



Scott-Moncrieff
business advisers and accountants

KEY HOUSING ASSOCIATION LIMITED
CONSOLIDATED ACCOUNTS
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

KEY HOUSING ASSOCIATION LIMITED

LEGAL AND ADMINISTRATIVE DETAILS

Scottish Charity registration number	SC006652
Financial Conduct Authority registration number	1938R (S)
Scottish Housing Regulator registration number	HEP141
Registered office	70 Renton Street Glasgow G4 OHT

Members of the Board

John Paterson (Chairperson)
Joanna Pearson (Vice Chairperson)
Sheenagh Simpson (Vice Chairperson)
Angus Turner (Vice Chairperson - Appeals)
William Mooney
Anne Finnegan
Duncan Sim
David Meechan
David Le Sage
Gillian Anderson
Agnes Kelly
Laura Finnan-Cowan
Paul Cannop
Bob Parry
Jack Crombie
Anne McGuigan (appointed on 6 December 2017)

Executive Officers

Andrea Wood, Chief Executive
Alison Wood, Head of Finance
Gordon Anderson, Head of Housing
Jean Ramsay, Head of Support
Grace Semple, Head of HR

Secretary

James Kearns

Bankers

Clydesdale Bank plc
120 Bath Street
Glasgow
G2 2EN

Bank of Scotland plc
55 Bath Street
Glasgow
G2 5HS

External Auditor

Scott-Moncrieff
Allan House
25 Bothwell Street
Glasgow
G2 6NL

Solicitors

BTO Solicitors
48 St Vincent Street
Glasgow
G2 5HS

Naftalin Duncan & Co
534 Sauchiehall Street
Glasgow
G2 3LX

Internal Auditor

TIAA Ltd
Unit 53-55 Gosport Business Centre
Gosport
PO13 0FQ

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KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2018

The Board has pleasure in presenting its report together with the audited consolidated financial statements for the year ended 31 March 2018.

Structure, Governance and Management

Background

Key Housing Association Limited (hereafter referred to as "the Association") is a Registered Social Landlord incorporated under the Co-operative and Community Benefit Societies Act 2014, which provides housing and support to people with disabilities. The group refers to Key Housing Association Limited (KEY), Community Lifestyles Limited (Community Lifestyles) and KHA Developments Limited (KHA).

Community Lifestyles provides individualised home and community support services to people with disabilities mainly in housing not provided by the Association. Support services provided by KEY and Community Lifestyles are funded through contracts with local authorities. Community Lifestyles is a registered charity and is limited by guarantee. It remains under control of Key Housing Association Limited.

The principal activity of KHA is the redevelopment of housing which is used for the support of adults with disabilities. KHA is a limited company. It remains under control of Key Housing Association Limited, which holds 100% of the share capital of KHA.

Membership

The Board members at 31 March 2018 were John Paterson (Chairperson), Joanna Pearson (Vice Chairperson) Sheenagh Simpson (Vice Chairperson), Angus Turner (Vice Chairperson – appeals), William Mooney, Anne Finnegan, Duncan Sim, David Meechan, David Le Sage, Gillian Anderson, Agnes Kelly, Laura Finnan-Cowan, Paul Cannop, Bob Parry, Jack Crombie and Anne McGuigan.

Employee issues

The Group has an equal opportunities policy which seeks to ensure that, in its role as employer, landlord and service provider, it does not discriminate against people on the grounds of sex, marital status, religion, sexual orientation, age, disability, colour, race, nationality or ethnic or national origins.

In respect of health and safety and welfare at work, the Group has a health and safety policy and a training programme covering a comprehensive range of relevant health and safety issues, including emergency aid and moving and handling. The Group has a full-time health and safety officer as well as a health and safety committee for all office based health and safety issues.

In employee relations, the Group recognises Trade Union representation for support service based and office based employees and senior management meet regularly with Union representatives to discuss, and where appropriate negotiate, relevant matters relating to the activities of the Group.

Objectives and activities

The Group's Board agrees objectives and strategies for the Group normally within a 3 year strategic plan timescale. The strategic plan incorporates the long term funding of the Group. During the year ended 31 March 2018, a review process was commenced of the existing Strategic Plan for the period 2016 – 2020, which included a Group Strategic Plan.

The Group operates a policy manual which is reviewed and updated on an annual basis. Areas of policy include committee control and responsibility, housing management, maintenance, development, finance and HR. These include the following specific policies:

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2018

Objectives and activities (continued)

Governance - Committee Control and Accountability - Standing Orders and Code of Conduct, Policy on Gifts and Hospitality, Policy on Payments, Benefits and Corporate Accountability, Policy on Disclosure of Interest, Policy for Payment of Committee Member Expenses, Delegation of Authority from the Board, Complaints Procedure, Membership Policy, Risk Management Strategy, Equal Opportunities Policy, Participation Policy, Health and Safety Policy, Whistleblowing, Openness & Confidentiality, Sustainability, Information and Communication Technologies, IT Strategy, Data Protection, Insurances, Anti-fraud and Corruption, Media Guidelines, Performance Measurements and Business Continuity Planning.

Housing Management - Allocations Policies, Rent Policy, Arrears Policy, Estate Management Policy, Harassment Policy, Voids Management Policy, Recovery of Charges, Sub-letting, Lodgers, Assignment, Charging for Services, Legal Action, Abandonment, Furnished Lets and Anti-Social behaviour.

Maintenance - Maintenance Standards, Tenant Feedback on Repairs and Maintenance, Monitoring of Emergency Repairs and Pre and Post inspections.

Development - Development Procurement, CDM Regulations and Building Defects.

Finance - Treasury Management Policy, Internal Audit, Charging for Services, Reserves and Purchasing and Procurement.

Human Resources - Training, Staff Retirals, Criminal Convictions, Salaries, Support Through Illness, Staff Welfare, No Smoking, Redundancy and Grievance Policy.

The treasury management policy aims to ensure that the Group's funds are safeguarded and wisely invested, and that loan finance is negotiated within parameters agreed by the Board.

The rent policy aims to achieve a committed rental income that enables the Association to offer a high quality management and maintenance service to all tenants. The policy ensures that rents are viable, affordable and sustainable in the local housing context.

The long-term stock maintenance and repair policy aims to maintain a cost effective, responsive and reactive repair service to all tenants within the parameters of a 10 year strategic and 3 year implementation programme for planned and major repairs. This is within a longer term 60 year major repair profile.

Achievements and performance

During the year to 31 March 2018, additional funding was made available to Social Care providers from local authorities to ensure that all social care staff were being paid at least the Scottish Living Wage per hour. This resulted in increases to funding across all local authority areas which in turn allowed a salary increase for all staff backdated to 1 April 2017. There was also additional funding for overnight support arrangements which allowed the move to hourly paid sleepovers from October 2017.

Despite the targeted funding increased linked to the Scottish Living Wage, the funding of public services, including social care, continues to be seriously affected by ongoing constraints within the public finances in the UK, and in particular the restrictions on local authority spending at a time of increasing need for social care services.

Local authorities continue to base their activities on planning assumptions for the period to, at least, 2019, projecting an increasing gap between available resources (which will reduce) and need (which will increase).

**REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT)
FOR THE YEAR ENDED 31 MARCH 2018**

Achievements and performance (continued)

During the year a number of local authorities required cuts in spending on social care, and KEY responded as positively as possible while retaining integrity in our support services. In the light of the introduction of the Self Directed Support Act in 2014, local authorities brought a variety of processes into place to meet their obligations under the Act. In most areas this has affected new people receiving social care for the first time, and apart from the two authorities (Glasgow and North Lanarkshire) that had already implemented new arrangements on a whole systems basis, the effect on KEY and the people we support continued to be limited in the course of the year to 31 March 2018. KEY's Strategic Plan has for some years anticipated the move to greater personalisation of social care, and preparations have been underway to ensure that our support and our back up systems are congruent with people having greater control over their support and its funding.

Our Strategic Plan recognises that the challenge for KEY is to tap into the non-financial resources and assets that exist throughout our communities and to focus directly on the quality of life outcomes for the people we support. KEY has had many years of experience in doing this, and in connecting with local communities to enhance the opportunities for those we support to have enriched lives beyond formal social care.

Following the development of specific strategies on Supporting People with Autism and Dementia during 2015/16, we continued, as part of a wider strategic move to articulate with a wider audience about the scope and nature of our work, to develop our strategies on Supporting Young People, People in Transition and people with Mental Health issues during 2017/18, which in turn has allowed us to support people with a wider range of needs.

We have continued to work closely with a number of local authorities on increasingly individualised approaches to support, and see this as a very positive commitment to ensuring people who need support can have as much control and choice as possible. We will continue to focus on making sure that our support helps people to have a good life, regardless of whether the person we support is funding directly or whether the funding is through a local authority.

