



ORKNEY HOUSING ASSOCIATION LIMITED
REPORT AND FINANCIAL STATEMENTS
for the year ended 31 March 2013

RSL No HAL 164
Charity No SC 031734

ORKNEY HOUSING ASSOCIATION
REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2013

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Management Committee

Wendy Baikie
David Dawson (co-opted 26.9.12)
Winifred Dunnett (Chairperson)
George Hannah (Vice-chairperson to 24.9.12)
Harvey Johnston (resigned 14.3.12)
Allan Leslie (reappointed 25.4.12)
Bob Mackenzie
Stephen Manson
Sheona Macgregor (appointed 24.9.12)
John Rodwell (Vice-chairperson from 24.9.12)
Stephanie Rushforth (resigned 17.7.12)
Karen Scholes (resigned 27.2.13)
John Stockan
Diana Swan

Registered Office

39a Victoria Street,
Kirkwall
KW15 1DN

Registered Auditors

Findlay & Company
Chartered Accountants,
Registered Auditors,
11 Dudhope Terrace,
Dundee
DD3 6TS

Bankers

Royal Bank of Scotland,
1 Victoria Street,
Kirkwall.
KW15 1DP

Chief Executive and Company Secretary

Sally Inkster

Solicitors

J.E.P. Robertson & Son,
26 Victoria Street,
Stromness.
KW16 3AA

Company Registration

2201RS

Scottish Charity Number

SC031734

The Management Committee presents its report and the audited financial statements for the year ended 31 March 2013

Principal activity

The principal activity of the Association is the provision of rented and low cost home ownership accommodation.

Review of business and future developments

The Association's key priorities for 2012/13 and beyond were building quality houses to meet identified needs, improving information and advice on housing solutions, seeking to influence housing investment policy at local and national levels, improving the energy efficiency of our housing stock, using resources efficiently, and providing accessible and efficient customer service. We are continuing to work up projects to generate additional income through our subsidiary OHAL Enterprises. Two handymen were added to our in-house maintenance team and 31 new rented and 19 low cost home ownership homes were completed during the year. We succeeded in obtaining funding for a reduced development programme of 20 units, to be completed by 31.3.15, but, although we continue to lobby the Scottish Government, capital grant levels are still inadequate and considerable uncertainty remains about the future of our development programme.

Changes in fixed assets

Details of fixed assets are set out in Note 10.

Going Concern

After reviewing detailed Income and Expenditure and Business Plan projections, and taking account of available bank facilities as well as making such further enquiries as they consider appropriate, the Management Committee is satisfied that the Association has adequate resources to continue to operate for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

The Management Committee and Executive Officer

The Management Committee and Chief Executive of the Association are listed on page 2.

Each elected member of the Management Committee holds one fully paid share of £1 in the Association. The Chief Executive of the Association holds no interest in the Association's share capital and although not having the legal status of director she acts as an executive within the authority delegated by Management Committee.

Related Party Transactions

Any tenant who sits on the Management Committee enters into a tenancy on the Association's normal terms and conditions and cannot use this position to his or her advantage. The same position applies to any sharing owner in respect of their exclusive occupancy agreement. The Committee can confirm that all transactions with Orkney Islands Council are on normal commercial terms.

Charitable Status

Orkney Housing Association Limited was recognised by the Inland Revenue as a Scottish charity from 30 May 2001.

Statement of Management Committee's responsibilities

Housing association legislation requires the Management Committee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the income and expenditure of the Association for the year ended on that date. In preparing those financial statements the Management Committee is required to:-

- * Select suitable accounting policies and then apply them consistently;
- * Make judgements and estimates that are reasonable and prudent;
- * State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- * Comply with the disclosures required by the SFHA publication "Raising Standards in Housing"
- * Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Management Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association.

The Management Committee is also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement on internal financial controls

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

- (i) The reliability of financial information used within the Association or for publication.
- (ii) The maintenance of proper accounting records, and
- (iii) 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 include ensuring that:

- (i) Formal policies and procedures are in place including the documentation of key systems and rules relating to the delegation of authorities which allow the monitoring of controls and restrict the unauthorised use of the Association's assets.
- (ii) Experienced and suitably qualified staff take responsibility for important business functions.
- (iii) Forecasts and budgets are prepared which allow Management Committee and Executive Officers to monitor the key business risks and financial objectives and progress towards financial plans set for the year and the medium term; regular management accounts are prepared promptly, providing relevant, reliable and up-to-date financial and other information, and significant variances from budgets are investigated as appropriate.

Statement on internal financial controls (continued)

- (iv) All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures through the Management Committee.
- (v) The Management Committee reviews reports from the audit sub-committee, from internal management and from the external auditors to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the Association.
- (vi) The Audit Sub-Committee reviews internal audit reports based on an internal audit needs assessment and an agreed programme undertaken by an external provider.
- (vii) Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

Management Committee has reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2013 and until 31 July 2013. No weaknesses were found in 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.

In so far as the Committee are aware:

There is no relevant audit information needed by the Association's auditors in connection with preparing their report of which the Association's auditors are unaware.

