ORKNEY HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2012

RSL No HAL 164
Charity No SC 031734

ORKNEY HOUSING ASSOCIATION

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2012

Management Committee

Wendy Baikie (Chairperson to 12.9.11)
Winifred Dunnett (Chairperson from 12.9.11)
George Hannah (Vice-chairperson)
Harvey Johnston
Linda Lennie (resigned 8.11.11)
Allan Leslie (resigned 12.9.11)
Chessa Llewellyn-White (resigned 12.9.11)
Bob Mackenzie
Stephen Manson
John Rodwell (appointed 12.9.11)
Stephanie Rushforth
Karen Scholes
John Stockan (appointed 12.9.11)
Diana Swan

Chief Executive and Company Secretary

Sally Inkster

Company Registration

2201RS

Scottish Charity Number

SC031734

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

Solicitors

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

The Management Committee presents its report and the audited financial statements for the year ended 31 March 2012.

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 2011/12 and beyond were building quality houses to meet identified needs, engaging with customers, planning for and adapting to change, maintaining and improving housing stock and using resources efficiently. During the year 69 new rented and 17 low cost home ownership homes were completed, we successfully tendered to become the managing agent for the local Care and Repair service, we recruited a second handyperson and we moved to newly renovated and extended office premises. We continued to lobby the Scottish Government over levels of capital grants, but with the abolition of Housing Association Grant (HAG), the future of our development programme is under review.

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 2012 and until 25 July 2012. 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

W Dunnet

Winifred Dunnet
Chairperson

25 July 2012

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 2012 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 2012 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.

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

25 July 2012

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

25 July 2012

ORKNEY HOUSING ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2012

	Notes	2012 £	2011 restated £
Turnover - continuing activities	2	3,535,932	2,958,292
Less: Operating costs	2	(2,615,839)	(2,354,003)
Operating surplus - continuing activities		920,093	604,289
Gain/(loss) on realisation of assets	25	35,687	7,251
Interest receivable		24,386	22,949
Interest payable	8	(364,209)	(295,936)
Surplus on continuing activities		615,957	338,553
Taxation	9	-	-
Surplus for the year		615,957	338,553

STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS

for the year ended 31 March 2012.

	Notes	2012	(restated) 2011
Retained (deficit)/surplus for the year	20	615,957	338,553
Prior year adjustment	28	(168,109)	-
Total recognised surpluses and deficits relating to the year		447,848	338,553

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 2012

	Notes	2012 £	2011 restated £
Tangible Fixed Assets			
Housing properties	10	74,857,242	69,701,626
Less: HAG	10	(59,134,142)	(56,181,090)
Other grants	10	(1,526,258)	(1,532,718)
		14,196,842	11,987,818
Other assets	10	1,371,291	595,144
		15,568,133	12,582,962
Fixed Asset Investments			
Investments	11	1	-
Shared Equity Costs	11	799,761	550,058
Shared Equity Grants	11	(799,761)	(550,058)
		1	-
Current Assets			
Investments	12	1,435,974	1,026,879
Work-in-progress	13	1,094,780	1,402,232
Debtors	14	320,614	763,201
Stock		2,071	-
Cash at bank and in hand		1,563,618	1,051,987
		4,417,057	4,244,299
Creditors: amounts falling due within one year	15	(2,222,695)	(1,831,874)
Net current assets		2,194,362	2,412,425
Total assets less current liabilities		17,762,496	14,995,387
Creditors: amounts falling due after more than one year	16	(12,994,639)	(10,844,844)
Net assets		4,767,857	4,150,543
Capital and Reserves			
Share capital	17	157	162
Designated reserves	18	3,794,030	3,297,118
Revenue reserve	19	973,670	853,263
		4,767,857	4,150,543

The financial statements on pages 9 to 30 were approved by the Management Committee on 25 July 2012 and were signed on its behalf by:

W Dunner .... Chairperson

W. Baikie .... Committee member

.... Secretary

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

ORKNEY HOUSING ASSOCIATION LIMITED

CASH FLOW STATEMENT

for the year ended 31 March 2012

	Notes	2012 £	2011 restated £
Reconciliation of operating surplus to net cash inflow from operating activities			
Operating surplus		920,093	604,289
Depreciation charges		196,356	138,696
(Increase)/Decrease in debtors		(89,061)	(67,200)
Increase/(Decrease) in creditors		80,217	(48,732)
(Increase)/Decrease in stock		(2,071)	1,223
Services equalisation account		(2,561)	(175)
Charge to service provisions		1,363	1,667
Net cash inflow from operating activities		**1,104,336**	**629,768**
CASH FLOW STATEMENT	29		
Net cash inflow from operating activities		1,104,336	629,768
Returns on investments and servicing of finance		(341,608)	(282,825)
Capital expenditure		(2,070,509)	(2,543,614)
Financing		2,228,507	1,298,080
Increase/(decrease) in cash		**920,726**	**(898,591)**
Reconciliation of net cash flow to movement in net debt:	30		
Increase/(decrease) in cash in the year		920,726	(898,591)
Cash inflow from increase in debt		(2,228,512)	(1,298,084)
		(1,307,786)	(2,196,675)
Net debt at 1 April 2011		(9,055,338)	(6,858,663)
Net debt at 31 March 2012		(10,363,124)	(9,055,338)

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 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. Apart from the funds for the office extension, advances are drawn down on these 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.

Works to Existing Properties

Works to existing properties which replace a component which has been treated separately for depreciation purposes, along with 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. On completion and prior to 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	-	33⅓ 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.

Designated Reserves (Note 17)

(i) **Planned maintenance reserve**

The planned maintenance reserve funds life cycle maintenance and major repairs for those items which are not capitalised under component accounting such as doors, heating systems and bathroom units. The level of the reserve is based on a programme of maintenance and replacement over the life of the properties. External costs and life cycles are based on published data and from in-house technical expertise.

(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.

Subsidiary

The subsidiary OHAL Enterprises CIC is a dormant company as at 31 March 2012 and accordingly the Association has not prepared consolidated financial accounts.

Prior Year Adjustment

The adoption of component accounting during the period represents 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. For further detail on the prior year adjustment see note 26.

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

	Turnover	Cost of sales	Operating costs	2012 Operating surplus/ deficit	2011 Operating surplus/ restated
	£	£	£	£	£
Social lettings (note 3)	2,364,351	-	1,418,505	945,846	565,910
Other activities (note 4)	1,171,581	878,976	318,358	(25,753)	38,379
Total	3,535,932	878,976	1,736,863	920,093	604,289
Total for previous period of account	2,958,292	720,256	1,633,747		604,289

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

	General Needs	Shared Ownership	Supported Housing	2012 Total	Restated 2011 Total
	£	£	£	£	£
Rent receivable net of service charges	1,951,436	267,021	30,664	2,249,121	1,950,423
Service charges	93,713	-	1,892	95,605	86,535
Gross income from rents and service charges	**2,045,149**	**267,021**	**32,556**	**2,344,726**	**2,036,958**
Less voids	(6,571)	(2,288)	-	(8,859)	(7,839)
Net income from rents and service charges	**2,038,578**	**264,733**	**32,556**	**2,335,867**	**2,029,119**
Grants from Scottish Ministers	23,743	-	-	23,743	29,673
Other grants and miscellaneous income	3,745	942	54	4,741	15,452
Total income from social lettings	**2,066,066**	**265,675**	**32,610**	**2,364,351**	**2,074,244**
Operating costs on social letting activities					
Service costs	93,546	-	2,060	95,606	86,535
Management administration costs	446,828	60,925	2,577	510,330	518,672
Maintenance administration costs	312,389	2,955	4,129	267,014	232,377
Reactive maintenance costs	185,536	1,899	1,130	241,024	217,911
Planned and cyclical maintenance costs	73,852	1,518	182	75,552	273,735
Property improvements & adaptations	58,034	-	-	58,034	40,224
Bad debts – rents and service charges	10,254	3	-	10,257	10,204
Depreciation of social housing	159,094	-	1,594	160,688	123,843
District heating system costs	-	-	-	-	4,833
Total operating costs on social lettings	**1,339,533**	**67,300**	**11,672**	**1,418,505**	**1,508,334**
Operating surplus/deficit on social lettings	**726,533**	**198,375**	**20,938**	**945,846**	**565,910**
Operating surplus/deficit on social lettings for previous period of account	**453,774**	**100,214**	**11,922**		**565,910**

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	112,996	-	112,996	113,143	(147)	(856)
Factoring	-	21,325	21,325	20,921	404	88
Care and Repair of Property	6,984	157,301	164,285	164,396	(111)	-
Development and Construction of Property	32,050	816,774	848,824	878,976	(30,152)	40,795
Development Administration	7,306	16,845	24,151	19,898	4,253	(1,648)
Other activities	-	-	-	-	-	-
Total from other activities	159,336	1,012,245	1,171,581	1,197,334	(25,753)	38,379
Total from other activities for the previous period of account	126,631	757,417	884,048	845,669	38,379	

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.

