

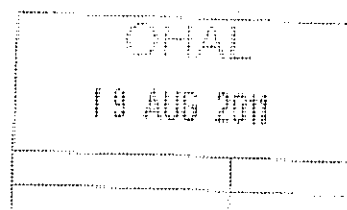


**ORKNEY HOUSING ASSOCIATION LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**for the year ended 31 March 2011**

RSL No      HAL 164  
Charity No    SC 031734



ORKNEY HOUSING ASSOCIATION  
REPORT AND FINANCIAL STATEMENTS  
for the year ended 31 March 2011

---

	<b>Page</b>
Members, Executive and Advisors	2
Report of the Management Committee	3 - 5
Report of the Auditors	6 - 7
Report by the Auditors on Corporate Governance Matters	8
Income and Expenditure Account	9
Balance Sheet	10
Cash Flow Statement	11
Notes to the Financial Statements	12 - 27

# ORKNEY HOUSING ASSOCIATION

## MEMBERS, EXECUTIVE AND ADVISORS

---

### Management Committee

Wendy Baikie (Chairperson)  
Winifred Dunnett (Vice-chairperson to 27.9.10)  
Jim Elrick (resigned 25.11.10)  
George Hannah (Vice-chairperson from 27.9.10)  
Harvey Johnston  
Linda Lennie  
Allan Leslie  
Chessa Llewellyn-White  
Bob Mackenzie  
Stephen Manson  
Leo Martini-Brown (resigned 27.9.10)  
Stephanie Rushforth  
Karen Scholes  
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

# ORKNEY HOUSING ASSOCIATION

## REPORT OF THE MANAGEMENT COMMITTEE

for the year ended 31 March 2011

---

The Management Committee presents its report and the audited financial statements for the year ended 31 March 2011.

### **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 2010/11 and beyond were building quality houses to meet identified needs, engaging with customers, planning for and adapting to change, maintaining and improving stock and using resources efficiently. During the year 9 new rented and 22 low cost home ownership homes were completed, we succeeded in re-tendering and obtaining additional funding for three development projects following the liquidation of one of our main contractors, we recruited a part time Resident Participation Co-ordinator and an Energy Projects Worker and we continued lobbying the Scottish Government over levels of capital grants.

### **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 Executive Officer of the Association holds no interest in the Association's share capital and although not having the legal status of director she acts as 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. Allan Leslie sits on the Management Committee but is also an Orkney Islands councillor. The Committee can confirm that all transactions with Orkney Islands Council are on normal 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.

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

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 2011 and until 27 July 2011. 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



Wendy Baikie  
Chairperson

27 July 2011

### **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 2011 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 2011 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, Schedule 7 to the Housing (Scotland) Act 2001, and the Registered Social Landlords Accounting Requirements (Scotland) Order 2007.

# 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

27 JULY 2011



ORKNEY HOUSING ASSOCIATION LIMITED

REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE MATTERS

as at 31 March 2011

---

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

27 July 2011

# ORKNEY HOUSING ASSOCIATION LIMITED

## INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2011

		2011	2010
	Notes	£	£
<b>Turnover</b> - continuing activities	2	2,958,292	2,543,625
Less: Operating costs	2	(2,328,298)	(1,832,860)
Operating surplus - continuing activities		629,994	710,765
Gain/(loss) on realisation of assets	23	7,251	(4,568)
Interest receivable		22,949	47,208
Interest payable	8	(295,936)	(312,729)
Surplus on continuing activities		364,258	440,676
Exceptional Item	24	-	(103,251)
Taxation	9	-	-
Surplus for the year		364,258	337,425

In each of the years ended 31 March 2010 and 31 March 2011 the only gain or loss recognised by the Association was the surplus or deficit for the year. All of the activities undertaken by the Association were continuing activities, and the reported surplus or deficit was determined under the historical cost convention.