The Committee have taken all the steps that they ought to have taken to make themselves aware of such information.

Auditors

Findlay & Company have expressed their willingness to continue as the auditors of the Association.

By order of Management Committee



Winifred Dunnet
Chairperson

31 July 2013

Independent Auditor's Report to the Members of Orkney Housing Association Limited

We have audited the financial statements of Orkney Housing Association Limited for the year ended 31 March 2013 which comprise Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the board and the auditor

As explained more fully in the Report of the Management Committee, set out on pages 3 to 5, the Management Committee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 committee; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Management Committee to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the association's affairs as at 31 March 2013 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002, Part 6 of the Housing (Scotland) Act 2010, and the SHR Determination of Accounting Requirements (April 2012).

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ORKNEY HOUSING ASSOCIATION LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts, 1965 to 2002 require us to report to you if, in our opinion:

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



ALEXANDER SQUIRES, C.A. (senior statutory auditor)

For and on behalf of Findlay & Company

Chartered Accountants and Statutory Auditors

11 Dudhope Terrace

Dundee

DD3 6TS

31 July 2013

for the year ended 31 March 2013

In addition to our audit of the financial statements, we have reviewed the Management Committee's statement on pages 4-5. The object of our review is to draw attention to any non-compliance with the section on Internal Financial Control within the Scottish Federation of Housing Associations (SFHA) publication "Raising Standards in Housing".

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on, the effectiveness of either the Association's system of internal financial control or its corporate governance procedure.

Opinion

With respect to the Management Committee's statements on internal control on pages 4-5, in our opinion, the Management Committee have provided the disclosures required under the section on Internal Financial Control within the SFHA publication "Raising Standards in Housing" referred to above, and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain members of the Management Committee and Officers of the Association, and examination of relevant documents, in our opinion the Management Committee statement on pages 4 - 5 appropriately reflects the Association's compliance with the section on Internal Financial Control within the SFHA publication "Raising Standards in Housing" specified for our review.



ALEXANDER SQUIRES, C.A. (senior statutory auditor)
For and on behalf of Findlay & Company
Chartered Accountants and Statutory Auditors
11 Dudhope Terrace
Dundee
DD3 6TS

31 July 2013

ORKNEY HOUSING ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2013

		2013	2012
	Notes	£	£
Turnover - continuing activities	2	3,631,079	3,535,932
Less: Operating costs	2	(2,840,935)	(2,615,839)
Operating surplus - continuing activities		790,144	920,093
Gain/(loss) on realisation of assets	25	128,232	35,687
Interest receivable		28,297	24,386
Interest payable	8	(486,466)	(364,209)
Surplus on continuing activities		460,207	615,957
Taxation	9	-	-
Surplus for the year		460,207	615,957
		=====	=====

STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS

for the year ended 31 March 2013.

	Note	2013	2012
Retained (deficit)/surplus for the year		460,207	615,957
Prior year adjustment	1	-	(168,109)
Total recognised surpluses and deficits relating to the year		460,207	447,848
		=====	=====

The notes on pages 12 to 30 form part of these financial statements.



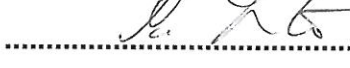
ORKNEY HOUSING ASSOCIATION LIMITED

BALANCE SHEET

for the year ended 31 March 2013

		2013	2012
		£	£
Tangible Fixed Assets	Notes		
Housing properties	10	78,747,122	74,857,242
Less: HAG	10	(60,182,005)	(59,134,142)
Other grants	10	(1,525,935)	(1,526,258)
		<hr/>	<hr/>
Other assets	10	17,039,182	14,196,842
		1,372,421	1,371,291
		<hr/>	<hr/>
		18,411,603	15,568,133
		<hr/>	<hr/>
Fixed Asset Investments			
Investments	11	1	1
Shared Equity Costs	11	971,179	799,761
Shared Equity Grants	11	(971,179)	(799,761)
		<hr/>	<hr/>
		1	1
Current Assets			
Investments	12	655,557	1,435,974
Work-in-progress	13	823,382	1,094,780
Debtors	14	216,860	320,614
Stock		3,763	2,071
Cash at bank and in hand		1,116,513	1,563,618
		<hr/>	<hr/>
		2,816,075	4,417,057
		<hr/>	<hr/>
Creditors: amounts falling due within one year	15	(1,964,205)	(2,222,695)
		<hr/>	<hr/>
Net current assets		851,870	2,194,362
		<hr/>	<hr/>
Total assets less current liabilities		19,263,474	17,762,496
		<hr/>	<hr/>
Creditors: amounts falling due after more than one year	16	(14,131,705)	(12,994,639)
		<hr/>	<hr/>
Net assets		5,131,769	4,767,857
		<hr/>	<hr/>
Capital and Reserves			
Share capital	18	151	157
Designated reserves	19	-	3,794,030
Revenue reserve	20	5,131,618	973,670
		<hr/>	<hr/>
		5,131,769	4,767,857
		<hr/>	<hr/>

The financial statements on pages 9 to 29 were approved by the Management Committee on 31 July 2013 and were signed on its behalf by:

