

Cernach Housing Association Limited

Report and Financial Statements

For the year ended 31st March 2012

Registered Housing Association No.HAC 231

FSA Reference No. 2374R(S)

Scottish Charity No. SC036607

CERNACH HOUSING ASSOCIATION LIMITED

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CERNACH HOUSING ASSOCIATION LIMITED

**MANAGEMENT COMMITTEE, EXECUTIVES AND ADVISERS
YEAR ENDED 31st MARCH 2012**

MANAGEMENT COMMITTEE

Marion Davidson	Chairperson
Zandra Yeaman	Vice Chairperson
David Unett	Secretary
Susan McDonald MBE	
Janet McDougall	
Olalaken Ajobiewe	
Stephen Burrell	From 28/06/2011
Ann Hardie	From 08/08/2011
Poppy Livingston	From 08/08/2011
Muriel Wylie	From 08/08/2011
Rosemary McGill	From 08/08/2011
Tracy Bowie	Co opted from 30/08/2011
Charlie Richardson	Co opted from 30/08/2011
Kirsty Bruce	Co opted from 06/03/2012
Margaret Thomson	Resigned 21/04/2011
Marion McDonald	Deceased 25/07/2011

EXECUTIVE OFFICERS

Jean Thomson	Director
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REGISTERED OFFICE

79 Airgold Drive
Drumchapel
Glasgow
G15 7HF

AUDITORS

Alexander Sloan
Chartered Accountants
38 Cadogan Street
Glasgow
G2 7HF

BANKERS

Bank of Scotland
789 Dumbarton Road
Clydebank
G81 4BY

SOLICITORS

Harper McLeod
The Ca'd'oro
45 Gordon Street
Glasgow
G1 3PE

FINANCE AGENT

FMD Financial Services
KCEDG Commercial Centre
Ladyloan Place
Drumchapel
Glasgow

CERNACH HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2012

The Management Committee presents its report and the Financial Statements for the year ended 31st March 2012.

Legal Status

The Association is a registered non-profit making organisation under the Industrial and Provident Societies Act 1965 No.2374R(S). The Association is constituted under its Rule Book. The Association is a registered Scottish Charity with the charity number SC036607.

Principal Activities

The principal activities of the Association are the provision and management of affordable rented accommodation.

Review of Business and Future Developments

The Members of the Management Committee are of the opinion that the state of affairs of the Association is satisfactory. The surplus for the year after taxation was £687,492 (2011 - £753,836). The transfer to Designated reserves amounted to £515,619 (2011 -£62,499). Net assets now stand at £2,689,484 (2011 - £2,001,962).

The Association has 245 properties affected by the 10 year suspension of the Modernised Right to Buy. We have a further 514 properties with the MRTB however 467 of these properties will in time as/when tenants move out and new tenancies are created, be protected by the 2010 Act as they are termed 'new supply'. The Association sought to protect our properties from the right to buy for a further 10 years upon the expiry of the extension September 2012. To this end an application was submitted to the Scottish Government and approval granted in November 2011 whereby protecting the aforementioned 245 properties from loss to the right to buy until 2022.

During the year we progressed designs for a new build housing development to be built on the site at Dunkenny Road, which previously accommodated dilapidated tenements demolished prior to the stock transfer by Glasgow Housing Association. A bid was submitted for Innovation and Investment Grant funding during May 2011 and approval obtained August 2011 with construction work commencing 12th March 2012. This project will provide a mixture of 22 cottage flats and semi detached housing and associated parking upon its completion early 2013.

Towards the end of the financial year the Association were re assessed by Investors in People and attained Bronze Status March 2012. The year ahead will see the Association working towards gold.

In terms of housing quality overall, 766 of the Associations housing stock (98.8%) complies with the requirements of the SHQS. Costs to comply with the SHQS are minimal and provision has been made to ensure the Association is fully compliant with SHQS by March 2013.

Welfare reform has been identified as a potential new threat to the Association and the Housing Association movement in general. In the period ahead we will look at the impact of welfare reform on our business. It is anticipated that we will need to increase the provision for bad debt, and are proposing to promote mutual exchanges and internal transfers to address under occupancy and the consequential reduction in tenants housing benefit following the welfare reform.

