

ORKNEY HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2017

RSL No	HAL 164
Charity No	SC 031734

Wylie⁺ Bisset

Chartered Accountants, Business & Tax Advisers

ORKNEY HOUSING ASSOCIATION

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2017

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ORKNEY HOUSING ASSOCIATION

MEMBERS, EXECUTIVE AND ADVISORS

Management Committee

Wendy Baikie
Philip Cook
David Dawson (Vice Chair)
Linda Forbes
Elaine Grieve
Stacy Johnston (Co-opted 29.3.17)
Fiona Lettice
Stuart Roy McIvor
John Rodwell (Chair)
John Stockan
William Wallace

Registered Office

39a Victoria Street,
Kirkwall,
Orkney.
KW15 1DN

Registered Auditors

Wylie & Bisset LLP
168 Bath Street,
Glasgow
G2 4TP

Bankers

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

Chief Executive

Craig Spence

Company Secretary

Craig Spence (until 28.09.16)
Mhairi Hughes (from 28.09.16)

Company Registration

2201RS

Scottish Charity Number

SC031734

Solicitors

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

REPORT OF THE MANAGEMENT COMMITTEE

for the year ended 31 March 2017

The Management Committee presents its report and the audited financial statements for the year ended 31 March 2017.

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 has the following corporate objectives for 2016/17 and beyond:-

- Great place to work,
- Great customer service, and
- Great contribution to our community and society.

During the year we have continued to build new properties, 2 shared ownership units were bought back and converted to rented accommodation and we succeeded in obtaining funding for a further 36 rented units, to be completed in 2017 and 2018. Also during the year agreement was reached whereby all staff remaining on the SHAPS final salary pension scheme transferred to a defined contribution scheme. We have continued to partner with other agencies to encourage energy efficiency amongst our residents. In order to develop our business and improve our services we will focus on:-

- Delivering a workplace where people are equipped and motivated to provide great customer service
- Driving the benefits of new procurement methods
- Putting plans in place for how we will achieve EESSH for all properties
- Ensuring that our properties are maintained and improved in the most effective way

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 Chief Executive

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 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.

REPORT OF THE MANAGEMENT COMMITTEE (continued)

for the year ended 31 March 2017

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 2017

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 and Risk Management 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 and Risk Management 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 2017 and until 26 July 2017. 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

Wylie and Bisset have expressed their willingness to continue as the auditors of the Association.

By order of Management Committee



John Rodwell
Chairperson

26 July 2017

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 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash flows and 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 the Co-operative and Community Benefits Society Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an 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 Management Committee and Auditors

As explained more fully in the Report of the Management Committee, set out on pages 3 to 5, the Management Committee are responsible for the preparation of the Financial Statements that gives 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 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 Management 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 any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2017 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice for Social Housing Providers issued in 2014: and

-
- have been properly prepared in accordance with the Co-operative and Community Benefits Society Act 2014, the Housing (Scotland) Act 2010, and the Determination of Accounting Requirements 2014 issued by the Scottish Housing Regulator.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified any material misstatements in the Report of the Management Committee.

We are required to report to you under The Co-operative and Community Benefit Societies Act 2014 if, in our opinion:

- the information given in the Report of the Management Committee is inconsistent with the Financial Statements;
- proper books of accounts have not been kept by the Association in accordance with the requirements of the legislation;
- a satisfactory system of control over transactions has not been maintained by the Association in accordance with the legislation;
- the financial statements are not in agreement with the books of accounts; or
- we have not received all the information and explanations necessary for the purposes of our audit.

We have nothing to report in respect of these matters.



Wylie & Bisset LLP
Chartered Accountants
Statutory Auditors
Glasgow

26 July 2017

REPORT OF THE AUDITORS TO ORKNEY HOUSING ASSOCIATION LIMITED

ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed your statement on pages 4 and 5 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes issued by the Scottish Housing Regulator.

Basis of opinion

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

Opinion

In our opinion the Statement on Internal Financial Control on pages 4 and 5 has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advisory Notes which are issued by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

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



Wylie & Bisset LLP
Chartered Accountants
Statutory Auditors
Glasgow

26 July 2017

ORKNEY HOUSING ASSOCIATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

	Notes	2017 £	2016 restated £
Turnover - continuing activities	2	4,424,062	4,581,379
Less: Operating costs	2	(3,539,306)	(3,553,227)
Operating surplus - continuing activities		884,756	1,028,152
Gain on disposal of fixed assets	25	60,448	33,632
Interest receivable		23,090	18,588
Interest and financing costs	8	(492,901)	(519,189)
Surplus before tax		475,393	561,183
Taxation	9	-	-
Surplus for the year		475,393	561,183
Actuarial gain in respect of pensions schemes		452,000	5,000
Total comprehensive income for the year		927,393	566,183

In each of the years ended 31 March 2016 and 31 March 2017 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 13 to 27 form part of these financial statements.

