

Oak Tree Housing Association Limited

Report and Financial Statements

For the year ended 31st March 2016

Registered Housing Association No.HCB137

FCA Reference No. 2232(S)

Scottish Charity No. SC045300

OAK TREE HOUSING ASSOCIATION LIMITED

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OAK TREE HOUSING ASSOCIATION LIMITED

MANAGEMENT COMMITTEE, EXECUTIVES AND ADVISERS
YEAR ENDED 31st MARCH 2016

MANAGEMENT COMMITTEE

| | |
|-------------------|----------------------|
| Jackie McKelvie | Chairperson |
| Colin Campbell | Vice Chairperson |
| Morag Paul | Secretary |
| Michael McLoone | Retired 23/06/2015 |
| Peter Galbraith | |
| Eleanor McMichael | |
| Sandra Rorison | |
| June Glancy | |
| Johnathan Grant | Appointed 23/06/2015 |
| Jim Orr | Resigned 07/07/2015 |
| David McIndoe | Appointed 23/06/2015 |
| Betty McDonald | Appointed 23/06/2015 |
| Jeanette Dillon | Appointed 23/06/2015 |
| Ronnie Lee | Appointed 23/06/2015 |
| Chris Bateman | Appointed 23/06/2015 |

EXECUTIVE OFFICERS

| | |
|--------------|--------------------------------|
| Nick Jardine | Chief Executive Officer |
| Anne Culley | Deputy Chief Executive Officer |

REGISTERED OFFICE

41 High Street
Greenock
PA15 1NR

AUDITORS

Alexander Sloan
Chartered Accountants
38 Cadogan Street
Glasgow
G2 7HF

INTERNAL AUDITORS

Chiene & Tait LLP
61 Dublin Street
Edinburgh
EH3 6NL

BANKERS

Royal Bank of Scotland
Cathcart Street
Greenock
PA15 1BA

SOLICITORS

Patten & Prentice
2 Ardgowan Square
Greenock
PA16 8PP

OAK TREE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2016

The Management Committee presents its report and the Financial Statements for the year ended 31st March 2016.

Legal Status

The Association is a registered non-profit making organisation under the Co-operative and Community Benefit Societies Act 2014 No.2232(S). The Association is governed under its Rule Book. The Association is a registered Scottish Charity with the charity number SC045300.

Principal Activities

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

Review of Business and Future Developments

The Association has had a very busy and stimulating year.

15 new build cottages were completed with work continuing on a further 45.

99.8% of our stock meets the Scottish Housing Quality Standard with only 2 properties in abeyance, one to support a tenants specific needs and the other to accommodate another RSL's programme of improvement.

Our current and former tenant arrears reduced again this year to 2.75% and we continue to deal with the impact of welfare reform and the introduction of Universal Credit. Along with Cloch and Larkfield Housing Associations we continue to successfully run the Inverclyde Common Housing Register.

We carried out a tenant satisfaction survey and received a very positive report across many aspects of our service.

We also joined the Smarterbuys franchise and are able to offer our tenants low cost credit services for certain household goods.

The Association continues to provide a factoring and landscape maintenance service to residents within our communities to ensure that our properties and estates are maintained for the benefit of all.

With regards to our subsidiary Cloch Housing Association, whilst continuing to reinforce and reiterate our respective brands, we are reviewing opportunities for future collaborative working.

2015/16 was another successful trading year for Oak Tree Housing Association. The Association made surpluses of £1.86m in the year compared to £2.05m in the previous year, with the reduction associated with higher investment in our planned and cyclical maintenance programme. Total turnover was just over £9.76m, (2014/15 - £9.5m) with Operating Costs of £7.31m, (2014/15 - £6.8m).

Going forward the Association has confirmed its interest in pursuing further developments and should opportunities arise the Association will endeavour to ensure that future projects meet the requirements of all tenants and residents in our community.

OAK TREE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2016

Management Committee and Executive Officers

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

Each member of the Management Committee holds one fully paid share of £1 in the Association. The Executive Officers hold no interest in the Association's share capital and, although not having the legal status of Directors, they act as Executives within the authority delegated by the Management Committee.

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

Statement of Management Committee's Responsibilities

The Co-operative and Community Benefit Act 2014 require the Management Committee to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing those Financial Statements, the Management Committee is required to:-

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

The Management Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to: ensure that the Financial Statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2014 and the Determination of Accounting Requirements - 2015. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. It is also responsible for ensuring the Association's suppliers are paid promptly.

The Management Committee must in determining how amounts are presented within items in the Statement of Comprehensive Income and Statement of Financial Position, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting practices.

In so far as the Management Committee are aware:

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

OAK TREE HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31ST MARCH 2016

Statement on Internal Financial Control

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

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

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

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

The Management Committee has reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2016. No weaknesses were found in the internal financial controls which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the auditor's report on the financial statements.

Donations

During the year the Association made charitable donations amounting to £100 (2015 £200).

Auditors

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

By order of the Management Committee


MORAG PAUL

Secretary

14 June 2016

OAK TREE HOUSING ASSOCIATION LIMITED

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



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

Basis of Opinion

We carried out our review having regard to the requirements relating to corporate governance matters within Bulletin 2006/5 issued by the Auditing Practices Board. The Bulletin does not require us to review the effectiveness of the Association's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reasons given for non-compliance.

Opinion

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

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

Alexander Sloan

ALEXANDER SLOAN
Chartered Accountants

GLASGOW
14 June 2016

We have audited the financial statements of Oak Tree Housing Association Limited for the year ended 31st March 2016 which comprise a statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and related notes. The financial reporting framework that has been applied in their preparation is applicable law and accounting standard of the United Kingdom.

