



Alexander Sloan
Accountants and Business Advisers

East Lothian Housing Association Limited

Report and Financial Statements

For the year ended 31 March 2019

Registered Housing Association No. 103

FCA Reference No. 2266R(S)

Scottish Charity No. SC028900

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

CONTENTS

	Page
MEMBERS OF THE MANAGEMENT COMMITTEE, EXECUTIVES AND ADVISERS	1
REPORT OF THE MANAGEMENT COMMITTEE	2 - 4
REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE MATTERS	5
REPORT OF THE AUDITORS	6 - 8
STATEMENT OF COMPREHENSIVE INCOME	9
STATEMENT OF FINANCIAL POSITION	10
STATEMENT OF CASH FLOWS	11
STATEMENT OF CHANGES IN EQUITY	12
NOTES TO THE FINANCIAL STATEMENTS	13 - 33

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

MANAGEMENT COMMITTEE, EXECUTIVES AND ADVISERS YEAR ENDED 31 MARCH 2019

MANAGEMENT COMMITTEE

Peter Ewart	Chairperson
Brian Logan	Vice Chairperson
Joyce Bolan	Secretary
Robert McNeil	
Jim Curran	
Frank Colston	
Shirley Evans	
Alan Forsyth	
Peter Hayman	
John Holcombe	Retired 31 December 2018
Caryn Innes	Resigned 28 March 2019
David Rose	
Eileen Shand	

EXECUTIVE OFFICERS

Martin Pollhammer	Chief Executive
-------------------	-----------------

REGISTERED OFFICE

18-20 Market Street
Haddington
East Lothian
EH41 3JL

EXTERNAL AUDITORS

Alexander Sloan
Accountants & Business Advisers
50 Melville Street
Edinburgh
EH3 7HF

INTERNAL AUDITORS

TIAA
Business Assurance Specialists
Artillery House
Fort Fareham
Newgate Lane
PO14 1AH

BANKERS

Royal Bank of Scotland
32 Court Street
Haddington
EH41 3NP

BANKERS

Bank of Scotland
44 Court Street
Haddington
EH41 3NP

SOLICITORS

Anderson Strathern W.S.
Solicitors
1 Rutland Court
Edinburgh
EH3 8EY

SOLICITORS

TC Young
Solicitors
7 West George Street
Glasgow
E2 1BA

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019

The Management Committee presents its report and the Financial Statements for the year ended 31 March 2019.

Legal Status

The Association is a registered non-profit making organisation under the Co-operative and Community Benefit Societies Act 2014 No.2266R(S). The Association is governed under its Rule Book. The Association is a registered Scottish Charity with the charity number SC028900.

Principal Activities

The principal activity of the Association is the provision of rented accommodation and associated services. The Association also administers the East Lothian Care & Repair service which offers advice for house maintenance to elderly or disabled house owners and private tenants. The administration costs of this service are met by grant income from East Lothian Council.

Review of Business and Future Developments

The Association's main activities over the year generated an operating surplus of £1,805,493 (2018: £1,688,813). One shared ownership property was sold outright in the year. Following the deduction of finance costs, the Association's activities generated a surplus of £971,831 (2018: £1,655,249) for the year. The total revenue reserves at 31 March 2019 were £10,689,647 (2018: £8,964,816).

During the year the Association spent £14,878 on the development of new properties. There was a net reduction in the number of properties in management of one unit.

The Association spent £3,090,414 (2018: £2,367,839) on the maintenance and improvement of its properties during the year. Of this expenditure £1,206,000 (2018: £625,700) was spent on the replacement of components which are accounted for as assets in the Statement of Financial Position. As a result of this expenditure, 1308 of our properties meet required energy and efficiency standard ahead of the 2020 deadline.

The Association's wholly owned subsidiary, R3 Repairs Limited, continued to provide maintenance and repair services to the Association, other housing associations and other external customers.

The Management Committee is satisfied with the Association's financial performance during the year and with the year-end position, it does however recognise the challenges ahead. These challenges include securing loan finance in an uncertain economic climate, ensuring our properties meet future required energy and efficiency standards, accommodating possible increased contributions to the pension scheme in the longer term, the impact of Welfare Reform on arrears and bad debt levels and the ability of our subsidiary to expand its activities and improve its financial performance.

The Association participates in the Scottish Housing Association Pension Scheme (SHAPS). The scheme is administered by the Pensions Trust. Previously, only the agreed past service deficit was included as a liability in the financial statements as the Association's share of the pension assets and liabilities could not be determined. This year the Pensions Trust have developed a method of calculating each member's share of the assets and liabilities. The figures are available at 1 April 2018 and 31 March 2019. The Association has decided that this method is appropriate and provides a reasonable estimate of the pension assets and liabilities of the Association and has therefore adopted this valuation method.

Full details of the impact of this change are contained in note 27 to the financial statements.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019

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 Co-operative and Community Benefit Societies Act 2014 requires 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 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;
- 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 Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements - 2019. 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 statement of comprehensive income and statement of financial position, 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.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019

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;
- Quarterly 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;
- Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies.
- 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.

The Association's internal audit service is provided by TIAA, who has carried out a full risk assessment and is undertaking a rolling three-year programme of tests, which has been approved by the Management Committee.

During the year ended 31 March, working in conjunction with the Association's Finance and Audit Sub-Committee, TIAA has reviewed the Association's systems of internal financial controls applicable to the following areas:

- Development Arrangements
- ICT Strategy
- Key Tenants Scheme
- Performance Monitoring Reports
- Treasury Management

The Management Committee has reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2019. No weaknesses were found in the internal financial controls which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the auditor's report on the financial statements.

