension liability.

22. Deferred capital grants

	2017 £	2016 £
Deferred capital grants 1 April	924,223	51,223
Grants received in year	933,929	873,000
Grant released in year	(16,319)	-
	<u>1,841,833</u>	<u>924,223</u>
Deferred capital grants 31 March		
Split: < 1 year	31,722	19,664
1-2 years	31,722	19,664
2-5 years	95,166	58,992
> 5 years	1,683,223	825,903
	<u>1,841,833</u>	<u>924,223</u>
Total		

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.

70 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.

The contributions paid in respect of the Scottish Housing Association's Defined Contribution Pension Scheme is variable with the maximum employer contribution of 12%.

40 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.

The contributions paid in respect of the Standard Life Group Personal Pension Scheme is variable with the maximum employer contribution of 10%.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

23. Pension scheme (cont'd)

(ii) SHAP scheme

Cairn Housing Association Limited participated in the Scottish Housing Association Pension Scheme (the scheme). Cairn Housing Association Limited has elected to operate the Defined Contributions Option for existing members, with this defined benefit scheme closed to new members from 1 April 2014. However, the Association is still required to fund the past service deficit liability.

The scheme is a multi-employer scheme which provides benefits to over 150 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out at 30 September 2015. This actuarial valuation showed assets of £616m, liabilities of £814m and a deficit of £198m equivalent to a post service funding level of 76%. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

From 1 April 2017 to 28 February 2022:	£25,735,092 per annum (payable monthly, increasing by 3% each 1st April)
From 1 April 2017 to 30 June 2025:	£727,217 per annum (payable monthly, increasing by 3% each 1st April)
From 1 April 2017 to 31 October 2026:	£1,239,033 per annum (payable monthly, increasing by 3% each 1st April)

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the scheme liabilities. Cairn Housing Association Limited is paying additional contributions to 28 February 2022.

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

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

23. Pension scheme (cont'd)

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 Scheme based on the financial position of the Scheme as at 30 September 2016. As of this date the estimated employer debt for the Association was £22,191,397.

Where the scheme is in deficit and where the Association has agreed to a deficit funding arrangement the Association recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present Value of Provision

Reconciliation of Opening and Closing Provisions

	2017 £	2016 £
Provision at start of period	3,220,508	3,635,070
Unwinding of the discount factor (interest expense)	143,000	148,000
Deficit contribution paid	(553,683)	(536,562)
Re-measurements – impact of changes in assumptions	6,000	(26,000)
Provision at end of period	<u>2,815,825</u>	<u>3,220,508</u>
Split: < 1 year	553,683	547,978
1-2 years	571,142	536,155
2-5 years	1,691,000	1,630,897
> 5 years	-	505,478
Total	<u>2,815,825</u>	<u>3,220,508</u>

Impact on Statement of Comprehensive Income

	2017 £	2016 £
Interest expense	143,000	148,000
Re-measurements – impact of changes in assumptions	6,000	(26,000)
	<u>149,000</u>	<u>122,000</u>

Assumptions

	2017	2016
Rate of discount	1.06%	2.29%

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.

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

24. Share capital

	2017 £	2016 £
Shares of £1 each issued and fully paid		
At 1 April 2016	103	96
Cancelled during the year	(7)	-
Issued during the year	3	7
	<hr/>	<hr/>
At 31 March 2017	99	103
	<hr/>	<hr/>

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.

25. Reserves

The revenue reserve includes all current and prior year retained surpluses or deficits.

Restricted reserves relate to funds whose use is restricted.

26. Net cash inflow from operating activities

	2017 £	2016 £
Surplus for the year	847,554	2,019,802
<u>Adjustment for non cash items</u>		
Depreciation charges including loss on disposal of components	2,932,986	2,371,066
Impairment charge	-	35,000
Loss of disposal of individual properties disposals	1,371	-
Increase/(decrease) in creditors	748,751	(272,166)
(Increase)/(decrease) in debtors	(736,001)	483,354
Net share capital cancelled	(7)	-
Carrying amount of tangible fixed asset disposals	232,230	1,601,933
SHAPS past service deficit movements	149,000	122,000
HAG abatement	-	(214,625)
<u>Adjustments for investing or financing activities</u>		
Issue of shares	3	7
HAG repaid	187,711	-
Proceeds from the sale of fixed assets	(520,327)	(2,581,897)
Release of deferred Government Grants	(16,319)	-
Interest payable	1,573,997	1,569,715
Interest receivable	(2,944)	(35,936)
SHAPS past service deficit payment	(553,683)	(536,562)
	<hr/>	<hr/>
Net cash inflow from operating activities	4,844,322	4,561,691
	<hr/>	<hr/>

CAIRN HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2017

27. Payments to members, Board members and Key Management

No member of the Association received any fee or remuneration during the year (2016: £nil). Members of the Board of Management were reimbursed for out of pocket travel and accommodation expenses amounting to £13,071 (2016: £12,328).

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 £3,889 (2016: £3,648). The total rent and service charge arrears relating to tenant Board members included within debtors at the year end is £nil (2016: £390). The total prepaid rent and service charge relating to tenant Board members included within creditors at the year end is £66 (2016: £nil).

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 £427,872 (2016: £406,345).

28. Related parties

Cairn Homes and Services Limited is a 100% subsidiary of the Association. The Association has made an advance to the company to enable it to pay its set up costs and recharged £5,780 of service costs in the year (2016: £611). At the year-end £13,448 (2016: £5,105) was due to the Association and is included in debtors.

29. Capital commitments

	2017 £	2016 £
Contracted	787,778	730,733
Approved but not contracted for	-	-
	<u>787,778</u>	<u>730,733</u>
This is to be funded by:		
Private finance	787,778	730,733
	<u>787,778</u>	<u>730,733</u>

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

30. Revenue commitments

At 31 March 2017 the Association had total future minimum lease commitments under non-cancellable operating leases as set out below:

	Land & Buildings 2017 £	Other 2017 £	Land & Buildings 2016 £	Other 2016 £
Within a year	239,153	65,777	238,229	72,057
Within 2-5 years	844,828	-	919,150	-
After 5 years	182,518	-	374,855	-
	<u>1,266,499</u>	<u>65,777</u>	<u>1,532,234</u>	<u>72,057</u>