 Chairperson
 Committee member
 Secretary

The notes on pages 12 to 29 form part of these financial statements

CASH FLOW STATEMENT

for the year ended 31 March 2013

	Notes	2013	2012
		£	£
Reconciliation of operating surplus to net cash inflow from operating activities			
Operating surplus		790,144	920,093
Depreciation charges		225,629	196,356
(Increase)/Decrease in debtors		98,874	(89,061)
Increase/(Decrease) in creditors		83,965	(80,217)
(Increase)/Decrease in stock		(1,691)	(2,071)
Services equalisation account		9,147	(2,561)
Charge to service provisions		7,402	1,363
Net cash inflow from operating activities		1,213,470	1,104,336
CASH FLOW STATEMENT			
	29		
Net cash inflow from operating activities		1,213,470	1,104,336
Returns on investments and servicing of finance		(439,793)	(341,608)
Capital expenditure		(3,244,173)	(2,070,509)
Financing		1,242,974	2,228,507
Increase/(decrease) in cash		(1,227,522)	920,726
Reconciliation of net cash flow to movement in net debt:			
	30		
Increase/(decrease) in cash in the year		(1,227,522)	920,726
Cash inflow from increase in debt		(1,242,980)	(2,228,512)
		(2,470,502)	(1,307,786)
Net debt at 1 April 2012		(10,363,124)	(9,055,338)
Net debt at 31 March 2013		(12,833,626)	(10,363,124)

1. Principal Accounting Policies

The Financial Statements have been prepared in accordance with applicable accounting standards in the United Kingdom and in accordance with the requirements of the Statement of Recommended Practice: Accounting by Registered Social Housing Providers Update 2010 and comply with the SHR Determination of Accounting Requirements (April 2012). A summary of the more important accounting policies, which have been applied consistently is set out below:-

Turnover

Turnover represents rental and service charge income, revenue grants receivable from Scottish Ministers and first tranche sales of low cost home ownership properties.

Mortgages - Housing Properties

Mortgage loans are advanced by private lenders or the Scottish Government under the terms of mortgages secured over the Association's housing properties. A programme funding agreement has been secured with the Bank of Scotland to provide loan facilities for future developments. Advances are to be drawn down on this facilities only in respect of those developments which have been given approval for Housing Association Grant (HAG) or other funding by the Scottish Government.

Housing Association Grant

For schemes developed under Scottish Government approval, HAG is paid directly to the Association as required, to meet its liabilities during the development process. HAG is repayable under certain circumstances, primarily following the sale of property. Although HAG was abolished from 31.3.11 the Association continues to receive HAG on schemes approved prior to that date.

Grants for capital expenditure are deducted from the cost of the fixed assets to which they relate as they become receivable. Grants for revenue expenditure are credited to the Income and Expenditure Account as they become receivable.

Grants attributed to individual components are written off to the Income and Expenditure Account when these components are replaced. Component replacement is not deemed to create a relevant event for repayment or recycling purposes. Upon disposal of the associated property, the Association will be required to repay or recycle the grant, and to reflect this, a contingent liability has been disclosed.

Tangible Fixed Assets - Housing Properties (Note 10)

Housing properties are stated at cost. The development costs of housing properties funded with traditional HAG or under earlier funding arrangements include the following:-

- i) Cost of acquiring land and buildings
- ii) Development expenditure
- iii) Interest charged on the development loan funds drawn to finance construction.

Expenditure on schemes which are subsequently aborted is written off in the year in which it is recognised that the schemes will not be developed to completion.

Note 1 (continued)

Works to Existing Properties

Works to existing properties which replace a component which has been treated separately for depreciation purposes, and those works which result in an increase in net rental income over the lives of the properties (thereby enhancing the economic benefits of the assets), are capitalised as improvements. Works to existing properties which do not result in the enhancement of economic benefits are charged to the Income and Expenditure Account.

Work in Progress/Shared Equity Properties

New Supply Shared Equity scheme

Grants are received from Scottish Ministers for the construction of properties under the New Supply Shared Equity scheme. Whilst under construction, the cost is recorded within current assets and corresponding grants shown in current liabilities. Once sales are made the grants and cost will be released to the Income and Expenditure account.

Shared Ownership

Properties constructed for shared ownership are part funded by the Scottish Government. Prior to completion and sale, the estimated cost element relating to the first tranche sales is included in current assets as work-in-progress. When the first tranche is sold this cost element is taken to cost of sales within the Income and Expenditure account, along with any adjustment required relating to the actual percentage sold. Income from first tranche sales is included within turnover.

Depreciation

No depreciation is charged on housing properties held under shared ownership because it is felt that the residual values of the properties are sufficiently high that any depreciation charged would be immaterial.

The major components of rented housing properties are depreciated (net of social housing and other grants) over the assets' useful lives as follows:-

Kitchens	-	20 years
Windows	-	33½ years
Roofs	-	50 years
Structure (new build)	-	100 years
Structure (rehabilitated properties)	-	80 years

Other fixed assets are depreciated as follows:-

Furniture & Equipment	-	25% per annum reducing balance method
Fixtures & Fittings	-	25% per annum reducing balance method
Handyman Van	-	25% per annum reducing balance method
Handyman Tools	-	25% per annum reducing balance method
Computers & Software	-	25% per annum straight line method
Office Buildings	-	1½% per annum straight line method

A full year's depreciation is charged on these assets in the year of purchase and none in the year of disposal.