Donations

During the year the Association made charitable donations amounting to £1,000 (2018 - £1,000).

Auditors

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

By order of the Management Committee



JAYLE BURN
Secretary
15 August 2019

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

REPORT BY THE AUDITORS TO THE MEMBERS OF EAST LoTHIAN 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 Regulatory Standards in respect of internal financial controls contained in the publication 'Regulation of Social Housing in Scotland' and associated Regulatory Advice Notes which are issued by the Scottish Housing Regulator.

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 relevant Regulatory Standards with the publication 'Regulation of Social Housing in Scotland' and associated Regulatory Advice Notes 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 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 relevant Regulatory Standards in respect of internal financial controls within the publication 'Regulation of Social Housing in Scotland' and associated Regulatory Advice Notes issued by the Scottish Housing Regulator in respect of internal financial controls.



ALEXANDER SLOAN
Accountants and Business Advisers
Statutory Auditors
EDINBURGH
15 August 2019



Alexander Sloan
Accountants and Business Advisers

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EAST LOTHIAN HOUSING ASSOCIATION LIMITED

Opinion

We have audited the financial statements of East Lothian Housing Association Limited (the 'Association') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and related notes, including a summary of significant accounting policies. 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 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.

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2019 and of its surplus 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 requirements of the Co-operative and Community Benefits Societies Act 2014, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Management Committee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Management Committee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Management Committee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EAST LOTHIAN HOUSING ASSOCIATION LIMITED

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Management Committee.

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- 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;
- the Statement of Comprehensive Income and Statement of Financial Position are not in agreement with the books of account of the Association; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Management Committee

As explained more fully in the Statement of Management Committee's Responsibilities as set out on Page 3, the Management Committee are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Management Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Committee is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Committee either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EAST LOTHIAN HOUSING ASSOCIATION LIMITED (Continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Committee.
- Conclude on the appropriateness of the Management Committee use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Association to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Association audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



ALEXANDER SLOAN
Accountants and Business Advisers
Statutory Auditors
EDINBURGH
15 August 2019



Alexander Sloan
Accountants and Business Advisers

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019	2018
		£	£
REVENUE	2	8,225,509	7,751,669
Operating Costs	2	(6,420,016)	(6,062,856)
OPERATING SURPLUS		1,805,493	1,688,813
Gain On Sale Of Housing Stock	7	39,982	417,175
Interest Receivable and Other Income		34,918	32,704
Interest Payable and Similar Charges	8	(909,562)	(942,443)
Movement in fair value of financial instruments	25	31,000	469,000
Other Finance Income / (Charges)	11	(30,000)	(10,000)
		(833,662)	(33,564)
SURPLUS FOR THE YEAR	9	971,831	1,655,249
Other comprehensive income			
Adjustment relating to Opening Pension Liability	27	(363,000)	
Actuarial Gains/ (Losses) on defined benefit Pension Plan	27	(155,000)	-
TOTAL COMPREHENSIVE INCOME		453,831	1,655,249

The notes on pages 13 to 33 form part of these financial statements.


EAST LoTHIAN HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Notes	2019		2018	
		£	£	£	£
NON-CURRENT ASSETS					
Housing Properties - Depreciated Cost	12 (a)		67,587,660		68,421,341
Other Non-current Assets	12 (b)		1,048,888		1,038,092
			<u>68,636,548</u>		<u>69,459,433</u>
INVESTMENTS					
Investment in subsidiaries	26	1		1	
			<u>1</u>		<u>1</u>
CURRENT ASSETS					
Receivables	15	1,976,765		1,753,167	
Cash at bank and in hand		1,623,592		1,739,126	
		<u>3,600,357</u>		<u>3,492,293</u>	
CREDITORS: Amounts falling due within one year	16	<u>(2,404,832)</u>		<u>(2,477,212)</u>	
NET CURRENT ASSETS			<u>1,195,525</u>		<u>1,015,081</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			69,832,074		70,474,515
CREDITORS: Amounts falling due after more than one year	17		(25,003,283)		(26,030,216)
PENSIONS AND OTHER PROVISIONS FOR LIABILITIES AND CHARGES					
Scottish Housing Association Pension Scheme	28	<u>(1,271,000)</u>		-	
			(1,271,000)		-
DEFERRED INCOME					
Social Housing Grants	19	<u>(34,139,047)</u>		<u>(35,479,376)</u>	
			<u>(34,139,047)</u>		<u>(35,479,376)</u>
NET ASSETS			<u>9,418,744</u>		<u>8,964,923</u>
EQUITY					
Share Capital	20		97		107
Revenue Reserves			10,689,647		8,964,816
Pension Reserves	28		<u>(1,271,000)</u>		<u>-</u>
			<u>9,418,744</u>		<u>8,964,923</u>

The Financial Statements were approved by the Management Committee and authorised for issue and signed on their behalf on 15 August 2019.


