

**PENTLAND HOUSING ASSOCIATION LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 MARCH 2019**

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RSL NO 273

FCA NO 2449R(S)

CHARITY NO SCO37286

PENTLAND HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

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PENTLAND HOUSING ASSOCIATION LIMITED

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for the year ended 31 March 2019

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MEMBERS, EXECUTIVE AND ADVISERS

**Board of Directors**

Andi Wakeman (Chairperson to September 2018)  
Jim Hair (Chairperson from September 2018)  
Jennifer Lawless  
Colin MacDonald (Vice Chairperson from September 2018)  
Robert Bell  
John Perry  
Elaine Forbes  
Colin Earnshaw  
Ian McElroy  
Kirsty Gordon  
Gavin Powell

**Registered Office**

37/39 Traill Street  
Thurso  
Caithness  
KW14 8EG

**Auditors**

Findlays  
Chartered Accountants  
11 Dudhope Terrace  
Dundee  
DD3 6TS

**Secretary**

Rachel Harness (appointed 12 December 2018)

**Principal Bankers**

Bank of Scotland  
25 Orlig Street  
Bank of Scotland  
Thurso  
Caithness  
KW14 7HQ

**Chief Executive**

Richard Armitage (resigned 5 June 2018)  
Corrine Mackay (acting CEO appointed 5 June 2018)

**Solicitors**

TC Young  
7 West George Street  
Glasgow  
G2 1BA

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## **Report of the Board of Directors**

The Board of Directors present their report and the audited financial statements for the year ended 31 March 2019.

### **Principal Activities**

Pentland Housing Association ("the Association") aims to provide housing solutions to meet the needs of local communities in the County of Caithness and to serve the interests of our current and future tenants.

### **Board of Directors**

The Board of Directors are as detailed on page 1 of the financial statements.

### **Operating Financial Review**

The Association is a model employer and provides a range of sustainable housing solutions, develops social and economic opportunities and provides an effective and efficient service to their customers

## **1 Financial / Treasury Management**

- 1.1 The Association has continued to house people in Caithness. In the financial year 2018/19 the Association has a deficit of £471,185 (2018 – £230,676 surplus). The Association's revenue reserves now sit at a balance of £8,550,023 (2018 - £9,021,208) being carried forward to 2019/20.
- 1.2 The Association participates in a multi-employer pension scheme, SHAPS. Historically, due to insufficient information being available from the scheme administrators regarding the Association's own share of scheme assets and liabilities, this has been accounted for as a defined contribution scheme, in accordance with FRS 102.
- 1.3 This year, The Pensions Trust, the scheme administrators, have been able to provide sufficient information to account for the scheme as a defined benefit scheme. Therefore, the Association has included its net liability for the pension scheme for the first time in these financial statements. The Association's share of net liabilities at 31 March 2019 was £740,000 (1 April 2018 - £718,000). See note 23.
- 1.4 Finances are managed through the yearly budget process and ongoing development of key performance targets.
- 1.5 The Association continues to invest in the existing stock and the five year financial projections detail how resources are deployed to meet business needs, including key assumptions and trends. All financial plans are subject to scenario planning and sensitivity testing to ensure robustness.
- 1.6 A full risk appraisal is undertaken on all large scale capital projects, which gives a detailed record of all identified risks; this review is presented to the Board for a full discussion before formal approval is given by the Board.
- 1.7 Treasury Management includes the managing of all short and medium term cash flow requirements, withdrawing funds and managing asset security. In protecting financial resources it is ensured that investment decisions are properly assessed and that appropriate financial returns are delivered.

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1.8 To ensure the Association stays focused on improvement and renewal – in order to make a positive social impact – 6 strategic objectives have been developed for the next 5 years :

- To be recognised as the best affordable social landlord in the North Highlands
- To continue to deliver high quality customer service
- To continue to invest in our properties
- To identify, assess and respond to our customers' changing needs
- To be acknowledged as a good employer
- To continue to manage our resources to ensure our viability and effectiveness

All the Association's activities will be geared towards pursuing these strategic objectives.

## **2 Reactive / Planned Maintenance**

- 2.1 A key aim for the Association is to ensure that properties meet or exceed national standards. The 30 year planned maintenance programme and cash projections take account of investment in modernising and repairing houses, and in improving the social and physical nature of the community to protect and enhance the assets which underpin the Association's funding.
- 2.2 There is a robust long term financial model in place based on prudent assumptions to maintain viability and to ensure all reactive and planned maintenance is carried out.