This report is made solely to the Association's members, as a body, in accordance with the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Management Committee and Auditors

As explained more fully in the Statement of Management Committee's Responsibilities the Association's Management Committee, are responsible for the preparation of the Financial Statements that give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit on the Financial Statements

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

Opinion on the financial statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Association's affairs as at 31st March 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2014 and the Determination of Accounting Requirements 2015.

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

Matters on which we are required to report by exception

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

- the information given in the Management Committee's Report is inconsistent with the financial statements.
- proper books of account have not been kept by the Association in accordance with the requirements of the legislation.
- a satisfactory system of control over transactions has not been maintained by the Association in accordance with the requirements of the legislation.
- the Statement of Comprehensive Income to which our report relates, and the Statement of Financial Position are not in agreement with the books of the Association.
- we have not received all the information and explanations necessary for the purposes of our audit.

We have nothing to report in respect of these matters.

Alexander Sloan

ALEXANDER SLOAN
Chartered Accountants
Statutory Auditor
GLASGOW
14 June 2016

OAK TREE HOUSING ASSOCIATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st MARCH 2016

| | Notes | 2016 | | 2015 | |
|--|-------|-----------|-------------|-----------|-------------|
| | | £ | £ | £ | £ |
| REVENUE | 2. | | 9,761,460 | | 9,505,509 |
| Operating Costs | 2. | | (7,308,769) | | (6,806,695) |
| OPERATING SURPLUS | 9. | | 2,452,691 | | 2,698,814 |
| Gain On Sale Of Housing Stock | 7. | 77,807 | | 9,687 | |
| Exceptional Item | 26. | 120,000 | | 185,499 | |
| Interest Receivable and Other Income | | 103,220 | | 89,941 | |
| Interest Payable and Similar Charges | 8. | (826,667) | | (854,472) | |
| Other Finance Charges | 11. | (65,486) | | (68,584) | |
| | | | (591,126) | | (637,929) |
| SURPLUS FOR YEAR | | | 1,861,565 | | 2,060,885 |
| Other Comprehensive Income | | | - | | - |
| TOTAL COMPREHENSIVE INCOME | | | 1,861,565 | | 2,060,885 |
| Tax on surplus on ordinary activities | 10. | | 400 | | (12,863) |
| SURPLUS ON ORDINARY ACTIVITIES AFTER TAXATION | | | 1,861,965 | | 2,048,022 |

All amounts relate to continuing operations. Comparative figures have been restated to reflect the adoption of the Housing SORP 2014 and FRS102.

The notes on pages 12 to 27 form part of these financial statements.

OAK TREE HOUSING ASSOCIATION LIMITED

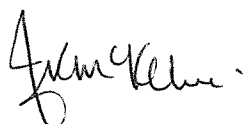
STATEMENT OF FINANCIAL POSITION AS AT 31st MARCH 2016

| | Notes | £ | 2016 £ | £ | 2015 £ |
|--|--------|--------------|---------------------|---------------------|-------------------|
| NON-CURRENT ASSETS | | | | | |
| Housing Properties - Depreciated Cost | 12.(a) | | 98,522,858 | | 98,544,070 |
| Other Non Current Assets | 12.(b) | | 415,528 | | 423,966 |
| | | | <u>98,938,386</u> | | <u>98,968,036</u> |
| INVESTMENTS | | | | | |
| Investment in subsidiaries | 27. | 1 | | 1 | |
| Investment properties | 27. | 102,500 | | 102,500 | |
| | | | <u>102,501</u> | <u>102,501</u> | |
| RECEIVABLES: Amounts falling due after more than one year | 15. | | 1,461,538 | | 1,683,333 |
| CURRENT ASSETS | | | | | |
| Receivables | 16. | 984,489 | | 519,139 | |
| Cash at bank and in hand | | 8,103,670 | | 7,656,538 | |
| | | | <u>9,088,159</u> | <u>8,175,677</u> | |
| CREDITORS: Amounts falling due within one year | 17. | (2,905,570) | | (2,519,672) | |
| NET CURRENT ASSETS | | | <u>6,182,588</u> | | <u>5,656,005</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 106,685,013 | | 106,409,875 |
| CREDITORS: Amounts falling due after more than one year | 18. | | (19,945,231) | | (21,006,764) |
| DEFERRED INCOME | | | | | |
| Social Housing Grants | 20. | (65,478,178) | | (65,994,747) | |
| Other Grants | 20. | (322,969) | | (331,698) | |
| | | | <u>(65,801,147)</u> | <u>(66,326,445)</u> | |
| NET ASSETS | | | <u>20,938,635</u> | | <u>19,076,666</u> |
| EQUITY | | | | | |
| Share Capital | 21. | | 252 | | 249 |
| Revenue Reserves | | | 20,938,383 | | 19,076,417 |
| | | | <u>20,938,635</u> | | <u>19,076,666</u> |

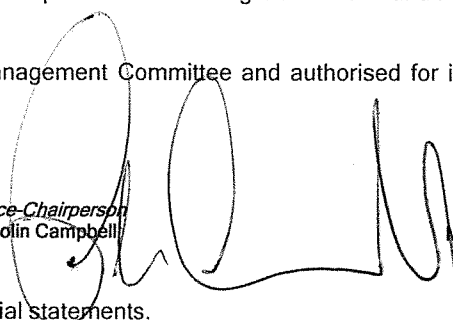
Comparative figures have been restated to reflect the adoption of the Housing SORP 2014 and FRS102.

The Financial Statements were approved by the Management Committee and authorised for issue and signed on their behalf on 14 June 2016.

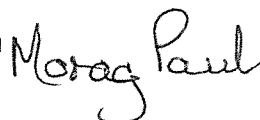
Chairperson
Jackie McKelvie



Vice-Chairperson
Colin Campbell



Secretary
Morag Paul



The notes on pages 12 to 27 form part of these financial statements.