The overall position across KEY for the year to 31 March 2018 was a small reduction in support hours provided of 0.5% (240 hours per week), compared to an increase of 2.5% (1,235 hours per week) for the previous year and reflects some planned support reductions as well as variations in individual arrangements and people supported.

At 31 March 2018, KEY supported 1,541 people in 15 local authority areas. In the course of the year, new support arrangements were established for 189 people. This compared to 237 new arrangements in the previous financial year. The overall level of support provided (hours per week) at 31 March 2018 was 49,476, a small reduction from the March 2017 level of 49,716 hours.

In the course of the year, a focus on staff training was maintained. KEY continued to develop its work as an accredited SVQ centre, to progress accreditation in accordance with the requirements of the Scottish Social Services Council. At 31 March 2018, the Association employed 1,766 contracted staff (295 full time and 1,471 part-time) and on average a further 533 on a relief basis. This compares to 1,735 contracted staff (308 full-time and 1,427 part-time) and on average a further 514 on a relief basis as at 31 March 2017. Details regarding the average number of staff employed during the year is included in note 9 of the financial statements.

KEY is nearing completion of an ambitious programme of sub-division of shared housing, and accessing alternative housing for people when required, which has been ongoing for several years and has provided individualised housing options and greater choice for people in relation to their housing. In the course of the year KEY was successful in obtaining funding from the Scottish Government which allowed work to be progressed on remodelling housing at Golspie and Fort William, the latter including short breaks accommodation.

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2018

Financial review

Key Housing Association Limited generated a surplus of £1,981,553 (2017 - £850,972) and had reserves of £11,283,516 (2017 - £9,301,972). This has been a relatively successful financial year for KEY and the surplus allows repayments to the SHAPS final salary pension scheme deficit in line with the agreed repayment plan. KEY continued to meet obligations to support staff in terms of Scottish Living Wage requirements and were able to secure additional funding during the year to move sleepover payments onto an hourly rate basis.

Community Lifestyles has continued to focus its work in Glasgow, providing highly individualised support to people with often very complex needs. The net income for the year to 31 March 2018 for Community Lifestyles Limited was £333,390 (2017 - *net expenditure* £157,758). Community Lifestyles Limited has reserves of £5,537,183 as at 31 March 2018 (2017 - £5,203,793). As at 31 March 2018, Community Lifestyles supported 490 people with total direct support of 16,047 hours per week. New support arrangements were developed for 115 people, compared with the previous year's figure of 179 people.

This was the fifth full year of operation of KHA Developments Limited which saw the completion of the planned remodelling of the shared flat at Fort William. Total turnover for the year was £107,657 (2017 - £233,404) with operating costs of £104,509 (2017 - £229,963), to give a profit before tax of £3,148 (2017 - £3,441).

The Group's surplus for the year was £2,315,365 (2017 - £696,656) with reserves of £16,824,739 (2017 - £14,509,383).

Value for money

Over the past 3 years, we have taken forward a number of initiatives to improve value for money from services and goods purchased, and in our support service activity. The context has been the downward pressure on our funding from local authorities for support services, both in the form of funding standstills or cuts and also reductions in the level of support for individuals, and we have been reviewing our central costs and service management costs in the light of these funding changes.

The main elements of these initiatives are described below:

Central services and costs

We undertake regular reviews of our main cost centres, such as telecommunications, insurance, cleaning services, printing and stationary and are updating our procurement strategy to ensure that maximum savings are achieved.

Head office costs

Both KEY and Community Lifestyles continue to benefit from ongoing expenditure reductions following the move to The Square and Kerr Street in 2013 and 2016 respectively. KEY have been able to reduce expenditure related to externally leased office accommodation for Glasgow based local managers by utilising space in Kerr Street. This has also allowed the sharing of administrative support and other office costs across the organisations resulting in efficiencies and cost savings.

**REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT)
FOR THE YEAR ENDED 31 MARCH 2018**

Value for money (continued)

Support service activity

The integrated management system (Evolve) has been rolled out across a number of KEY local services as well as Community Lifestyles. This assists greatly with the monitoring of staffing costs, direct support delivery and increased efficiency with direct links to payroll.

We have continued to reduce staff replacement costs related to training by developing more localised training facilities, and by developing e-learning for a number of core courses.

We continue to monitor and review our central and local service management structures and make efficiencies where possible. In Glasgow we continue to operate a consortium arrangement between the Association and Community Lifestyles, with co-location of management teams at Kerr Street. This enables a more strategic and efficient approach to service management and development, and underpins our continued success on the Glasgow Framework. Glasgow City Council announced details of a new framework agreement and a submission was made in July. The Consortium would hope to retain a high ranking place on this framework. KEY has also been successful in a number of other framework agreements throughout the year which cover both local authorities with existing services as well as new areas.

Statement on internal financial control

The Board is responsible for keeping proper books of account with respect to the Association's and Group's transactions and its assets and liabilities, and for maintaining a satisfactory system of control over the Association's and Group's books of account and transactions. The Board is also responsible for safeguarding the assets of the Association and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board acknowledges its ultimate responsibility for ensuring that the Association and Group has in place a system of control that is appropriate to the various business environments in which it operates. These controls are designed to give reasonable assurance with respect to:

- i) the reliability of financial information used within Association or Group or for publication;
- ii) the maintenance of proper accounting records; and
- iii) the safeguarding of assets against unauthorised use or disposition.

It is the Board's responsibility to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. Key elements of such systems are:

- i) Formal policies and procedures to restrict the unauthorised use of the Association's or Group's assets;
- ii) Experienced and suitably qualified staff take responsibility for important business functions;
- iii) Forecasts and budgets are prepared which allow the Members of the Board to monitor the key business risks and financial objectives, and progress towards financial plans set for the year and the medium term. Managements accounts are prepared and significant variances from budget are investigated as appropriate;

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2018

Statement on internal financial control (continued)

- iv) Major business risks and the financial implications are identified and monitored;
- v) All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures by the Board;
- vi) The appointment by the Board of an internal auditor to carry out a programme of internal audit of the Association's and Group's policies and control systems;
- vii) The Board reviews reports from management, the internal auditor and external auditor to provide reasonable assurance that the control procedures in place are being followed; and
- (viii) Formal practices have been established for instituting appropriate action to correct weaknesses identified from the reports of the external auditor and internal auditor.

The Members of the Board have reviewed the effectiveness of the system of internal controls in existence in the Association and Group for the year ended 31 March 2018. In the opinion of the Members of the Board, no weaknesses were found in the internal controls which would result in material loss, contingencies, or uncertainties requiring disclosure in the financial statements or the auditor's report.

Reserves

In line with recommended practice, the reserves which had been previously designated for specific purposes are no longer disclosed separately and have been released to the revenue reserve. These included reserves for major repairs and future training commitments as well as other smaller reserves. KEY continue to internally monitor these sums.

Going concern

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. The Board receive regular cash flow and financial reports during the year to enable an informed assessment to be made. For this reason, it continues to adopt the going concern basis in the financial statements.

Plans for future periods

In the course of the year, the Board monitored progress with the Strategic Plans for the period to 2018 for Housing and Support activities and agreed revised plans for the period to 2020. The plans included an assessment of the current operating environment and associated risks and opportunities, with Risk Registers included for Housing and Support activities which detail the main risks and actions being taken to mitigate these risks.

The main objectives within the Strategic Plan for support activity for KEY are as follows:

Objective 1

Flexible individual support services that meets people's desired outcomes and gives people as much control as possible over their life.

Objective 2

Support services that promote inclusion, participation and build both personal and community capacity.

Objective 3

Support services that are cost effective, fully funded and delivered in response to a variety of procurement arrangements.

Objective 4

A skilled, committed, creative and qualified workforce focused on delivering outcome focused support.

Objective 5

Central services that are responsive to requirements of personalised and self-directed individual services.

Objective 6

Stability, vision and commitment in the governance of KEY.

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2018

Plans for future periods (continued)

For each objective there is a range of strategies and targets detailing how the objectives are to be achieved, with timescales. One of the most important drivers of the strategies is the public policy direction of increasing personalisation of social care, embodied in the Self Directed Support Act. All of KEY's strategies are aligned to this, while recognising that it is a 10 year programme of public policy change and that competence and effectiveness in the existing social care procurement, funding and quality control environment must be maintained and developed as well as competence in the development of increasingly personalised services.

For KEY's Housing activity, the Housing Strategic Plan reflects the following objectives:

Objective 1

To achieve a housing service that meets individual needs and enables housing choice.

Objective 2

To achieve a housing service that provides housing that is well managed and maintained, and is desirable accommodation in the short and long term.

Objective 3

To achieve a housing service that is adequately funded.