Note 1 (continued)**Designated Reserves (Note 19)**

With the recent implementation of component accounting, the Association has considered it appropriate to eliminate its designated reserves. As a result, the balances on the Planned Maintenance Reserve and the Services Equipment Replacement Reserve have been transferred in full to the Revenue Reserve. The Shared Ownership Factoring reserve has been transferred to Creditors due within 1 year to reflect the correct nature of the balance.

Subsidiary

The subsidiary OHAL Enterprises CIC is a dormant company as at 31 March 2013 and accordingly the Association has not prepared consolidated financial accounts.

Prior Year Adjustment

The adoption of component accounting in 2011/12 represented a change in accounting policy. Previously the major components of the Association's housing properties were deemed to be land and buildings. The major components are now deemed to be land, structure, roofs, windows and kitchens. Each component has a substantially different economic life and is depreciated over this individual life. The new accounting policy is compliant with the updated SORP 2010.

2. Particulars of turnover, cost of sales, operating costs and operating surplus or deficit

	Turnover	Cost of sales	Operating costs	2013 Operating surplus/ deficit	2012 Operating surplus/ deficit
	£	£	£	£	£
Social lettings (note 3)	2,696,428	-	1,896,840	799,588	945,846
Other activities (note 4)	934,651	633,783	310,312	(9,444)	(25,753)
Total	3,631,079	633,783	2,207,152	790,144	920,093
Total for previous period of account	3,535,932	878,976	1,736,863		920,093

3. Particulars of turnover, operating costs and operating surplus/deficit from social letting activities

	General Needs £	Shared Ownership £	Supported Housing £	2013 Total £	2012 Total £
Rent receivable net of service charges	2,237,518	304,444	26,541	2,568,503	2,249,121
Service charges	104,480	-	2,067	106,547	95,605
Gross income from rents and service charges	2,341,998	304,444	28,608	2,675,050	2,344,726
Less voids	(10,682)	(8,070)	(1,375)	(20,127)	(8,859)
Net income from rents and service charges	2,331,316	296,374	27,233	2,654,923	2,335,867
Grants from Scottish Ministers	24,034	-	5,330	29,364	23,743
Other grants and miscellaneous income	9,773	2,241	127	12,141	4,741
Total income from social lettings	2,365,123	298,615	32,690	2,696,428	2,364,351
Operating costs on social letting activities					
Service costs	104,621	-	1,925	106,546	95,606
Management administration costs	498,655	71,226	2,745	572,626	510,330
Maintenance administration costs	352,588	3,907	5,149	361,644	267,014
Reactive maintenance costs	292,365	933	5,373	298,671	241,024
Planned and cyclical maintenance costs	140,023	120,921	953	261,897	75,552
Property improvements & adaptations	95,054	-	6,273	101,327	58,034
Bad debts – rents and service charges	9,417	-	65	9,482	10,257
Depreciation of social housing	183,279	-	1,368	184,647	160,688
Total operating costs on social lettings	1,676,002	196,987	23,851	1,896,840	1,418,505
Operating surplus/deficit on social lettings	689,121	101,628	8,839	799,588	945,846
Operating surplus/deficit on social lettings for previous period of account	726,533	198,375	20,938		945,846

4. Particulars of turnover, operating costs and operating surplus/deficit from other activities

	Grants from Scottish Ministers	Other Income	Total Turnover	Other operating costs	Operating surplus or deficit	Operating surplus or deficit for previous period of account
	£	£	£	£	£	£
Wider role	21,875	-	21,875	31,420	(9,545)	(147)
Factoring	-	24,558	24,558	24,724	(166)	404
Care and Repair of Property	22,804	213,150	235,954	232,717	3,237	(111)
Development and Construction of Property	30,876	583,250	614,126	633,783	(19,657)	(30,152)
Development Administration	10,451	23,920	34,371	18,070	16,301	4,253
Other activities	-	3,767	3,767	3,381	386	-
Total from other activities	86,006	848,645	934,651	944,095	(9,444)	(25,753)
Total from other activities for the previous period of account	159,336	1,012,245	1,171,581	1,197,334	(25,753)	

5. Directors' Emoluments

The directors are defined as (a) the Management Committee, who can only receive expenses and, in certain circumstances, compensation for loss of earnings, and (b) the Chief Executive, who throughout the year was the Association's Secretary. The amounts paid were:

There was one officer with emoluments of £60,000 or more during the period of account.

	2013	2012
The emoluments (excluding pension contributions) of the highest paid director, the Chief Executive	62,299	54,017
	=====	=====

The Chief Executive is an ordinary member of the pension scheme. No enhanced or special terms apply. The value of the Association's contributions during the year was £5,866 (2012 - £5,082).