OAK TREE HOUSING ASSOCIATION LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31st MARCH 2016

| | Notes | 2016 | 2015 |
|---|-------------|-------------|-------------|
| | | £ | £ |
| Net Cash Inflow from Operating Activities | 19. | 3,550,260 | 4,099,811 |
| Investing Activities | | | |
| Acquisition and Construction of Properties | (3,326,949) | (2,378,431) | |
| Purchase of Other Fixed Assets | (16,514) | (27,180) | |
| Social Housing Grant Received | 1,671,692 | 1,900,381 | |
| Social Housing Grant Repaid | (156,903) | 38,031 | |
| Proceeds on Disposal of Properties | 324,808 | 271,906 | |
| Net Cash Outflow from Investing Activities | | (1,503,866) | (195,293) |
| Financing Activities | | | |
| Interest Received on Cash and Cash Equivalents | 103,220 | 89,941 | |
| Interest Paid on Loans | (826,667) | (854,472) | |
| Loan Principal Repayments | (875,825) | (874,112) | |
| Share Capital Issued | 10 | 6 | |
| Net Cash Outflow from Financing | | (1,599,262) | (1,638,637) |
| Increase in Cash | | 447,132 | 2,265,881 |
| Opening Cash & Cash Equivalents | | 7,656,538 | 5,390,657 |
| Closing Cash & Cash Equivalents | | 8,103,670 | 7,656,538 |
| Cash and Cash equivalents as at 31 March 2016. | | | |
| Cash | | 8,103,670 | 7,656,538 |
| | | 8,103,670 | 7,656,538 |

The notes on pages 12 to 27 form part of these financial statements.

OAK TREE HOUSING ASSOCIATION LIMITED

STATEMENT OF CHANGES IN EQUITY

31st MARCH 2016

| | Share Capital | Revenue Reserve | Total |
|---------------------------------------|------------------|--------------------|-------------------|
| | £ | £ | £ |
| Balance as at 1st April 2014 | 457 | 17,028,395 | 17,028,852 |
| Issue of Shares | 6 | - | 6 |
| Cancellation of Shares | (214) | - | (214) |
| Adjustment from transition to FRS 102 | - | 223,362 | 223,362 |
| Surplus for Year | - | 1,824,660 | 1,824,660 |
| Balance as at 31st March 2015 | 249 | 19,076,417 | 19,076,666 |
| Balance as at 1st April 2015 | 249 | 19,076,417 | 19,076,666 |
| Issue of Shares | 10 | - | 10 |
| Cancellation of Shares | (7) | - | (7) |
| Surplus for Year | - | 1,861,965 | 1,861,965 |
| Balance as at 31st March 2016 | 252 | 20,938,383 | 20,938,635 |

The reserves opening balances has been restated to reflect the change in accounting requirements under the Housing SORP 2014 and FRS102.

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACCOUNTING POLICIES

Statement of Compliance

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

Basis Of Consolidation

The Financial Statements for Oak Tree Housing Association Limited present information about it as an individual undertaking and not about its Group.

Revenue

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

Government Grants are released to income over the average component life of 45 years.

Retirement Benefits

The Association participates in the Scottish Housing Association Defined Benefits Pension Scheme and retirement benefits to employees of the Association are funded by the contributions from all participating employers and employees in the Scheme. Payments are made in accordance with periodic calculations by consulting Actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

The Association accounts for amounts that it has agreed to pay towards the Scheme deficit in accordance with paragraph 28.11A of FRS 102. The present value of this liability has been recognised in the Statement of Financial Position. The discount rate applied to this obligation is that of a yield rate for the high quality corporate bond.

Valuation Of Housing Properties

Housing Properties are stated at cost less accumulated depreciation. Housing under construction and Land are not depreciated. The Association depreciates housing properties by major component on a straight line basis over the estimated useful economic lives of each identified component. All components are categorised as Housing Properties within note 12. Impairment reviews are carried out if events or circumstances indicate that the carrying value of the components listed below is higher than the recoverable amount.

| <i>Component</i> | <i>Useful Economic Life</i> |
|--------------------|-----------------------------|
| Structure | 50 years |
| Windows | 40 years |
| External Render | 40 years |
| Internal Doors | 40 years |
| Roofs | 40 years |
| Radiator & Pipes | 30 years |
| Rewire | 30 years |
| Parking Areas | 30 years |
| Kitchens | 20 years |
| Bathrooms | 20 years |
| External Doors | 20 years |
| Boiler & Flush | 15 years |
| Door Entry Systems | 10 years |
| Kitchen Doors | 10 years |
| Play Areas | 5 years |

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

Depreciation And Impairment Of Other Non-Current Assets

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

| | |
|------------------------|----------------------------|
| Office Premises | - 2% to 2.5% Straight Line |
| Furniture and Fittings | - 25% Reducing Balance |
| Computer Equipment | - 25% Straight Line |
| Office Equipment | - 25% Reducing Balance |

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

Social Housing Grant And Other Grants In Advance/Arrears

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

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

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

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

Sales Of Housing Properties

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

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

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

Estimation Uncertainty

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

Rent Arrears - Bad Debt Provision

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

Life Cycle of Components

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

Useful life of properties, plant and equipment

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

Costs of shared ownership

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

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016 NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 PRINCIPAL ACCOUNTING POLICIES (Continued.)

Estimation Uncertainty

Pension Liability

The Association has calculated the Net Present Value of the agreed deficit payments and through this has estimated the discount rate that is applicable to be 2.64% (2015 - 3.58%) with this being based on a high quality corporate bond for a period similar to the 2015 valuation.