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

# ORKNEY HOUSING ASSOCIATION LIMITED

## BALANCE SHEET

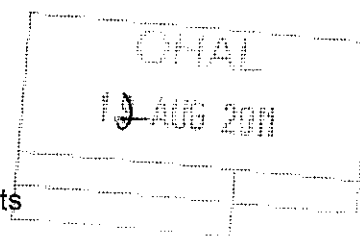
for the year ended 31 March 2011

	Notes	2011 £	2010 £
<b>Tangible Fixed Assets</b>			
Housing properties	10	70,035,778	62,755,286
Less: HAG	10	(56,347,133)	(51,008,709)
Other grants	10	(1,532,719)	(1,793,103)
		-----	-----
Other assets	10	12,155,926	9,953,474
		595,144	259,755
		-----	-----
		12,751,070	10,213,229
		-----	-----
<b>Fixed Asset Investments</b>			
Shared Equity Costs		550,058	-
Shared Equity Grants		(550,058)	-
		-----	-----
		-	-
<b>Current Assets</b>			
Investments	25	1,026,879	1,533,323
Work-in-progress	11	1,402,232	1,811,762
Debtors	12	763,201	295,162
Stock		-	1,223
Cash at bank and in hand		1,051,987	1,444,135
		-----	-----
		4,244,299	5,085,605
		-----	-----
<b>Creditors: amounts falling due within one year</b>	13	(1,831,874)	(1,731,713)
		-----	-----
Net current assets		2,412,425	3,353,892
		-----	-----
Total assets less current liabilities		15,163,495	13,567,121
		-----	-----
<b>Creditors: amounts falling due after more than one year</b>	14	(10,844,844)	(9,614,391)
		-----	-----
<b>Net assets</b>		4,318,651	3,952,730
		=====	=====
<b>Capital and Reserves</b>			
Share capital	16	162	166
Designated reserves	17	3,297,117	2,931,192
Revenue reserve	22	1,021,372	1,021,372
		-----	-----
		4,318,651	3,952,730
		=====	=====

The financial statements on pages 9 to 27 were approved by the Management Committee on 27 July 2011 and were signed on its behalf by:

..... *W. Baillie* ..... Chairperson  
 ..... *[Signature]* ..... Committee member  
 ..... *[Signature]* ..... Secretary

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



# ORKNEY HOUSING ASSOCIATION LIMITED

## CASH FLOW STATEMENT

for the year ended 31 March 2011

	Notes	2011 £	2010 £
<b>Reconciliation of operating surplus to net cash inflow from operating activities</b>			
Operating surplus		629,994	710,765
Depreciation charges		110,704	106,604
(Increase)/Decrease in debtors		(67,200)	589
Increase/(Decrease) in creditors		(48,732)	13,052
(Increase)/Decrease in stock		1,223	(523)
Services equalisation account		(175)	7,881
Charge to service provisions		1,667	5,965
<b>Net cash inflow from operating activities</b>		<b>627,481</b>	<b>844,333</b>
<b>CASH FLOW STATEMENT</b>			
	27		
Net cash inflow from operating activities		627,481	844,333
Returns on investments and servicing of finance		(282,825)	(194,086)
Capital expenditure		(2,541,327)	(2,437,752)
Financing		1,298,080	2,220,097
<b>Increase/(decrease) in cash</b>		<b>(898,591)</b>	<b>432,592</b>
<b>Reconciliation of net cash flow to movement in net debt:</b>			
	28		
Increase/(decrease) in cash in the year		(898,591)	432,592
Cash inflow from increase in debt		(1,298,084)	(2,220,097)
		(2,196,675)	(1,787,505)
Net debt at 1 April 2010		(6,858,663)	(5,071,158)
Net debt at 31 March 2011		(9,055,338)	(6,858,663)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2011

---

1. **Principal Accounting Policies**

The Financial Statements have been prepared on the historical cost basis in accordance with the requirements of the Statement of Recommended Practice: Accounting by Registered Social Landlords 2008 and applicable accounting standards, and comply with the Registered Social Landlords Accounting Requirements (Scotland) Order 2007. 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 and revenue grants receivable from Scottish Ministers.