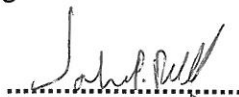
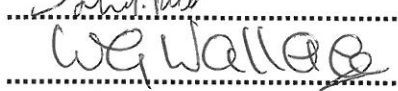
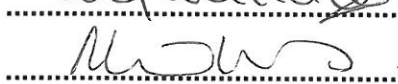
ORKNEY HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2017

		2017	2016
	Notes	£	£
Tangible Fixed Assets			
Housing properties	10	82,683,060	78,051,581
Other assets	10	1,387,682	1,318,262
		<u>84,070,742</u>	<u>79,369,843</u>
Fixed Asset Investments			
Investments	11	200,001	200,001
Shared Equity Costs	11	1,270,745	1,270,745
Shared Equity Grants	11	(1,270,745)	(1,270,745)
		<u>200,001</u>	<u>200,001</u>
Current Assets			
Investments	12	1,204,060	2,883,391
Work-in-progress	13	795,682	503,008
Trade and other debtors	14	557,787	1,256,870
Stock		32,820	33,285
Cash at bank and in hand		1,997,949	1,875,341
		<u>4,588,298</u>	<u>6,551,895</u>
Creditors: amounts falling due within one year	16	(2,759,343)	(2,810,406)
Net current assets		<u>1,828,955</u>	<u>3,741,489</u>
Total assets less current liabilities		86,099,698	83,311,333
Creditors: amounts falling due after more than one year			
Long term loans	17	(17,840,970)	(16,776,544)
Deferred income – capital grants	18	(60,697,672)	(59,348,323)
Pension deficit creditor	23	(517,202)	(1,070,000)
Net assets		<u>7,043,854</u>	<u>6,116,466</u>
Capital and Reserves			
Share capital	19	136	141
Revenue reserve	20	7,043,718	6,116,325
		<u>7,043,854</u>	<u>6,116,466</u>

The financial statements on pages 9 to 27 were approved by the Management Committee on 26 July 2017 and were signed on its behalf by:


..... Chairperson

..... Committee member

..... Secretary

ORKNEY HOUSING ASSOCIATION LIMITED

STATEMENT OF CHANGES IN RESERVES

for the year ended 31 March 2017

	Share Capital	Income & Expenditure Reserve	Revaluation Reserve	Total
	£	£	£	£
At 1 April 2016	141	6,116,325	-	6,116,466
Surplus for the year	-	475,393	-	475,393
Revaluation of tangible fixed assets	-	-	-	-
Re-measurement gain on defined benefit pension plan	-	452,000	-	452,000
Total comprehensive income	141	7,043,718	-	7,043,859
Share capital cancelled	(6)	-	-	(6)
Share capital issued	1	-	-	1
At 31 March 2017	136	7,043,718	-	7,043,854

ORKNEY HOUSING ASSOCIATION LIMITED

STATEMENT OF CASHFLOWS

for the year ended 31 March 2017

	Notes	2017	2016
		£	£
Net cash generated from operating activities (see below)		1,086,817	1,239,043
Cash flow from investing activities			
Purchase of tangible fixed assets		(6,320,314)	(5,290,173)
Proceeds from sale of tangible fixed assets		365,376	350,321
Grants received (net)		2,670,703	3,366,668
Interest received		24,178	17,734
Cash flow from financing activities			
Interest paid		(466,263)	(490,950)
New secured loans		1,600,000	3,072,035
Repayment of borrowings		(517,220)	(567,492)
Net change in cash and cash equivalents		(1,556,723)	1,697,186
Cash and cash equivalents at beginning of year		4,758,732	3,061,546
Cash and cash equivalents at end of year		3,202,009	4,758,732
Cash inflow from operating activities			
Surplus for the year		927,393	566,183
Adjustments for non-cash items:-			
Depreciation/amortisation charges		251,653	235,346
(Increase)/Decrease in stock		465	(2,770)
(Increase)/Decrease in trade debtors		(117,834)	63,366
Increase/(Decrease) in trade and other creditors		156,486	3,529
Pension costs less contributions payable		(552,798)	(96,697)
Carrying amount of fixed asset disposals		214,226	233,640
Proceeds from sale of fixed assets		(274,674)	(267,278)
Interest payable		492,901	519,189
Interest receivable		(23,090)	(18,588)
Services equalisation account		1,601	(4,406)
Charge to service provisions		10,488	7,529
Net cash inflow from operating activities		1,086,817	1,239,043