Leases/Leased Assets

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Key Judgements made in the application of Accounting Policies

a) Exemptions taken in the transition to FRS 102

The Association has considered and taken advantage of the following exemptions in its first time application of FRS 102:

- i) The Association has not revisited previous accounting estimates
- ii) The Association has not revisited the accounting of previous business combinations

b) The Categorisation of Housing Properties

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

c) Pension Liability

In March 2016 the Association received details from the Pension Trust of the provisional valuation of the pension scheme at September 2015 and the Pension Trust's estimate of the Association's future past service deficit contributions. The Association has used this to provide the basis of the pension past service deficit liability in the financial statements. The Board feel this is the best available estimate of the past service liability.

d) Financial Instrument Break Clause

The Association has considered the break clauses attached to the Financial Instruments that it has in place for its loan funding. In the judgement of the Management Committee these break clauses do not cause the Financial Instrument to be classified as a Complex Financial Instrument, and therefore they meet the definition of a Basic Financial Instrument.

e) Identification of cash generating units

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

Financial Instruments - Basic

The Association recognises basic financial instruments in accordance with Section 11 of Financial Reporting Standard.

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

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

| | Notes | 2016 | | | 2015 | | |
|-------------------------------|-------|------------------|-------------------------|--|------------------|-------------------------|--|
| | | Turnover £ | Operating Costs £ | Operating Surplus / (Deficit) £ | Turnover £ | Operating Costs £ | Operating Surplus / (Deficit) £ |
| Affordable letting activities | 3. | 9,283,626 | 6,820,633 | 2,462,993 | 8,996,774 | 6,344,123 | 2,652,651 |
| Other Activities | 4. | 477,834 | 488,136 | (10,302) | 508,735 | 462,572 | 46,163 |
| Total | | 9,761,460 | 7,308,769 | 2,452,691 | 9,505,509 | 6,806,695 | 2,698,814 |

3. PARTICULARS OF INCOME & EXPENDITURE FROM AFFORDABLE LETTING ACTIVITIES

| | General | | | 2016 Total £ | 2015 Total £ |
|---|-----------------------|---------------------------|--------------------------|--------------------|--------------------|
| | Needs Housing £ | Supported Housing £ | Shared ownership £ | | |
| Revenue from Lettings | | | | | |
| Rent Receivable Net of Service Charges | 6,569,240 | 222,297 | 272,007 | 7,063,544 | 6,938,726 |
| Service Charges | 63,093 | 16,860 | 10,837 | 90,790 | 129,465 |
| Gross income from rent and service charges | 6,632,333 | 239,157 | 282,844 | 7,154,334 | 7,068,191 |
| Less: Rent losses from voids | 38,323 | - | - | 38,323 | 25,708 |
| Net Rents Receivable | 6,594,010 | 239,157 | 282,844 | 7,116,011 | 7,042,483 |
| Grants released from deferred income | 1,885,669 | 44,631 | 104,822 | 2,035,122 | 1,906,772 |
| Revenue grants from Scottish Ministers | 132,493 | - | - | 132,493 | 47,519 |
| Total turnover from affordable letting activities | 8,612,172 | 283,788 | 387,666 | 9,283,626 | 8,996,774 |
| Expenditure on affordable letting activities | | | | | |
| Management and maintenance administration costs | 1,752,287 | 41,474 | 53,662 | 1,847,423 | 1,768,646 |
| Service Costs | 166,086 | 3,930 | 10,417 | 180,433 | 132,646 |
| Planned and cyclical maintenance, including major repairs | 774,447 | 18,330 | - | 792,777 | 518,006 |
| Reactive maintenance costs | 871,036 | 20,616 | - | 891,652 | 858,706 |
| Bad Debts - rents and service charges | 10,274 | 315 | - | 10,589 | 24,786 |
| Depreciation of affordable let properties | 2,887,025 | 68,332 | 142,402 | 3,097,759 | 3,041,333 |
| Operating costs of affordable letting activities | 6,461,155 | 152,997 | 206,481 | 6,820,633 | 6,344,123 |
| Operating surplus on affordable letting activities | 2,151,017 | 130,791 | 181,185 | 2,462,993 | 2,652,651 |
| 2015 | | 1,944,482 | 308,148 | 400,021 | |

The disclosure of turnover, operating costs and operating surplus from affordable letting activities has been restated to reflect the requirements of the Housing SORP 2014. Comparative figures have been restated on the same basis.

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

| | Grants From Scottish Ministers | Other Revenue Grants | Supporting People Income | Other Income | Total Turnover | Operating Costs: Bad Debts | Operating Costs: Other | Operating Surplus / (Deficit) 2016 | Operating Surplus / (Deficit) 2015 |
|---|--------------------------------|----------------------|--------------------------|----------------|----------------|----------------------------|------------------------|------------------------------------|------------------------------------|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Wider Role Activities | 84,861 | - | - | 16,800 | 101,661 | - | 116,908 | (15,247) | (26,141) |
| Factoring | - | - | - | 120,056 | 120,056 | 2,031 | 117,475 | 550 | (623) |
| Development and construction of property activities | - | - | - | - | - | - | 32,858 | (32,858) | (29,568) |
| Agency / Management services for other RSLs | - | - | - | 136,462 | 136,462 | - | 136,462 | - | 58,238 |
| Other Agency or Management Services | - | - | - | 25,103 | 25,103 | - | 24,185 | 918 | 18,308 |
| Commercial Property | - | - | - | 24,763 | 24,763 | - | - | 24,763 | 24,600 |
| Lead Tenancy Income | - | - | - | 69,789 | 69,789 | - | 58,217 | 11,572 | 1,349 |
| Total From Other Activities | 84,861 | - | - | 392,973 | 477,834 | 2,031 | 486,105 | (10,302) | 46,163 |
| 2015 | - | - | - | 508,735 | 508,735 | - | 462,572 | 46,163 | - |

The disclosure of turnover, operating costs and operating surplus from affordable letting activities has been restated to reflect the requirements of the Housing SORP 2014. Comparative figures have been restated on the same basis.