**REPORT OF THE MANAGEMENT COMMITTEE
FOR THE YEAR ENDED 31ST MARCH 2012**

Management Committee and Executive Officers

The members of the Management Committee and the Executive Officers are listed on Page 1.

Each member of the Management Committee holds one fully paid share of £1 in the Association. The Executive Officers 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 Management Committee.

The members of the Management Committee are also Trustees of the Charity. Members of the Management Committee are appointed by the members at the Association's Annual General Meeting.

Statement of Management Committee's Responsibilities

The Industrial and Provident Societies Acts 1965 to 2002 require the Management Committee 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 Management Committee is required to:-

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

The Management Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the Financial Statements comply with the Industrial and Provident Societies Act 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. 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. It is also responsible for ensuring the Association's suppliers are paid promptly.

The Management Committee must in determining how amounts are presented within items in the income and expenditure account and balance sheet, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting practices.

In so far as the Management Committee are aware:

- There is no relevant audit information (information needed by the Housing Association's auditors in connection with preparing their report) of which the Association's auditors are unaware, and
- The Management Committee have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Housing Association's auditors are aware of that information.

CERNACH HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2012

Statement on Internal Financial Control

The Management Committee acknowledges its ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate for the business environment in which it operates. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the Association, or for publication;
- the maintenance of proper accounting records;
- the safeguarding of assets against unauthorised use or disposition.

It is the Management Committee's responsibility to establish and maintain systems of Internal Financial Control. Such systems can only provide reasonable and not absolute assurance against material financial mis-statement or Loss. Key elements of the Association's systems include ensuring that:

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of controls and restrict the unauthorised use of Association's assets;
- experienced and suitably qualified staff take responsibility for important business functions and annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the management team and the Management Committee to monitor key business risks, financial objectives and the progress being made towards achieving the financial plans set for the year and for the medium term;
- regular financial management reports are prepared promptly, providing relevant, reliable and up to date financial and other information, with significant variances from budget being investigated as appropriate;
- all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through the Management Committee;
- the Management Committee receive reports from management and from the external and internal auditors to provide reasonable assurance that control procedures are in place and are being followed and that a general review of the major risks facing the Association is undertaken;
- formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal or external audit reports.

Auditors

A resolution to re-appoint the Auditors, Alexander Sloan, Chartered Accountants, will be proposed at the Annual General Meeting.

By order of the Management Committee



DAVID UNETT
Secretary
07 August 2012

CERNACH HOUSING ASSOCIATION LIMITED

REPORT BY THE AUDITORS TO THE MANAGEMENT COMMITTEE OF
CERNACH HOUSING ASSOCIATION LIMITED
ON CORPORATE GOVERNANCE MATTERS

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 section on Internal Financial Control within SFHA's publication "Raising Standards in Housing".

Basis of Opinion

We carried out our review having regard to the requirements relating to corporate governance matters within Bulletin 2006/5 issued by the Auditing Practices Board. 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 reasons given for non-compliance.

Opinion

In our opinion the Statement on Internal Financial Control on page 4 has provided the disclosures required by the section on Internal Financial Control within SFHA's publication "Raising Standards in Housing" and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

Through enquiry of certain members of the Management Committee and Officers of the Association, and examination of relevant documents, we have satisfied ourselves that the Management Committee's Statement on Internal Financial Control appropriately reflects the Association's compliance with the information required by the section on Internal Financial Control within SFHA's "Raising Standards in Housing".



ALEXANDER SLOAN
Chartered Accountants

GLASGOW
07 August 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CERNACH HOUSING ASSOCIATION LIMITED

We have audited the financial statements of Cernach Housing Association Limited for the year ended 31st March 2012 which comprise an income and expenditure account, statement of total recognised gains and losses, balance sheet, cash flow statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective Responsibilities of Management Committee and Auditors

As explained more fully in the Statement of Management Committee's Responsibilities the Association's Management Committee, are responsible for the preparation of the Financial Statements that 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 on the Financial Statements

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

Opinion on the financial statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Association's affairs as at 31st March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Housing (Scotland) Act 2001 and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- the information given in the Management Committee's Report is inconsistent with the financial statements.
- proper books of account have not been kept by the Association in accordance with the requirements of the legislation.
- a satisfactory system of control over transactions has not been maintained by the Association in accordance with the requirements of the legislation.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
CERNACH HOUSING ASSOCIATION LIMITED**

Matters on which we are required to report by exception (contd.)

