

OHAL	
11 AUG 2014	



ORKNEY HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2014

RSL No HAL 164
Charity No SC 031734

ORKNEY HOUSING ASSOCIATION

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2014

	Page
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

Management Committee

Wendy Baikie
David Dawson
Winifred Dunnet (Chairperson)
George Hannah
Allan Leslie (ceased 29.1.14)
Bob Mackenzie
Stephen Manson
Sheona Macgregor
John Rodwell (Vice-chairperson)
John Stockan
Diana Swan (resigned 23/9/13)

Registered Office

39a Victoria Street,
Kirkwall
KW15 1DN

Registered Auditors

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

Bankers

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

Chief Executive and Company Secretary

Sally Inkster

Solicitors

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

Company Registration

2201RS

Scottish Charity Number

SC031734

The Management Committee presents its report and the audited financial statements for the year ended 31 March 2014

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 2013/14 and beyond are:-

- creating and sustaining communities where people want to live and make a contribution,
- reducing the energy levels of our activities and those of our residents,
- creating and sustaining a workplace where people want to work and give their best,
- providing assistance for those who have difficulty finding or retaining a safe and comfortable home.

We are continuing to work up projects to support our objectives through our subsidiary OHAL Enterprises. 29 new rented and 16 low cost home ownership homes were completed during the year, and we succeeded in obtaining funding for a reduced development programme of 23 units, to be completed by 31.3.15. We have partnered with other agencies to deliver capacity building in IT across Orkney and to encourage energy efficiency amongst our residents. In order to develop our business and improve our services we will:-

- continue to lobby for an adequate level of Scottish Government subsidy in order to enable us to deliver good quality new housing for those in housing need,
- ensure that we make adequate provision in our plans for the long-term maintenance and ongoing improvements to our existing housing stock,
- review our governance arrangements and customer engagement to ensure compliance with the new regulatory standards,
- deploy suitable support for those requiring assistance with housing or with managing their money under the new welfare benefits system,
- implement a staffing plan aimed at ensuring that we can deliver against our objectives and performance standards.

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 Chief Executive serves on the board of Women's Aid Orkney, and during the year we also provided temporary management services to WAO – details are at Note 27.

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 Scottish Housing Regulator's regulatory framework
- * 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:

REPORT OF THE MANAGEMENT COMMITTEE (continued)

for the year ended 31 March 2014

Statement on internal financial controls (continued)

- (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.
- (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 2014 and until 30 July 2014. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in the financial statements or in the auditor's report on the financial statements.

In so far as the Committee are aware:

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

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

Auditors

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

By order of Management Committee



Winifred Dunnet
Chairperson

30 July 2014

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 2014 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 2014 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002, Part 6 of the Housing (Scotland) Act 2010, and the SHR Determination of Accounting Requirements (April 2012).

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ORKNEY HOUSING ASSOCIATION LIMITED (continued)

Matters on which we are required to report by exception

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

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



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

30 July 2014

INDEPENDENT AUDITORS' REPORT

REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE MATTERS

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

30 July 2014

ORKNEY HOUSING ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2014

		2014	2013
	Notes	£	£
Turnover - continuing activities	2	4,321,156	3,631,079
Less: Operating costs	2	(3,200,587)	(2,840,935)
Operating surplus - continuing activities		1,120,569	790,144
Gain/(loss) on realisation of assets	24	40,036	128,232
Interest receivable		18,819	28,297
Interest payable	8	(502,674)	(486,466)
Surplus on continuing activities		676,750	460,207
Taxation	9	-	-
Surplus for the year		676,750	460,207
		=====	=====

In each of the years ended 31 March 2013 and 31 March 2014 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 2014