Chairperson


Vice Chairperson


Secretary

The notes on pages 13 to 33 form part of these financial statements.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019	2018
		£	£
Net cash inflow from operating activities	18	2,377,359	1,894,628
Investing Activities			
Acquisition and Construction of Properties	(1,227,478)	(3,965,407)	
Purchase of Other Fixed Assets	(121,572)	(38,785)	
Social Housing Grant Received	-	1,267,001	
Social Housing Grant Repaid	(23,666)	(107,618)	
Proceeds on Disposal of Properties	55,345	533,455	
Net cash outflow from investing activities		(1,317,371)	(2,311,354)
Financing Activities			
Loan Advances Received	400,000	1,000,000	
Interest Received on Cash and Cash Equivalents	34,875	32,692	
Interest Paid on Loans	(909,363)	(943,225)	
Loan Principal Repayments	(701,035)	(642,773)	
Share Capital Issued	1	2	
Net cash outflow from financing activities		(1,175,522)	(553,304)
Decrease in cash		(115,534)	(970,030)
Opening Cash & Cash Equivalents		1,739,126	2,709,156
Closing Cash & Cash Equivalents		1,623,592	1,739,126
Cash and Cash equivalents as at 31 March			
Cash		1,623,592	1,739,126
		1,623,592	1,739,126

The notes on pages 13 to 33 form part of these financial statements.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2019

	Share Association Capital Pension reserve	Scottish Housing Share Association Capital Pension reserve	Revenue Reserve	Total
	£	£	£	£
Balance as at 31 March 2017				
Issue of Shares	105	-	7,309,567	7,309,672
Surplus for the year	2	-	-	2
	-		1,655,249	1,655,249
Balance as at 31 March 2018	107	-	8,964,816	8,964,923
Balance as at 1 April 2018				
Issue of Shares	107	-	8,964,816	8,964,923
Cancellation of Shares	1	-	-	1
Other comprehensive income	(11)		-	(11)
Surplus for the year	-	(1,271,000)	753,000	(518,000)
	-		971,831	971,831
Balance as at 31 March 2019	97	(1,271,000)	10,689,647	9,418,744

The notes on pages 13 to 33 form part of these financial statements.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

Statement of Compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice for social housing providers 2014. The Association is a Public Benefit Entity in terms of its compliance with Financial Reporting Standard 102, applicable for accounting periods on or after 1 January 2015.

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 2014, and on the historical cost basis. They also comply with the Determination of Accounting Requirements 2019. A summary of the more important accounting policies is set out below.

Revenue

The Association recognises rent receivable net of losses from voids. Service Charge Income (net of voids) is recognised with expenditure as it is incurred as this is considered to be the point when the service has been performed and the revenue recognition criteria is met.

Government Grants are released to income over the expected useful life of the asset to which it relates.

Retirement Benefits

The Association participates in the Scottish Housing Associations Defined Benefit Pension Scheme where 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 organisations taken as a whole. The Association accounts for this scheme as a defined benefit pension scheme in accordance with FRS 102.

Valuation Of Housing Properties

Housing Properties are stated at cost 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 12. 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.

Component	Useful Economic Life
Core	50 years
Kitchens	15 years
Bathrooms	30 years
Heating	20 years
Windows	30 years

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Depreciation and Impairment of Other Non-Current Assets

Non-current 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:

Asset Category	Depreciation Rate
Office Premises	4%
Alterations to Office Premises	33%
Computer Equipment	10%-25%
Office Equipment Fixtures & Fittings	15%-20%
Vans, Tools & Plant	20%-50%

The carrying value of non-current assets are reviewed for impairment at the end of each reporting period.

Social Housing Grant and Other Grants in Advance/Arrears

Social Housing Grants and Other Capital Grants are accounted for using the Accrual Method as outlined in Section 24 of Financial Reporting Standard 102. Grants are treated as deferred income and recognised in income on a systematic basis over the expected useful life of the property and assets to which it relates.

Social Housing Grant attributed to individual components is written off to the Statement of Comprehensive Income when these components are replaced.

Social Housing Grant received in respect of revenue expenditure is credited to the Statement of Comprehensive Income 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 non-current asset disposals with the gain or loss on disposal shown in the Statement of Comprehensive Income.

Disposals of housing property under the Right to Buy scheme are treated as non-current asset disposals and any gain or loss on disposal accounted for in the Statement of Comprehensive Income.

Disposals under shared equity schemes are accounted for in the Statement of Comprehensive Income. The remaining equity in the property is treated as a non-current asset investment, which is matched with the grant received.

Any gain or loss on the disposal of a component is incorporated into the depreciation charge for the year.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases/Leased Assets

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Assets held under finance leases and hire purchase contracts are capitalised in the Statement of Financial Position 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.

Derivative Financial Statements

The Association uses an interest-rate swap to manage its exposure to interest-rate movements. The fair value of these contracts is recorded in the balance sheet and is determined by discounted future cash flows at the prevailing market rates at the balance sheet date.

The Association's interest rate swap is not designated as a hedging instrument.

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 Statement of Comprehensive Income in accordance with the Statement of Recommended Practice.

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

Housing Property Managed By Agents

Where a third party manages the Association's housing property the accounting treatment reflects the substance of the transactions. The property is only excluded if the rights and obligations associated with the scheme has been transferred to the third party.

VAT

The Association is VAT registered but a large proportion of its income is exempt for VAT purposes. As a result most of the VAT paid is not recovered and therefore expenditure is shown inclusive of VAT.