	2012	2011
The emoluments (excluding pension contributions) of the highest paid director, the Chief Executive	54,107	53,557

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 £5,082 (2011 - £8,068).

6. Employee Information

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

	2012	2011
Office staff	28	22
Cleaners	1	1
	29	23
Full-time equivalent	26	19

	2012 £	2011 £
Staff costs (including directors' emoluments);		
Wages and salaries	754,616	560,272
Social security costs	52,456	40,846
Pension costs (Note 23)	114,862	77,873
Temporary staff	63,101	33,174
	985,035	712,165

Pension costs in 2012 includes a £56,988 lump sum contribution towards past service deficit.

7. Operating Surplus

	2012 £	2011 £
Operating surplus is stated after charging:-		
Depreciation	196,356	138,537
Direct repair costs: reactive, planned and cyclical	263,736	458,005
Auditor's remuneration		
- In their capacity as auditors (including expenses)	9,351	10,044
- In their capacity as financial advisers	300	(55)

8. Interest Payable and similar charges

	2012 £	2011 £
On loans repayable wholly or partly in more than 5 years	364,209	295,936
Interest capitalised to property costs	29,653	37,715
	393,862	333,651

9. Taxation

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

10. Tangible Fixed Assets

Housing Properties

	Completed		Under Construction		
	Rented £	SO £	Rented £	SO £	Total £
Gross Cost					
At 1 April 2011	44,505,326	9,715,867	13,048,873	3,533,547	70,803,613
Schemes completed	7,682,846	2,246,198	(7,464,591)	(2,319,136)	145,317
Additions	1,414,453	437,744	3,259,375	370,809	5,482,381
Disposals	-	(311,394)	-	-	(311,394)
Work-in-progress	-	-	-	-	-
At 31 March 2012	**53,602,625**	**12,088,415**	**8,843,657**	**1,585,220**	**76,119,917**
Depreciation					
At 1 April 2011	1,101,987	-	-	-	1,101,987
Disposals	(177)	-	-	-	(177)
Charge for year	160,865	-	-	-	160,865
At 31 March 2012	**1,262,675**	**-**	**-**	**-**	**1,262,675**
HAG					
At 1 April 2011	33,029,200	8,459,107	11,060,566	3,637,894	56,186,767
Schemes completed	7,008,970	651,123	(5,506,938)	(1,743,196)	409,959
Additions	215,464	68,612	2,011,144	435,670	2,730,890
Disposals	(638)	(192,836)	-	-	(193,474)
At 31 March 2012	**40,252,996**	**8,986,006**	**7,564,772**	**2,330,368**	**59,134,142**
Other Grants					
At 1 April 2011	1,361,759	67,852	62,281	35,150	1,527,042
Schemes completed	-	-	-	-	-
Additions					
Disposals	-	(784)	-	-	(784)
At 31 March 2012	**1,361,759**	**67,068**	**62,281**	**35,150**	**1,526,258**
Net book value at:					
31 March 2012	**10,725,195**	**3,035,341**	**1,216,604**	**(780,298)**	**14,196,842**
31 March 2011	**9,180,489**	**1,188,908**	**1,926,026**	**(139,497)**	**12,155,926**

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

Development administration costs capitalised amounted to £124,996 (2011 - £127,769), for which HAG of £175,500 (2011 - £127,768) was receivable in the year. Interest costs capitalised amounted to £33,137 (2011 – £37,715).

Total expenditure on works to existing properties amounted to £321,088 during the year (2011 - £500,516), of which £3,715 was capitalised (2011 - £0).

Other Assets

	Office Buildings £	Office Fixtures & Fittings, Furniture & Equipment £	Total £
Cost			
At 1 April 2011	580,892	132,021	712,913
Additions	759,572	52,435	812,007
Written off	-	(7,669)	(7,669)
Disposals	-	-	-
At 31 March 2012	**1,340,464**	**176,787**	**1,517,251**
Depreciation			
At 1 April 2011	15,200	102,569	117,769
Charge for year	11,443	24,226	35,669
Adjustment re disposals	-	(7,478)	(7,478)
At 31 March 2012	**26,643**	**119,317**	**145,960**
Net book value			
At 31 March 2012	**1,313,821**	**57,470**	**1,371,291**
At 31 March 2011	**565,692**	**29,452**	**595,144**

11. Fixed Asset Investments

		Shared Equity	Subsidiary	Total
		£	£	£
Cost:	At 1 April 2011	550,058	-	550,058
	Additions	249,703	1	249,704
	At 31 March 2012	799,761	1	799,762
Grants:	At 1 April 2011	550,058	-	550,058
	Additions	249,703	-	249,703
	At 31 March 2012	799,761	-	799,761
Net Book value at 31 March 2012		-	1	1
Net Book value at 31 March 2011		-	-	-

The wholly owned subsidiary OHAL Enterprises CIC was dormant during the period from 8.2.12 to 31.3.12.