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. OFFICERS' EMOLUMENTS

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

| | 2016 | 2015 |
|---|----------------|----------------|
| | £ | £ |
| Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions) | <u>290,654</u> | <u>285,952</u> |
| Pension contributions made on behalf on Officers with emoluments greater than £60,000 | <u>35,351</u> | <u>34,829</u> |
| Emoluments payable to Chief Executive (excluding pension contributions) | <u>88,697</u> | <u>87,575</u> |
| Total Compensation paid to key management personnel | <u>359,294</u> | <u>349,337</u> |

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

| | Number | Number |
|--------------------|----------|----------|
| £60,001 to £70,000 | 2 | 2 |
| £70,001 to £80,000 | 1 | 1 |
| £80,001 to £90,000 | <u>1</u> | <u>1</u> |

6. EMPLOYEE INFORMATION

| | 2016 | 2015 |
|---|------------------|------------------|
| | No. | No. |
| The average monthly number of full time equivalent persons employed during the year was | <u>35</u> | <u>36</u> |
| The average total number of Employees employed during the year was | <u>41</u> | <u>42</u> |
| Staff Costs were: | £ | £ |
| Wages and Salaries | 1,176,923 | 1,078,528 |
| Social Security Costs | 93,804 | 80,434 |
| Other Pension Costs | 126,220 | 113,188 |
| Temporary, Agency and Seconded Staff | 46,087 | 76,681 |
| | <u>1,443,034</u> | <u>1,348,831</u> |

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. GAIN ON SALE OF HOUSING STOCK

| | 2016 | 2015 |
|-------------------------------|---------------|--------------|
| | £ | £ |
| Sales Proceeds | 324,808 | 271,906 |
| Cost of Sales | 247,001 | 262,219 |
| Gain On Sale Of Housing Stock | <u>77,807</u> | <u>9,687</u> |

8. INTEREST PAYABLE & SIMILAR CHARGES

| | 2016 | 2015 |
|----------------------------|----------------|----------------|
| | £ | £ |
| On Bank Loans & Overdrafts | <u>826,667</u> | <u>854,472</u> |

9. SURPLUS FOR YEAR

| | 2016 | 2015 |
|--|---------------|--------------|
| | £ | £ |
| Surplus is stated after charging:- | | |
| Depreciation - Tangible Owned Fixed Assets | 2,999,558 | 3,068,174 |
| Auditors' Remuneration - Audit Services | 7,788 | 7,788 |
| Auditors' Remuneration - Other Services | 9,508 | 4,840 |
| Operating Lease Rentals - Other | 5,879 | 7,671 |
| Gain on sale of fixed assets | <u>77,807</u> | <u>9,687</u> |

10. TAX ON SURPLUS ON ORDINARY ACTIVITIES

| | 2016 | 2015 |
|--|------------------|------------------|
| | £ | £ |
| (i) Analysis of Charge in Year | | |
| Current Tax: | | |
| UK Corporation Tax on surplus on ordinary activities | - | 12,863 |
| Adjustments in respect of previous years | (400) | - |
| Total Current Tax (Note 10(ii)) | <u>(400)</u> | <u>12,863</u> |
| (ii) Factors affecting tax charge for period | | |
| Surplus on ordinary activities before tax | <u>1,861,565</u> | <u>2,060,885</u> |
| Surplus on ordinary activities multiplied by standard rate of Corporation Tax in the U.K. of 20%(2015:20%) | 372,313 | 412,177 |
| Effects of: Charitable income not chargeable to tax | (372,313) | (399,314) |
| Under/ (Over) Provision in previous years | <u>(400)</u> | <u>-</u> |
| Current tax charge for period (Note 10(i)) | <u>(400)</u> | <u>12,863</u> |

The Association became a Registered Scottish Charity in December 2014 and is therefore not liable to United Kingdom Corporation Tax on its charitable activities during the year.

11. OTHER FINANCE INCOME / CHARGES

| | 2016 | 2015 |
|-------------------------------------|---------------|---------------|
| | £ | £ |
| Unwinding of Discounted Liabilities | <u>65,486</u> | <u>68,584</u> |

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. NON-CURRENT ASSETS

| a) Housing Properties | Housing Properties Held for Letting £ | Housing Properties in course of Construction £ | Completed Shared Ownership Properties £ | Total £ |
|-----------------------|--|---|--|-------------|
| COST | | | | |
| As at 1st April 2015 | 123,246,261 | 1,866,061 | 6,521,933 | 131,634,255 |
| Additions | 1,287,925 | 2,039,024 | - | 3,326,949 |
| Disposals | (716,059) | - | (110,747) | (826,806) |
| Schemes Completed | 1,731,230 | (1,731,230) | - | - |
| As at 31st March 2016 | 125,549,357 | 2,173,855 | 6,411,186 | 134,134,398 |
| DEPRECIATION | | | | |
| As at 1st April 2015 | 31,626,519 | - | 1,463,666 | 33,090,185 |
| Charge for Year | 2,832,204 | - | 142,402 | 2,974,606 |
| Disposals | (403,492) | - | (49,759) | (453,251) |
| As at 31st March 2016 | 34,055,231 | - | 1,556,309 | 35,611,540 |
| NET BOOK VALUE | | | | |
| As at 31st March 2016 | 91,494,126 | 2,173,855 | 4,854,877 | 98,522,858 |
| As at 31st March 2015 | 91,619,742 | 1,866,061 | 5,058,267 | 98,544,070 |

Additions to housing properties includes capitalised development administration costs of £0 (2015 - £0) and capitalised major repair costs to existing properties of £1,287,925 (2015 £734,028).