1. Principal Accounting Policies

The Financial Statements have been prepared in accordance with applicable accounting standards including Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice for social housing providers 2014 (SORP 2014) and the Scottish Housing Regulator's Determination of Accounting Requirements 2014.

Basis of Accounting

Orkney Housing Association Limited meets the definition of a public benefit entity under FRS 102.

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 disclosed as deferred income and amortised over the useful lives of the components to which they relate (see below). Grants for revenue expenditure are credited to the Statement of Comprehensive Income as they become receivable.

Grants attributed to individual components are written off to Statement of Comprehensive Income 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 AHSP, 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.

Note 1 (continued)

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, 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 Statement of Comprehensive Income.

Work in Progress/Shared Equity PropertiesNew 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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income, 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 over their useful lives as follows:-

Kitchens	-	20 years
Windows	-	33 $\frac{1}{3}$ 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
Aareon Software	-	5% per annum straight line method
Other Software	-	25% per annum straight line method
Workshop Improvements	-	21% per annum straight line method
Office Buildings	-	1 $\frac{1}{4}$ % per annum straight line method

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2017

Note 1 (continued)

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

Subsidiary

The subsidiary OHAL Enterprises CIC is still a dormant company as at 31 March 2017 and accordingly the Association has not prepared consolidated financial accounts.

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

	Turnover	Cost of sales	Operating costs	2017 Operating surplus/ (deficit)	2016 Operating surplus/ (deficit) restated
	£	£	£	£	£
Social lettings (note 3)	3,972,904	0	3,079,232	893,672	1,031,205
Other activities (note 4)	451,158	98,662	361,412	(8,916)	(3,049)
Total	4,424,062	98,662	3,440,644	884,756	1,028,152
Total for previous period of account	4,581,379	490,275	3,062,952		1,028,152

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2017

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

	General Needs	Shared Ownership	Supported Housing	2017 Total	2016 Total restated
	£	£	£	£	£
Rent receivable net of service charges	2,719,333	346,371	37,260	3,102,964	3,006,230
Service charges	138,740	-	1,791	140,531	135,854
Gross income from rents and service charges	2,858,073	346,371	39,051	3,243,495	3,142,084
Less voids	(9,151)	(90)	(639)	(9,880)	(12,927)
Net income from rents and service charges	2,848,922	346,281	38,412	3,233,615	3,129,157
Grants from Scottish Ministers	87,615	-	-	87,615	34,307
Grants released from deferred income	636,851	-	5,697	642,548	591,137
Other grants and miscellaneous income	7,898	1,176	52	9,126	7,504
Total income from social lettings	3,581,286	347,457	44,161	3,972,904	3,762,105

Operating costs on social letting activities

Service costs	138,631	-	1,888	140,519	134,636
Management administration costs	775,552	98,105	3,720	877,377	712,712
Maintenance administration costs	456,481	533	4,020	461,034	382,331
Reactive maintenance costs	418,376	3,805	6,492	428,673	380,883
Planned and cyclical maintenance costs	150,961	7	368	151,336	197,164
Property improvements & adaptations	166,234	-	7,161	173,395	145,276
Bad debts – rents and service charges	7,312	-	-	7,312	13,807
Depreciation of social housing	832,701	-	6,885	839,586	764,091
Total operating costs on social lettings	2,946,248	102,450	30,534	3,079,232	2,730,900

Operating surplus on social lettings	635,038	245,007	13,627	893,672	1,031,205
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Operating surplus on social lettings for previous period of account	767,280	239,814	24,111		1,031,205
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4. Particulars of turnover, operating costs and operating deficit from other activities