Principal risks and uncertainties

The Group is committed to ensuring that it responds to, and manages, any challenges that may impact on the organisation, and recognises that a certain amount of risk is inevitable if the organisation is to achieve its priorities. A risk management framework is in place to assist with taking informed decisions regarding the risks that impact on Association's priorities, whether Strategic or Operational.

Principal risks identified through the Association's strategic risk register which have the potential to seriously affect the performance, future prospects or reputation of the Association are detailed below along with mitigating actions being taken by the Association.

In terms of Group wide risks, the main risks identified are:

Risks	Actions to Mitigate
That the Board is not equipped to control the organisation	Regular review of Board profile and performance. Comprehensive delegation guidelines. Clear remits for Audit and Office Bearers' Committees. System of Review Groups, and regular in house training programme.
That the pension scheme deficit grows or that loss of income inhibits the capacity to meet the deficit	Concession agreed with SHAPS for further 3 year period until 2020 at next revaluation.
Failure to meet the requirements of the Scottish Housing Regulator (SHR)	Committee annual review of compliance against SHR Regulatory Framework

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2018

Principal risks and uncertainties (continued)

For Support activity:

Risks	Actions to Mitigate
Costs driven to below acceptable level. Overstretched services/ insufficient resources to support managers	Review during 2016 of management resources (including admin support) in local services. Regular operational reviews. Comprehensive policies, procedures and training. Serious incident reporting system and follow up. Access to independent counselling
Recruitment difficulties and potential implications of Brexit	Rigorous recruitment process. Competitive terms and conditions. Local approaches to recruitment where appropriate.
Losing financial viability	Regular deployment analysis, budget review and operational reviews. Quarterly reports on service funding and development to OBC. Positive attitude to controlled growth. Intensive Housing Management funding to be further explored.
Losing services/not winning/missing tender	Ensuring sufficient staff resources to progress tender processes and a co-ordinated approach to tender submissions Regular review of service costs/profile and planning to adjust costs where required (including management structures and time) Registered with Public Contracts Scotland tender notification service

Other areas of inherent risk that are being given particular focus in our strategic priorities are:

- 1) Ensuring our cost base is affordable to purchasers;
- 2) Ensuring our policies and practices for health and safety, and guarding against abuse, are adequate; and
- 3) Ensuring our IT systems are adequate to our current and future needs.

REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT) FOR THE YEAR ENDED 31 MARCH 2018

Principal risks and uncertainties (continued)

For Housing activity:

In our Housing activity, the main risk areas relate to compliance with the Social Housing Charter, and related reporting requirements from the Scottish Housing Regulator, with which we must ensure compliance, and the introduction of welfare reform.

The main risks and actions to mitigate these are as follows:

Risks	Actions to mitigate
Poor satisfaction rating from tenants on quality of service received	Regular tenant satisfaction surveys are in place to ensure KEY is gaining feedback from tenants and responding to issues which arise. Overall focus on tenant satisfaction in all activity
Failure to meet requirements of Social Housing Charter and associated reporting requirements	Reporting requirements now captured.
Income eroded due to impact of impending welfare reform changes	Future uncertainty remains over the funding of additional landlord costs of supported housing following the introduction of the local housing allowance cap
Failure to consider rental affordability	Work underway to consider affordability in context of KEY's housing provision.
Poor satisfaction rating from tenants on quality of service received	Regular tenant satisfaction surveys are in place to ensure KEY is gaining feedback from tenants and responding to issues which arise. Overall focus on tenant satisfaction in all activity

Statement of the Board's Responsibilities

The Board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

Housing Association legislation requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and Group at the end of the year and of the income and expenditure of the Association and Group for the year then ended.

In preparing these financial statements the Board is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for keeping and maintaining a satisfactory system of control over proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and Group and to enable it 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 2014. The Board is also responsible for safeguarding the assets of the Association and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

KEY HOUSING ASSOCIATION LIMITED

**REPORT OF THE MEMBERS OF THE BOARD (INCORPORATING THE STRATEGIC REPORT)
FOR THE YEAR ENDED 31 MARCH 2018**

Disclosure of information to the auditor

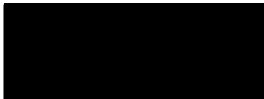
To the knowledge and belief of each of the persons who are members of the Board at the time this report is approved:

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

Auditor

A resolution to re-appoint Scott-Moncrieff, Chartered Accountants, as auditor will be put to the members at the Annual General Meeting.

By order of the Board



James Kearns
Secretary

Date: 29 August 2018

KEY HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEY HOUSING ASSOCIATION LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Opinion

We have audited the financial statements of Key Housing Association Limited (the "parent association") and its subsidiaries (the "group") for the year ended 31 March 2018 which comprise the Consolidated and Association Statement of Comprehensive Income, the Consolidated and Association Statement of Changes in Capital and Reserves, the Consolidated and Association Statement of Financial Position, the Consolidated and Association Statement of Cash Flows and the notes to the financial statements, 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).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and parent association's affairs as at 31 March 2018 and of the group's and parent association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefits Societies (Group Accounts) Regulations 1969, Part 6 of the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator.

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 group and parent association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our 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 audit opinion.

Conclusions relating to going concern

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

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group or the parent 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.

KEY HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEY HOUSING ASSOCIATION LIMITED ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Other information

The Board are 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.

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

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

- a satisfactory system of control over transactions has not been maintained by the parent association; or
- the parent association has not kept proper accounting records; or
- the parent association's financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.

Responsibilities of the Board

As explained more fully in the Statement of the Board's Responsibilities set out on page 9, the Board is 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 Board determine 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 Board are responsible for assessing the group's and the parent 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 Board either intend to liquidate the group or the parent association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under the Co-operative and Community Benefit Societies Act 2014 and report in accordance with the Act and relevant regulations made or having effect thereunder.

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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

KEY HOUSING ASSOCIATION LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEY HOUSING ASSOCIATION LIMITED ON
THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

Use of our report

This report is made solely to the parent association's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the parent association's members, as a body, 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 parent association and the parent association's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Scott-Moncrieff, Statutory Auditor

Eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006

Chartered Accountants

25 Bothwell Street

Glasgow

G2 6NL

Date: 29 August 2018

KEY HOUSING ASSOCIATION LIMITED

REPORT OF THE AUDITOR TO THE BOARD OF KEY HOUSING ASSOCIATION LIMITED ON CORPORATE GOVERNANCE MATTERS FOR THE YEAR ENDED 31 MARCH 2018

In addition to our audit of the Financial Statements, we have reviewed your statements on pages 5 and 6 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator.

Basis of Opinion

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

Opinion

In our opinion the Statement on internal financial control on pages 5 and 6 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

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



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

Dated: 29 August 2018

KEY HOUSING ASSOCIATION LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018**

	Notes	2018 £	2017 £
Turnover	4	63,685,803	59,723,906
Operating expenditure	4	(61,189,732)	(58,472,068)
Operating surplus	4, 8	2,496,071	1,251,838
Interest receivable and other income	11	24,216	37,469
Interest payable and similar charges	11	(204,922)	(695,875)
Movement in market value of investments	15	-	103,224
Surplus before tax		2,315,365	696,656
Taxation	12	-	-
Surplus for the year		2,315,365	696,656
Other comprehensive income		-	-
Total comprehensive income		2,315,365	696,656

The results for the year relate wholly to continuing activities.

The notes form part of these financial statements.

Included in operating expenditure is a remeasurement gain of £225,802 (2017 – a loss of £370,272) in respect of the remeasurement of the SHAPS past service deficit liability as detailed in note 23.

KEY HOUSING ASSOCIATION LIMITED

ASSOCIATION STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £	2017 £
Turnover	5	50,688,505	47,746,024
Operating expenditure	5	(48,522,430)	(46,330,954)
Operating surplus	5, 8	2,166,075	1,415,070
Interest receivable and other income	11	19,309	23,553
Interest payable and similar charges	11	(203,831)	(690,875)
Movement in market value of investments	15	-	103,224
Surplus before tax		1,981,553	850,972
Taxation	12	-	-
Surplus for the year		1,981,553	850,972
Other comprehensive income		-	-
Total comprehensive income		1,981,553	850,972

The results for the year relate wholly to continuing activities.

The notes form part of these financial statements.

Included in operating expenditure is a remeasurement gain of £225,000 (2017 - a loss of £369,236) in respect of the remeasurement of the SHAPS past service deficit liability as detailed in note 23.