**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. Programme funding agreements have been secured with the Royal Bank of Scotland which provide loan facilities for past and future developments. Advances are drawn down on these facilities only in respect of those developments which have been given approval for Housing Association Grant (HAG) 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.

**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.

**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. On completion and prior to sale the estimated cost element relating to the first tranche sales is

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2011

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.

Rented housing properties are depreciated over the asset's useful lives detailed below:-

New build	-	100 years
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 Property	-	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.

### Designated Reserves (Note 17)

#### (i) Planned maintenance reserve

The planned maintenance reserve funds life cycle maintenance and major repairs and is built-up from transfers from the revenue reserve. The level of the reserve is based on a programme of maintenance and replacement over the life of the properties covering items such as replacement of kitchen units and bathroom units etc. External costs and life cycles are based on published data and from in-house technical expertise. Actual expenditure on planned maintenance and major repairs is reflected in a transfer from designated reserves.

#### (ii) Service equipment replacement

The reserve is based on the Association's liability to replace service equipment, such as appliances provided in houses built or adapted for particular needs.

#### (iii) Shared ownership factoring reserve

The reserve is held to fund the reactive and planned maintenance service provided by the Association to owners and shared owners in blocks of flats with common areas.

### Pensions

The Association operates a defined benefit pension scheme, the cost of which is written off on an accruals basis. The assets of the scheme are held separately from those of the Association in an independently administered fund (Note 20).

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

	Turnover	Cost of sales	Operating costs	2011 Operating surplus/ deficit	2010 Operating surplus/ deficit
	£	£	£	£	£
Social lettings (note 3)	2,074,244	-	1,482,629	591,615	715,154
Other activities (note 4)	884,048	720,256	125,413	38,379	(4,389)
<b>Total</b>	<b>2,958,292</b>	<b>720,256</b>	<b>1,608,042</b>	<b>629,994</b>	<b>710,765</b>
Total for previous period of account	2,543,625	419,898	1,412,962		710,765

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

	General Needs	Shared Ownership	Supported Housing	2011 Total	2010 Total
	£	£	£	£	£
Rent receivable net of service charges	1,697,407	224,333	28,683	1,950,423	1,851,814
Service charges	85,054	-	1,481	86,535	84,914
<b>Gross income from rents and service charges</b>	<b>1,782,461</b>	<b>224,333</b>	<b>30,164</b>	<b>2,036,958</b>	<b>1,936,728</b>
Less voids	(5,703)	(2,136)	-	(7,839)	(7,174)
<b>Net income from rents and service charges</b>	<b>1,776,758</b>	<b>222,197</b>	<b>30,164</b>	<b>2,029,119</b>	<b>1,929,554</b>
Grants from Scottish Ministers	29,673	-	-	29,673	15,949
Other grants and miscellaneous income	12,472	2,790	190	15,452	20,524
<b>Total income from social lettings</b>	<b>1,818,903</b>	<b>224,987</b>	<b>30,354</b>	<b>2,074,244</b>	<b>1,966,027</b>
<b>Operating costs on social letting activities</b>					
Service costs	84,679	-	1,856	86,535	84,914
Management administration costs	447,326	68,552	2,794	518,672	461,912
Maintenance administration costs	258,884	3,260	3,875	266,019	230,587
Reactive maintenance costs	177,864	1,654	4,751	184,269	116,476
Planned and cyclical maintenance costs	221,163	50,832	4,027	276,022	201,683
Property improvements & adaptations	40,224	-	-	40,224	35,491
Bad debts – rents and service charges	10,212	(8)	-	10,204	2,467
Depreciation of social housing	94,722	-	1,129	95,851	91,482
District heating system costs	4,350	483	-	4,833	25,861
<b>Total operating costs on social lettings</b>	<b>1,339,424</b>	<b>124,773</b>	<b>18,432</b>	<b>1,482,629</b>	<b>1,250,873</b>
<b>Operating surplus/deficit on social lettings</b>	<b>479,479</b>	<b>100,214</b>	<b>11,922</b>	<b>591,615</b>	<b>715,154</b>
<b>Operating surplus/deficit on social lettings for previous period of account</b>	<b>580,823</b>	<b>114,041</b>	<b>20,290</b>		<b>715,154</b>