		2014	2013
		£	£
Tangible Fixed Assets	Notes		
Housing properties	10	79,379,343	78,747,122
Less: HAG	10	(60,651,157)	(60,182,005)
Other grants	10	(1,794,695)	(1,525,935)
		16,933,491	17,039,182
Other assets	10	1,553,159	1,372,421
		18,486,650	18,411,603
Fixed Asset Investments			
Investments	11	1	1
Shared Equity Costs	11	1,130,495	971,179
Shared Equity Grants	11	(1,130,495)	(971,179)
		1	1
Current Assets			
Investments	12	864,783	655,557
Work-in-progress	13	28,484	823,382
Debtors	14	657,829	216,860
Stock		4,576	3,763
Cash at bank and in hand		2,051,318	1,116,513
		3,606,990	2,816,075
Creditors: amounts falling due within one year	15	(1,420,839)	(1,964,205)
Net current assets		2,186,151	851,870
Total assets less current liabilities		20,672,802	19,263,474
Creditors: amounts falling due after more than one year	16	(14,864,293)	(14,131,705)
Net assets		5,808,509	5,131,769
Capital and Reserves			
Share capital	18	141	151
Revenue reserve	19	5,808,368	5,131,618
		5,808,509	5,131,769

The financial statements on pages 9 to 27 were approved by the Management Committee on 30 July 2014 and were signed on its behalf by:

 Chairperson
 Committee member
 Secretary

CASH FLOW STATEMENT

for the year ended 31 March 2014

	Notes	2014	2013
		£	£
Reconciliation of operating surplus to net cash inflow from operating activities			
Operating surplus		1,120,569	790,144
Depreciation charges		244,846	225,629
(Increase)/Decrease in debtors		5,441	98,874
Increase/(Decrease) in creditors		44,843	83,965
Increase/(Decrease) in impairment		34,079	-
Increase/(Decrease) in bad debt provision		6,000	-
(Increase)/Decrease in stock		(813)	(1,691)
Services equalisation account		4,077	9,147
Charge to service provisions		(665)	7,402
Net cash inflow from operating activities		1,458,377	1,213,470
CASH FLOW STATEMENT			
	28		
Net cash inflow from operating activities		1,458,377	1,213,470
Returns on investments and servicing of finance		(483,871)	(439,793)
Capital expenditure		(601,738)	(3,244,173)
Financing		771,263	1,242,974
Increase/(decrease) in cash		1,144,031	(1,227,522)
Reconciliation of net cash flow to movement in net debt:			
	29		
Increase/(decrease) in cash in the year		1,144,031	(1,227,522)
Cash inflow from increase in debt		(771,273)	(1,242,980)
		372,758	(2,470,502)
Net debt at 1 April 2013		(12,833,626)	(10,363,124)
Net debt at 31 March 2014		(12,460,868)	(12,833,626)

1. Principal Accounting Policies

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

Turnover

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

Mortgages - Housing Properties

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

Housing Association Grant

For schemes developed under Scottish Government approval, AHSP (previously 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 continued to receive HAG on schemes approved prior to that date.

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

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

Tangible Fixed Assets - Housing Properties (Note 10)

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

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

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

Note 1 (continued)**Works to Existing Properties**

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

Work in Progress/Shared Equity Properties**New Supply Shared Equity scheme**

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

Shared Ownership

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

Depreciation

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

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

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

Other fixed assets are depreciated as follows:-

Furniture & Equipment	-	25% per annum reducing balance method
Fixtures & Fittings	-	25% per annum reducing balance method
Handyman Van	-	25% per annum reducing balance method
Handyman Tools	-	25% per annum reducing balance method
Computers Hardware	-	25% per annum straight line method
Workshop Improvements	-	10% per annum straight line method
Office Buildings	-	1½% per annum straight line method

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

Note 1 (continued)**Subsidiary**

The subsidiary OHAL Enterprises CIC is a dormant company as at 31 March 2014 and accordingly the Association has not prepared consolidated financial accounts.