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2013

6. Employee Information

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

	2013	2012
Office staff	31	28
Cleaners	1	1
	<u>32</u>	<u>29</u>
	=====	=====
Full-time equivalent	30	26
	=====	=====

	2013 £	2012 £
Staff costs (including directors' emoluments);		
Wages and salaries	804,874	754,616
Social security costs	62,719	52,456
Pension costs (Note 23)	131,551	114,862
Temporary staff	63,036	63,101
	<u>1,062,180</u>	<u>985,035</u>
	=====	=====

Pension costs in 2013 includes a £59,549 lump sum contribution towards past service deficit.

7. Operating Surplus

	2013 £	2012 £
Operating surplus is stated after charging:-		
Depreciation	225,629	196,356
Direct repair costs: reactive, planned and cyclical	465,963	263,736
Auditor's remuneration		
- In their capacity as auditors (including expenses)	12,088	9,351
- In their capacity as financial advisers	1,880	300

8. Interest Payable and similar charges

	2013 £	2012 £
On loans repayable wholly or partly in more than 5 years	486,466	364,209
Interest capitalised to property costs	11,258	29,653
	<u>497,724</u>	<u>393,862</u>
	=====	=====

9. Taxation

The Association was granted charitable status for taxation purposes with effect from 30 May 2001.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2013

10. Tangible Fixed Assets

Housing Properties

	Completed		Under Construction		Total
	Rented	SO	Rented	SO	
	£	£	£	£	£
Gross Cost					
At 1 April 2012	53,602,625	12,088,415	8,843,657	1,585,220	76,119,917
Schemes completed	6,322,621	2,289,580	(6,322,621)	(2,289,580)	-
Additions	6,230	-	2,976,673	1,748,029	4,730,932
Disposals	(5,052)	(654,768)	-	-	(659,820)
Work-in-progress	-	-	-	-	-
At 31 March 2013	59,926,424	13,723,227	5,497,709	1,043,669	80,191,029
Depreciation					
At 1 April 2012	1,262,675	-	-	-	1,262,675
Disposals	(3,415)	-	-	-	(3,415)
Charge for year	184,647	-	-	-	184,647
At 31 March 2013	1,443,907	-	-	-	1,443,907
HAG					
At 1 April 2012	40,252,996	8,986,006	7,564,772	2,330,368	59,134,142
Schemes completed	3,869,152	1,703,090	(3,827,753)	(1,743,851)	638
Additions	170,332	27,342	730,354	231,667	1,159,695
Disposals	(2,232)	(110,238)	-	-	(112,470)
At 31 March 2013	44,290,248	10,606,200	4,467,373	818,184	60,182,005
Other Grants					
At 1 April 2012	1,361,759	67,068	62,281	35,150	1,526,258
Schemes completed	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	(43)	(280)	-	-	(323)
At 31 March 2013	1,361,716	66,788	62,281	35,150	1,525,935
Net book value at:					
31 March 2013	12,830,553	3,050,239	968,055	190,335	17,039,182
31 March 2012	10,725,195	3,035,341	1,216,604	(780,298)	14,196,842

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2013

10. **Tangible Fixed Assets** (continued)

Development administration costs capitalised amounted to £71,335 (2012 - £124,996), for which HAG of £79,470 (2012 - £175,500) was receivable in the year. Interest costs capitalised amounted to £11,258 (2012 - £33,137).

Total expenditure on works to existing properties amounted to £573,520 during the year (2012 - £321,088), of which £6,230 was capitalised (2012 - £3,715).

Other Assets

	Office Buildings £	Office Fixtures & Fittings, Furniture & Equipment £	Total £
Cost			
At 1 April 2012	1,340,464	176,787	1,517,251
Additions	2,576	47,602	50,178
Written off	-	(125)	(125)
Disposals	-	-	-
At 31 March 2013	1,343,040	224,264	1,567,304
Depreciation			
At 1 April 2012	26,643	119,317	145,960
Charge for year	11,476	29,505	40,981
Adjustment re disposals	-	(31)	(31)
At 31 March 2013	38,119	148,791	186,910
Grants			
At 1 April 2012	-	-	-
Received in year	-	10,544	10,544
Grant amortisation	-	(2,571)	(2,571)
At 31 March 2013	-	7,973	7,973
Net book value			
At 31 March 2013	1,304,921	67,500	1,372,421
At 31 March 2012	1,313,821	57,470	1,371,291

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2013

11. Fixed Asset Investments

		<u>Shared Equity</u>	<u>Subsidiary</u>	<u>Total</u>
		£	£	£
Cost:	At 1 April 2012	799,761	1	799,762
	Additions	171,418	-	171,418
		-----	---	-----
	At 31 March 2013	971,179	1	971,180
		=====	=	=====
Grants:	At 1 April 2012	799,761	-	799,761
	Additions	171,418	-	171,418
		-----	---	-----
	At 31 March 2013	971,179	-	971,179
		=====	---	=====
Net Book value at 31 March 2013		-	1	1
Net Book value at 31 March 2012		-	1	1

The wholly owned subsidiary OHAL Enterprises CIC was dormant during the year to 31.3.13.