- the Income and Expenditure Account to which our report relates, and the Balance Sheet are not in agreement with the books of the Association.
- we have not received all the information and explanations necessary for the purposes of our audit.

We have nothing to report in respect of these matters.



ALEXANDER SLOAN
Chartered Accountants
Statutory Auditors
GLASGOW
07 August 2012

CERNACH HOUSING ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st MARCH 2012

	Notes	2012 £	Restated 2011 £
TURNOVER	2.	2,595,396	2,461,612
Operating Costs	2.	(1,778,262)	(1,577,164)
OPERATING SURPLUS	9.	817,134	884,448
Loss On Sale Of Housing Stock	7.	-	(4,888)
Release of Negative Goodwill	21.	56,337	69,025
Interest Receivable and Other Income		15,878	12,015
Interest Payable and Similar Charges	8.	(201,857)	(206,764)
		(129,642)	(130,612)
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		687,492	753,836
Tax on surplus on ordinary activities	10.	-	-
SURPLUS ON ORDINARY ACTIVITIES AFTER TAXATION		687,492	753,836

All amounts relate to continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2012 £	Restated 2011 £
Surplus for the financial year	687,492	753,836
Prior year adjustment (as explained in Note 23)	619,719	-
Total gains recognised since last annual report	1,307,211	753,836

CERNACH HOUSING ASSOCIATION LIMITED

BALANCE SHEET AS AT 31st MARCH 2012

	Notes	2012		Restated 2011	
		£	£	£	£
TANGIBLE FIXED ASSETS					
Housing Properties - Depreciated Cost	11.(a)		29,913,246		29,903,243
Less: Social Housing Grant	11.(a)		(18,992,196)		(18,993,355)
: Other Public Grants	11.(a)		(1,024,457)		(1,024,457)
			<u>9,896,593</u>		<u>9,885,431</u>
Other fixed assets	11.(b)		595,095		622,269
			<u>10,491,688</u>		<u>10,507,700</u>
Negative Goodwill	21.		(2,704,154)		(2,760,491)
CURRENT ASSETS					
Debtors	13.	139,701		159,823	
Cash at bank and in hand		1,960,073		1,512,044	
			<u>2,099,774</u>		<u>1,671,867</u>
CREDITORS: Amounts falling due within one year	14.	(723,509)		(676,609)	
NET CURRENT ASSETS			<u>1,376,265</u>		<u>995,258</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>9,163,799</u>		<u>8,742,467</u>
CREDITORS: Amounts falling due after more than one year	15.		(6,474,315)		(6,740,505)
NET ASSETS			<u>2,689,484</u>		<u>2,001,962</u>
CAPITAL AND RESERVES					
Share Capital	17.		171		141
Designated Reserves	18.(a)		1,631,104		1,115,485
Revenue Reserves	18.(b)		1,058,209		886,336
			<u>2,689,484</u>		<u>2,001,962</u>

The Financial Statements were approved by the Management Committee and signed on their behalf on 07 August 2012.

Chairperson

Marion Dambon

Vice-Chairperson

Yvonne

Secretary

David Smith

CERNACH HOUSING ASSOCIATION LIMITED

**CASH FLOW STATEMENT FOR THE YEAR ENDED
31st MARCH 2012**

	Notes	2012 £	Restated 2011 £
Net Cash Inflow from Operating Activities	16.	1,187,032	1,075,164
Returns on Investment and Servicing of Finance			
Interest Received		15,878	12,015
Interest Paid		(201,857)	(206,764)
Net Cash Outflow from Investment and Servicing of Finance		(185,979)	(194,749)
Capital Expenditure and Financial Investment			
Acquisition and Construction of Properties		(453,166)	(929,763)
Purchase of Other Fixed Assets		(5,338)	(19,530)
Social Housing Grant Received		164,964	7,156
Proceeds on Disposal of Properties		-	20,874
Net Cash Outflow from Capital Expenditure and Financial Investment		(293,540)	(921,263)
Net Cash Inflow / (Outflow) before use of Liquid Resources and Financing		707,513	(40,848)
Acquisitions and Disposals			
Consideration paid to acquire Cernach LHO		-	(1,398,884)
Financing			
Loan Principal Repayments		(259,518)	(255,814)
Share Capital Issued		34	23
Net Cash Outflow from Financing		(259,484)	(255,791)
Increase / (decrease) in Cash	16.	448,029	(1,695,523)

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis Of Accounting

The Financial Statements have been prepared in accordance with applicable Accounting Standards, the Statement of Recommended Practice - Accounting by Registered Social Landlords 2010, and on the historical cost basis. They also comply with the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. A summary of the more important accounting policies is set out below.