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

				2014	2013
	Turnover	Cost of sales	Operating costs	Operating surplus/ deficit	Operating surplus/ deficit
	£	£	£	£	£
Social lettings (note 3)	2,902,315	-	1,765,119	1,137,196	799,588
Other activities (note 4)	1,418,841	1,097,177	338,291	(16,627)	(9,444)
Total	4,321,156	1,097,177	2,103,410	1,120,569	790,144
Total for previous period of account	3,631,079	633,783	2,207,152		790,144
	=====	=====	=====		=====

for the year ended 31 March 2014

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

	General Needs £	Shared Ownership £	Supported Housing £	2014 Total £	2013 Total £
Rent receivable net of service charges	2,389,947	332,538	26,087	2,748,572	2,568,503
Service charges	110,734	-	1,849	112,583	106,547
Gross income from rents and service charges	2,500,681	332,538	27,936	2,861,155	2,675,050
Less voids	(15,993)	(7,996)	-	(23,989)	(20,127)
Net income from rents and service charges	2,484,688	324,542	27,936	2,837,166	2,654,923
Grants from Scottish Ministers	42,167	-	-	42,167	29,364
Other grants and miscellaneous income	18,338	4,434	210	22,982	12,141
Total income from social lettings	2,545,193	328,976	28,146	2,902,315	2,696,428
Operating costs on social letting activities					
Service costs	108,643	-	1,993	110,636	106,546
Management administration costs	549,979	76,892	2,204	629,075	572,626
Maintenance administration costs	408,827	1,918	3,681	414,426	361,644
Reactive maintenance costs	336,536	1,593	3,570	341,699	298,671
Planned and cyclical maintenance costs	6,354	(32,760)	273	(26,133)	261,897
Property improvements & adaptations	70,489	3,202	-	73,691	101,327
Bad debts – rents and service charges	10,700	4,736	56	15,492	9,482
Depreciation of social housing	204,937	-	1,296	206,233	184,647
Total operating costs on social lettings	1,696,465	55,581	13,073	1,765,119	1,896,840
Operating surplus/deficit on social lettings	848,728	273,395	15,073	1,137,196	799,588
Operating surplus/deficit on social lettings for previous period of account	689,121	101,628	8,839		799,588

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	3,125	-	3,125	5,094	(1,969)	(9,545)
Factoring	-	23,216	23,216	23,999	(783)	(166)
Care and Repair Services	11,520	221,077	232,597	234,480	(1,883)	3,237
Development and Construction of Property	26,204	1,090,022	1,116,226	1,097,177	19,049	(19,657)
Development Administration	3,969	8,591	12,560	14,080	(1,520)	16,301
Other Agency/ Management services	7,747	9,326	17,073	12,909	4,164	-
Impairment of other assets	-	-	-	34,079	(34,079)	-
Other activities	-	14,044	14,044	13,650	394	386
Total from other activities	52,565	1,366,276	1,418,841	1,435,468	(16,627)	(9,444)
Total from other activities for the previous period of account	86,006 =====	848,645 =====	934,651 =====	944,095 =====	(9,444) =====	

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:

	2014	2013
The emoluments (excluding pension contributions) of the highest paid director, the Chief Executive	65,577 =====	62,299 =====

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

5. **Directors' Emoluments** (continued)

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 £6,177 (2013 - £5,866).

6. **Employee Information**

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

	2014	2013
Office staff	31	31
Cleaners	1	1
	-----	-----
	32	32
	=====	=====
Full-time equivalent	29	30
	=====	=====
	2014	2013
	£	£
Staff costs (including directors' emoluments);		
Wages and salaries	917,428	804,874
Social security costs	71,176	62,719
Pension costs (Note 22)	141,049	131,551
Temporary staff	-	63,036
	-----	-----
	1,129,653	1,062,180
	=====	=====

Pension costs in 2014 includes £64,087 (2013 - £59,549) lump sum contributions towards past service deficit.

7. **Operating Surplus**

	2014	2013
	£	£
Operating surplus is stated after charging:-		
Depreciation	244,846	225,629
Direct repair costs: reactive, planned and cyclical	201,078	465,963
Auditor's remuneration		
- In their capacity as auditors (including expenses)	10,596	12,088
- In their capacity as financial advisers	480	1,880

8. **Interest Payable and similar charges**

	2014	2013
	£	£
On loans repayable wholly or partly in more than 5 years	502,674	486,466
Interest capitalised to property costs	23,889	11,258
	-----	-----
	526,563	497,724
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