All land and housing properties are freehold.

Total expenditure on existing properties in the year amounted to £2,972,354. The amount capitalised is £1,287,925, with the balance charged to the statement of comprehensive income. The amounts capitalised relates to component replacements.

The Association's Lenders have standard securities over Housing Property with a carrying value of £47,083,788 (2015 - £47,702,974).

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. NON CURRENT ASSETS (Continued)

| b) Other Tangible Assets | Other Commercial Property £ | Office Premises £ | Office Furniture & Equipment £ | Total £ |
|-------------------------------|--------------------------------------|-------------------------|---|----------------|
| COST | | | | |
| As at 1st April 2015 | 120,000 | 275,000 | 277,723 | 672,723 |
| Additions | - | - | 16,514 | 16,514 |
| As at 31st March 2016 | <u>120,000</u> | <u>275,000</u> | <u>294,237</u> | <u>689,237</u> |
| AGGREGATE DEPRECIATION | | | | |
| As at 1st April 2015 | 3,000 | 6,875 | 238,882 | 248,757 |
| Charge for year | 2,375 | 6,875 | 15,702 | 24,952 |
| As at 31st March 2016 | <u>5,375</u> | <u>13,750</u> | <u>254,584</u> | <u>273,709</u> |
| NET BOOK VALUE | | | | |
| As at 31st March 2016 | <u>114,625</u> | <u>261,250</u> | <u>39,653</u> | <u>415,528</u> |
| As at 31st March 2015 | <u>117,000</u> | <u>268,125</u> | <u>38,841</u> | <u>423,966</u> |

13 CAPITAL COMMITMENTS

| | 2016 £ | 2015 £ |
|--|------------------|-----------|
| Capital Expenditure that has been contracted for but has not been provided for in the Financial Statements | <u>3,603,000</u> | <u>-</u> |

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

14 COMMITMENTS UNDER OPERATING LEASES

| | 2016 £ | 2015 £ |
|---|--------------|--------------|
| At the year end, the total future minimum lease payments under non-cancellable operating leases were as follows:- | | |
| Not later than one year | <u>3,801</u> | <u>3,835</u> |

Lease commitments have been restated under FRS102 to include the timing of the full payment due under the contract.

15. RECEIVABLES AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2016 £ | 2015 £ |
|--------------------------------------|------------------|------------------|
| Loan to the Association's Subsidiary | <u>1,461,538</u> | <u>1,683,333</u> |

The loan to Cloch Housing Association Ltd, is being repaid over a 10 year period. The loan is secured over housing properties belonging to Cloch Housing Association.

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 RECEIVABLES AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2016 £ | 2015 £ |
|-------------------------------------|----------------|----------------|
| Arrears of Rent & Service Charges | 184,870 | 207,149 |
| Less: Provision for Doubtful Debts | (128,463) | (156,685) |
| | <u>56,407</u> | <u>50,464</u> |
| Social Housing Grant Receivable | 345,196 | 206,644 |
| Other Receivables | 498,902 | 203,729 |
| Amounts Due from Group Undertakings | 83,984 | 58,302 |
| | <u>984,489</u> | <u>519,139</u> |

17 PAYABLES AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Housing Loans | 733,562 | 714,729 |
| Trade Payables | 913,117 | 422,583 |
| Rent in Advance | 282,721 | 326,204 |
| Social Housing Grant Repayable/In advance | 259,563 | 119,433 |
| Corporation Tax | (400) | 12,863 |
| Other Taxation and Social Security | 92,997 | 79,057 |
| Amounts Due to Group Undertakings | 61,583 | 46,410 |
| Other Payables | 178,804 | 203,626 |
| Liability for Past Service Contributions | 232,340 | 225,570 |
| Accruals and Deferred Income | 151,283 | 369,197 |
| | <u>2,905,570</u> | <u>2,519,672</u> |

At the Statement of Financial Position date there were pension contributions outstanding of £41,104(2015 £38,998).

18 PAYABLES AMOUNTS FALLING DUE AFTER ONE YEAR

| | 2016 £ | 2015 £ |
|---|-------------------|-------------------|
| Liability for Past Service Contributions | 1,271,529 | 1,438,383 |
| Housing Loans | 18,673,702 | 19,568,381 |
| | <u>19,945,231</u> | <u>21,006,764</u> |
| <i>Housing Loans</i> | | |
| Amounts due within one year | 733,562 | 714,729 |
| Amounts due in one year or more but less than two years | 742,200 | 742,840 |
| Amounts due in two years or more but less than five years | 2,370,000 | 2,410,016 |
| Amounts due in more than five years | 15,561,502 | 16,415,525 |
| | <u>19,407,264</u> | <u>20,283,110</u> |
| Less: Amount shown in Current Liabilities | 733,562 | 714,729 |
| | <u>18,673,702</u> | <u>19,568,381</u> |
| <i>Liability for Past Service Contributions</i> | | |
| Amounts due within one year | 232,340 | 225,570 |
| Amounts due in one year or more but less than two years | 261,004 | 224,306 |
| Amounts due in two years or more but less than five years | 788,593 | 744,821 |
| Amounts due in more than five years | 221,932 | 469,256 |
| | <u>1,503,869</u> | <u>1,663,953</u> |

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

| Lender | Security | Effective Interest Rate | Maturity | Variable / Fixed |
|------------|---------------------------------------|-------------------------|----------|------------------|
| Nationwide | Standard Security over 577 properties | 4.41% | 2033 | Fixed |
| Nationwide | Standard Security over 285 properties | 4.88% | 2038 | Fixed |
| Nationwide | Standard Security over 260 properties | 4.90% | 2033 | Fixed |
| Nationwide | Standard Security over 188 properties | 0.96% | 2036 | Variable |

All of the Association's bank borrowings are repayable on a monthly basis with the principal being amortised over the term of the loans.