12. Investments

Investments at 31.3.13 totalled £0.65m (2012 - £1.43m) comprising two time deposit facilities at a fixed rate and maturity after fixed terms of 10 and 12 months and a Commercial Deposit Account with the Nationwide Building Society. Investments purchased or rolled over during the year amounted to £1.83m (2012 - £1.11m).

13. Work-in-progress

	<u>Shared Ownership</u>	<u>Shared Equity etc</u>	<u>Total</u>
Opening WIP	646,898	447,882	1,094,780
Additions	208,139	311,931	520,070
Transfers to/from Housing	-	-	-
Transfers to/from FA Invest	-	(171,418)	(171,418)
Disposals	(507,147)	(112,903)	(620,050)
	-----	-----	-----
	347,890	475,492	823,382
	=====	=====	=====

14. Debtors

	<u>2013</u>	<u>2012</u>
	£	£
Rent arrears	62,897	66,880
Interest receivable	2,071	3,962
HAG receivable	-	-
Other debtors	151,892	249,772
	-----	-----
	216,860	320,614
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2013

15. Creditors: amounts due within one year

	2013 £	2012 £
Rent in advance	15,291	12,665
HAG repayable	10,247	-
Loan instalments due and payable - housing	473,991	368,077
Capital expenditure	507,110	1,080,600
Capital grants received in advance	208,734	254,126
Shared equity grants on work in progress	241,125	241,805
Taxation and social security creditor	28,419	27,652
Care and Repair working capital	128,329	94,732
Shared ownership factoring sinking fund	103,691	
Services equalisation account	14,114	4,967
Other creditors and accruals	233,154	138,071
	<u>1,964,205</u>	<u>2,222,695</u>
	=====	=====

16. Creditors: amounts due outwith one year

	2013 £	2012 £
Housing loans	14,131,705	12,994,639
Non-housing loans	-	-
	<u>14,131,705</u>	<u>12,994,639</u>
	=====	=====

Loans are secured by specific charges on the Association's properties and repayable at varying rates of interest in instalments due as follows:-

	2013 £	2012 £
Within one year	473,991	368,077
Between one and two years	509,543	377,433
Between two and five years	1,586,323	1,415,286
In five years or more	12,035,839	11,201,920
	<u>14,605,696</u>	<u>13,362,716</u>
	=====	=====

The Association signed a new £1.35m loan agreement with the Bank of Scotland on 27.3.13, but the loan funds were not drawn down until 4.4.13 and are therefore not included in the analysis above.

17. Rents

	2013 £	2012 £
Gross arrears	64,397	68,380
Provision for bad debts	(1,500)	(1,500)
	<u>62,897</u>	<u>66,880</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2013

18. Share Capital

	2013 £	2012 £
At 1 April 2012	157	162
Issued in year	2	3
Cancelled in year	(8)	(8)
At 31 March 2013	151	157

Each member of the Associations holds one share of £1 in the Association. These shares carry no rights to dividend or distribution 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.

19. Designated Reserves

	At 31 March 2012 £	TF (to)/from Other Creditors £	TF (to)/from Revenue Reserve £	Annual Charge to Service Costs £	At 31 March 2013 £
Planned maintenance reserve	3,691,990	-	(3,691,990)	-	-
Services equipment replacement reserve	5,662	-	(6,907)	1,245	-
Shared ownership factoring reserve	96,378	(103,691)	1,156	6,157	-
	3,794,030	(103,691)	(3,697,741)	7,402	-

After this year's equalisation transactions, the balance on the services equipment replacement reserve is being transferred to general reserves together with the balance on the planned maintenance reserve, and the shared ownership factoring reserve to creditors due within 1 year.

20. Reconciliation of movement in revenue reserve

	2013 £	2012 £
Revenue reserve brought forward	973,670	853,263
Surplus for the year	460,207	615,957
Transfer from/(to) designated reserves	3,697,741	(495,550)
Revenue reserve carried forward	5,131,618	973,670

21. Capital commitments

	2013 £	2012 £
Capital expenditure which has been contracted for but has not been provided for in the financial statements	1,246,305 =====	4,412,262 =====
Capital expenditure which has been authorised but not contracted for or provided for in the financial statements	154,750 =====	0 =====

The amount contracted for at 31 March 2013 will be funded from sales of low cost home ownership, from private finance or met from the Association's reserves.

22. Contingent LiabilitiesPension Scheme liabilities

The Association has been advised by the Pensions Trust of the estimated employer debt on withdrawal from the SFHA Pension Scheme based on the financial position of the scheme as at 30 September 2012. As of this date, the estimated employer debt for Orkney Housing Association was £2,619,927 (2012 - £2,371,012).

The Association has also been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Growth Plan based on the financial position of the Plan as at 30 September 2012. As at 30.9.12 the employer debt for Orkney Housing Association was estimated to be either £30,820 if Series 3 liabilities are included (2012 - £32,542) or £39,347 if Series 3 liabilities are not included. These figures are estimated to have increased by approximately 3% by 31 March 2013 to £31,744 and £40,528 respectively.

The Association has no current plans to withdraw from the Pension Scheme. It is however considering its future participation in the Growth Plan: various options are being considered, but no decision has yet been reached.