## **3 Asset Management**

- 3.1 The Association continues to meet the guidance which indicates the level of standard that homes should meet under the "Scottish Housing Quality Standard" (SHQS).
- 3.2 There is a focus to ensure updated and relevant information is held on our planned maintenance database which is key to providing information as to when property components are due to be replaced.
- 3.3 The asset investment plan, cashflows and 30 year financial models are aligned for consistency in order to ensure that an adequate fundable plan is in place.

## **4 Future Business Growth**

- 4.1 The Association currently has 494 properties across the county of Caithness, comprising of 300 properties originally transferred from the United Kingdom Atomic Energy Authority (UKAEA) in 1994 with additional stock being added through development or purchase of existing properties.
- 4.2 The general fall in demand for social rented housing in the area sets a challenge, however the Association believes in its product and is confident that given the choice, their stock will be selected above those owned by their peers.
- 4.3 In 2018/19 the Association initiated a strategic options review following changes in key management personnel. The review has recently concluded that a strategic partnership should be sought with an appropriate organisation. This process is currently underway and progress will be reported to all stakeholders as appropriate.

## **5 Governance Arrangements**

The Association is currently undertaking a review of its Governance arrangements to ensure compliance with best practice. Inline with all Scottish Registered Social Landlords, the Association will complete its first annual Assurance Statement in October 2019 in order to receive an updated regulatory status from the Scottish Housing Regulator.

Currently governance operates through the Board of Directors which consists of current / former tenants of the Association and other interested individuals. This is supplemented by Audit, Staffing and Health and Safety Committees complimented with Staffing Committee and Health and Safety Working Groups. Other short-term working groups are set up as required to deal with any specific matters as delegated by the Board.

## **6 Provision of Services**

- 6.1 The Association employs 20 members of staff on a full and part time basis.
- 6.2 The Association also operates as agents for the Care and Repair and Handyperson Services schemes both of which are revenue funded and monitored by The Highland Council and National Health Service.
- 6.3 To realise its vision the Association must work in partnership with other organisations. This includes the Scottish Government, The Highland Council, other registered housing associations and community organisations for Wider Role responsibilities, including Home Start, Ormlie Community Association and Pulteneytown People's Project.
- 6.4 Looking towards the future, the Association will ensure that the services it provides continue to meet the needs of tenants, customers and the community.

## **7 Board of Directors and Chief Executive**

The Board of Directors and Chief Executive of the Association are listed on page 1.

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

### **Statement of the Board's Responsibilities**

The Co-operative and Community Benefit Societies Act 2014 requires the Board 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 surplus or deficit of the Association for that period. In preparing those financial statements the Board are 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;
- Prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Association will continue in business;
- Prepare a statement on Internal Financial Controls.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to ensure that the Financial Statements comply with applicable legislation.

The Board 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**

The Board of Directors acknowledge their ultimate responsibility for ensuring that the Association has in place a system of controls that is appropriate to the business environments in which it 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 Board of Directors' 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. These policies and regulations are reviewed on a regular basis in accordance with a structured programme.
- (ii) Experienced and suitably qualified staff take responsibility for important business functions. Their development and performance are monitored through an annual appraisal system and regular one to one meetings

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- (iii) Forecasts and budgets are prepared which allow the Board and Management 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) Regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies.
- (v) All significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through the Board of Directors.
- (vi) Together with the Audit Committee, the Board of Directors reviews reports from management and from the internal and 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.
- (vii) Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.
- (viii) An annual programme of performance and service review and improvement is approved by the Board with progress regularly reviewed.

The Board of Directors has reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2019 and also for the period up to the signing of this report. No significant control 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 Board are aware:

- (i) There is no relevant audit information (information needed by the Association's auditors in connection with preparing their report) of which the Association's auditors are unaware, and
- (ii) The Board has taken all steps that they ought to have taken to make themselves aware of the relevant audit information and to establish that the Association's auditors are aware of that information.

### **Auditors**

The auditors, Findlays, have expressed their willingness to continue in office. A resolution to re-appoint the auditors will be proposed at the annual general meeting.

By order of the Board

Chairperson

21 August 2019



# PENTLAND HOUSING ASSOCIATION LIMITED

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### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENTLAND HOUSING ASSOCIATION LIMITED

#### **Opinion**

We have audited the financial statements of Pentland Housing Association Limited for the year ended 31 March 2019 which comprise statements of comprehensive income, financial position, cash flows and changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies 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.