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Key Judgements made in the application of Accounting Policies

a) The Categorisation of Housing Properties

In the judgement of the Board of Management the entirety of the Association's housing stock is held for social benefit and is therefore classified as Property, Plant and Equipment in accordance with FRS 102.

b) Identification of cash generating units

The Association considers its cash-generating units to be the schemes in which it manages its housing property for asset management purposes.

c) Financial instrument break clauses

The Association has considered the break clauses attached to the financial instruments that it has in place for its loan funding. In the judgement of the Board of Management, these break clauses do not cause the financial instrument to be classified as a complex financial instrument and therefore they meet the definition of a basic financial instrument.

d) Pension Liability

The Association participates in a defined benefit pension scheme arrangement with the Scottish Housing Association Pension Scheme. The fund is administered by the Pensions Trust. This year the Pension Trust have developed a method of calculating each member's share of the assets and liabilities of the scheme. The Association has decided that this method is appropriate and provides a reasonable estimate of the pension assets and liabilities of the Association and has therefore adopted this valuation method.

Financial Instruments - Basic

The Association classes all of its loans as basic financial instruments including agreements with break clauses. The Association recognises basic financial instruments in accordance with Section 11 of Financial Reporting Standard 102.

The Association's debt instruments are measured at amortised cost using the effective interest rate method.

Estimation Uncertainty

The preparation of financial statements requires the use of certain accounting judgements and accounting estimates. It also requires the Management Committee to exercise judgement in applying the Association's accounting policies. The areas requiring a higher degree of judgement, or complexity, and areas where assumptions or estimates are most significant to the financial statements are disclosed below.

a) Rent Arrears - Bad Debt Provision

The Association assesses the recoverability of rent arrears through a detailed assessment process which considers tenant payment history, arrangements in place and court action.

b) Life Cycle of Components

The Association estimates the useful lives of major components of its housing property with reference to surveys carried out by external qualified surveyors.

c) Useful life of properties, plant and equipment

The Association assesses the useful life of its properties, plant and equipment and estimates the annual charge to be depreciated based on this assessment.

d) Costs of shared ownership

The Association allocates costs to shared ownership properties on a percentage basis split across the number of properties the Association owns.

e) Defined pension liability

Determining the value of the Association's share of defined benefit pension scheme assets and obligations, the valuation prepared by the Scheme actuary includes estimates of life expectancy, salary growth, inflation and the discount rate on corporate bonds.

f) Allocation of share of assets and liabilities for multi employer schemes

Judgements in respect of the assets and liabilities to be recognised are based upon source information provided by administrators of the multi employer pension schemes and estimations performed by the Pensions Trust.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM AFFORDABLE LETTING AND OTHER ACTIVITIES

	Notes	2019			2018		
		Turnover £	Operating Costs £	Operating Surplus / (Deficit) £	Turnover £	Operating Costs £	Operating Surplus / (Deficit) £
Affordable letting activities	3	7,830,405	6,048,752	1,781,653	7,375,174	5,700,417	1,674,757
Other Activities	4	395,104	371,264	23,840	376,495	362,439	14,056
Total		8,225,509	6,420,016	1,805,493	7,751,669	6,062,856	1,688,813

3. PARTICULARS OF INCOME & EXPENDITURE FROM AFFORDABLE LETTING ACTIVITIES

	General Needs Housing		Shared Ownership	2019 Total £	2018 Total £
	£	£			
Revenue from Lettings					
Rent receivable net of service charges	6,275,193	128,620		6,403,813	6,024,334
Service charges receivable	129,180	7,778		136,958	135,751
Gross income from rent and service charges	6,404,373	136,398		6,540,771	6,160,085
Less: Rent losses from voids	27,028	-		27,028	56,618
Net Rents Receivable	6,377,345	136,398		6,513,743	6,103,467
Grants released from deferred income	1,299,904	16,758		1,316,662	1,271,707
Total turnover from affordable letting activities	7,677,249	153,156		7,830,405	7,375,174
Expenditure on affordable letting activities					
Management and maintenance administration costs	1,942,159	68,263		2,010,422	1,873,239
Service Costs	121,177	7,778		128,955	116,755
Planned and cyclical maintenance, including major repairs	829,960	-		829,960	765,670
Reactive maintenance costs	1,053,979	-		1,053,979	976,469
Bad Debts - rents and service charges	(17,330)	-		(17,330)	60,119
Depreciation of affordable let properties	2,017,862	24,904		2,042,766	1,908,165
Operating costs of affordable letting activities	5,947,807	100,945		6,048,752	5,700,417
Operating surplus on affordable letting activities	1,729,442	52,211		1,781,653	1,674,757
2018		1,670,146	4,611		

There is no other accommodation except for General Needs and Shared Ownership.

The association spent an additional £1,206,000 (2018: £625,700) on the replacement of components (kitchens, Bathrooms, windows and heating systems) during the year. The component expenditure was capitalised.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Grants From Scottish Ministers	Other Revenue Grants	Other Income	Total Turnover	Operating Costs Other	Operating Surplus /(Deficit) 2019	Operating Surplus /(Deficit) 2018
	£	£	£	£	£	£	£
Care and Repair	2,584	326,457	-	329,041	329,041	-	-
Medical Adaptations	26,309	-	-	26,309	26,309	-	-
Other activities	-	-	39,754	39,754	15,914	23,840	14,056
Total From Other Activities	28,893	326,457	39,754	395,104	371,264	23,840	14,056
2018	33,424	315,587	27,484	376,495	362,439	14,056	14,056

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. OFFICERS' EMOLUMENTS

The Officers are defined in the Co-operative and Community Benefit Societies Act 2014 as the members of the Management Committee, managers and employees of the Association.

Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions)

Pension contributions made on behalf of Officers with emoluments greater than £60,000

Emoluments payable to Chief Executive (excluding pension contributions)

Total Emoluments paid to key management personnel

	2019	2018
	£	£
	213,495	276,924
	48,364	55,859
	77,765	75,854
	344,125	332,783

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

	Number	Number
£60,001 to £70,000	2	2
£70,001 to £80,000	1	2

6. EMPLOYEE INFORMATION

The average monthly number of full time equivalent persons employed during the year was:

The average total number of Employees employed during the year was:

Staff Costs were:

Wages and Salaries

Social Security Costs

Other Pension Costs

Temporary, Agency and Seconded Staff

	2019	2018
	No.	No.
	33	34
	36	37
	£	£
	1,139,448	1,098,663
	114,267	108,888
	219,088	216,263
	66,766	42,425
	1,539,569	1,466,239

Included in the above are the costs for 8 employees who were engaged in non-housing association activities (2018: 8).

The Association operates a salary exchange scheme which enables employees to opt to have their pension contributions paid by the Association, in return for an equivalent reduction in their salary.

During the year the Association made payments towards the past service deficit of £216,272 (2018 - £210,000)

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. GAIN ON SALE OF HOUSING STOCK

	2019	2018
	£	£
Sales Proceeds	55,345	546,470
Cost of Sales	15,363	129,295
Gain On Sale Of Housing Stock	39,982	417,175

8. INTEREST PAYABLE & SIMILAR CHARGES

	2019	2018
	£	£
On Bank Loans & Overdrafts	909,562	942,443
	909,562	942,443

9. SURPLUS FOR THE YEAR

	2019	2018
	£	£
Surplus For The Year is stated after charging/(crediting):		
Depreciation - Tangible Owned Fixed Assets	2,153,542	2,018,948
Auditors' Remuneration - Audit Services	9,463	10,783
Auditors' Remuneration - Other Services	1,624	1,622
Operating Lease Rentals - Other	12,276	12,560
Gain on sale of fixed assets	39,982	417,175

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.

11. OTHER FINANCE INCOME / CHARGES

	2019	2018
	£	£
Net Interest on Pension Obligations	30,000	10,000

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. NON-CURRENT ASSETS

(a) Housing Properties	Housing Properties Held for Letting £	Housing Properties In course of Construction £	Shared Ownership Completed £	Total £
COST				
As at 1 April 2018	88,193,471	-	1,701,004	89,894,475
Additions	1,206,000	14,878	-	1,220,878
Disposals	(516,537)	-	(28,147)	(544,684)
Schemes Completed	-	-	-	-
As at 31 March 2019	<u>88,882,934</u>	<u>14,878</u>	<u>1,672,857</u>	<u>90,570,669</u>
DEPRECIATION				
As at 1 April 2018	20,891,297	-	581,837	21,473,134
Charge for Year	1,837,195	-	24,904	1,862,099
Transfers	-	-	-	-
Disposals	(339,440)	-	(12,784)	(352,224)
As at 31 March 2019	<u>22,389,052</u>	<u>-</u>	<u>593,957</u>	<u>22,983,009</u>
NET BOOK VALUE				
As at 31 March 2019	<u>66,493,882</u>	<u>14,878</u>	<u>1,078,900</u>	<u>67,587,660</u>
As at 31 March 2018	<u>67,302,174</u>	<u>-</u>	<u>1,119,167</u>	<u>68,421,341</u>

All land and housing properties are heritable.

Total maintenance expenditure on existing properties in the year amounted to £3,090,414 (2018 - £2,367,839). The amount capitalised is £1,206,000 (2018 - £625,700) with the balance charged to the statement of comprehensive income.

The Association's Lenders have standard securities over Housing Property with a carrying value of £49,831,598 (2018 - £50,436,432).

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. NON CURRENT ASSETS (Continued)

(b) Other Tangible Assets	Office Premises £	Furniture & Equipment £	Computer Equipment £	Total £
COST				
As at 1 April 2018	1,413,243	93,361	472,361	1,978,965
Additions	8,326	-	113,246	121,572
Eliminated on Disposals	-	-	(6,943)	(6,943)
As at 31 March 2019	<u>1,421,569</u>	<u>93,361</u>	<u>578,664</u>	<u>2,093,594</u>
AGGREGATE DEPRECIATION				
As at 1 April 2018	494,054	87,210	359,609	940,873
Charge for year	42,830	3,460	64,486	110,776
Eliminated on Disposals	-	-	(6,943)	(6,943)
As at 31 March 2019	<u>536,884</u>	<u>90,670</u>	<u>417,152</u>	<u>1,044,706</u>
NET BOOK VALUE				
As at 31 March 2019	<u>884,685</u>	<u>2,691</u>	<u>161,512</u>	<u>1,048,888</u>
As at 31 March 2018	<u>919,189</u>	<u>6,151</u>	<u>112,752</u>	<u>1,038,092</u>

13. CAPITAL COMMITMENTS

	2019 £	2018 £
Capital Expenditure that has been contracted for but has not been provided for in the Financial Statements.	<u>5,021,466</u>	<u>-</u>

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

14. COMMITMENTS UNDER OPERATING LEASES

	2019 £	2018 £
At the year end, the total future minimum lease payments under non-cancellable operating leases were as follows:-		
Other		
Not later than one year	11,706	12,180
Later than one year and not later than five years	<u>6,361</u>	<u>13,220</u>