Turnover

Turnover represents rental and service charge income receivable, fees receivable and revenue grants

Retirement Benefits

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.

Valuation Of Housing Properties

Housing Properties are stated at cost, less social housing and other public grants and less accumulated depreciation. Housing under construction and Land are not depreciated. The Association depreciates housing properties by major component on a straight line basis over the estimated useful economic lives of each identified component. All components are categorised as Housing Properties within note 11. Impairment reviews are carried out if events or circumstances indicate that the carrying value of the components listed below is higher than the recoverable amount.

<i>Component</i>	<i>Useful Economic Life</i>
Structure	50 years
Electrics	30 years
Bathrooms	30 years
Internal Doors	30 years
Windows	25 years
Gutters	25 years
Central Heating	15 years
Boilers	15 years
Kitchens	15 years
Land	N/A

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

Depreciation And Impairment Of Other Fixed Assets

Other Fixed Assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the assets at the following annual rates:-

Office Premises	2%
Furniture and Fittings	10 - 25%

The carrying value of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Social Housing Grant And Other Grants In Advance/Arrears

Where developments have been financed wholly or partly by Social Housing Grant or other capital grant, the cost of those developments has been reduced by the amount of the grant receivable. The amount of the grants receivable is shown separately on the Balance Sheet.

Social Housing Grant attributed to individual components is written off to the Income and Expenditure Account when these components are replaced.

Social Housing Grant received in respect of revenue expenditure is credited to the Income and Expenditure Account in the same period as the expenditure to which it relates.

Although Social Housing Grant is treated as a grant for accounting purposes, it may nevertheless become repayable in certain circumstances, such as the disposal of certain assets. The amount repayable would be restricted to the net proceeds of sale.

Sales Of Housing Properties

First tranche Shared Ownership disposals are credited to turnover on completion. The cost of construction of these sales is taken to operating cost. In accordance with the Statement of Recommended Practice, disposals of subsequent tranches are treated as fixed asset disposals with the gain or loss on disposal shown in the Income and Expenditure Account.

Disposals of housing property under the Right to Buy scheme are treated as a fixed asset disposal and any gain and loss on disposal accounted for in the Income and Expenditure Account.

Disposals under shared equity schemes are accounted for in the Income and Expenditure Account. The remaining equity in the property is treated as a fixed asset investment, which is matched with the grant received.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

Leases/Leased Assets

Costs in respect of operating leases are charged to the Income and Expenditure Account on a straight line basis over the lease term. Assets held under finance leases and hire purchase contracts are capitalised in the Balance Sheet and are depreciated over their useful lives.

Works to Existing Properties

The Association capitalises major repairs expenditure where these works result in an enhancement of economic benefits by increasing the net rental stream over the life of the property.

Capitalisation Of Development Overheads

Directly attributable development administration costs relating to development activities are capitalised in accordance with the Statement of Recommended Practice.

Development Interest

Interest incurred on financing a development is capitalised up to the date of practical completion of the scheme.

Designated Reserves

The Association has designated part of its reserves to meet its long term obligations.

The Cyclical Maintenance Reserve has been designated to meet future repair and maintenance obligations which are cyclical in nature. These are carried out in accordance with a planned programme of works.

The Major Repairs Reserve is based on the Association's liability to maintain housing properties in a state of repair which at least maintains their residual values in prices prevailing at the time of acquisition and construction.

Property Development Cost

The proportion of the development cost of shared ownership properties expected to be disposed of as a first tranche sale is held in current assets until it is disposed of. The remaining part of the development cost is treated as a fixed asset. Surpluses made on the disposal of first tranche sales are taken to the Income and Expenditure Account in accordance with the Statement of Recommended Practice.

Property developments that are intended for resale are included in current assets until disposal.