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2019 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Scottish Housing Regulator's Determination of Accounting Requirements 2014.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# PENTLAND HOUSING ASSOCIATION LIMITED

## REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

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### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENTLAND HOUSING ASSOCIATION LIMITED

#### **Other information**

The Board is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- the Association has not kept proper books of account, and not maintained a satisfactory system of control over its transactions, in accordance with the requirements of the legislation; or
- the statement of comprehensive income, any other statements to which our report relates, and the statement of financial position are not in agreement with the Association's books of account; or
- we have not obtained all the information and explanations necessary for the purposes of our audit.

#### **Responsibilities of the Board**

As explained more fully in the Board's responsibilities statement on page 5, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

PENTLAND HOUSING ASSOCIATION LIMITED

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for the year ended 31 March 2019

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENTLAND HOUSING ASSOCIATION LIMITED

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but, except to the extent otherwise explicitly stated in our report, not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.

Conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Joan Williamson, CA (Senior Statutory Auditor)  
For and on Behalf of Findlays,  
Chartered Accountants and Statutory Auditor,  
11 Dudhope Terrace  
Dundee  
DD3 6TS

21 August 2019

PENTLAND HOUSING ASSOCIATION LIMITED

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for the year ended 31 March 2019

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REPORT BY THE AUDITORS ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed your statement on pages 5 and 6 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 5 and 6 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.

Joan Williamson, CA (Senior Statutory Auditor)  
For and on Behalf of Findlays,  
Chartered Accountants and Statutory Auditor,  
11 Dudhope Terrace  
Dundee  
DD3 6TS

21 August 2019

PENTLAND HOUSING ASSOCIATION LIMITED

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 £	2018 £
<b>Turnover</b>	2	2,709,794	2,607,461
Operating expenditure	2	(2,810,689)	(2,406,751)
<b>Operating surplus / (deficit)</b>		(100,895)	200,710
Income received from housing grants		-	42,194
Gain / (loss) on disposal of tangible fixed assets	7	27,786	-
Finance income	8	20,226	19,238
Finance costs	9	(89,366)	(60,155)
Revaluation on housing properties	12	118,203	25,689
<b>Surplus / (deficit) before tax</b>	10	(24,046)	227,676
Taxation	11	-	-
<b>Surplus / (deficit) for the year</b>		(24,046)	227,676
		=====	=====
Unrealised surplus / (deficit) on revaluation of tangible fixed assets		-	-
Initial recognition of defined benefit scheme	23	(350,139)	
Actuarial gain / (loss) in respect of pension schemes	23	(97,000)	3,000
<b>Total comprehensive income for the year</b>		(471,185)	230,676
		=====	=====

All amounts relate to continuing activities.

The notes on pages 15 to 41 form part of the Financial Statements

PENTLAND HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

STATEMENT OF FINANCIAL POSITION

	Notes	2019	2018
		£	£
<b>Fixed assets</b>			
Tangible fixed assets	12 , 13	12,851,664	12,885,727
Investments	14	659,927	659,927
		<u>13,511,591</u>	<u>13,545,654</u>
<b>Current assets</b>			
Trade and other debtors	15	856,456	881,582
Cash and cash equivalents		783,038	954,733
		<u>1,639,494</u>	<u>1,836,315</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	16	(615,188)	(600,441)
<b>Net current assets / (liabilities)</b>		<u>1,024,306</u>	<u>1,235,874</u>
<b>Total assets less current liabilities</b>		14,535,897	14,781,528
Creditors: amounts falling due after more than one year	17	(5,245,727)	(5,485,302)
Provisions for liabilities			
- Pension provision	18	-	(274,861)
- Pension deficit benefit liability	23	(740,000)	-
<b>Total net assets</b>		<u>8,550,170</u>	<u>9,021,365</u>
<b>Capital and reserves</b>			
Share capital	19	147	157
Income and expenditure reserve	20	8,550,023	9,021,208
Revaluation reserve	20	-	-
		<u>8,550,170</u>	<u>9,021,365</u>

The financial statements on pages 11 to 14 were approved by the Board of Directors on 21 August 2019 and were signed on its behalf by:

.....

Chairperson

.....

Vice Chairperson

.....

Secretary

The notes on pages 15 to 41 form part of these financial statements.