KEY HOUSING ASSOCIATION LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 31 MARCH 2018**

	Note	Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2017		318	14,509,065	14,509,383
Total comprehensive income for the year		-	2,315,365	2,315,365
Shares cancelled during the year	25a	(11)	-	(11)
Shares issued in the year	25a	2	-	2
Balance at 31 March 2018		<u>309</u>	<u>16,824,430</u>	<u>16,824,739</u>

**CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 31 MARCH 2017**

		Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2016		382	13,812,409	13,812,791
Total comprehensive income for the year		-	696,656	696,656
Shares cancelled during the year	25a	(66)	-	(66)
Shares issued in the year	25a	2	-	2
Balance at 31 March 2017		<u>318</u>	<u>14,509,065</u>	<u>14,509,383</u>

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

**ASSOCIATION STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 31 MARCH 2018**

	Note	Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2017		318	9,301,654	9,301,972
Total comprehensive income for the year			1,981,553	1,981,553
Shares cancelled during the year	25a	(11)	-	(11)
Shares issued during the year	25a	2	-	2
Balance at 31 March 2018		<u>309</u>	<u>11,283,207</u>	<u>11,283,516</u>

**ASSOCIATION STATEMENT OF CHANGES IN CAPITAL AND RESERVES
AS AT 31 MARCH 2017**

		Share Capital £	Revenue Reserves £	Total Reserves £
Balance at 1 April 2016		382	8,450,682	8,451,064
Total comprehensive income for the year		-	850,972	850,972
Shares cancelled during the year	25a	(66)	-	(66)
Shares issued during the year	25a	2	-	2
Balance at 31 March 2017		<u>318</u>	<u>9,301,654</u>	<u>9,301,972</u>

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

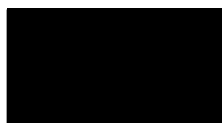
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018**

	Notes	2018 £	2017 £
Tangible fixed assets			
Housing properties	13	16,108,111	16,163,587
Other fixed assets	14	4,595,782	4,735,520
		<u>20,703,893</u>	<u>20,899,107</u>
Current assets			
Debtors	15	7,084,458	6,505,305
Investments	16	1,084,665	1,311,665
Cash and cash equivalents	17	6,043,167	5,005,989
		<u>14,212,290</u>	<u>12,822,959</u>
Creditors: amounts falling due within one year	18	<u>(6,368,591)</u>	<u>(5,802,872)</u>
Net current assets		<u>7,843,699</u>	<u>7,020,087</u>
Total assets less current liabilities		<u>28,547,592</u>	<u>27,919,194</u>
Creditors: amounts falling due after more than one year	19	<u>(11,722,853)</u>	<u>(13,409,811)</u>
Net assets		<u><u>16,824,739</u></u>	<u><u>14,509,383</u></u>
Capital and reserves			
Share capital	25a	309	318
Revenue reserves	25b	16,824,430	14,509,065
		<u><u>16,824,739</u></u>	<u><u>14,509,383</u></u>


The financial statements were authorised for issue by the Members of the Board on 29 August 2018 and were signed on its behalf by:



James Kearns
Secretary



John Paterson
Chairperson



Joanna Pearson
Vice Chairperson

Regulated number: 1938R(S)

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

**ASSOCIATION STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018**

	Notes	2018 £	2017 £
Tangible fixed assets			
Housing properties	13	16,108,111	16,163,587
Other fixed assets	14	2,580,051	2,659,957
		<u>18,688,162</u>	<u>18,823,544</u>
Current assets			
Debtors	15	5,325,351	4,719,254
Investments	16	495,051	722,051
Cash and cash equivalents	17	3,617,120	2,880,152
		<u>9,437,522</u>	<u>8,321,457</u>
Creditors: amounts falling due within one year	18	<u>(5,188,779)</u>	<u>(4,525,754)</u>
Net current assets		<u>4,248,743</u>	<u>3,795,703</u>
Total assets less current liabilities		22,936,905	22,619,247
Creditors: amounts falling due after more than one year	19	<u>(11,653,389)</u>	<u>(13,317,275)</u>
Net assets		<u>11,283,516</u>	<u>9,301,972</u>
Capital and reserves			
Share capital	25a	309	318
Revenue reserves	25b	11,283,207	9,301,654
		<u>11,283,516</u>	<u>9,301,972</u>

The financial statements were authorised for issue by the Members of the Board on 29 August 2018 and were signed on its behalf by:



James Kearns
Secretary



John Paterson
Chairperson



Joanna Pearson
Vice Chairperson

Regulated number: 1938RCS

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018**

	Notes	2018 £	2017 £
Net cash generated from operating activities	26a	1,661,790	571,995
Cash flow from investing activities			
Payments to acquire and improve housing stock		(503,530)	(667,845)
Purchase of other property, plant and equipment		(136,767)	(1,212,722)
Proceeds from sale of property, plant and equipment		2,400	3,400
Interest received		24,216	37,469
Grants received		-	162,607
		(613,681)	(1,677,091)
Cash flow from financing activities			
Issue of share capital		2	2
Interest paid		(74,831)	(82,875)
Repayment of borrowings		(163,102)	(155,749)
Withdrawal from / (deposit to) current asset investments		227,000	(15,236)
		(10,931)	(253,858)
Net change in cash and cash equivalents		1,037,178	(1,358,954)
Cash and cash equivalents at beginning of year		5,005,989	6,364,943
Cash and cash equivalents at end of the year		6,043,167	5,005,989

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

**ASSOCIATION STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018**

	Notes	2018 £	2017 £
Net cash generated from operating activities	26b	1,351,973	782,976
Cash flow from investing activities			
Payments to acquire and improve housing stock		(503,530)	(667,845)
Purchase of other property, plant and equipment		(122,253)	(51,539)
Proceeds from sale of property, plant and equipment		2,400	3,400
Interest received		19,309	23,553
Grants received		-	162,607
		(604,074)	(529,824)
Cash flow from financing activities			
Issue of share capital		2	2
Interest paid		(74,831)	(82,875)
Repayment of borrowings		(163,102)	(155,749)
Withdrawal from current asset investments		227,000	-
		(10,931)	(238,622)
Net change in cash and cash equivalents		736,968	14,530
Cash and cash equivalents at beginning of year		2,880,152	2,865,622
Cash and cash equivalents at end of the year		3,617,120	2,880,152

The notes form part of these financial statements.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

1. General information

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

The preparation of financial statements in compliance with FRS 102 requires the use of certain accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies (see note 3).

The presentation currency is pounds sterling and the financial statements are rounded to the nearest whole number.

The Association is a Co-operative and Community Benefit Society limited by shares and is incorporated in the United Kingdom. The Association is a registered social landlord in Scotland and its registered number is HEP141. The registered address is available on the first page of the financial statements.

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

2. Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, subject to the revaluation of certain fixed assets, and in accordance with applicable accounting standards. However, please note that on transition to FRS 102, an existing use value was used as deemed cost for housing properties. The effect of events relating to the year ended 31 March 2018, which occurred before the date of approval of the financial statements by the Board have been included in the statements to the extent required to show a true and fair view of the state of affairs as at 31 March 2018 and of the results for the year ended on that date.

Basis of consolidation

These financial statements consolidate those of Key Housing Association Limited and its subsidiary undertakings, Community Lifestyle Limited and KHA Developments Limited, drawn up to 31 March 2018 as obliged by statute. Surpluses or deficits on intra-group transactions are eliminated in full.

Turnover

Association

Turnover represents rental income earned in the period and grants of a revenue nature from local authorities and the Scottish Government for the provision of support services in the period which are recognised in line with the provision of the service.

Community Lifestyles Limited

All incoming resources are included in the Statement of Financial Activities when the charitable company is entitled to the income and the amount can be quantified with reasonable accuracy. The following specific policies are applied to particular categories of income:

- Support service income is recognised when the charitable company becomes unconditionally entitled to the funding;
- Investment income is included when receivable.

2. Principal accounting policies (continued)

KHA Developments Limited

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Going concern

The Board expect the Association to generate a surplus in 2018/19 and 2019/20 and the Board is satisfied that the Association has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason the financial statements have been prepared on a going concern basis which presumes the realisation of assets and liabilities in the normal course of business.

Government Capital Grants

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

Government Revenue Grants

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

Non-government capital and revenue grants

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

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

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

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

2. Principal accounting policies (continued)

Interest receivable

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

Interest payable

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

Operating leases

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

Fixed assets and depreciation

Housing properties are stated at deemed cost based on an Existing Use Value at 1 April 2014. From this date, housing properties have been accounted for under historical cost. The cost of properties includes land cost, all construction costs, professional fees and development administration costs.

The group separately identifies the major components which comprise its housing properties, and charges depreciation, so as to write off the cost of each component to its estimated residual value, on a straight line basis, over its estimated useful economic life.

The Association depreciates the major components of its housing properties over the following years with the corresponding annual rates:

Land	Not depreciated
Buildings	50 years (2%)
Kitchens	18 years (5.56%)
Bathrooms	20 years (5%)
Heating systems	15 years (6.67%)
Roof structure and coverings	50 years (2%)
Windows	25 years (4%)

No depreciation is charged on assets during the course of construction.