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. RECEIVABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £	2018 £
Arrears of Rent & Service Charges	297,451	324,528
Adjustment to discount arrears balances with payment plans to NPV	-	-
Less: Provision for Doubtful Debts	(192,091)	(225,292)
	<u>105,360</u>	<u>99,236</u>
Other Receivables	274,188	293,461
Amounts Due from Group Undertakings	967,217	730,470
Loan to Subsidiary - Due within one year	30,000	30,000
Loan to subsidiary - Due after more than one year	600,000	600,000
	<u>1,976,765</u>	<u>1,753,167</u>

16. PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £	2018 £
Bank Overdrafts (secured)	-	-
Housing Loans	716,993	698,046
Derivative Financial Instruments	165,312	157,412
Trade Payables	95,024	103,003
Rent Received in Advance	91,069	114,317
Other Taxation and Social Security	31,794	33,682
Amounts Due to Group Undertakings	788,520	658,715
Other Payables	177,583	172,782
Liability for Past Service Contributions	-	191,949
Accruals and Deferred Income	338,537	347,306
	<u>2,404,832</u>	<u>2,477,212</u>

At the balance sheet date there were pension contributions outstanding of £38,159 (2018 - £37,020).

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £	2018 £
Liability for Past Service Contributions	-	668,051
Derivative Financial Instruments	2,479,688	2,518,588
Housing Loans	22,523,595	22,843,577
	<u>25,003,283</u>	<u>26,030,216</u>
Housing Loans		
Amounts due within one year	716,993	698,046
Amounts due in one year or more but less than two years	807,428	779,852
Amounts due in two years or more but less than five years	2,264,032	2,166,626
Amounts due in more than five years	19,452,135	19,897,099
	<u>23,240,588</u>	<u>23,541,623</u>
Less: Amount shown in Current Liabilities	716,993	698,046
	<u>22,523,595</u>	<u>22,843,577</u>
Derivative Financial Instruments		
Amounts due within one year	165,312	157,412
Amounts due in one year or more but less than two years	165,312	157,412
Amounts due in two years or more but less than five years	495,936	472,236
Amounts due in more than five years	1,818,440	1,888,940
	<u>2,645,000</u>	<u>2,676,000</u>
Less: Amount shown in Current Liabilities	165,312	157,412
	<u>2,479,688</u>	<u>2,518,588</u>
Liability for Past Service Contributions		
Amounts due within one year	-	191,949
Amounts due in one year or more but less than two years	-	212,673
Amounts due in two years or more but less than five years	-	455,378
Amounts due in more than five years	-	-
	<u>-</u>	<u>860,000</u>
Less: Amount shown in Current Liabilities	-	191,949
	<u>-</u>	<u>668,051</u>

The Association has a number of long-term housing loans the terms and conditions of which are as follows:

Lender	Number of Properties Secured	Effective Interest Rate	Maturity (Year)	Variable / Fixed
RBS	Standard Security over 445 properties	6.691%	2035	Fixed
RBS	Standard Security over 445 properties	Libor +0.245%	2035	Variable
RBS	Standard Security over 37 properties	Libor +0.245%	2027-2031	Variable
Bank of Scotland	Standard Security over 94 properties	Base +0.30%	2026-2027	Variable
Nationwide Building Society	Standard Security over 152 properties	3.40%-4.24%	2041	Fixed
Nationwide Building Society	Standard Security over 31 properties	Base +0.40%	2041	Variable
Nationwide Building Society	Standard Security over 46 properties	Libor +0.40%	2041	Variable
Triodos Bank	Standard Security over 30 properties	Base +1.5%	2042	Variable
East Lothian Council	Standard Security over 199 properties	2.81%-5.40%	2039-2047	Fixed
The Scottish Government	Standard Security over 12 properties	13.0%	2020	Fixed

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. STATEMENT OF CASH FLOWS

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

	2019 £	2018 £
Surplus for the year	971,831	1,655,249
Depreciation	2,153,542	2,018,948
Gain on disposal	(39,982)	(417,175)
Amortisation of Capital Grants	(1,316,662)	(1,271,707)
Change in debtors	(223,556)	109,355
Change in creditors	95,553	(1,109,781)
Unwinding of Discount on Pension Liability	(107,000)	10,000
Transfer of interest to financial activities	874,644	1,368,739
Movement in fair value of financial instrument	(31,000)	(469,000)
Share Capital Written Off	(11)	-
Net cash inflow from operating activities	<u>2,377,359</u>	<u>1,894,628</u>

Reconciliation of net cash flow to movement in net debt

	2019		2018	
	£	£	£	£
Decrease in cash	(115,534)		(970,030)	
Cashflow from change in net debt	1,007,986		553,302	
Movement in net debt during the year		892,452		(416,728)
Net debt at 1 April 2018		(24,989,136)		(24,572,408)
Net debt at 31 March 2019		<u>(24,096,684)</u>		<u>(24,989,136)</u>

Analysis of changes in net debt

	At 01/04/2018	Cashflows	Other Changes	At 31/03/2019
	£	£	£	£
Cash at bank and in hand	1,739,126	(115,534)		1,623,592
Bank overdrafts	-			-
	<u>1,739,126</u>	<u>(115,534)</u>	-	<u>1,623,592</u>
Liquid resources	-	-		-
Debt: Due within one year	(698,046)	(18,947)		(716,993)
Due after more than one year	(26,030,216)	1,026,933		(25,003,283)
Net Debt	<u>(24,989,136)</u>	<u>892,452</u>	-	<u>(24,096,684)</u>