PENTLAND HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

STATEMENT OF CHANGES IN RESERVES

	Share Capital	Income & Expenditure Reserve	Revaluation Reserve	Total
	£	£	£	£
<b>At 31 March 2018</b>	<b>157</b>	<b>9,021,208</b>	<b>-</b>	<b>9,021,365</b>
Surplus / (deficit) for the year	-	(471,185)	-	(471,185)
Remeasurement gain / (loss) on defined benefit pension plan	-	-	-	-
Revaluation of tangible fixed assets	-	-	-	-
	-----	-----	-----	-----
<b>Total comprehensive income</b>	<b>-</b>	<b>(471,185)</b>	<b>-</b>	<b>(471,185)</b>
Share capital issued/cancelled	(10)	-	-	(10)
	-----	-----	-----	-----
<b>At 31 March 2019</b>	<b>147</b>	<b>8,550,023</b>	<b>-</b>	<b>8,550,170</b>
	=====	=====	=====	=====

PENTLAND HOUSING ASSOCIATION LIMITED

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STATEMENT OF CASH FLOWS

	Notes	2019 £	2018 £
<b>Net cash generated from operating activities</b>	27	<b>382,584</b>	<b>376,600</b>
<b>Cash flow from investing activities</b>			
Purchase of tangible fixed assets		(329,559)	(401,483)
Purchase of investments		-	-
Proceeds of sale of tangible fixed assets		63,442	-
Grants received		-	42,194
Grants repaid		-	-
Interest received		20,226	19,238
		<b>(245,891)</b>	<b>(340,051)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of shares		6	2
Proceeds from issue of new long-term loans		-	-
Repayment of long term loans		(236,028)	(241,555)
Repayment of finance lease liabilities		-	-
Interest paid		(72,366)	(56,155)
<b>Net cash flow from financing activities</b>		<b>(308,388)</b>	<b>(297,708)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(171,695)</b>	<b>(261,159)</b>
<b>Cash and cash equivalents at 1 April 2018</b>		<b>954,733</b>	<b>1,215,892</b>
<b>Cash and cash equivalents at 31 March 2019</b>		<b>783,038</b>	<b>954,733</b>
<b>Cash and cash equivalents consists of :</b>			
Cash at bank and in hand		202,924	278,337
Short term deposits		580,114	676,396
<b>Cash and cash equivalents at 31 March 2019</b>		<b>783,038</b>	<b>954,733</b>



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NOTES TO THE FINANCIAL STATEMENTS

**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.

The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated. The Association adopted the SORP in financial year 2015/16.

**Basis of Accounting**

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

**Group accounts**

The Association is not required to prepare group accounts as an exemption has been granted by the FCA on the grounds that the cost and time involved in preparing these would outweigh any potential benefits to the user of the accounts. Details of the subsidiary are disclosed in note 22 to the accounts.

**Turnover**

Turnover represents rental and service charge income, fees, grants receivable and other income.

**Grant income**

Where a grant is paid as a contribution towards revenue expenditure, it is included in turnover. Where a grant is received from government and other bodies as a contribution towards a capital cost, it is recognised as income using the performance model in accordance with the SORP 2014. Prior to satisfying the performance conditions such grants are held as deferred income on the Statement of Financial Position.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**Tangible Fixed Assets**

Tangible fixed assets (including social housing properties) are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to making the asset capable of operating as intended such as the cost of acquiring land and buildings, developments costs, interest charges on loans during the development period and expenditure on improvements. Expenditure on improvements will only be capitalised when it results in incremental future benefits such as increasing rental income, reducing maintenance costs or resulting in a significant extension of the useful economic life of the property.

Shared ownership properties (including those under construction) are split between housing properties in fixed assets and current assets. The split is determined by the expected percentage of the property to be sold under a first tranche disposal.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Land	Not depreciated
Housing Properties	70 years
Property plant and equipment	15 - 60 years
Fixtures and fittings	5 years
Motor vehicles	4 – 5 years
Computer equipment	3 – 4 years
Leased assets	Remainder of lease period

Housing properties under construction are not depreciated until they are in use.

Major components of housing properties, such as structure, roofs, windows, bathrooms, kitchens and heating, have been accounted for and depreciated separately from the connected housing property, over their expected useful economic lives and are included in property plant and equipment.

The useful economic lives of all tangible fixed assets are reviewed annually.