Grants written off

At 31 March 2013, the Association has disposed of components which had received £165,598 (2012 £164,004) of grant funding. Although the disposal of these components has not given rise to a relevant event for the purposes of repayment or recycling the grant (as the Association retains the property asset), it does have a potential future obligation to repay or recycle such grant once the property is disposed of.

As the timing of any future disposal is uncertain, in accordance with Financial Reporting Standard 12 – Provisions, Contingent Liabilities and Contingent Assets, no provision has been recognised in these financial statements.

23. PensionsSHAPS Pension Scheme

The Association participates in the Scottish Housing Associations' Pension Scheme (the "Scheme"). The Scheme is funded and is contracted-out of the State Pension scheme.

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

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

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

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

Since the contribution rates payable to the Scheme have been determined with reference to the last full actuarial valuation, the following notes relate to the formal actuarial valuation as at 30 September 2009:

The key valuation assumptions used to determine the assets and liabilities of the Scottish Housing Associations Pension Scheme are:

	% pa
Investment return pre-retirement	7.4
Investment return post-retirement – Non-pensioners	4.6
Investment return post-retirement – Pensioners	4.8
Rate of salary increases	4.5
Rate of pension increases	
- pension accrued pre 6 April 2005 in excess of GMP	2.9
- pension accrued post 6 April 2005	
(for leavers before 1 October 1993 pension increases are 5% pa)	2.2
Rate of price inflation	3.0

During the accounting period the Association paid contributions at the rate of 9.6% of pensionable salaries and member contributions were at 9.6%.

23. Pensions (continued)

As at the balance sheet date there were 28 active members of the Scheme employed by Orkney Housing Association Ltd. The annual pensionable payroll in respect of these members was £785,324. The Association continues to offer membership of the Scheme to its employees.

Following a change of legislation in September 2005 there is a potential debt on the employer which 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 buy-out 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 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 Scottish Housing Associations' Pension Scheme based on the financial position of the Scheme as of 30 September 2012. As of this date, the estimated employer debt for Orkney Housing Association was £2,619,927.

Growth Plan

The Association also participates in the Pension Trust's Growth Plan. The plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi-employer pension Plan.

Contributions paid into the Growth Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by the purchase of an annuity.

The rules of the Plan allow for the declaration of bonuses and/or investment credits if this is within the financial capacity of the plan assessed on a prudent basis. Bonuses/investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

The Trustee commissions an actuarial valuation of the Growth Plan every three years. The purpose of the valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Growth Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is

for the year ended 31 March 2013

met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities known as Technical Provisions.

23. Pensions (continued)

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

The rules of the Growth Plan state that the proportion of obligatory contributions to be borne by the member and the member's employer shall be determined by agreement between them. Any such agreement shall require the employer to pay part of such contributions and may provide that the employer shall pay the whole of them.

There were no member contributions during the period, and as at the balance sheet date none of the Association's employees were active members of the Plan. The Association continues to offer membership of the Plan to its employees.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. Growth Plan is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from the total scheme assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The valuation results at 30 September 2011 were completed in 2012 and have been formalised. The valuation for the scheme was performed by a professionally qualified actuary using the Projected Unit Method. The market value of the Plan's assets at the valuation date was £780 million, and the Plan's Technical Provisions (ie past service liabilities) were £928 million. The valuation therefore indicated a shortfall of assets compared to liabilities of £148 million, equivalent to a funding level of 84%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

	% pa
Investment return pre retirement	4.9
Investment return post retirement:	
- Activities/Deferreds	4.2
- Pensioners	4.2
Bonuses on accrued benefits	0.0
Inflation: Retail Prices Index (RPI)	2.9
Inflation: Consumer Prices Index (CPI)	2.4

In determining the investment return assumptions the Trustee considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustee has incorporated an element of prudence into the pre and post retirement return assumptions, such that there is a 60% expectation that the return will be in excess of that assumed, and a 40% chance that the return will be lower than that assumed over the next 10 years.

The preliminary triennial valuation results as at 30 September 2011 were received in March 2012, but, as the valuation will not be finalised until later this year, this disclosure note must still refer to the 2008 valuation results as the last completed valuation.

The Scheme Actuary has prepared a funding position update as at 30 September 2012. The market value of the Plan's assets at that date was £790 million and the Plan's Technical Provisions (i.e.

23. Pensions (continued)

past service liabilities) was £984 million. The update therefore revealed a shortfall of assets compared with liabilities of £194 million, equivalent to a funding level of 80%.

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

The Pensions Regulator has the power under Part 3 of the pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example, the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Plan liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Plan (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2011 valuation was forwarded to the Pensions Regulator on 2 October 2012, as required by legislation.

Following a change in legislation in September 2005 there is a potential debt on the employer which could be levied by the Trustee of the Plan and The Pensions Act 2011 has more recently altered the definition of Series 3 of the Growth Plan so that a liability arises to employers from membership of any Series except Series 4. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buy-out 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 Plan. 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 Plan's liability attributable to employment with the leaving employer compared to the total amount of the Plan'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 Plan liabilities, Plan 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.