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. DEFERRED INCOME

	Housing Properties Held for Letting £	Shared Ownership Completed £	Total £
Social Housing Grants			
As at 1 April 2018	51,996,095	1,309,303	53,305,398
Eliminated on disposal of components and property	-	(7,692)	(7,692)
As at 31 March 2019	51,996,095	1,301,611	53,297,706
Amortisation			
As at 1 April 2018	17,081,642	744,380	17,826,022
Amortisation in year	1,299,904	32,733	1,332,637
As at 31 March 2019	18,381,546	777,113	19,158,659
Net book value			
As at 31 March 2019	33,614,549	524,498	34,139,047
As at 31 March 2018	34,914,453	564,923	35,479,376

This is expected to be released to the Statement of Comprehensive Income in the following years:

	2019 £	2018 £
Amounts due within one year	1,332,635	1,333,228
Amounts due in one year or more	32,806,412	34,146,148
	34,139,047	35,479,376

20. SHARE CAPITAL

	2019 £	2018 £
Shares of £1 each Issued and Fully Paid		
As at 1 April 2018	107	105
Issued in year	1	2
Cancelled in year	(11)	-
As at 31 March 2019	97	107

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.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. HOUSING STOCK

The number of units of accommodation in management at the year end was:-	2019	2018
	No.	No.
General Needs - Rented	1,326	1,326
Shared Ownership property	44	45
	<u>1,370</u>	<u>1,371</u>

Housing units managed by the Association and leased to another body:

Name of Organisation	Number of Units		Funding Payable	
	2019 No.	2018 No.	2019 No.	2018 No.
Blue Triangle (Glasgow) Housing Association	9	9	-	-
East Lothian Council	14	14	-	-

22. RELATED PARTY TRANSACTIONS

Members of the Management Committee are related parties of the Association as defined by Financial Reporting Standard 102.

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

Transactions with governing body members (and their close family) were as follows:

One member of the Management Committee is employed by Anderson Strathern, a firm which provides legal services to the Association. During the year Anderson Strathern was paid £38,311 (2018: £48,272) for legal fees under normal commercial terms. £17,378 (2018: £18,720) of these fees are included within accruals at 31 March 2019.

In 2019, members of the management committee, their families and one of the Association's Key Management personnel used R3 Direct Services during the year. The total amount due from these parties was £1,918 (2018: £3,780) of which £778 (2018: £1,944) of this balance was outstanding at the year end.

During the year, in accordance with formal agreements between it and its subsidiary, the Association invoiced the subsidiary for the services provided as follows:

	2019	2018
	£	£
Occupancy Charge	7,500	7,500
Recharge for share of management and administration costs	190,843	161,785
Interest on Loan	29,394	27,422

The Association procured repairs and maintenance services to a total cost of £2,713,548 (2018: £2,068,765) for the year from its subsidiary. All transactions were made at arms length and under normal commercial terms.

The Association has provided a loan of £630,000, under the terms of a formal agreement, to its subsidiary. In addition the subsidiary was due the sum of £967,217 (2018: £730,470) to the Association and the Association due the sum of £788,520 (£658,715) to its subsidiary at 31 March 2019, for services provided but not yet settled.

The terms of the loan were amended in 2018 and the facility was increased to £1,100,000

During the year, the Association made charitable donations of £1,000 (2018: £1,000) to the East Lothian Care & Repair Charitable Trust. Paula Oliver, Director of Finance and David Rose, member of the ELHA management committee are both Trustees of this Trust.

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. DETAILS OF ASSOCIATION

The Association is a Registered Society registered with the Financial Conduct Authority and is domiciled in Scotland.

The Association's principal place of business is 18-20 Market Street, Haddington,

The Association is a Registered Social Landlord and Scottish Charity that owns and manages social housing property in East Lothian.

24. MANAGEMENT COMMITTEE MEMBER EMOLUMENTS

Management Committee members received £560 (2018 - £256) in the year by way of reimbursement of expenses. No remuneration is paid to Management Committee members in respect of their duties to the Association.

25. CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	2019 £	2018 £
Opening Fair Value of Derivative Financial Instruments	2,676,000	3,138,000
Change in Fair Value of Derivative Financial Instruments	(31,000)	(462,000)
Closing Fair Value of Derivative Financial Instruments	<u>2,645,000</u>	<u>2,676,000</u>

Interest Rate Risk

Bank borrowings are in accordance with the Association's Treasury Management Policy and interest rate risk is managed by having a suitable balance of variable and fixed rate borrowings. The Interest rate swap forms part of that strategy.

Remeasurement of Past Deficit Liability	<u>-</u>	<u>7,000</u>
---	----------	--------------

EAST LOTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. INVESTMENTS

Investments in Subsidiaries

Cost

As at 1 April and 31 March

NBV

As at 31 March

As at 1 April

2019	2018
£	£
1	1
<u>1</u>	<u>1</u>
<u>1</u>	<u>1</u>

In the opinion of the Management Committee the aggregate value of the assets of the subsidiary is not less than the aggregate of the amounts at which those assets are stated in the Association's balance sheet.

The Association has a 100% owned subsidiary named R3 Repairs Limited. The relationship between the Association and its subsidiary is set out in an independence agreement between both parties.

The aggregate amount of capital and reserves and the results of R3 Repairs Limited for the year ended 31 March 2019 were as follows:

	2019	2018
	£	£
Capital & Reserves	<u>(341,610)</u>	<u>(361,944)</u>
Surplus / (Deficit) for the year	<u>20,334</u>	<u>(151,020)</u>

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS

Scottish Housing Association Pension Scheme

The Association operates a defined benefit scheme as an admitted body under the Scottish Housing Association Pension Fund, the assets of which are held in a separate trustee administered fund.