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on the following basis:

Motor vehicles	-	20% - 33% per annum straight line method
Office Accommodation	-	2.5% per annum straight line method
Office Equipment		
- Equipment and Furniture	-	10% per annum reducing balance method
- Computer Equipment	-	25% per annum reducing balance method
- Photocopier	-	20% per annum reducing balance method
Wemyss Bay Lodge	-	3.33% per annum straight line method

Depreciation is charged on these fixed assets from the year of purchase but no charge is made in the year of disposal.

2. Principal accounting policies (continued)

Investments

Quoted investments are included in the financial statements at market value which is defined as mid-price.

Debtors

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

Rental arrears

Rental arrears represent amounts due by tenants for rental of social housing properties at the year end. Rental arrears are reviewed regularly by management and written down to the amount deemed recoverable. Any provision deemed necessary is shown alongside gross rental arrears in Note 15.

Cash and cash equivalents

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

Creditors

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

Financial instruments

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

2. Principal accounting policies (continued)

Loans

Mortgage loans are advanced by private institutions and local authorities under the terms of individual mortgage deeds in respect of each property or housing development. Advances are only available in respect of those developments which have been given approval for by the Scottish Government.

Investments in subsidiary

The investment in the subsidiary, KHA Developments Limited, is stated at cost, less any provisions required where there has been a permanent diminution in their value.

Retirement benefits (note 23)

Up until 1 April 2014, the Group participated in The Scottish Housing Associations' Defined Benefits Pension Scheme (SHAPS) and retirement benefits to employees of the Group 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.

On 1 April 2014 the Group's defined benefit scheme was closed to future accrual, with the Group participating from that date in a Defined Contribution Scheme within the Scottish Housing Associations' Pension Scheme, for existing members. All new staff members are eligible to participate in a defined contribution scheme provided by Standard Life.

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

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

Defined Contribution Scheme

As noted above, the Group also participates in defined contribution schemes with SHAPs and with Standard Life. The pension costs charged against operating profits are contributions payable to the respective scheme in respect of the financial year.

Reserves

In line with recommended practice, the reserves which had been previously designated for specific purposes are no longer disclosed separately within the financial statements. These included reserves for major repairs and future trading commitments as well as other smaller reserves. The Group and the Association continue to internally monitor these sums.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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

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

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

Estimate

Basis of estimation

Valuation of Housing Properties

Housing Properties are held at deemed cost which is based on an existing use valuation at the date of transition of 1 April 2014. The assumptions used in the existing use value were reviewed and are considered reasonable.

Useful lives of property, plant and equipment

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

The main components of housing properties and their useful lives

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

Recoverable amount of rental and other trade receivables

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

The obligations under the SHAPs pension scheme

This has relied on the actuarial assumptions of a qualified actuary which have been reviewed and are considered reasonable and appropriate. This is based on the 2015 valuation.

Investments at market value

This has relied on the valuation prepared by investment managers as at the year end.

The provision for the estimated cost of back pay for sleepovers

The provision has been estimated using the average underpayment per employee multiplied by the number of sleepovers worked for the agreed period.

KEY HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

4. Particulars of turnover, operating expenditure and operating surplus - Consolidated

	Turnover 2018 £	Operating expenditure 2018 £	Operating surplus/ (deficit) 2018 £	Operating surplus/ (deficit) 2017 £
Social lettings (note 6)	4,908,907	4,327,048	581,859	800,757
Other activities (note 7a)	58,776,896	56,862,684	1,914,212	451,081
Total 2018	<u>63,685,803</u>	<u>61,189,732</u>	<u>2,496,071</u>	
Total 2017	<u>59,723,906</u>	<u>58,472,068</u>		<u>1,251,838</u>

5. Particulars of turnover, operating expenditure and operating surplus – The Association

	Turnover 2018 £	Operating expenditure 2018 £	Operating surplus/ (deficit) 2018 £	Operating surplus/ (deficit) 2017 £
Social lettings (note 6)	4,908,907	4,327,048	581,859	800,757
Other activities (note 7b)	45,779,598	44,195,382	1,584,216	614,313
Total 2018	<u>50,688,505</u>	<u>48,522,430</u>	<u>2,166,075</u>	
Total 2017	<u>47,746,024</u>	<u>46,330,954</u>		<u>1,415,070</u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

6. Particulars of turnover, operating expenditure and operating surplus from social letting activities – Consolidated and Association

	General Needs Housing £	Supported Housing £	2018 Total £	2017 Total £
Rent receivable net of service charges	501,123	3,941,927	4,443,050	4,366,892
Service charges	20,289	487,113	507,402	445,419
Gross income from rents and service charges	521,412	4,429,040	4,950,452	4,812,311
Less voids	(7,972)	(40,198)	(48,170)	(47,766)
Net income from rents and services	513,440	4,388,842	4,902,282	4,764,545
Amortisation of deferred government capital grants	-	6,625	6,625	3,373
Total turnover from social letting activities	513,440	4,395,467	4,908,907	4,767,918
Management and maintenance administration costs	(128,094)	(651,974)	(780,068)	(818,446)
Service costs	(40,676)	(1,845,377)	(1,886,053)	(1,787,872)
Planned and cyclical maintenance costs including major repairs	(130,023)	(655,623)	(785,646)	(530,416)
Reactive maintenance costs	(52,343)	(263,932)	(316,275)	(314,010)
Depreciation of social housing	(93,520)	(465,486)	(559,006)	(516,417)
Operating expenditure for social letting activities	(444,656)	(3,882,392)	(4,327,048)	(3,967,161)
Operating Surplus on letting activities, 2018	68,784	513,075	581,859	
Operating Surplus on letting activities, 2017	113,219	687,538		800,757

Included in depreciation of social housing is £125,753 (2017 - £97,634) in respect of the loss on disposal of components.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

7a. Particulars of turnover, operating expenditure and operating surplus/(deficit) from other activities – Consolidated

	Grants from Scottish Ministers 2018 £	Support funding 2018 £	Total turnover 2018 £	Operating expenditure 2018 £	Operating surplus / (deficit) 2018 £	Operating surplus 2017 £
Development activities	147,641	-	147,641	164,830	(17,189)	(23,941)
Care activities	-	58,629,255	58,629,255	56,697,854	1,931,401	475,022
Total from other activities 2018	147,641	58,629,255	58,776,896	56,862,684	1,914,212	
Total from other activities 2017	179,114	54,776,874	54,955,988	54,504,907		451,081

7b. Particulars of turnover, operating expenditure and operating surplus/(deficit) from other activities – Association

	Grants from Scottish Ministers 2018 £	Support funding 2018 £	Other Agency / Management Services 2018 £	Total turnover 2018 £	Operating expenditure 2018 £	Operating surplus / (deficit) 2018 £	Operating surplus/(deficit) 2017 £
Development activities	147,641	-	-	147,641	164,830	(17,189)	(23,941)
Care activities	-	44,839,536	792,421	45,631,957	44,030,552	1,601,405	638,254
Total from other activities 2018	147,641	44,839,536	792,421	45,779,598	44,195,382	1,584,216	
Total from other activities 2017	179,114	42,006,571	792,421	42,978,106	42,363,793		614,313

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

8. Operating Surplus

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Operating surplus is stated after:				
Depreciation:				
- property	433,253	418,783	433,253	418,783
- other fixed assets	268,027	269,682	193,681	191,881
- loss on disposal of components	125,753	97,634	125,753	97,634
Loss on disposal of fixed assets	6,078	97,390	6,078	83,216
External auditor's remuneration exc VAT:				
- external audit services	25,000	25,000	14,250	14,250
Internal auditor's remuneration:				
- internal audit services	14,175	13,950	14,175	13,950
Operating lease costs:				
- motor vehicles	50,414	45,710	50,414	45,710
- land and buildings	530,599	569,978	530,599	569,978

9. Remuneration

Board members are not remunerated.

The number of employees in the year whose emoluments (excluding pension contributions) exceeded £60,000 were as follows:

	2018	2017
More than £60,000 but not more than £70,000	1	3
More than £70,000 but not more than £80,000	2	1
More than £80,000 but not more than £90,000	-	-
More than £90,000 but not more than £100,000	1	1

Total emoluments paid to employees whose emoluments (excluding pension contributions) exceeded £60,000 were as follows:

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Salary	317,926	373,526	317,926	373,526
Pension contributions	26,071	28,186	26,071	28,186
	343,997	401,712	343,997	401,712

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

9. Remuneration (continued)

The Association considers key management personnel to be the Board and the senior management team of the Association as detailed on the first page of the accounts under Executive Officers.

Key management emoluments	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Salary	371,185	429,563	371,185	429,563
Employers' national insurance	38,359	45,923	38,359	45,923
Pension contributions	30,850	32,915	30,850	32,915
	<u>440,394</u>	<u>508,401</u>	<u>440,394</u>	<u>508,401</u>

The emoluments excluding pension contributions of the highest paid director who is the Chief Executive were £94,867 (2017 - £100,084).