When an employer withdraws from a multi-employer defined benefit pension scheme which is in deficit, the employer is required in law to pay its share of the deficit, calculated on a statutory basis (known as the buy-it basis). The calculation basis which applies to the Growth Plan was amended due to a change in the definition of money purchase contained in the Pensions Act 2011, but the regulations which will determine exactly how the change will apply in practice are still awaited. As the law stands, it is not yet clear whether the statutory calculation should include or exclude Series 3 liabilities. However, based upon current advice, the most likely interpretation is that Series 3 liabilities will have to be included in the calculation of an employer's debt on withdrawal.

Owing to this situation, two figures have been included, namely:

- The cost of withdrawal if we include Series 3 liabilities in the calculation is £30,819.60
- The cost of withdrawal if we exclude Series 3 liabilities in the calculation is £39,347.13

for the year ended 31 March 2013

If an employer withdraws from the Growth Plan prior to the implementation of the regulations, the debt will be calculated on both bases and the payment requested would be the higher amount with any adjustment being made when the regulations are implemented.

24. Legislative provisions

The Association is incorporated under the Industrial and Provident Societies Act 1965, registered with the Scottish Housing Regulator and governed by the Housing (Scotland) Act 2001.

25. Gain/Loss on Sale of Assets

	Shared Ownership	Land	Other Assets	Total 2013	Total 2012
	£	£	£	£	£
Income	307,500	-	341	307,841	325,892
Legal Expenses	3,246	-	-	3,246	3,858
Cost of Sale	175,480	-	94	175,574	285,395
Other Costs	789	-	-	789	952
	-----	-----	-----	-----	-----
Gain/(Loss) on Disposal of Assets	127,985	-	247	128,232	35,687
	=====	=====	=====	=====	=====

26. Housing Stock

The number of units of housing under development and in management at 31 March was:-

		Units under Development		Units in Management	
		2013	2012	2013	2012
Housing for Rent:	General needs housing	40	60	658	626
	Supported housing	-	-	8	9
	Communal use	-	-	2	2
		-----	-----	-----	-----
		40	60	668	637
		-----	-----	-----	-----
Shared Ownership accommodation		21	29	161	147
New Supply Shared Equity		4	6	-	-
		-----	-----	-----	-----
Total		65	95	829	784
		=====	=====	=====	=====

27. Subsidiary Information

Details of the investment in which the Association holds more than 10% of the nominal value of any class of share capital are as follows:-

Name of Company	Country of Registration or incorporation	Date of Incorporation	Proportion of Voting Rights	Nature of Business
OHAL Enterprises C.I.C.	United Kingdom	08/02/2012	Wholly Controlled	Dormant since incorporation

28. Related Parties

Sally Inkster, Chief Executive and Company Secretary of the Association, is also a director of Women's Aid Orkney. The Association has provided management services to Women's Aid during the year as well as this organisation being a tenant of the Association. During the year, Women's Aid Orkney have been charged rent of £15,123, services charges of £303 and management fees of £2,241. As at the year-end Women's Aid are due £2,690 to the Association. All transactions have been carried out on normal commercial terms basis.

Cllr Harvey Johnston (resigned 14.6.12) is a Councillor with Orkney Islands Council who sat on the Management Committee. The Committee can confirm all transactions with Orkney Island Council are made on normal commercial terms and Councillors cannot use their position to any advantage.

Any tenant who sits on the Management Committee enters into a tenancy on the Association's normal terms and conditions and cannot use this position to his or her advantage. The same position applies to any sharing owner in respect of their exclusive occupancy agreement.

NOTES TO THE CASH FLOW STATEMENT

	2013 £	2012 £	
29. Gross cash flows			
Returns on investments and servicing of finance:			
Interest received	30,188	22,640	
Interest paid	(469,981)	(364,248)	
	-----	-----	
	(439,793)	(341,608)	
	=====	=====	
Capital investment and financial investment:			
Payments to acquire tangible fixed assets	(4,744,254)	(4,970,702)	
Receipts from sales of tangible fixed assets	303,806	321,992	
HAG received	1,313,685	3,563,114	
Other grants received	40,500	-	
Purchase of other fixed assets	(58,260)	(817,466)	
HAG repaid	(99,991)	(167,489)	
Receipts from sales of other fixed assets	341	42	
	-----	-----	
	(3,244,173)	(2,070,509)	
	=====	=====	
Financing:			
Loans received	1,685,000	2,597,049	
Loans repaid	(442,020)	(368,537)	
Issue of ordinary share capital	2	3	
Shares cancelled	(8)	(8)	
	-----	-----	
	1,242,974	2,228,507	
	=====	=====	
30. Analysis of Changes in Net Debt			
	At 31 March 2012 £	Cash Flows £	At 31 March 2013 £
Cash in hand	250	-	250
Short-term investments	2,908,303	(1,265,999)	1,642,304
Bank	91,039	38,477	129,516
Debt due within 1 year	(368,077)	(105,914)	(473,991)
Debt due after 1 year	(12,994,639)	(1,137,066)	(14,131,705)
	-----	-----	-----
	(10,363,124)	(2,470,502)	(12,833,626)
	=====	=====	=====