for the year ended 31 March 2011

## 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	79,388	-	79,388	80,244	(856)	(549)
Factoring	-	18,050	18,050	17,962	88	(15)
Development and Construction of Property	30,551	730,500	761,051	720,256	40,795	-
Development Administration	16,692	8,867	25,559	27,207	(1,648)	(3,825)
Other activities	-	-	-	-	-	-
<b>Total from other activities</b>	<b>126,631</b>	<b>757,417</b>	<b>884,048</b>	<b>845,669</b>	<b>38,379</b>	<b>(4,389)</b>
<b>Total from other activities for the previous period of account</b>	<b>158,189</b>	<b>419,409</b>	<b>577,598</b>	<b>581,987</b>		<b>(4,389)</b>

## 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 were no officers with emoluments of £60,000 or more during the period of account.

	2011	2010
The emoluments (excluding pension contributions) of the highest paid director, the Chief Executive	53,557	£52,379
	=====	=====

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 £8,068 (2010 - £7,891).



# ORKNEY HOUSING ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2011

### 6. Employee Information

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

	2011	2010
Office staff	22	20
Cleaners	1	1
	<u>23</u>	<u>21</u>
Full-time equivalent	<u>19</u>	<u>18</u>

	2011 £	2010 £
Staff costs (including directors' emoluments);		
Wages and salaries	560,272	537,570
Social security costs	40,846	38,456
Pension costs (Note 20)	77,873	77,357
Temporary staff	33,174	-
	<u>712,165</u>	<u>653,383</u>

### 7. Operating Surplus

	2011 £	2010 £
Operating surplus is stated after charging:-		
Depreciation	110,704	106,604
Direct repair costs: reactive, planned and cyclical	460,292	318,159
Auditor's remuneration		
- In their capacity as auditors (including expenses)	10,044	9,297
- In their capacity as financial advisers	(55)	505

### 8. Interest Payable and similar charges

	2011 £	2010 £
On loans repayable wholly or partly in more than 5 years	295,936	312,729
Interest capitalised to property costs	37,715	14,058
	<u>333,651</u>	<u>326,787</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 2011

## 10. Tangible Fixed Assets

## Housing Properties

	Completed		Under Construction		Total £
	Rented £	SO £	Rented £	SO £	
<b>Gross Cost</b>					
At 1 April 2010	42,714,991	8,093,641	9,662,784	3,743,901	64,215,317
Schemes completed	1,164,080	1,154,468	(1,164,080)	(1,154,468)	-
Additions	493,783	908,131	4,554,275	1,814,119	7,770,308
Disposals	-	(440,373)	(4,106)	(183,278)	(627,757)
CI work-in-progress	-	-	-	(686,727)	(686,727)
<b>At 31 March 2011</b>	<b>44,372,854</b>	<b>9,715,867</b>	<b>13,048,873</b>	<b>3,533,547</b>	<b>70,671,141</b>
<b>Depreciation</b>					
At 1 April 2010	539,512	-	-	-	539,512
Charge for year	95,851	-	-	-	95,851
<b>At 31 March 2011</b>	<b>635,363</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>635,363</b>
<b>HAG</b>					
At 1 April 2010	32,140,824	7,419,350	8,637,807	2,810,728	51,008,709
Schemes completed	996,471	713,894	(996,471)	(713,894)	-
Additions	52,271	403,260	3,419,230	1,541,060	5,415,821
Disposals	-	(77,397)	-	-	(77,397)
<b>At 31 March 2011</b>	<b>33,189,566</b>	<b>8,459,107</b>	<b>11,060,566</b>	<b>3,637,894</b>	<b>56,347,133</b>
<b>Other Grants</b>					
At 1 April 2010	1,182,362	55,053	520,538	35,150	1,793,103
Schemes completed	-	-	-	-	-
Additions	185,074	12,799	(458,257)	-	(260,384)
Disposals	-	-	-	-	-
<b>At 31 March 2011</b>	<b>1,367,436</b>	<b>67,852</b>	<b>62,281</b>	<b>35,150</b>	<b>1,532,719</b>
<b>Net book value at:</b>					
<b>31 March 2011</b>	<b>9,180,489</b>	<b>1,188,908</b>	<b>1,926,026</b>	<b>(139,497)</b>	<b>12,155,926</b>
<b>31 March 2010</b>	<b>8,852,293</b>	<b>619,238</b>	<b>504,439</b>	<b>(22,496)</b>	<b>9,953,474</b>