The Chief Executive is an ordinary member of the Scottish Housing Association Pension Scheme (SHAPS) as described in note 24. No enhanced or special terms apply to membership. The Chief Executive had no personal pension arrangements. Pension contributions in respect of the Chief Executive amounted to £7,741 (2017 - £6,134).

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Expenses paid to members of the Board	<u>2,869</u>	<u>2,965</u>	<u>2,869</u>	<u>2,965</u>

Staff costs (including Directors' emoluments) during the year:

Wages and salaries	50,014,519	47,156,753	39,220,996	37,151,550
Social security costs	4,125,175	3,587,466	3,169,746	2,738,678
Pension costs	462,655	446,015	396,668	384,438
Pension costs – Past service scheme expenses	62,500	66,817	61,777	66,110
Pension costs – Past service deficit measurement	(225,802)	370,272	(225,000)	369,236
	<u>54,439,047</u>	<u>51,627,323</u>	<u>42,624,187</u>	<u>40,710,012</u>

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

During the past year past service deficit contributions of £1,438,212 (2017 - £1,290,961) were paid for the Group and £1,414,809 (2017 - £1,269,054) for KEY. Of this payment £1,375,712 (2017 - £1,224,144) for the Group and £1,353,032 (2017 - £1,202,944) for KEY was a payment in respect of the SHAPS past service deficit liability. The remainder of £62,500 (2017 - £66,817) for the Group and £61,777 (2017 - £66,110) for KEY was pension management costs which have been included in the pension contributions total included in staff costs above.

The unwinding of the discount has been charged to finance costs in the Statement of Comprehensive Income. This finance cost was £130,091 (2017 - £613,000) for the Group and £129,000 (2017 - £608,000) for KEY in the year.

In addition to expenditure on direct salaries, the group incurred £1,405,423 (2017 - £1,475,679) expenditure on the use of agency staff. For KEY this was £907,611 (2017 - £777,018).

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

9. Remuneration (continued)

The average weekly number of persons employed and the full time equivalent (FTE) was as follows:

	Consolidated			
	2018 average weekly Nos	2017 average weekly Nos	2018 FTE Nos	2017 FTE Nos
Head Office	100	99	92	99
Services	2,790	2,702	2,175	2,111
	<u>2,890</u>	<u>2,801</u>	<u>2,267</u>	<u>2,210</u>

	Association			
	2018 average weekly Nos	2017 average weekly Nos	2018 FTE Nos	2017 FTE Nos
Head Office	100	99	92	99
Services	2,234	2,183	1,674	1,636
	<u>2,334</u>	<u>2,282</u>	<u>1,766</u>	<u>1,735</u>

10. Creditor payments

The group policy is to pay purchase invoices at the end of the month following receipt. On average, invoices are paid within 45 days (2017 - 45 days) of receipt.

11. Interest receivable and payable

	Consolidated		Association	
	2018 £	2017 £	2018 £	2017 £
Interest receivable and similar income				
Bank deposit interest	21,895	34,943	16,988	21,027
Union commission	2,321	2,526	2,321	2,526
	<u>24,216</u>	<u>37,469</u>	<u>19,309</u>	<u>23,553</u>
Interest payable and similar charges:				
Bank loans and other loan	(74,831)	(82,875)	(74,831)	(82,875)
Unwinding of the discount rate – pension deficit (note 24)	(130,091)	(613,000)	(129,000)	(608,000)
	<u>(204,922)</u>	<u>(695,875)</u>	<u>(203,831)</u>	<u>(690,875)</u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

12. Taxation

Group

The Association and Community Lifestyles Limited has charitable status and thus no corporation tax is due from their charitable activities.

KHA Developments Limited made a taxable profit of £3,148 but no tax was due as a result of the use of prior year tax losses.

Association

The Association has charitable status and thus no corporation tax is due from its charitable activities.

13. Fixed assets – Housing Land and Buildings – Consolidated and Association

	2018 £	2017 £
Cost		
At 1 April 2017	17,336,818	16,777,937
Additions	503,530	667,845
Disposals	(141,149)	(108,964)
At 31 March 2018	17,699,199	17,336,818
Property Depreciation		
At 1 April 2017	1,173,231	765,778
Charge for the year	433,253	418,783
Disposals	(15,396)	(11,330)
At 31 March 2018	1,591,088	1,173,231
Net Book Value at 31 March 2018	16,108,111	16,163,587

Total cost of components capitalised for the year amounted to £503,530 (2017 - £667,845). The amount spent on maintenance of housing properties held for letting can be seen in Note 6.

Additions to Housing Properties during the year includes £nil capitalised interest (2017 - £nil) and £nil capitalised administration costs (2017 - £nil). All housing properties are freehold. Properties with a cost of £nil (2017 - £nil) and accumulated depreciation of £nil (2017 - £nil) have been disposed in the year. Components with a cost of £141,149 (2017 - £108,964) and accumulated depreciation of £15,396 (2017 - £11,330) have been disposed of for £nil (2017 - £nil) net proceeds.

The housing properties were revalued as at 1 April 2014 by Graham & Sibbald Limited and this value was used as the deemed cost from that date in accordance with FRS102.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

14. Fixed Assets – Other - Consolidated

	Motor Vehicles £	Office Equipment £	Wemyss Bay Lodge £	Office Accomm- odation £	Total £
Cost					
At 1 April 2017	314,977	594,692	132,227	4,492,381	5,534,277
Additions	54,370	82,397	-	-	136,767
Disposals	(99,388)	-	-	-	(99,388)
At 31 March 2018	269,959	677,089	132,227	4,492,381	5,571,656
Depreciation					
At 1 April 2017	243,140	247,724	8,816	299,077	798,757
Charge for year	40,872	110,408	4,408	112,339	268,027
Disposals	(90,910)	-	-	-	(90,910)
At 31 March 2018	193,102	358,132	13,224	411,416	975,874
Net Book Value					
At 31 March 2018	76,857	318,957	119,003	4,080,965	4,595,782
At 31 March 2017	71,837	346,968	123,411	4,193,304	4,735,520

Fixed Assets – Other - Association

	Motor Vehicles £	Office Equipment £	Wemyss Bay Lodge £	Office Accomm- odation £	Total £
Cost					
At 1 April 2017	314,977	404,978	132,227	2,488,646	3,340,828
Additions	54,370	67,883	-	-	122,253
Disposals	(99,388)	-	-	-	(99,388)
At 31 March 2018	269,959	472,861	132,227	2,488,646	3,363,693
Depreciation					
At 1 April 2017	243,140	179,931	8,816	248,984	680,871
Charge for year	40,872	86,155	4,408	62,246	193,681
Disposals	(90,910)	-	-	-	(90,910)
At 31 March 2018	193,102	266,086	13,224	311,230	783,642
Net Book Value					
At 31 March 2018	76,857	206,775	119,003	2,177,416	2,580,051
At 31 March 2017	71,837	225,047	123,411	2,239,662	2,659,957

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

15. Debtors: falling due within one year

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Rent arrears	88,915	77,624	95,437	77,624
Less: provision for bad debts	(27,537)	(27,537)	(34,059)	(27,537)
Arrears for rent and service charge	61,378	50,087	61,378	50,087
Other debtors and prepayments	552,462	453,940	376,430	320,142
Local authority revenue grant receivable	6,470,618	6,001,278	4,589,121	3,701,077
Amounts owed by subsidiary undertakings	-	-	298,422	647,948
	<u>7,084,458</u>	<u>6,505,305</u>	<u>5,325,351</u>	<u>4,719,254</u>

16. Investments

Consolidated	2018	2017
	£	£
Quoted investments (see below)	495,050	722,050
Balances held in deposit accounts (> 3 months)	589,615	589,615
	<u>1,084,665</u>	<u>1,311,665</u>
Association	2018	2017
	£	£
Investment in subsidiary undertaking:		
- KHA Developments Limited	1	1
Quoted investments (see below)	495,050	722,050
	<u>495,051</u>	<u>722,051</u>

Key Housing Association Limited owns 1 ordinary £1 share in KHA Developments Limited (SC341478). The investment is held at cost. This represents a 100% shareholding in KHA Developments Limited, a company registered in Scotland, whose principal activity is that of acting as the design and build subsidiary of Key Housing Association Limited. KHA Developments Limited made a profit of £3,148 (2017 - £716) for the year ended 31 March 2018 and had net assets of £4,040 (2017 - £892).

At 31 March 2018 and at 31 March 2017, Key Housing Association Limited held 100% control over its subsidiary undertaking Community Lifestyles Limited, a company limited by guarantee whose principal activity is the support of adults with learning disabilities. KEY is the only member of Community Lifestyles Limited and approves the appointment of the directors of Community Lifestyles Limited. Community Lifestyles Limited made a surplus of £67,390 (2017 - a deficit of £157,758) for the year ended 31 March 2018 and had net assets of £5,271,183 (2017 - £5,203,793).