Negative Goodwill

Negative goodwill created through transfer of engagements is written off to the Income and Expenditure account as the non-cash assets acquired are depreciated or sold.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS

	Notes	2012			2011 - restated		
		Turnover £	Operating Costs £	Operating Surplus / (Deficit) £	Turnover £	Operating Costs £	Operating Surplus / (Deficit) £
Social Lettings	3.	2,551,825	1,719,123	832,702	2,386,691	1,490,691	896,000
Other Activities	4.	43,571	59,139	(15,568)	74,921	86,473	(11,552)
Total		2,595,396	1,778,262	817,134	2,461,612	1,577,164	884,448

3. PARTICULARS OF INCOME & EXPENDITURE FROM SOCIAL LETTINGS

	General Needs Housing £	Supported Housing £	Shared ownership £	2012 Total £	Restated 2011 Total £
Income from Lettings					
Rent Receivable Net of Identifiable Service Charges	2,467,748	-	31,691	2,499,439	2,351,021
Service Charges Receivable	39,540	-	3,720	43,260	43,831
Gross Rents Receivable	2,507,288	-	35,411	2,542,699	2,394,852
Less: Rent losses from voids	10,995	-	-	10,995	23,649
Net Rents Receivable	2,496,293	-	35,411	2,531,704	2,371,203
Revenue Grants from Scottish Ministers	-	-	-	-	-
Revenue Grants From Local Authorities and Other Agencies	20,121	-	-	20,121	15,488
Total Income From Social Letting	2,516,414	-	35,411	2,551,825	2,386,691
Expenditure on Social Letting Activities					
Service Costs	39,540	-	3,720	43,260	43,831
Management and maintenance administration costs	692,184	-	9,776	701,960	633,615
Reactive Maintenance	326,330	-	-	326,330	351,289
Bad Debts - Rents and Service Charges	17,214	-	-	17,214	45,937
Planned and Cyclical Maintenance, including Major Repairs	353,319	-	-	353,319	154,968
Depreciation of Social Housing	266,365	-	10,675	277,040	261,051
Operating Costs of Social Letting	1,694,952	-	24,171	1,719,123	1,490,691
Operating Surplus on Social Letting Activities	821,462	-	11,240	832,702	896,000
2011 (as restated)	882,436	-	13,564		

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM OTHER ACTIVITIES

	Grants From Scottish Ministers	Other Revenue Grants	Supporting People Income	Other Income	Total Turnover	Operating Costs Bad Debts	Operating Costs Other	Operating Surplus / (Deficit) 2012	Operating Surplus / (Deficit) 2011
	£	£	£	£	£	£	£	£	£
Wider Role Activities	30,000	-	-	-	30,000	-	37,905	(7,905)	(3,378)
Factoring	-	-	-	13,571	13,571	4,147	9,424	-	(4,266)
Welfare Rights Service	-	-	-	-	-	-	7,663	(7,663)	(6,345)
Other Income	-	-	-	-	-	-	-	-	2,437
Total From Other Activities	30,000	-	-	13,571	43,571	4,147	54,992	(15,568)	(11,552)
2011	60,669	3,500	-	10,752	74,921	4,266	82,207	(11,552)	

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. OFFICERS' EMOLUMENTS

The Officers are defined in s74 of the Industrial and Provident Societies Act 1965 as the members of the Management Committee, managers or servants of the Association.

	2012	2011
	£	£
Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions)	<u>62,198</u>	<u>61,743</u>
Pension contributions made on behalf on Officers with emoluments greater than £60,000	<u>5,752</u>	<u>9,387</u>
Emoluments payable to Chief Executive (excluding pension contributions)	<u>62,198</u>	<u>61,743</u>

The number of Officers, including the highest paid Officer, who received emoluments (excluding pension contributions) over £60,000 was in the following ranges:-

	Number	Number
	1	1
£60,001 to £70,000	1	1

6. EMPLOYEE INFORMATION

	2012	2011
	No.	No.
The average monthly number of full time equivalent persons employed during the year was	<u>11</u>	<u>12</u>

Staff Costs were:	£	£
Wages and Salaries	364,094	361,016
Social Security Costs	31,118	24,325
Other Pension Costs	48,936	40,421
	<u>444,148</u>	<u>425,762</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. LOSS ON SALE OF HOUSING STOCK

	2012	2011
	£	£
Sales Proceeds	-	20,874
Cost of Sales	-	25,762
Loss On Sale Of Housing Stock	-	(4,888)

8. INTEREST PAYABLE

	2012	2011
	£	£
On Bank Loans & Overdrafts	201,857	206,764

Interest incurred in the development period of housing properties which has been written off to the income and expenditure account amounted to £nil (2011 £nil).

9. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2012	2011
	£	£
Surplus on Ordinary Activities before Taxation is stated after charging:-		
Depreciation - Tangible Owned Fixed Assets	309,552	298,230
Auditors' Remuneration - Audit Services	8,500	7,000

10. TAX ON SURPLUS ON ORDINARY ACTIVITIES

The Association is a Registered Scottish Charity and is not liable to United Kingdom Corporation Tax on its charitable activities.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. TANGIBLE FIXED ASSETS

a) Housing Properties	Housing Properties Held for Letting £	Housing Properties In course of Construction £	Completed Shared Ownership Properties £	Total £
COST				
As at 1st April 2011- restated	29,474,985	121,479	1,501,758	31,098,222
Additions	269,804	183,362	-	453,166
Disposals	(190,240)	-	-	(190,240)
As at 31st March 2012	<u>29,554,549</u>	<u>304,841</u>	<u>1,501,758</u>	<u>31,361,148</u>
DEPRECIATION				
As at 1st April 2011- restated	1,011,700	-	183,279	1,194,979
Charge for Year	266,365	-	10,675	277,040
Disposals	(24,117)	-	-	(24,117)
As at 31st March 2012	<u>1,253,948</u>	<u>-</u>	<u>193,954</u>	<u>1,447,902</u>
SOCIAL HOUSING GRANT				
As at 1st April 2011- restated	18,084,432	-	908,923	18,993,355
Additions	-	164,964	-	164,964
Disposals	(166,123)	-	-	(166,123)
As at 31st March 2012	<u>17,918,309</u>	<u>164,964</u>	<u>908,923</u>	<u>18,992,196</u>
OTHER CAPITAL GRANTS				
As at 1st April 2011- restated	1,024,457	-	-	1,024,457
As at 31st March 2012	<u>1,024,457</u>	<u>-</u>	<u>-</u>	<u>1,024,457</u>
NET BOOK VALUE				
As at 31st March 2012	<u>9,357,835</u>	<u>139,877</u>	<u>398,881</u>	<u>9,896,593</u>
As at 31st March 2011	<u>9,354,396</u>	<u>121,479</u>	<u>409,556</u>	<u>9,885,431</u>

Additions to housing properties includes capitalised development administration costs of £nil (2011 - £15,917) and capitalised replacement components within existing properties of £269,804 (2011 - £739,752)

All land and housing properties are freehold.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. TANGIBLE FIXED ASSETS (Continued)

b) Other Tangible Assets	Office Premises £	Furniture & Equipment £	Total £
COST			
As at 1st April 2011	611,829	415,859	1,027,688
Additions	-	5,338	5,338
As at 31st March 2012	<u>611,829</u>	<u>421,197</u>	<u>1,033,026</u>
GRANTS RECEIVED			
As at 1st April 2011	11,661	88,067	99,728
As at 31st March 2012	<u>11,661</u>	<u>88,067</u>	<u>99,728</u>
AGGREGATE DEPRECIATION			
As at 1st April 2011	58,344	247,347	305,691
Charge for year	11,643	20,869	32,512
As at 31st March 2012	<u>69,987</u>	<u>268,216</u>	<u>338,203</u>
NET BOOK VALUE			
As at 31st March 2012	<u>530,181</u>	<u>64,914</u>	<u>595,095</u>
As at 31st March 2011	<u>541,824</u>	<u>80,445</u>	<u>622,269</u>

12. CAPITAL COMMITMENTS

	2012 £	2011 £
Capital Expenditure that has been contracted for but has not been provided for in the Financial Statements	<u>2,078,211</u>	<u>-</u>

The above commitments will be financed by a mixture of public grant, private finance and the Association's own resources.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. DEBTORS