Valuation movements for Housing Properties Held for Letting are allocated to land and structure in accordance with SORP 2014. The Board of Directors believe the valuation of all other components is reasonably equal to the depreciated historical costs (net of grants) of such components.

NOTES TO THE FINANCIAL STATEMENTS (continued)

**Works to Existing Properties**

Works to existing properties which replace a component that has been treated separately for depreciation purposes, along with those works that result in an increase in net rental income over the lives of the property, 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.

**Investments – subsidiaries**

Investments are recognised initially at fair value which is normally the transaction price excluding transaction costs. Subsequently they are measured at fair value through the statement of comprehensive income if shares are publically traded or if their fair value can otherwise be measured reliably. Other investments are measured at cost less impairment.

**Stocks**

Stocks, including property developed for outright sale or shared ownership is stated at the lower of cost and estimated selling price less costs to complete and sell. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing stock to its present location and condition.

**Debtors and creditors receivable / payable within one year**

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the statement of comprehensive income in other administrative expenses.

**Investments (including concessionary loans, such as HomeBuy loans)**

Investments are recognised initially at fair value which is normally the transaction price excluding transaction costs. Subsequently, they are measured at fair value through the statement of comprehensive income if the shares are publicly traded or their fair value can otherwise be measured reliably. Other investments are measured at cost less impairment.

**Housing Association Grants (HAG)**

Where a grant is paid as a contribution towards revenue expenditure, it is included in turnover. Where a grant is received from government and other bodies as a contribution towards a capital cost, it is recognised as income using the performance model in accordance with the SORP 2014. Prior to satisfying the performance conditions such grants are held as deferred income on the Statement of Financial Position.

**Loans and borrowings**

Loans and borrowings are initially recognised at the transaction price including transaction costs. Subsequently they are measured at amortised cost using the effective interest rate method, less impairment. If an arrangement constitutes a financing transaction, it is measured at present value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

**Impairment**

Assets not measured at fair value are reviewed for any indication that the asset may be impaired at each balance sheet date. The level at which an impairment is assessed is considered is at the cash generating unit (CGU) level. The Board of Directors believe that housing properties held for letting represent one CGU.

The key indicators of impairment considered are changes in demand, changes in use, economic performance worse than expected, significant decline in market value, plans to regenerate, demolish or replace existing components, higher than expected costs of development, and other changes in technology, market, economy and legislation.

If such indication exists, the recoverable amount is estimated and compared to the carrying amount. Where the carrying amount exceeds its recoverable amount, an impairment loss is recognised in expenditure through the statement of comprehensive income.

The Association classifies its cash generating units in terms of the property schemes that it uses for asset management purposes which is all held for letting stock.

**Provisions for liabilities**

**Pensions**

The Association participates in the Scottish Housing Association Pension Scheme (SHAPS). Retirement benefits for employees of the Association are funded by contributions from all participating employers and employees in the scheme. Payments are made in accordance with periodic calculations by consulting Actuaries and are based on pension costs applicable across the various participating Associations taken as a whole.

The Association now accounts for this as a defined benefit scheme in accordance with FRS 102.

**Leases**

Assets acquired under finance leases are capitalised and depreciated over the shorter of the lease term and the expected useful life of the asset. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding lease liability using the effective interest method. The related obligations, net of future finance charges, are included in creditors.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

**Accruals and Deferred Income**

Non- government grants in relation to capital expenditure are written off to the comprehensive statement of income in the year in which they are receivable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

**Significant Estimates**

The preparation of financial statements requires the use of certain accounting judgements and estimates. It also requires the Board of Management to exercise judgment in applying the Association's accounting policies. The areas requiring the use of significant estimates are disclosed below.

**Rent Arrears – Bad Debt Provision**

The Association assesses the recoverability of rent arrears through a detailed process which considers tenant payment history and recovery arrangements in place.

**Useful life of Properties, Plant and Equipment**

The Association estimates the useful life of properties, plant and equipment, as well as components thereof, and estimates an annual charge to be depreciated.