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		Total
	Rented £	SO £	Rented £	SO £	£
Gross Cost					
At 1 April 2013	59,926,424	13,723,227	5,497,709	1,043,669	80,191,029
Schemes completed	3,600,384	1,793,853	(3,600,384)	(1,793,853)	-
Additions	114,983	-	675,879	835,320	1,626,182
Disposals	(42,537)	(759,015)	-	-	(801,552)
At 31 March 2014	63,599,254	14,758,065	2,573,204	85,136	81,015,659
Depreciation					
At 1 April 2013	1,443,907	-	-	-	1,443,907
Disposals	(13,824)	-	-	-	(13,824)
Charge for year	206,233	-	-	-	206,233
At 31 March 2014	1,636,316	-	-	-	1,636,316
HAG					
At 1 April 2013	44,290,248	10,606,200	4,467,373	818,184	60,182,005
Schemes completed	1,866,799	828,120	(1,866,799)	(828,120)	-
Additions	410,151	220,553	(68,891)	116,412	678,225
Disposals	(28,249)	(180,824)	-	-	(209,073)
At 31 March 2014	46,538,949	11,474,049	2,531,683	106,476	60,651,157
Other Grants					
At 1 April 2013	1,361,716	66,788	62,281	35,150	1,525,935
Schemes completed	62,281	35,150	(62,281)	(35,150)	-
Additions	236,299	44,629	-	-	280,928
Disposals	(464)	(11,704)	-	-	(12,168)
At 31 March 2014	1,659,832	134,863	-	-	1,794,695
Net book value at:					
31 March 2014	13,764,157	3,149,153	41,521	(21,340)	16,933,491
31 March 2013	12,830,553	3,050,239	968,055	190,335	17,039,182

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

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

Development administration costs capitalised amounted to £51,604 (2013 - £71,335), for which HAG of £47,483 (2013 - £79,470) was receivable in the year. Interest costs capitalised amounted to £23,889 (2013 - £11,258).

Total expenditure on works to existing properties amounted to £389,752 during the year (2013 - £573,520), of which £114,983 was capitalised (2013 - £6,230).

Other Assets	Office Buildings £	Office Fixtures & Fittings, Furniture & Equipment £	Total £
Cost			
At 1 April 2013	1,343,040	224,264	1,567,304
Additions	11,318	244,534	255,852
Written off	-	(15,124)	(15,124)
Impairment	(34,079)	-	(34,079)
Disposals	-	-	-
At 31 March 2014	1,320,279	453,674	1,773,953
Depreciation			
At 1 April 2013	38,119	148,791	186,910
Charge for year	11,621	26,992	38,613
Adjustment re disposals	-	(11,936)	(11,936)
At 31 March 2014	49,740	163,847	213,587
Grants			
At 1 April 2013	-	7,973	7,973
Received in year	-	1,578	1,578
Grant amortisation	-	(2,344)	(2,344)
At 31 March 2014	-	7,207	7,207
Net book value at:			
At 31 March 2014	1,270,539	282,620	1,553,159
At 31 March 2013	1,304,921	67,500	1,372,421

The impairment charge relates to 46 Victoria Street, which has been revalued to £262,543 value in use.

for the year ended 31 March 2014

11. Fixed Asset Investments

		<u>Shared Equity</u>	<u>Subsidiary</u>	<u>Total</u>
		£	£	£
Cost:	At 1 April 2013	971,179	1	971,180
	Additions	159,316	-	159,316
		-----	--	-----
	At 31 March 2014	1,130,495	1	1,130,496
		=====	=	=====
Grants:	At 1 April 2013	971,179	-	971,179
	Additions	159,316	-	159,316
		-----		-----
	At 31 March 2014	1,130,495	-	1,130,495
		=====		=====
Net Book value at 31 March 2014		-	1	1
Net Book value at 31 March 2013		-	1	1

The wholly owned subsidiary OHAL Enterprises CIC was dormant during the year to 31.3.14.

12. Investments

Investments at 31.3.14 totalled £0.865m (2013 - £0.65m) comprising three time deposit facilities at a fixed rate and maturity after fixed terms of 11.2 and 12 months and a Commercial Deposit Account with the Nationwide Building Society. Investments purchased or rolled over during the year amounted to £1.24m (2013 - £1.83m).