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

16. Investments (continued)

The Group and Key Housing Association Limited have quoted investments held via Fidelity as follows:

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Quoted investments				
Market value at 1 April 2017	722,050	618,826	722,050	618,826
Movement in market value	-	103,224	-	103,224
Divested in current year	(227,000)	-	(227,000)	-
Market value at 31 March 2018	<u>495,050</u>	<u>722,050</u>	<u>495,050</u>	<u>722,050</u>

The following investments represent over 5% of the portfolio

	Value at 31 March 2018 £	% holding
Legal and General UK Index R Inc.	68,536	14%
Legal and General European Index Trust R Inc.	60,134	12%
Legal and General US Index Trust	55,699	11%
M&G UK Inflation Linked Corporate Bond GPB A Inc.	44,613	9%
M&G Strategic Corporate Bond Fund I Inc	44,283	9%
Legal and General All Stocks Gilt Index Trust	30,443	6%

17. Cash and cash equivalents

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Current account	3,663,583	1,929,149	2,266,864	1,529,896
Deposit accounts (< 3 months)	2,379,584	3,076,840	1,350,256	1,350,256
	<u>6,043,167</u>	<u>5,005,989</u>	<u>3,617,120</u>	<u>2,880,152</u>

18. Creditors: falling due within one year

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Bank loans (note 21)	171,674	163,718	171,674	163,718
Trade creditors	227,806	189,094	227,806	189,094
Pension creditor	343,894	217,574	301,620	197,390
Other creditors	919,766	886,612	425,527	360,437
Social security and other taxes	967,857	859,640	733,336	647,999
Accruals and deferred grant income	2,336,592	2,120,758	1,762,176	1,544,220
Prepayments of rent and service charge	94,811	97,137	94,811	97,137
Amounts due to subsidiary undertakings	-	-	189,000	80,101
SHAPS past service pension liability (note 23)	1,299,566	1,261,714	1,276,204	1,239,033
Deferred Government capital grant (note 22)	6,625	6,625	6,625	6,625
	<u>6,368,591</u>	<u>5,802,872</u>	<u>5,188,779</u>	<u>4,525,754</u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Bank loans (note 21)	1,219,226	1,390,284	1,219,226	1,390,284
SHAPS past service pension liability (note 23)	10,192,377	11,701,652	10,122,913	11,609,116
Deferred Government capital grant (note 22)	311,250	317,875	311,250	317,875
	<u>11,722,853</u>	<u>13,409,811</u>	<u>11,653,389</u>	<u>13,317,275</u>

20. Financial Instruments

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Financial assets				
Investments	1,084,665	1,311,665	495,051	722,051
Cash and cash equivalents	6,043,167	5,005,989	3,617,120	2,880,152
Financial assets measured at amortised cost	<u>6,945,870</u>	<u>6,410,471</u>	<u>5,210,793</u>	<u>4,637,183</u>
Financial liabilities				
Financial liabilities measured at amortised cost	<u>17,281,417</u>	<u>16,984,996</u>	<u>16,030,262</u>	<u>16,839,458</u>

Financial assets measured at amortised cost comprise rent arrears, other debtors, grants receivable and amounts due from subsidiary undertakings.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, accruals, bank loans, SHAPS past service deficit liability, pension creditor, amounts due to subsidiary undertakings and the provision.

21. Loans: Consolidated and Association

	2018	2017
	£	£
Total bank loans outstanding:		
Payable in one year or less	171,674	163,718
Payable within one to two years	180,015	171,674
Payable within two to five years	591,980	770,105
Payable over five years	447,231	448,505
	<u>1,390,900</u>	<u>1,554,002</u>
Less: payable within one year	<u>(171,674)</u>	<u>(163,718)</u>
Total bank loans due after one year	<u>1,219,226</u>	<u>1,390,284</u>

Bank loans are secured by a fixed charge over certain properties of the Association.

The loans are repayable in equal monthly instalments and are secured over 25 or 30 years.

The highest rate of interest payable during the year was 5.76% and the lowest 1.4%.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

22. Deferred capital grants: Consolidated and Association

	2018 £	2017 £
Gross grant		
At 1 April 2017	331,246	168,639
Grants received in year	-	162,607
	<u>331,246</u>	<u>331,246</u>
At 31 March 2018		
Amortisation of grant		
At 1 April 2017	6,746	3,373
Amortisation	6,625	3,373
	<u>13,371</u>	<u>6,746</u>
At 31 March 2018		
Net grant at 31 March 2018	<u>317,875</u>	<u>324,500</u>
Payable in one year or less	6,625	6,625
Payable within one to two years	6,625	6,625
Payable within two to five years	19,875	20,237
Payable over five years	284,750	291,013
	<u>317,875</u>	<u>324,500</u>
Total		

23. Retirement benefits

Defined benefit scheme

Key Housing Association Limited and Community Lifestyles Limited participate in the Scottish Housing Pension Scheme (the scheme).

The Scheme is a multi-employer defined benefit scheme. The Scheme offers six benefit structures to employers, namely:

- Final salary with a 1/60th 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; and
- Defined Contribution.

An employer can elect to operate different benefit structures for their active members (as at the first day of April in any given year) and their new entrants. The DC option can be introduced by the employer on the first day of any month after giving a minimum of three months' prior notice.

Key Housing Association Limited and Community Lifestyle Limited have elected to operate the Defined Contributions Option for existing and new entrants. However, the Association and Community Lifestyles Limited are still required to fund the past service deficit liability.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**
23. Retirement benefits (continued)
Defined benefit scheme (continued)

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.

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

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

There was an additional annual employer past service deficit contribution of £1,375,712 (net of administration costs) made in the year ended 31 March 2018 (2017 - £1,224,144) for the Group.

The last formal published valuation of the Scheme was performed as at 30 September 2015 by a professionally qualified actuary using the "projected unit credit" method. The market value of the Scheme's assets at the valuation date was £616 million with liabilities of £814 million to give a deficit of £198 million, equivalent to a past service funding level of 76%.

The key valuation assumptions used to determine the assets and liabilities of the Scheme as at 30 September 2015 are detailed below:

- Investment return pre-retirement		5.30% per annum
- Investment return post retirement - Non-pensioners		3.40% per annum
- Investment return post retirement - Pensioners		3.40% per annum
- Rate of salary increases		4.10% per annum
- Rate of pension increases	- pension accrued pre 6 April 2005	2.00% per annum
	- pension accrued from 6 April 2005	1.70% per annum
	(for leavers before 1 October 1993 pension increases are 5%)	
- Rate of price inflation		2.60% per annum

30 September 2017 funding update

The Employer Committee has recently received the 30 September 2017 Actuarial Report, the annual funding update which shows the Scheme's ongoing funding position in between each three-yearly valuation.

A summary is shown below:

30 September	Assets	Liabilities	Deficit	Funding
2015	£616m	£814m	£198m	76%
2016	£810m	£1,020m	£210m	79%
2017	£852m	£981m	£129m	87%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**23. Retirement benefits (continued)**

The Trustee's view is that the recovery plan remains appropriate and there is no need to take any action ahead of the next actuarial valuation due at 30 September 2018.

The past service deficit contribution for 2017/18 was £1,353,032 (net of administration costs) for the Association and £22,680 for Community Lifestyles Limited. In 2018/19 Key Housing Association Limited will be required to pay £1,337,980 (net of administration costs) and Community Lifestyles Limited will pay £23,404 (net of administration costs), as a contribution to the past service deficit. This will increase by 3% per year. The deficit is now expected to be removed from the Scheme by 28 October 2026 (previously 30 September 2027) for the Association and by 22 February 2022 for Community Lifestyle Limited. The past service deficit liability recognised in the financial statements is based on the revised estimated contribution schedule provided on 3 March 2016 by the Pensions Trust.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up. The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

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.

The Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Scheme based on the financial position of the scheme as at 30 September 2017. As of this date the estimated employer debt for the Association was £54,328,274 (2017 - £71,883,083) and for Community Lifestyles Limited was £756,499 (2017 - £1,000,617).