The liability for the past service contributions has been accounted for in accordance with FRS 102 para 28.13A and represents the present value of the contributions payable. The cash out flows have been discounted at a rate of 2.64% (2015 - 3.58%).

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. STATEMENT OF CASH FLOWS

| <i>Reconciliation of operating surplus to balance as at 31st march 2016</i> | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Operating Surplus | 2,452,691 | 2,698,814 |
| Depreciation | 3,122,706 | 3,068,174 |
| Amortisation of Capital Grants | (2,035,122) | (1,906,772) |
| Change in debtors | (105,003) | 220,378 |
| Change in creditors | 193,344 | 104,108 |
| Corporation Tax Paid | (12,863) | (16,093) |
| Unwinding of Discount on Pension Liability | (65,486) | (68,584) |
| Share Capital Written Off | (7) | (214) |
| Balance as at 31st March 2016 | <u>3,550,260</u> | <u>4,099,811</u> |

20. DEFERRED INCOME

| | 2016 £ | 2015 £ |
|--|-------------------|-------------------|
| <i>Social Housing Grants</i> | | |
| Balance as at 1st April 2015 | 65,994,747 | 66,575,164 |
| Additions in year | 1,670,114 | 1,466,489 |
| Released / Repaid as the result of property disposal | (160,290) | (148,863) |
| Amortisation in Year | (2,026,393) | (1,898,043) |
| Balance as at 31st March 2016 | <u>65,478,178</u> | <u>65,994,747</u> |
| <i>Other Grants</i> | | |
| Balance as at 1st April 2015 | 331,698 | 340,427 |
| Amortisation in Year | (8,729) | (8,729) |
| Balance as at 31st March 2016 | <u>322,969</u> | <u>331,698</u> |
| Total | <u>65,801,147</u> | <u>66,326,445</u> |

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

| | 2016 £ | 2015 £ |
|---------------------------------|-------------------|-------------------|
| Amounts due within one year | 2,035,122 | 1,906,772 |
| Amounts due in one year or more | 63,766,025 | 64,419,673 |
| | <u>65,801,147</u> | <u>66,326,445</u> |

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. SHARE CAPITAL

| | |
|---|------------|
| Shares of £1 each Issued and Fully Paid | £ |
| At 1st April 2015 | 249 |
| Issued in year | 10 |
| Cancelled in year | (7) |
| At 31st March 2016 | <u>252</u> |

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

22. HOUSING STOCK

| | | |
|--|--------------|--------------|
| The number of units of accommodation in management at the year end was:- | 2016 | 2015 |
| | No. | No. |
| General Needs - Rehabilitation | 1,690 | 1,680 |
| Shared Ownership | 105 | 108 |
| Supported Housing | 40 | 40 |
| | <u>1,835</u> | <u>1,828</u> |

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. RELATED PARTY TRANSACTIONS

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

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

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

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

| | £ |
|---|--------|
| Rent Received from Tenants on the Committee | 19,321 |
| Factoring Charges received from owners on the Committee | 412 |

At the year end, total rent arrears owed by the tenant members of the Committee were £299.

At the year end, total factoring arrears owed by the factored owners of the Committee were £389.

The Association has taken advantage of the exemption from disclosing related party transactions, with 100% subsidiaries, within FRS102.

24. DETAILS OF ASSOCIATION

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

The Association's principle place of business is 41 High Street, Greenock, PA15 1NR.

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

25. GOVERNING BODY MEMBER EMOLUMENTS

Board members received £nil in the year by way of reimbursement of expenses.(2015 - £nil). No remuneration is paid to Management Committee members in respect of their duties in the Association.

26. EXCEPTIONAL ITEM

The exceptional item of £120,000 (2015 - £185,499) relates to a provision for a long term dispute with a contractor which has been released as it is no longer required.

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. INVESTMENTS

| <u>Investment properties</u> | Commercial Properties | Total |
|---|--------------------------|-------------------|
| Valuation | | |
| As at 1 April 2014 (restated), 31 March 2015 (restated) and 31 March 2016 | 102,500.00 | 102,500.00 |
| | <u>102,500.00</u> | <u>102,500.00</u> |

Commercial properties were valued by an independent professional adviser Allied Scotland Chartered Surveyors on 31 March 2015 in accordance with the appraisal and valuation manual of the RICS. Commercial properties are subject to valuation at least every five years. In the opinion of the Management Committee the value of the investment properties has not changed significantly since the valuation.

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Investments in Subsidiaries | | |
| As at 31st March 2016 & 31st March 2015 | <u>1</u> | <u>1</u> |

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

The Association has a 100% owned subsidiary Oak Tree Housing Initiatives Ltd. The relationship between the Association and its subsidiary is set out in an independence agreement between both parties.

The aggregate amount of capital and reserves and the results of Oak Tree Housing Initiatives Ltd for the year ended 31st March 2016 were as follows:

| | 2016 £ | 2015 £ |
|---------------------|-------------------|-------------------|
| Capital & Reserves | (4,043) | (4,432) |
| | <u> </u> | <u> </u> |
| Profit for the year | 389 | (70) |
| | <u> </u> | <u> </u> |

The Association participates in a shared equity arrangement at 31 March 2016. At this date the Association has expended £1,429,354 on shared equity properties.