	2012	2011
	£	£
Arrears of Rent & Service Charges	135,079	142,217
Less: Provision for Doubtful Debts	<u>(74,413)</u>	<u>(78,633)</u>
	60,666	63,584
Other Debtors	<u>79,035</u>	<u>96,239</u>
	<u>139,701</u>	<u>159,823</u>

14. CREDITORS: Amounts falling due within one year

	2012	2011
	£	£
Housing Loans	273,596	266,924
Trade Creditors	223,228	115,069
Rent in Advance	60,020	76,373
Other Taxation and Social Security	8,881	-
Other Creditors	143,897	195,359
Accruals and Deferred Income	<u>13,887</u>	<u>22,884</u>
	<u>723,509</u>	<u>676,609</u>

At the balance sheet date there were pension contributions outstanding of £nil (2011 £nil)

15. CREDITORS: Amounts falling due after more than one year

	2012	2011
	£	£
Housing Loans	<u>6,474,315</u>	<u>6,740,505</u>
Housing Loans are secured by specific charges on the Association's housing properties and are repayable at varying rates of interest in instalments, due as follows:-		
Within one year	273,596	266,924
Between one and two years	285,419	281,096
Between two and five years	945,441	923,003
In five years or more	<u>5,243,455</u>	<u>5,536,406</u>
	6,747,911	7,007,429
Less: Amount shown in Current Liabilities	<u>273,596</u>	<u>266,924</u>
	<u>6,474,315</u>	<u>6,740,505</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. CASH FLOW STATEMENT

<i>Reconciliation of operating surplus to net cash inflow from operating activities</i>	2012 £	Restated 2011 £
Operating Surplus	817,134	884,448
Depreciation	309,552	298,230
Change in Debtors	20,122	(13,272)
Change in Creditors	40,228	(94,153)
Share Capital Written Off	(4)	(89)
Net Cash Inflow from Operating Activities	<u>1,187,032</u>	<u>1,075,164</u>

<i>Reconciliation of net cash flow to movement in net debt</i>	2012 £	2011 £	2011 £
Increase / (decrease) in Cash	448,029	(1,695,523)	
Cash flow from change in debt	<u>259,518</u>	<u>255,814</u>	
Movement in net debt during year		707,547	(1,439,709)
Net debt at 1st April 2011		(5,495,385)	(4,055,676)
Net debt at 31st March 2012		<u>(4,787,838)</u>	<u>(5,495,385)</u>

<i>Analysis of changes in net debt</i>	At 01.04.11 £	Cash Flows £	Other Changes £	At 31.03.12 £
Cash at bank and in hand	1,512,044	448,029		1,960,073
Debt: Due within one year	(266,924)	259,518	(266,190)	(273,596)
Due after more than one year	(6,740,505)	-	266,190	(6,474,315)
Net Debt	<u>(5,495,385)</u>	<u>707,547</u>	<u>-</u>	<u>(4,787,838)</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. SHARE CAPITAL

Shares of £1 each Issued and Fully Paid	£
At 1st April 2011	141
Issued in year	34
Cancelled in year	<u>(4)</u>
At 31st March 2012	<u>171</u>

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.

18. RESERVES

(a) Designated Reserves	Cyclical Maintenance	Major Repairs	Total
	£	£	£
At 1st April 2011	125,000	990,485	1,115,485
Transfer from Revenue Reserves	-	515,619	515,619
At 31st March 2012	<u>125,000</u>	<u>1,506,104</u>	<u>1,631,104</u>
 (b) Revenue Reserves			Total
			£
At 1st April 2011 (as restated)			886,336
Surplus for the year			687,492
Transfer (to) Designated Reserves			<u>(515,619)</u>
At 31st March 2012			<u>1,058,209</u>

19. HOUSING STOCK

The number of units of accommodation in management at the year end was:-	2012	2011
	No.	No.
General Needs - New Build	317	317
- Rehabilitation	458	458
Shared Ownership	<u>20</u>	<u>20</u>
	<u>795</u>	<u>795</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. RELATED PARTY TRANSACTIONS

Members of the Management Committee are related parties of the Association as defined by Financial Reporting Standard 8.

The related party relationships of the members of the Management Committee is summarised as follows:

- 9 members are tenants of the Association
- 2 members are factored owners
- 1 member is an employee of a relevant local authority

Those members that are tenants of the Association have tenancies that are on the Association's normal tenancy terms and they cannot use their positions to their advantage.