13. Work-in-progress

	Shared Ownership	Shared Equity etc	Total
Opening WIP	347,890	475,492	823,382
Additions	28,378	106	28,484
Transfers (to)/from FA Invest	-	(159,316)	(159,316)
Disposals	(347,890)	(316,176)	(664,066)
	-----	-----	-----
	28,378	106	28,484
	=====	=====	=====

14. Debtors

	2014	2013
	£	£
Rent arrears	73,793	62,897
Interest receivable	2,087	2,071
HAG receivable	277,468	-
Other grants receivable	89,533	-
Other debtors	214,948	151,892
	-----	-----
	657,829	216,860
	=====	=====

Other debtors are stated net of a provision for bad debts of £1,500.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

15. Creditors: amounts due within one year

	2014 £	2013 £
Rent in advance	30,950	15,291
HAG repayable	61,068	10,247
Loan instalments due and payable - housing	512,676	473,991
Capital expenditure	148,006	507,110
Capital grants received in advance	131,792	208,734
Shared equity grants on work in progress	-	241,125
Taxation and social security creditor	22,692	28,419
Care and Repair working capital	114,993	128,329
Shared ownership factoring sinking fund	105,403	103,691
Services equalisation account	16,653	14,114
Other deferred income	79,000	-
Other creditors and accruals	197,605	233,154
	<u>1,420,838</u>	<u>1,964,205</u>
	=====	=====

16. Creditors: amounts due outwith one year

	2014 £	2013 £
Housing loans	14,864,293	14,131,705

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

	2014 £	2013 £
Within one year	512,676	473,991
Between one and two years	551,636	509,543
Between two and five years	1,727,034	1,586,323
In five years or more	12,585,623	12,035,839
	<u>15,376,969</u>	<u>14,605,696</u>
	=====	=====

17. Rents

	2014 £	2013 £
Gross arrears	81,293	64,397
Provision for bad debts	(7,500)	(1,500)
Net arrears	<u>73,793</u>	<u>62,897</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

18. Share Capital

	2014 £	2013 £
At 1 April 2013	151	157
Issued in year	1	2
Cancelled in year	(11)	(8)
	<u>141</u>	<u>151</u>
At 31 March 2014	=====	=====

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. Reconciliation of movement in revenue reserve

	2014 £	2013 £
Revenue reserve brought forward	5,131,618	973,670
Surplus for the year	676,750	460,207
Transfer from/(to) designated reserves	-	3,697,741
	<u>5,808,368</u>	<u>5,131,618</u>
Revenue reserve carried forward	=====	=====

20. Capital commitments

	2014 £	2013 £
Capital expenditure which has been contracted for but has not been provided for in the financial statements	-	1,246,305
	<u>=====</u>	<u>=====</u>
Capital expenditure which has been authorised but not contracted for or provided for in the financial statements	3,165,080	154,750
	<u>=====</u>	<u>=====</u>

The amount contracted for at 31 March 2014 will be funded from the Association's reserves.

21. 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 2013. As of this date, the estimated employer debt for Orkney Housing Association was £2,515,900 (2013 - £2,619,927).

The Association has no current plans to withdraw from the Pension Scheme. It has however paid the buy-out debt and withdrawn from the SHAPS Growth Plan, thereby avoiding any future liability.

Grants written off

At 31 March 2014, the Association has disposed of components which had received £193,847 (2013 £165,598) 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.

22. Pensions

SHAPS 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 2012 by a professionally qualified actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £394 million. The valuation revealed a shortfall of assets compared to liabilities of £304 million, equivalent to a past service funding level of 56.4%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

22. Pensions (continued)

The Scheme Actuary has prepared an Actuarial Report which provides an approximate update on the funding position of the Scheme as at 30 September 2013. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £470 million and indicated an decrease in the shortfall of assets compared to liabilities to approximately £272 million, equivalent to a past service funding level of 63%.