	Grants from Scottish Ministers	Other Income	Total Turnover	Other operating costs	Operating surplus/ (deficit)	Operating surplus/ (deficit) for previous period of account restated
	£	£	£	£	£	£
Wider role	-	-	-	2,837	(2,837)	(13,354)
Factoring	-	29,815	29,815	30,547	(732)	(1,033)
Care and Repair Services	28,695	265,249	293,944	293,944	0	2,603
Development and Construction of Property	-	93,750	93,750	98,662	(4,912)	4,975
Development Administration	-	842	842	4,760	(3,918)	(3,388)
Other Agency/ Management services	-	24,412	24,412	28,732	(4,320)	260
Other activities	-	8,395	8,395	592	7,803	6,884
Total from other activities	28,695	422,463	451,158	460,074	(8,916)	(3,053)
Total from other activities for the previous period of account	31,502	787,772	819,274	822,327	(3,053)	

5. Key Management Personnel Emoluments

As per the Scottish Housing Regulator's Determination of Accounting Requirements 2014, disclosure of key management personnel's emoluments exceeding £60,000 per annum is required.

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 was also the Association's Secretary until 28.09.16. The amounts paid were:

	2017 £	2016 £
The emoluments (excluding pension contributions) of the highest paid director, the Chief Executive	44,748	72,683

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

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 £44,573 (2016 - £8,395).

The 2016 figure included emoluments paid to both Chief Executives during a handover period.

6. Employee Information

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

	2017	2016
Office Staff	36	34
Cleaners	1	1
	<u>37</u>	<u>35</u>
Full-time equivalent	<u>34</u>	<u>33</u>

	2017 £	2016 Re-stated £
Staff costs (including directors' emoluments);		
Wages and salaries	1,002,073	989,702
Social security costs	97,272	74,271
Pension costs (Note 23)	411,415	207,689
Temporary staff	25,952	25,640
	<u>1,536,712</u>	<u>1,297,302</u>

Pension costs in 2016/17 includes £99,000 (2016 - £96,117) lump sum contributions towards past service deficit. £152,244 additional employer pension contributions were incurred in 2016/17 as part of a process to transfer staff from defined benefit to defined contribution pension schemes.

7. Operating Surplus

	2017 £	2016 £
Operating surplus is stated after charging/(crediting):-		
Depreciation	901,491	826,305
Amortisation	(642,548)	(591,137)
Direct repair costs: reactive, planned and cyclical	423,742	425,599
Auditor's remuneration		
- In their capacity as auditors (including expenses)	11,435	7,399
- In their capacity as financial advisers	500	252

8. Interest and financing costs

	2017 £	2016 £
On loans repayable wholly or partly in more than 5 years	466,901	493,189
Interest expense on pension deficit payments	26,000	26,000
	<u>492,901</u>	<u>519,189</u>

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 1.4.16	65,216,124	15,344,746	6,198,172	382,688	87,141,730	
Schemes completed	2,929,011	430,030	(2,929,011)	(430,030)	-	
Additions	40,904	-	5,341,799	530,599	5,913,302	
Disposals		(449,942)	-		(449,942)	
At 31 March 2017	68,186,039	15,324,834	8,610,960	483,257	92,605,090	
Depreciation						
At 1.4.16	9,090,149	-	-	-	9,090,149	
Disposals	(7,705)				(7,705)	
Charge for year	839,586				839,586	
At 31 March 2017	9,922,030	-	-	-	9,922,030	
Net book value at:						
31 March 2017	58,264,009	15,324,834	8,610,960	483,257	82,683,060	
31 March 2016	56,125,975	15,344,746	6,198,172	382,688	78,051,581	

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2017

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

Development administration costs capitalised amounted to £55,950 (2016 - £51,754). Interest costs capitalised amounted to £39,279 (2016 - £5,269).

Total expenditure on works to existing properties amounted to £676,640 during the year (2016 - £688,395), of which £82,634 was capitalised (2016 - £122,333).

	Office Buildings	Office fixtures, fittings, furniture & equipment	Handymen vans and tools etc	Total
	£	£	£	£
Cost				
At 1 April 2016	1,061,977	402,964	105,309	1,570,250
Additions	93,994	32,617	5,130	131,741
Disposals	-	-	-	-
Written off	-	(13,486)	-	(13,486)
Impairment	-	-	-	-
Disposals	-	-	-	-
At 31 March 2017	1,155,971	422,095	110,439	1,688,505
Depreciation				
At 1 April 2016	72,927	119,470	56,050	248,447
Charge for year	11,713	35,487	14,705	61,905
Adjustment re disposals	-	(11,889)	-	(11,889)
At 31 March 2017	84,640	143,068	70,755	298,463
Grants				
At 1 April 2016	-	774	2,767	3,541
Received in year	-	-	-	-
Amortisation	-	(489)	(692)	(1,181)
At 31 March 2017	-	285	2,075	2,360
Net book value				
At 31 March 2017	1,071,331	278,742	37,609	1,387,682
At 31 March 2016	989,050	282,720	46,492	1,318,262