12. Investments

Investments at 31.3.12 totalled £1.43m (2011 - £1.03m) comprising two time deposit facilities at a fixed rate and maturity after fixed terms of twelve months, a Fixed rate Bond with the Royal Bank of Scotland and a Commercial Deposit Account with the Nationwide Building Society. Investments purchased or rolled over during the year amounted to £1.11m (2011 - £1.83m).

13. Work-in-progress

	Shared Ownership	Shared Equity	Total
Opening WIP	686,727	715,505	1,402,232
Additions	597,244	369,255	966,499
Transfers to/from Housing	-	145,317	145,317
Transfers to/from FA Invest	-	249,703	249,703
Disposals	637,073	241,858	878,931
	646,898	447,882	1,094,780

14. Debtors

	2012	2011
	£	£
Rent arrears	66,880	49,435
Interest receivable	3,962	2,216
HAG receivable	-	537,507
Other debtors	249,772	174,043
	320,614	763,201

15. Creditors: amounts due within one year

	2012	2011
	£	£
Rent in advance	12,665	10,290
Interest payable	-	39
Loan instalments due and payable - housing	368,077	284,310
Loan instalments due and payable - non-housing	-	5,050
Capital expenditure	1,080,600	431,104
Capital grants received in advance	254,126	426,183
Shared equity grants on work in progress	241,805	575,910
Taxation and social security creditor	27,652	-
Care and Repair working capital	94,732	-
Services equalisation account	4,967	7,528
Other creditors and accruals	138,071	91,460
	2,222,695	1,831,874

16. Creditors: amounts due outwith one year

	2012	2011
	£	£
Housing loans	12,994,639	10,812,241
Non-housing loans	-	32,603
	12,994,639	10,844,844

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

	2012	2011
	£	£
Within one year	368,077	289,360
Between one and two years	377,433	349,271
Between two and five years	1,415,286	1,104,970
In five years or more	11,201,920	9,390,603
	13,362,716	11,134,204

17. Rents

	2012	2011
	£	£
Gross arrears	68,380	50,935
Provision for bad debts	(1,500)	(1,500)
Net arrears	66,880	49,435

18. Share Capital

	2012 £	2011 £
At 1 April 2010	162	166
Issued in year	3	2
Cancelled in year	(8)	(6)
At 31 March 2011	157	162

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 2011 £	Written-down to Revenue £	TF (to)/from Revenue Reserve £	Annual Charge to Service Costs £	At 31 March 2012 £
Planned maintenance reserve	3,199,226	-	492,764	-	3,691,990
Services equipment replacement reserve	7,963	-	88	(2,389)	5,662
Shared ownership factoring reserve	89,928	-	2,698	3,752	96,378
	3,297,117	-	495,550	1,363	3,794,030

Planned maintenance reserve includes planned and major repairs which are not capitalised under component accounting.

20. Reconciliation of movement in revenue reserve

	2012 £	2011 restated £
Revenue reserve at 1.4.10	-	1,021,372
Prior year adjustment	-	(168,109)
Revenue reserve brought forward	853,263	853,263
Surplus for the year	615,957	338,553
Transfer from/(to) designated reserves	(495,550)	(338,553)
Revenue reserve carried forward	973,670	853,263

21. Capital commitments

	2012 £	2011 £
Capital expenditure that has been contracted for but has not been provided for in the financial statements	4,412,262	6,014,794

The amount contracted for at 31 March 2012 will be funded from grants approved by the Scottish Government, sales of low cost home ownership, from private finance or met from the Association's reserves.

22. 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 2011. As of this date, the estimated employer debt for Orkney Housing Association was £2,371,012 (2011 - £1,980,602).

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 2011. As at 30.9.11 the employer debt for Orkney Housing Association was estimated at £32,542 (2011 - £33,941), but this figure is estimated to have increased by approximately 9% by 31 March 2012 to £35,471.

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

Grants written off

At 31 March 2012, the Association has disposed of components which had received £164,004 (2011 (restated) £162,940) 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. **Pensions**

SFHA Standard Employers 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%.

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

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 £712,592. 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 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

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.

23. **Pensions (continued)**

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 2011. As of this date, the estimated employer debt for Orkney Housing Association was £2,371,012.

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 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 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.

23. **Pensions (continued)**

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 were 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 (i.e. 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%.