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

2012 Valuation Assumptions	% pa
Investment return pre-retirement	5.3
Investment return post-retirement – Non-pensioners	3.4
Investment return post-retirement – Pensioners	3.4
Rate of salary increases	4.1
Rate of pension increases	
- pension accrued pre 6 April 2005 in excess of GMP	2.0
- pension accrued post 6 April 2005	
(for leavers before 1 October 1993 pension increases are 5% pa)	1.7
Rate of price inflation	2.6

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 £780,827. The Association continues to offer membership of the Scheme to its employees.

Following a change of legislation in September 2005 there is a potential debt on the employer which could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buy-out basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Association has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Scottish Housing Associations' Pension Scheme based on the financial position of the Scheme as of 30 September 2013. As of this date, the estimated employer debt for Orkney Housing Association was £2,515,900.

22. Pensions (continued)

Growth Plan

The Association withdrew from the Pension Trust's Growth Plan on 1.1.2014. The buy-out debt of £35,707 was paid on 23.5.14

23. 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 2010.

24. Gain/Loss on Sale of Assets

	Shared Ownership £	Land £	Other Assets £	Total 2014 £	Total 2013 £
Income	388,750	-	-	388,750	307,841
Legal Expenses	5,667	1,760	-	7,427	3,246
Cost of Sale	337,028	-	3,189	340,217	175,574
Other Costs	1,070	-	-	1,070	789
	-----	-----	-----	-----	-----
Gain/(Loss) on Disposal of Assets	44,985	(1,760)	(3,189)	40,036	128,232
	=====	=====	=====	=====	=====

25. Housing Stock

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

		Units under Development		Units in Management	
		2014	2013	2014	2013
Housing for Rent:	General needs housing	11	40	687	658
	Supported housing	-	-	8	8
	Communal use	-	-	2	2
		-----	-----	-----	-----
		11	40	697	668
		-----	-----	-----	-----
Shared Ownership accommodation		9	21	167	161
New Supply Shared Equity		3	4	-	-
		-----	-----	-----	-----
Total		23	65	864	829
		=====	=====	=====	=====

26. 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

27. Related Parties

Sally Inkster, Chief Executive and Company Secretary of the Association, is also a director of Women's Aid Orkney. The Association provided management services to Women's Aid during the year as well as this organisation being a tenant of the Association. During the year, Women's Aid Orkney have been charged rent of £15,592 (2013 - £15,123), services charges of £1,013 (2013 - £303) and management fees of £7,235 (2013 - £2,241). As at the year-end Women's Aid are due £0 (2013 - £2,690) to the Association. All transactions have been carried out on normal commercial terms.

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

NOTES TO THE CASH FLOW STATEMENT

	2014 £	2013 £	
28. Gross cash flows			
Returns on investments and servicing of finance:			
Interest received	18,803	30,188	
Interest paid	(502,674)	(469,981)	
	<u>(483,871)</u>	<u>(439,793)</u>	
	=====	=====	
Capital investment and financial investment:			
Payments to acquire tangible fixed assets	(766,436)	(4,744,254)	
Receipts from sales of tangible fixed assets	308,224	303,806	
HAG received	200,349	1,313,685	
Other grants received	12,347	40,500	
Purchase of other fixed assets	(236,466)	(58,260)	
HAG repaid	(119,756)	(99,991)	
Receipts from sales of other fixed assets	0	341	
	<u>(601,738)</u>	<u>(3,244,173)</u>	
	=====	=====	
Financing:			
Loans received	1,350,000	1,685,000	
Loans repaid	(578,727)	(442,020)	
Issue of ordinary share capital	1	2	
Shares cancelled	(11)	(8)	
	<u>771,263</u>	<u>1,242,974</u>	
	=====	=====	
29. Analysis of Changes in Net Debt			
	At 31 March 2013 £	Cash Flows £	At 31 March 2014 £
Cash in hand	250	-	250
Short-term investments	1,642,304	998,045	2,640,349
Bank	129,516	145,986	275,502
Debt due within 1 year	(473,991)	(38,685)	(512,676)
Debt due after 1 year	(14,131,705)	(732,588)	(14,864,293)
	<u>(12,833,626)</u>	<u>372,758</u>	<u>(12,460,868)</u>
	=====	=====	=====