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2017

11. Fixed Asset Investments

	Subsidiary	Shared Equity	Investment Property	Total
	£	£	£	£
Cost: at 31 March 2016 & 2017	1	1,270,745	200,000	1,470,746
Grants: at 31 March 2016 & 2017	-	1,207,745	-	1,207,745
Net book value: at 31 March 2016 & 2017	1	0	200,000	200,001

The wholly owned subsidiary OHAL Enterprises CIC was dormant during the year to 31.3.17.

12. Investments

Investments at 31.3.17 totalled £1.204m (2016 - £2.883m) comprising two time deposit facilities at a fixed rate and maturity after fixed terms of 6 and 12 months. Investments purchased or rolled over during the year amounted to £1.506m (2016 - £3.29m).

13. Work-in-progress

	Shared Ownership	Shared Equity etc	Total
	£	£	£
Opening WIP	124,492	378,516	503,008
Additions	68,234	256,080	324,314
Disposals	(31,640)	-	(31,640)
	161,086	634,596	795,682

14. Debtors

	2017	2016
	£	£
Rent arrears	107,075	92,683
Interest receivable	2,883	3,971
Scottish Government grant receivable	127,488	964,646
Other grants receivable	98,159	80,070
Other debtors and prepayments	222,182	115,500
	557,787	1,256,870

Other debtors are stated net of a provision for bad debts of £4,000 (2016 - £4,500).

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2017

15. **Rents**

	2017 £	2016 £
Gross arrears	117,075	100,183
Provision for bad debts	(10,000)	(7,500)
Net arrears	107,075	92,683

16. **Creditors: amounts due within one year**

	2017 £	2016 £
Rent in advance	38,586	20,147
HAG repayable	27,043	-
Loan instalments due and payable - housing	545,238	526,884
Capital expenditure	967,563	1,232,201
Capital grants received in advance	114,106	114,106
Shared equity grants on work in progress	271,092	271,092
Pension deficit creditor	126,798	99,000
Taxation and social security creditor	35,662	31,981
Care and Repair working capital	118,121	82,886
Shared ownership factoring sinking fund	105,142	94,654
Services equalisation account	10,620	9,019
Other creditors and accruals	399,372	328,436
	2,759,343	2,810,406

17. **Creditors: amounts due outwith one year**

	2017 £	2016 £
Housing loans	17,840,970	16,776,544

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

	2017 £	2016 £
Within one year	545,238	526,884
Between one and two years	588,067	569,832
Between two and five years	1,840,066	1,785,008
In five years or more	15,412,837	14,421,704
	18,386,208	17,303,428

for the year ended 31 March 2017

18. Deferred income – Capital Grants**Scottish Government Grants**

	Completed		Under Construction		Total
	Rented	SO	Rented	SO	
	£	£	£	£	£
At 1.4.16	47,518,381	11,210,319	5,850,522	430,403	65,009,625
Schemes completed	1,271,459	95,826	(1,271,459)	(95,826)	-
Additions	411,069	(61,041)	1,903,676	-	2,253,704
Disposals	(16,599)	(262,948)	-	-	(279,547)
At 31 March 2017	49,184,310	10,982,156	6,482,739	334,577	66,983,782

Other Grants

At 1.4.16	1,651,704	122,519	-	-	1,774,223
Additions	9,717	8,372	-	-	18,089
Written down	(349)	-	-	-	(349)
Disposals	-	-	-	-	-
At 31 March 2017	1,661,072	130,891	-	-	1,791,963

Amortisation

At 1.4.16	7,435,525	-	-	-	7,435,525
Charge for year	642,548	-	-	-	642,548
At 31 March 2017	8,078,073	-	-	-	8,078,073

Net book value at:

31 March 2017	42,767,309	11,113,047	6,482,739	334,577	60,697,672
31 March 2016	41,743,560	11,332,838	5,850,522	430,403	59,348,323

19. Share Capital

	2017 £	2016 £
At 1 April 2016	141	141
Issued in year	1	4
Cancelled in year	(6)	(4)
At 31 March 2017	136	141

Each member of the Association 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2017

20. Reconciliation of movement in revenue reserve

	2017	2016
	£	£
Revenue reserve brought forward	6,116,325	5,550,142
Surplus for the year	927,393	566,183
Revenue reserve carried forward	<u>7,043,718</u>	<u>6,116,325</u>

21. Capital commitments

	2017	2016
	£	£
Capital expenditure which has been contracted for but has not been provided for in the financial statements:	<u>5,125,746</u>	<u>5,233,753</u>
Capital expenditure which has been authorised but not contracted for or provided for in the financial statements:	<u>43,090</u>	<u>101,459</u>

The amount contracted for at 31 March 2017 will be funded from capital grant, low cost home ownership sales and loans.