Present Value of Provision**Reconciliation of Opening and Closing Provisions**

	Consolidated		Association	
	2018	2017	2018	2017
	£	£	£	£
Provision at start of period	12,963,366	13,204,238	12,848,149	13,073,857
Unwinding of the discount factor (interest expense)	130,091	613,000	129,000	608,000
Deficit contribution paid	(1,375,712)	(1,224,144)	(1,353,032)	(1,202,944)
Re-measurements – impact of changes in assumptions	(225,802)	370,272	(225,000)	369,236
Provision at end of period	11,491,943	12,963,366	11,399,117	12,848,149

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

23. Retirement benefits (continued)

Split:	< 1 year	1,299,566	1,261,714	1,276,204	1,239,033
	1-2 years	1,309,626	1,279,740	1,286,083	1,256,735
	2-5 years	3,911,486	3,986,346	3,865,528	3,916,815
	> 5 years	4,971,302	6,435,566	4,971,302	6,435,566
Total		11,491,980	12,963,366	11,399,117	12,848,149

Impact on Statement of Comprehensive Income	2018 £	2017 £	2018 £	2017 £
Interest expense	130,091	613,000	129,000	608,000
Re-measurements – impact of changes in assumptions	(225,802)	370,272	(225,000)	369,236
	(95,711)	983,272	(96,000)	977,236

Assumptions	2018	2017	2018	2017
Rate of discount	1.51%	1.06%	1.51%	1.06%

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

Defined contribution - SHAPS

There are 143 active members of the SHAPS DC scheme as at 31 March 2018 for the Group and 134 for KEY only. The Group and KEY contribute 5.1% as an employer contribution. Total employer contributions for the year were £224,338 (2017 - £223,486) for the Group and £211,164 (2017 - £212,225) for Key only. Included in the year end creditors balance is £37,671 (2017 - £34,351) for the Group and £34,643 (2017 - £32,896) for KEY only in respect of pension contributions payable. This represents one month's contributions.

Defined contribution - Other

The Group also offers a defined contribution pension scheme under SHAPS. Employer contributions for the year were £21,094 (2017 - £22,475) for the Group and £19,773 (2017 - £20,564) for Key Housing Association Limited only. Included in creditors as at 31 March 2018 is £3,071 (2017 - £2,910) in respect of the defined contribution scheme for the group and £2,870 (2017 - £2,732) for Key Housing Association Limited only. This represents one month's contribution. As at 31 March 2018 there were 38 (2017 - 41) active members of the scheme employed by the Group and 36 (2017 - 39) by Key Housing Association Limited.

Auto Enrolment

From 1 November 2013, eligible employees in KEY who were not active members of the SHAPS scheme were automatically enrolled into the Flexible Retirement Plan with contribution levels meeting minimum statutory requirements. From 1 April 2014, eligible employees in Community Lifestyles were similarly enrolled. Employer contributions for the year were £217,223 (2017 - £200,869) for the Group and £165,731 (2017 - £152,464) for KEY. As at the year end there were £192,861 (2017 - £42,343) pension contributions outstanding for the Group and £155,706 (2017 - £25,618) for KEY. There were 1,870 (2017 - 1,460) active members for the Group as at 31 March 2018 and 1,497 (2017 - 1,122) for KEY only.

KEY HOUSING ASSOCIATION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

24. Operating lease commitments – Consolidated and Association

Annual commitments expiring within the following periods post year end:	Land & Buildings 2018 £	Other 2018 £	<i>Land & Buildings 2017 £</i>	<i>Other 2017 £</i>
One year or less	244,919	48,378	279,915	39,536
Between two and five years	263,966	71,944	276,124	49,674
In five years or more	21,714	-	13,939	-
	<u>530,599</u>	<u>120,322</u>	<u>569,978</u>	<u>89,210</u>

25a. Share capital – Consolidated and Association

	2018 £	2017 £
Shares of £1 each fully paid and issued at:		
Brought forward at 1 April	318	382
Shares issued during the year	2	2
Shares cancelled during the year	(11)	(66)
Shares of £1 each fully paid at 31 March	<u>309</u>	<u>318</u>

The Association issued 2 (2017 - 2) shares in the year. The shares have limited rights with no rights to dividends, redemptions or winding up. Each shareholder has the right to vote at the General Meetings.

25b. Revenue reserves

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

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

26a. Net cash inflow from operating activities: Consolidated

	2018 £	2017 £
Surplus for the year	2,315,365	696,656
<u>Adjustments for non cash items</u>		
Depreciation of tangible fixed assets including loss on disposal of components	827,033	786,099
Carrying amount of tangible fixed asset disposals	8,478	100,790
Increase in creditors	519,911	30,052
(Increase) in debtors	(579,153)	(736,073)
SHAPS past service deficit movements	(95,711)	983,272
<u>Adjustments for investing or financing activities</u>		
Net proceeds from sale of tangible fixed assets	(2,400)	(3,400)
Interest payable	74,831	82,875
Interest receivable	(24,216)	(37,469)
SHAPS past service deficit payment	(1,375,712)	(1,224,144)
Shares cancelled	(11)	(66)
Release of deferred Government Capital grants	(6,625)	(3,373)
Movement in market value of investments	-	(103,224)
Net cash inflow from operating activities	<u>1,661,790</u>	<u>571,995</u>

26b. Net cash inflow from operating activities: Association

	2018 £	2017 £
Surplus for the year	1,981,553	850,972
<u>Adjustments for non cash items</u>		
Depreciation of tangible fixed assets including loss on disposal of components	752,687	708,298
Carrying amount of tangible fixed asset disposals	8,478	86,616
Increase/(decrease) in creditors	617,898	(169,321)
(Increase) in debtors	(606,097)	(417,140)
SHAPS past service deficit movements	(96,000)	977,236
<u>Adjustments for investing or financing activities</u>		
Net proceeds from sale of tangible fixed assets	(2,400)	(3,400)
Interest payable	74,831	82,875
Interest receivable	(19,309)	(23,553)
SHAPS past service deficit payment	(1,353,032)	(1,202,944)
Shares cancelled	(11)	(66)
Release of deferred Government Capital Grant	(6,625)	(3,373)
Movement in market value of investments	-	(103,224)
Net cash inflow from operating activities	<u>1,351,973</u>	<u>782,976</u>

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

27. Capital commitments – Consolidated and Association

	2018 £	2017 £
Contracted for but not provided for in the financial statements	-	-
Authorised by the Management Committee but not contracted for	-	-

28. Contingent liabilities – Consolidated and Association

An Appeal Court ruling is anticipated in 2019 which will confirm the matter of sleepover hours and their inclusion in assessment of the National Living Wage (National Minimum Wage). The outcome of this case could result in a potential liability for the Association and the Group. There are no contingent liabilities as at 31 March 2017.

29. Housing stock – Consolidated and Association

	Units under Manage- ment Mainstream 2018 £	Units under Manage- ment Mainstream 2017 £	Units under Manage- ment Supported 2018 £	Units under Manage- ment Supported 2017 £
Housing accommodation for letting:				
New build	125	125	565	565
Rehabilitation	-	-	22	22
	<u>125</u>	<u>125</u>	<u>587</u>	<u>587</u>
Registered accommodation:				
Number of bed spaces	-	-	-	-

There are no new units under development for either year.

30. Legislative provisions

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014 and registered with the Financial Conduct Authority.

KEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

31. Related parties

Subsidiary undertakings

In August 1995, Key Housing Association set up a subsidiary company, Community Lifestyles Limited. This company provides individualised home and community support services to adults with learning difficulties, mainly in housing not provided by the Association. This is provided under contracts with local authorities, mainly Glasgow City Council.

From August 1998 Community Lifestyles Limited became a registered charity and limited by guarantee. It remains under the control of Key Housing Association Limited.

The transactions between the two entities during the year have consisted of net recharges totalling £792,421 (2017 - £792,421) by Key Housing Association to Community Lifestyles Limited for staff costs and other overheads. There were also a total of £166,366 (2017 - £72,086) of recharges from Community Lifestyles Limited to Key Housing Association Limited for staff costs and other overheads. At 31 March 2018, Community Lifestyles Limited owed Key Housing Association Limited £276,304 (2017 - £647,935) in respect of sundry items. Included in the year end creditors is £158,865 (2017 - £80,101) in respect of sundry items payable to Community Lifestyles Limited.

In January 2012, KEY set up a design and build subsidiary company called KHA Developments Limited. KHA Developments Limited had turnover of £107,657 (2017 - £233,404) for the year ended 31 March 2018 and operating costs of £104,509 (2017 - £229,963). All turnover was received from Key Housing Association Limited, £22,092 (2017 - £43,253) of operating costs represent rent and management charges payable to KEY and £Nil (2017 - £2,725) represent a gift aid payment to Key Housing Association Limited. £22,118 (2017 - £13) remains due to the Association at the year end and this is included in debtors. Included in the year end creditors is £30,135 (2017 - £Nil) in respect of amounts payable to KHA Developments Limited.

Members of the Board

The Association has members of the Board who are also tenants. The tenancies of these members of the Board are on normal terms and the members cannot use their position to their advantage. The total rent charged in the year relating to Board members who are tenants is £11,028 (2017 - £10,676). The total prepaid rent relating to Board members who are tenants included within creditors at the year end is £108 (2017 - £106).