The Association has a 100% owned subsidiary Cloch Housing Association Ltd. The relationship between the Association and its subsidiary is set out in an independence agreement between both parties.

The aggregate amount of capital and reserves and the results of Cloch Housing Association Ltd for the year ended 31st March 2016 were as follows:

| | 2016 £ | 2015 £ |
|---------------------|-------------------|-------------------|
| Capital & Reserves | 8,707,250 | 7,181,525 |
| | <u> </u> | <u> </u> |
| Profit for the year | 1,525,724 | 1,553,568 |
| | <u> </u> | <u> </u> |

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. RETIREMENT BENEFIT OBLIGATIONS

General

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

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

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers as the scheme is a multi-employer arrangement where the assets are co-mingled for investment purposes, benefits are paid from the total scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS102 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30th 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 £612m. The valuation revealed a shortfall of assets compared with the value of liabilities of £198m (equivalent to a past service funding level of 76%).

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

Based on the provisional valuation the Scheme has provided an estimate of the contributions required to fund the past service deficit. Under the new proposals the Association will make payments of £267,881 from 1 April 2017. Payments are expected to increase by 3% per annum and continue until February 2022. Once finalised the proposals will replace the original plan which was expected to have lasted 10 years.

All employer's in the scheme have entered into an agreement to make additional contributions to fund the Scheme's past service deficit. This obligation has been recognised in terms of Para 28.11A of Financial Reporting Standard 102. At the Statement of Financial Position date the present value of this obligation was £1,503,869 (2015 - £1,663,953). This was calculated by reference to the terms of the agreement and discounting the liability using the yield rate of high quality corporate bond with a similar term. The discount rate used was 2.64%.

The Association made payments totalling £225,574 (2015: £219,003) to the pension scheme during the year.

OAK TREE HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. TRANSITION TO THE FINANCIAL REPORTING STANDARD

In accordance with the Statement of Recommended Practice the Association has adopted the Financial Reporting Standard for UK & Ireland (FRS 102) for the accounting period beginning on 1 April 2015. As a result of this the comparative figures for the period ending 31 March 2015 have been restated in accordance with FRS 102.

The transition to FRS 102 has resulted in a number of changes in accounting policies compared with those used previously.

The following describes the differences between the assets and liabilities and income and expenditure as presented previously, and the amounts as restated to comply with the accounting policies selected in accordance with FRS 102 for the reporting period ending 31 March 2016.

| Reconciliation of Capital & Reserves | | | | | | | |
|---------------------------------------|------|---------------------------|---------------------------|------------------|---------------------------|---------------------------|------------------|
| At 31 March 2015 | | | | At 31 March 2014 | | | |
| | Note | As previously Stated £ | Effect of Transition £ | As Restated £ | As previously Stated £ | Effect of Transition £ | As Restated £ |
| Non Current Assets | (i) | 122,296,939 | (23,328,903) | 98,968,036 | 121,646,033 | (20,359,938) | 101,286,095 |
| Investments | | 1 | 102,500 | 102,501 | 1 | - | 1 |
| Debtors due after more than 12 months | | 1,683,333 | - | 1,683,333 | 1,883,333 | - | 1,883,333 |
| Negative Goodwill | | - | - | - | - | - | - |
| Current Assets | | 8,175,677 | - | 8,175,677 | 6,364,066 | - | 6,364,066 |
| Current Liabilities | (ii) | (2,280,379) | (239,293) | (2,519,672) | (2,079,231) | (238,531) | (2,317,762) |
| Non Current Liabilities | (ii) | (19,568,381) | (1,438,383) | (21,006,764) | (20,469,406) | (2,618,470) | (23,087,876) |
| Deferred Income | (i) | (91,437,183) | 25,110,738 | (66,326,445) | (90,299,241) | 22,103,272 | (68,195,969) |
| | | 18,870,007 | 206,659 | 19,076,666 | 17,045,555 | (1,113,667) | 15,931,888 |
| Capital & Reserves | | (18,870,007) | (206,659) | (19,076,666) | (17,045,555) | 1,113,667 | (15,931,888) |

| Reconciliation of Retained Surpluses for the Year | | | | |
|---|---------------------------|---------------------------|------------------|------------------|
| Year Ended 31 March 2015 | | | | |
| Note | As previously Stated £ | Effect of Transition £ | As Restated £ | As Restated £ |
| Revenue | (i) | 7,598,737 | 1,906,772 | 9,505,509 |
| Operating Costs | (i) & (ii) | (5,229,742) | (1,576,953) | (6,806,695) |
| Other Income | | 47,560 | (37,873) | 9,687 |
| Exceptional Item | | 185,499 | - | 185,499 |
| Interest Receivable | | 89,941 | - | 89,941 |
| Interest Payable | | (854,472) | - | (854,472) |
| Change in Fair Value of Financial Inst. | | - | - | - |
| Corporation Tax Paid | | (12,863) | - | (12,863) |
| Other Finance Income / Costs | | - | (68,584) | (68,584) |
| | | 1,824,660 | 223,362 | 2,048,022 |
| Surplus | | 1,824,660 | 223,362 | 2,048,022 |

Notes to the Reconciliations

(i) - Social Housing Grants and Other Grants have been accounted for in accordance with the SORP which has meant that grants are no longer deducted from the cost of the capital asset, but are instead treated as deferred income which is recognised in income over the useful life of the related asset.

(ii) - As the Association has entered into an agreement to make contributions to fund a deficit in the SHAPS pension scheme this has been recognised as a liability in accordance with the FRS. This liability was not previously recognised and payments made under this agreement were written off as operating costs.

(iii) - The liability recognised as a result of (ii) above has been discounted to its present value. The unwinding of the discount is recognised as a finance cost in accordance with FRS 102 para 28.13A.