22. Contingent LiabilitiesPension Scheme liabilities

The Association has been advised by the Pensions Trust of the estimated employer debt on withdrawal from the SFHA Pension Scheme based on the financial position of the scheme as at 30 September 2016. As of this date, the estimated employer debt for Orkney Housing Association was £5,856,894 (2015/16 - £4,335,488).

The Association has no current plans to withdraw from the SHAPS Pension Scheme. It has however ceased to offer membership of SHAPS defined benefit schemes from 31.3.17, thereby limiting any future increase in liability. All staff have access to a SHAPS defined contribution scheme from 1 April 2017.

Grants written off

At 31 March 2017, the Association has disposed of components which had received £297,197 (2016 - £280,598) 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.

23. Pensions**SHAPS Pension Scheme**

The Association participates in the Scottish Housing Associations' Pension Scheme (the "scheme"). The Scheme is a defined benefit scheme in the UK.

It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore, it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2014 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing' arrangement. Therefore, the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation of the scheme was carried out at 30 September 2015. This actuarial valuation showed assets of £616 million, liabilities of £814m and a deficit of £198m. To eliminate this funding shortfall the trustees and the participating employers have agreed that additional contributions will be paid to the scheme as follows:

Deficit Contributions (whole scheme)

From 1 April 2017 to 28 February 2022:	£25,735,092 per annum (payable monthly and increasing by 3% each on 1st April)
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The recovery plan contributions are allocated to each participating employer in line with their estimated share of the scheme liabilities.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present Values of Provision

	2017	2016	2015
	(£000s)	(£000s)	(£000s)
Present value of provision	644	1,169	1,243

23. **Pensions (continued)**

Reconciliation of Opening and Closing Provisions

	2017	2016
	(£000s)	(£000s)
Provision at start of period	1,169	1,244
Unwinding of the discount factor (interest expense)	26	26
Deficit contribution paid	(99)	(96)
Remeasurements - impact of any change in assumptions	19	(5)
Remeasurements - amendments to the contribution schedule	(471)	-
Provision at end of period	644	1,169

Income and Expenditure Impact

	2017	2016
	(£000s)	(£000s)
Interest expense	26	26
Remeasurements – impact of any change in assumptions	19	(5)
Remeasurements – amendments to the contribution schedule	(471)	-

Assumptions

	2017	2016
	% per annum	% per annum
Rate of discount	1.06	2.29

The discount rates shown above are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

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 2010.

25. **Gain on Disposal of Fixed Assets**

	Shared Ownership	Land	Other Assets	Total 2017	Total 2016 restated
	£	£	£	£	£
Income	274,375	-	299	274,674	270,950
Legal Expenses	(2,886)	-	-	(2,886)	(2,090)
Cost of Sale	(208,290)	-	-	(208,290)	(233,640)
Other Costs	(1,453)	-	(1,597)	(3,050)	(1,588)
Gain/(Loss) on Disposal of Assets	61,746	-	(1,298)	60,448	33,632

26. Housing Stock

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

		Units under Development		Units in Management	
		2017	2016	2017	2016
Housing for Rent:	General needs housing	73	59	726	697
	Supported housing	-	-	8	8
	Communal use	-	-	2	2
		73	59	736	707
Shared Ownership accommodation		4	6	169	169
New Supply Shared Equity		4	4	-	-
Total		81	69	905	876

27. Subsidiary Information

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

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

28. Related Parties

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.

29. Prior Year Adjustment

The prior year adjustments relates to the treatment of a re-measurement of the provision for pension deficit payments, which was treated as an overhead cost instead of being disclosed on the Statement of Comprehensive Income as an actuarial gain in respect of pension schemes.

The net surplus for the year was unaffected, but operating costs were under-stated by £4,994, the gain on disposal of fixed assets was over-stated by £6 and the £5,000 actuarial gain in respect of pension schemes has now been included as a comparative.