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 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's preliminary results for 30 September 2011 show that the Plan's assets at that date were £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £928 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £148 million, equivalent to a funding level of 84%.

23. Pensions (continued)

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. A copy of the recovery plan in respect of the September 2008 valuation was forwarded to The Pensions Regulator on 18 December 2009.

Following a change in legislation in September 2005 these 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.

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 2011. As of this date the estimated employer debt for Orkney Housing Association was £32,542. The Pensions Trust have also intimated however that the figure at 31 March 2012 is likely to have increased by approximately 9% to £35,471.

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 2012 £	Total 2011 £
Income	325,850	-	42	325,892	91,202
Legal Expenses	3,858	-	-	3,858	1,373
Cost of Sale	285,203	-	192	285,395	82,248
Other Costs	952	-		952	330
Gain/(Loss) on Disposal of Assets	35,837	-	(150)	35,687	7,251

26. Housing Stock

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

		Units under Development		Units in Management	
		2012	2011	2012	2011
Housing for Rent:	General needs housing	60	109	626	557
	Supported housing	-	-	9	9
	Communal use	-	-	2	2
		60	109	637	568
Shared Ownership accommodation		29	43	147	137
New Supply Shared Equity		6	12	-	-
Total		95	164	784	705

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. Prior Year Adjustment

The prior year adjustment reflects the introduction of component accounting in accordance with the Statement of Recommended Practice update 2010, which confirms that housing properties comprise several components with different economic lives.

The Association has determined that its properties include major components as set out in note 2 to these financial statements. The SORP 2010 requires these components to be accounted for separately to the land and structure of the building for depreciation purposes.

The effect of this change in accounting policy was to decrease the surplus for the year ended 31 March 2011 by £25,705. The cumulative effect up to 31.3.10 on the Association's reserves was £142,404.

28. Prior Year Adjustment (continued)

Impact of component accounting:

	Cumulative prior year adjustment to 31 Mar 10	Prior Year Adjustment for 2010/11	Cumulative Prior Year Adjustment To 31 March 2011
Income and Expenditure Account			
Operating costs - depreciation charge	(481,854)	(27,992)	(509,846)
Operating costs - major improvement expenditure	339,450	2,287	341,737
Impact on operating surplus	(142,404)	(25,705)	(168,109)
Balance sheeting Housing Properties (cost)			
At 31 March as previously stated	64,215,317		70,671,141
Additional capitalisation of components	339,450	2,287	341,737
components written off	(208,041)	(1,223)	(209,264)
At 31 March as restated	64,346,726	1,064	70,803,614
HAG and Other Grants			
At 31 March as previously stated	52,801,812		57,879,852
On old components written off	(164,979)	(1,064)	(166,043)
At 31 March as restated	52,636,833	(1,064)	57,713,809
Housing Properties (Depreciation)			
At 31 March as previously stated	539,512		635,353
Additional Depreciation	438,792	27,833	466,625
At 31 March as restated	978,304	27,833	1,101,988
Revenue Reserves			
Revenue reserve at 31 March as previously stated	1,021,372		1,021,372
Impact on operating surplus	(142,404)	(25,705)	(168,109)
Revenue Reserves at 31 March as restated	878,968	(25,705)	853,263

NOTES TO THE CASH FLOW STATEMENT

29. Gross cash flows

	2012 £	2011 £
Returns on investments and servicing of finance:		
Interest received	22,640	26,215
Interest paid	(364,248)	(309,040)
	(341,608)	(282,825)
Capital investment and financial investment:		
Payments to acquire tangible fixed assets	(4,970,702)	(7,453,881)
Receipts from sales of tangible fixed assets	321,992	91,381
HAG received	3,563,114	5,085,847
Other grants received	-	92,409
Purchase of other fixed assets	(817,466)	(299,482)
HAG repaid	(167,489)	(59,888)
Receipts from sales of other fixed assets	42	-
	(2,070,509)	(2,543,614)
Financing:		
Loans received	2,597,049	1,761,701
Loans repaid	(368,537)	(463,617)
Issue of ordinary share capital	3	2
Shares cancelled	(8)	(6)
	2,228,507	1,298,080

30. Analysis of Changes in Net Debt

	At 31 March 2011 £	Cash Flows £	At 31 March 2012 £
Cash in hand	150	100	250
Short-term investments	2,171,223	737,080	2,908,303
Bank	(92,507)	183,546	91,039
Debt due within 1 year	(289,360)	(78,717)	(368,077)
Debt due after 1 year	(10,844,844)	(2,149,795)	(12,994,639)
	(9,055,338)	(1,307,768)	(10,363,124)