The Scheme operates on a 'last man standing' basis, meaning that in the event of an employer withdrawing from the Scheme and being unable to pay its share of the debt on withdrawal then the liability of the withdrawing employer is re-appointed amongst the remaining employers. Therefore in certain circumstances the Association may become liable for the obligations of a third party.

The administering authority has responsibility for the management of the Fund. As most of the Fund's investments are equity based, there is an inherent risk of volatility in the investment market having a significant effect on the value of the fund's assets. In order to mitigate this risk, the Fund holds a diverse investment portfolio with a range of investment managers.

At the balance sheet date, there were 25 active members of the scheme employed by the Association. Total pension contributions made by the Association for the year were £435,360. Gross pensionable salaries for the year were £904,968.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2016. 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 £341m and indicated an increase in the shortfall of assets compared to liabilities to approximately £207m, equivalent to a past service funding level of 62.2%. All Scheme members have agreed to make contributions towards the past service deficit.

Change in Accounting Estimate

The pension fund is administered by the Pension Trust. Previously only the past service deficit was included as a liability in the financial statements as the Association's share of the pension assets and liabilities could not be determined. This year the Pension Trust have developed a method of calculating each member's share of the assets and liabilities of the scheme. The figures are available at 1 April 2018 and 31 March 2019. The Association has decided that this method is appropriate and provides a reasonable estimate of the pension assets and liabilities of the Association and has therefore adopted the valuation method.

In January 2019, the FRC issued FRED 71 (Draft amendments to FRS102, The Financial Reporting Standard applicable in the UK and Republic of Ireland, Multiemployer defined benefit plans) which provides proposed changes to FRS 102 and how to treat the transition from defined contribution to defined benefit accounting. This method has been adopted by the Housing Association as the most appropriate treatment. As a result the change has been accounted for as a change in accounting estimate.

Due to the change in accounting estimates the past service deficit liability has been removed as the liability is included in the pension liability now calculated by the actuary and shown under Pension and Other Provisions for Liabilities and Charges in the Balance Sheet. The change has been reflected in Other Comprehensive Income as follows:

	£
Opening pension liability per actuary	1,223,000
Opening past service deficit	860,000
Movement to other comprehensive income	<u>363,000</u>

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS

Change in Accounting Estimate (continued)

As a result the unwinding of the past service deficit is no longer shown within finance charges. Instead the expenses, interest and other comprehensive income as detailed within this note are incorporated within the financial statements.

The following figures are prepared by the Actuaries in accordance with their understanding of FRS 102 and Guidance Note 36: Accounting for Retirement Benefits under FRS 102 issued by the Institute and Faculty of Actuaries.

Principal Actuarial Assumptions

Assumptions as at 31 March	2019 %p.a.	2018 %p.a.
Salary increases	3.3%	3.2%
Inflation RPI	3.3%	3.2%
Inflation CPI	2.3%	2.2%
Discount rate	2.3%	3.2%

The members of the scheme comprise:

	2019 Number
Employee members	25
Deferred pensioners	18
Pensioners	17
	60

Mortality Rates

Life expectancy is based on the PFA92 and PMA92 tables, with mortality improvements projected based on members' individual year of birth. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males (Years)	Females (Years)
Current Pensioners	21.7	23.4
Future Pensioners	23.1	24.7

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS

Fair value of scheme assets by category

	2019	2018
	£000	£000
Growth Assets	3,033	3,198
Matching Plus	711	671
Liability Driven Investment	2,314	2,423
Net Current Assets	6	12
	<u>6,064</u>	<u>6,304</u>

None of the above assets includes any direct involvement in the Association's assets.

Net Pension Liability

	2019	2018
	£000	£000
Fair value of employer's assets	6,064	6,304
Present value of scheme liabilities	(7,335)	(7,527)
	<u>(1,271)</u>	<u>(1,223)</u>

Reconciliation of fair value of employer assets

	2019
	£000
Opening fair value of employer assets	6,304
Expected Return on Assets	155
Contributions by Members	26
Contributions by the Employer	431
Actuarial Gains / (Losses)	222
Estimated Benefits Paid	(1,074)
Closing fair value	<u>6,064</u>

Return on plan assets was £377,000.

Reconciliation of defined benefit obligations

	2019
	£000
Opening defined benefit obligation	7,527
Current Service Cost	294
Interest Cost	185
Contributions by members	26
Actuarial Gains	377
Estimated Benefits Paid	(1,074)
Closing defined benefit obligation	<u>7,335</u>

EAST LoTHIAN HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. RETIREMENT BENEFIT OBLIGATIONS

Analysis of amount charged to the Statement of Comprehensive Income

	2019 £000
Charged to operating costs:	
Service cost	294
	<hr/>
Charged to Other Finance Costs / (Income)	
Expected Return on employer assets	(155)
Interest on pension scheme liabilities	185
	<hr/>
	30
	<hr/>
Net Charge to the Statement of Comprehensive Income	324

Actuarial Gain / (Loss) recognised in Other Comprehensive Income

	2019 £000
Actuarial gain/(loss) recognised in year	(155)
Cumulative actuarial gains	(155)

28. SHAPS PENSION PROVISION

	2019 £
As at 1 April 2018	-
Decrease in Provision	(908,000)
Adjustment to opening pension liability	(363,000)
	<hr/>
Balance as at 31 March 2019	(1,271,000)