for the year ended 31 March 2011

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

Development administration costs capitalised amounted to £127,769 (2010 - £122,648), for which HAG of £127,768 (2010 - £304,741) was receivable in the year. Interest costs capitalised amounted to £37,715 (2010 - £14,058).

Total expenditure on works to existing properties amounted to £500,516 during the year (2010 - £404,604), of which £0 was capitalised (2010 - £50,955).

**Other Assets**

	Office & Buildings £	Office Fixtures & Fittings, Furniture & Equipment £	Total £
<b>Cost</b>			
At 1 April 2010	240,338	162,276	402,614
Additions	340,554	20,724	361,278
Written off	-	(50,979)	(50,979)
Disposals	-	-	-
<b>At 31 March 2011</b>	<b>580,892</b>	<b>132,021</b>	<b>712,913</b>
<b>Depreciation</b>			
At 1 April 2010	13,680	129,179	142,859
Charge for year	1,520	13,334	14,854
Adjustment re disposals	-	(39,944)	(39,944)
<b>At 31 March 2011</b>	<b>15,200</b>	<b>102,569</b>	<b>117,769</b>
<b>Net book value</b>			
At 31 March 2011	<b>565,692</b>	<b>29,452</b>	<b>595,144</b>
At 31 March 2010	<b>226,658</b>	<b>33,097</b>	<b>259,755</b>

11. **Work-in-progress**

	2011 £	2010 £
New Supply Shared Equity	715,505	891,243
Shared Ownership	686,727	920,519
	<b>1,402,232</b>	<b>1,811,762</b>

ORKNEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2011

12. Debtors

	2011 £	2010 £
Rent arrears	49,435	43,628
Interest receivable	2,216	5,481
HAG receivable	537,507	63,103
Capital accrual	-	70,300
Other debtors	174,043	112,650
	<u>763,201</u>	<u>295,162</u>
	=====	=====

13. Creditors: amounts due within one year

	2011 £	2010 £
Rent in advance	10,290	11,121
Interest payable	39	13,143
Loan instalments due and payable - housing	284,310	216,703
Loan instalments due and payable - non-housing	5,050	5,026
Capital expenditure	431,104	291,494
Capital grants received in advance	426,183	331,482
Shared equity grants on work in progress	575,910	715,903
Other creditors and accruals	91,460	139,138
Services equalisation account	7,528	7,703
	<u>1,831,874</u>	<u>1,731,713</u>
	=====	=====

14. Creditors: amounts due outwith one year

	2011 £	2010 £
Housing loans	10,812,241	9,575,971
Non-housing loans	32,603	38,420
	<u>10,844,844</u>	<u>9,614,391</u>
	=====	=====

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

	2011 £	2010 £
Within one year	289,360	221,729
Between one and two years	349,271	298,435
Between two and five years	1,104,970	1,157,562
In five years or more	9,390,603	8,158,394
	<u>11,134,204</u>	<u>9,836,120</u>
	=====	=====

ORKNEY HOUSING ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2011

15. Rents

	2011 £	2010 £
Gross arrears	50,935	45,128
Provision for bad debts	(1,500)	(1,500)
Net arrears	49,435	43,628

16. Share Capital

	2011 £	2010 £
At 1 April 2010	166	166
Issued in year	2	3
Cancelled in year	(6)	(3)
At 31 March 2011	162	166

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.