Governing Body Members cannot use their position to their advantage. Any transactions between the Association and any entity with which a Governing Body Member has a connection with is made at arm's length and is under normal commercial terms.

21. NEGATIVE GOODWILL

	2012
	£
Balance as at 1st April 2011	2,760,491
Release during the year	(56,337)
As at 31st March 2012	<u>2,704,154</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. RETIREMENT BENEFIT OBLIGATIONS

General

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

The Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted out of the state scheme.

The Scheme offers five benefit structures to employers, namely:

- Final salary with a 1/60th accrual rate.
- Career average revalued earnings with a 1/60th accrual rate
- Career average revalued earnings with a 1/70th accrual rate
- Career average revalued earnings with a 1/80th accrual rate
- Career average revalued earnings with a 1/120th accrual rate, contracted in

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. An employer can only operate one open benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

Cernach Housing Association Limited has elected to operate the final salary with a 1/60th accrual rate benefit structure for active members as at 31st March 2008 and the final salary with a 1/60th accrual rate benefit structure for new entrants from 1st April 2008.

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

The 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 Cernach Housing Association Limited paid contributions at the rate of 9.6% of pensionable salaries. Member contributions were 9.6%.

Housing Association Limited. The annual pensionable payroll in respect of these members was £274,875. Cernach Housing Association Limited continues to offer membership of the Scheme to its employees.

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

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The last formal valuation of the Scheme was performed as at 30th September 2009 by a professionally qualified actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £295m. The valuation revealed a shortfall of assets compared with the value of liabilities of £160m (equivalent to a past service funding level of 64.8%).

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30th September 2011. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £341 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £207 million, equivalent to a past service funding level of 62.2%.

Financial Assumptions

The financial assumptions underlying the valuation as at 30th September 2009 were as follows:

	% p.a.
- Investment return pre-retirement	7.4
- Investment return post-retirement - non pensioners	4.6
- Investment return post-retirement - pensioners	4.8
- Rate of Salary increases	4.5
- Rate of pension increases:	
pension accrued pre 6 April 2005 in excess of GMP	2.9
pension accrued from 6 April 2005	2.2
(for leavers before 1 October 1993 pension increases are 5.0%)	
- Rate of price inflation	3.0

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.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Valuation Results

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

<i>Benefit Structure</i>	<i>Long-term joint contribution rate (% of pensionable)</i>
Final salary - 60ths	19.2
Career average 60ths	17.1
Career average 70ths	14.9
Career average 80ths	13.2
Career average 120ths	9.4

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.

Following consideration of the results of the valuation it was agreed that the shortfall of £160m would be dealt with by the payment of additional contributions of 10.4% of pensionable salaries per annum with effect from 1st April 2011, increasing each 1 April in line with the rate of salary increases assumption.

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

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a 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.

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

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2012

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. PRIOR YEAR ADJUSTMENT

During the year, the Association changed its accounting policy in relation to housing properties and depreciation, as detailed in Note 1 of the Financial Statements, in order to incorporate component accounting. Major repairs which relate to identified components are capitalised, with major components being depreciated over the estimated useful economic lives of each identified component.

As a result of the change in accounting policy, a prior year adjustment has been required under Financial Reporting Standard 3 - Reporting Financial Performance and Financial Reporting Standard 18 - Accounting Policies, as follows:

	£
Increase in Net Book Value of Housing Properties	619,719

The effect of adopting component accounting has been to decrease reserves as at 1 April 2010 by £50,785.

The figures in the 2011 Financial Statements have been adjusted as follows:

	Reported in 2011 Accounts £	Restated 2011 figures £
Housing Property	9,265,712	9,885,431
Revenue Reserves	266,617	886,336
	<u> </u>	<u> </u>
Housing Depreciation Charge	191,803	261,051
Major Repairs Charge	894,720	154,968
	<u> </u>	<u> </u>

The reported surplus in 2011 has been restated by £670,504 and now stands at £753,836.

In addition to the change in accounting policy the Financial Statements have been amended to reflect the reclassification of negative goodwill as an asset instead of a reserve, in accordance with the new Statement of Recommended Practice.

The effect of this adjustment is to decrease reserves and net assets at 31 March 2011 by £2,760,491.