17. Designated Reserves

	At 31 March 2010 £	Written- down to Revenue £	TF (to)/from Revenue Reserve £	Annual Charge to Service Costs £	At 31 March 2011 £
Planned maintenance reserve	2,837,593	-	361,633	-	3,199,226
Services equipment replacement reserve	9,353	-	98	(1,488)	7,963
Shared ownership factoring reserve	84,246	-	2,527	3,155	89,928
	2,931,192	-	364,258	1,667	3,297,117

Planned maintenance reserve includes planned and major repairs. These are detailed within the designated reserves accounting policy (Note 1).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2011

## 18. Capital commitments

	2011 £	2010 £
Capital expenditure that has been contracted for but has not been provided for in the financial statements	6,014,794 =====	7,636,868 =====

The amount contracted for at 31 March 2011 will be funded from grants approved by the Scottish Government, sales of low cost home ownership, from private loans or met from the Association's reserves.

## 19. Contingent Liabilities

Pension 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 2010. As of this date, the estimated employer debt for Orkney Housing Association was £1,980,602 (2010 - £1,901,834).

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 2010. As at 30.9.10 the employer debt for Orkney Housing Association was estimated at £33,941 (2010 - £35,114), but this figure is estimated to have decreased by approximately 19% by 31 March 2011.

The Association has no current plans to withdraw from either the Pension Scheme or the Growth Plan.

## 20. Pensions

SFHA Standard Employers Pension Scheme

The Association participates in the SFHA 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 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

**20. Pensions (continued)**

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 Management Committee of the Association is consulting with their staff over the decision whether to retain the final salary with a 1/60<sup>th</sup> accrual rate benefit structure or change to an alternative benefit structure. During the accounting period the Association paid contributions at the rate of 15.4% of pensionable salaries and member contributions were at 7.7%.

As at the balance sheet date there were 18 active members of the Scheme employed by Orkney Housing Association Ltd. The annual pensionable payroll in respect of these members was £494,604. The Association continues to offer membership of the Scheme to its employees.

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

	% 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

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 SFHA Pension Scheme based on the financial position of the Scheme as of 30 September 2010. As of this date, the estimated employer debt for Orkney Housing Association was £1,980,602.

20. **Pensions (continued)**

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 Growth 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 3 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 met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities known as Technical Provisions.

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. 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 2008 have now been completed in 2009 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 £742 million, and the Scheme's Technical Provisions (ie past service liabilities) were £771 million. The valuation therefore indicated a shortfall of assets compared to liabilities of £29 million, equivalent to a funding level of 96%.



**20. Pensions (continued)**

The financial assumptions underlying the valuation as at 30 September 2008 were as follows:

	% pa
Investment return pre retirement	7.6
Investment return post retirement:	
- Activities/Deferreds	5.1
- Pensioners	5.6
Bonuses on accrued benefits	0.0
Real rate of inflation	3.2

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 Scheme Actuary has prepared a funding position update as at 30 September 2010. The Market value of the Plan's assets at that date was £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £825 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £45 million, equivalent to a funding level of 95%.

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.

In view of the small funding deficit and the level of prudence implicit in the assumptions used to calculate the Plan liabilities, the Trustee has prepared a recovery plan on the basis that no additional contributions from participating employers are required at this point in time. In reaching this decision the Trustee has taken actuarial advice and has been advised that the shortfall of £29 million (as at 30 September 2008) will be cleared within 10 years if the investment returns from assets are in line with the "best estimate" assumptions. "Best estimate" means that there is a 50% expectation that the return will be in excess of that assumed, and a 50% expectation that the return will be lower than that assumed over the next 10 years. These "best estimate" assumptions are 8.4% per annum pre retirement and 5.1% per annum post retirement (actives and deferred) and 5.6% per annum post retirement (pensioners).

A copy of the recovery plan must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation and/or recovery plan are inappropriate. For example, the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2008 valuation was forwarded to The Pensions Regulator on 18 December 2009.

The next full actuarial valuation will be carried out as at 30 September 2011.

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. The Trustee's current policy is that it only applies to employers with pre October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2011

## 20. Pensions (continued)

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 pre October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre October 2001 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.

The Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2010. As of this date the estimated employer debt for Orkney Housing Association was £33,941. The Pensions Trust have also intimated however that the figure at 31 March 2011 is likely to have decreased by approximately 19%.

## 21. 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.

## 22. Reconciliation of movement in revenue reserve

	2011 £	2010 £
Revenue reserve brought forward	1,021,372	1,021,372
Surplus for the year	364,258	337,425
Transfer from/(to) designated reserves	(364,258)	(337,425)
Revenue reserve carried forward	1,021,372	1,021,372

## 23. Gain/Loss on Sale of Assets

	Shared Ownership £	Land £	Other Assets £	Total 2011 £	Total 2010 £
Income	88,750	-	2,452	91,202	49,350
Legal Expenses	1,373	-	-	1,373	2,223
Cost of Sale	71,433	-	10,815	82,248	51,491
Other Costs	290	-	40	330	204
Gain/Loss on Disposal of Assets	15,654	-	(8,403)	7,251	(4,568)

**24. Exceptional Item**

During 2009/10 the decision was taken to abandon the new-build office project at 46 Victoria Street. This decision was taken after a full risk assessment was carried out which concluded that it would be financially and economically better for the Association to extend its current premises instead. A review of costs incurred to date was carried out and those which will have no future economic benefit (mainly consultants' fees) were written off as abortive costs in 2009/10. Costs incurred which have improved or enhanced the building remain capitalised.

**25. Investments**

Investments at 31.3.11 totalled £1.03m (2010 - £1.53m) comprising two time deposit facilities at a fixed rate and maturity after fixed terms of seven and twelve months, and a Commercial Deposit Account with the Nationwide Building Society. Investments purchased or rolled over during the year amounted to £1.83m (2010 - £2.2m).

**26. Housing Stock**

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

		Units under Development		Units in Management	
		2011	2010	2011	2010
Housing for Rent:	General needs housing	109	119	557	548
	Supported housing	-	12	9	9
	Communal use	-	-	2	2
		-----	-----	-----	-----
		109	131	568	559
		-----	-----	-----	-----
Shared Ownership accommodation		43	34	137	120
New Supply Shared Equity		12	18	-	-
		-----	-----	-----	-----
Total		164	183	705	679
		=====	=====	=====	=====

**NOTES TO THE CASH FLOW STATEMENT**

	2011 £	2010 £
<b>27. Gross cash flows</b>		
Returns on investments and servicing of finance:		
Interest received	26,215	116,296
Interest paid	(309,040)	(310,382)
	-----	-----
	(282,825)	(194,086)
	=====	=====
Capital investment and financial investment:		
Payments to acquire tangible fixed assets	(7,451,594)	(9,498,647)
Receipts from sales of tangible fixed assets	91,381	47,165
HAG received	5,085,847	7,090,421
Other grants received	92,409	-
Purchase of other fixed assets	(299,482)	(44,526)
HAG repaid	(59,888)	(32,765)
Receipts from sales of other fixed assets	-	600
	-----	-----
	(2,541,327)	(2,437,752)
	=====	=====
Financing:		
Loans received	1,761,701	2,456,250
Loans repaid	(463,617)	(236,153)
Issue of ordinary share capital	2	3
Shares cancelled	(6)	(3)
	-----	-----
	1,298,080	2,220,097
	=====	=====

**28. Analysis of Changes in Net Debt**

	At 31 March 2010 £	Cash Flows £	At 31 March 2011 £
Cash in hand	150	-	150
Short-term investments	3,141,607	(970,384)	2,171,223
Bank	(164,300)	71,793	(92,507)
Debt due within 1 year	(221,729)	(67,631)	(289,360)
Debt due after 1 year	(9,614,391)	(1,230,453)	(10,844,844)
	-----	-----	-----
	(6,858,663)	(2,196,675)	(9,055,338)
	=====	=====	=====