**Defined Benefit Pension Liability**

In determining the value of the Association's share of defined benefit pension scheme assets and liabilities, the valuation prepared by the Scheme actuary includes estimates of life expectancy, salary growth, inflation and the discount rate on corporate bonds.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. Particulars of Turnover, Cost of Sales, Operating Costs &amp; Operating Surplus

		2019		
		Turnover	Operating Costs	Operating Surplus/ (Deficit)
		£	£	£
Social Lettings	Note 3	2,180,576	(2,412,251)	(231,675)
Other activities	Note 4	529,218	(398,438)	130,780
		<u>          </u>	<u>          </u>	<u>          </u>
Total		<u>2,709,794</u>	<u>(2,810,689)</u>	<u>(100,895)</u>

		2018		
		Turnover	Operating Costs	Operating Surplus/ (Deficit)
		£	£	£
Social Lettings	Note 3	2,080,721	(1,972,703)	108,018
Other activities	Note 4	526,740	(434,047)	92,692
		<u>          </u>	<u>          </u>	<u>          </u>
Total		<u>2,607,461</u>	<u>(2,406,751)</u>	<u>200,710</u>

## REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. Particulars Of Income &amp; Expenditure From Social Letting Activities

	General Needs Housing £	Supported Housing £	Shared Ownership £	2019 Total £	2018 Total £
<b>Income from Letting</b>					
Rent Receivable net of Service Charges	2,173,638	-	2,304	2,175,942	2,065,974
Service Charges	-	-	-	-	-
	-----	-----	-----	-----	-----
Gross Income From Rents and Service Charges	2,173,638	-	2,304	2,175,942	2,065,974
LESS: Rent Losses from Voids	(17,237)	-	-	(17,237)	(22,553)
	-----	-----	-----	-----	-----
<b>Net Income from rents and service charges</b>	<b>2,156,401</b>	<b>-</b>	<b>2,304</b>	<b>2,158,705</b>	<b>2,043,421</b>
Grants from Scottish Ministers	21,871	-	-	21,871	32,980
Other revenue grants	-	-	-	-	4,320
	-----	-----	-----	-----	-----
<b>Total Turnover from Social Letting Activities</b>	<b>2,178,272</b>	<b>-</b>	<b>2,304</b>	<b>2,180,576</b>	<b>2,080,721</b>
<b>Expenditure on Social Letting Activities</b>					
Management Services	(1,122,045)	-	(1,118)	(1,123,163)	(933,793)
Planned and Cyclical Maintenance	(246,640)	-	-	(246,640)	(269,720)
Reactive Maintenance:	(590,899)	-	-	(590,899)	(405,479)
Rent Losses from Bad Debts	(9,781)	-	-	(9,781)	7,997
Depreciation of Social Housing	(441,768)	-	-	(441,768)	(371,708)
	-----	-----	-----	-----	-----
<b>Total Operating Costs</b>	<b>(2,411,133)</b>	<b>-</b>	<b>(1,118)</b>	<b>(2,412,251)</b>	<b>(1,972,703)</b>
	-----	-----	-----	-----	-----
<b>Operating Surplus/(Deficit)</b>	<b>(232,861)</b>	<b>-</b>	<b>1,186</b>	<b>(231,675)</b>	<b>108,018</b>
	=====	=====	=====	=====	=====
Operating Surplus/(Deficit) for previous period of account	106,975	-	1,043	108,018	
	=====	=====	=====	=====	

PENTLAND HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Particulars of Turnover, Operating Costs and Operating Surplus or Deficit from Other Activities

	Grants from Scottish Ministers	Supporting People Income	Other Revenue Grants	Other Income	Total Turnover	Bad Debts	Other Operating Costs	2019 Operating Surplus/ (Deficit)	2018 Operating Surplus/ (Deficit)
	£	£	£	£	£	£	£	£	£
Wider Role Activities	-	-	-	333,515	333,515	-	174,227	159,288	117,043
Care and repair of property	-	-	195,703	-	195,703	-	224,211	(28,508)	(24,350)
Factoring	-	-	-	-	-	-	-	-	-
Development and construction of property activities	-	-	-	-	-	-	-	-	-
Support activities	-	-	-	-	-	-	-	-	-
Care activities	-	-	-	-	-	-	-	-	-
Other agency / management services	-	-	-	-	-	-	-	-	-
Developments for sale to RSLs	-	-	-	-	-	-	-	-	-
Developments and improvements for sale to non RSLs	-	-	-	-	-	-	-	-	-
Shared equity sales	-	-	-	-	-	-	-	-	-
Other activities (misc income and lease car income)	-	-	-	-	-	-	-	-	-
<b>Total from other activities</b>	-	-	<b>195,703</b>	<b>333,515</b>	<b>529,218</b>	-	<b>398,438</b>	<b>130,780</b>	<b>92,693</b>
Total from other activities for the previous period of account	-	-	<b>290,679</b>	<b>236,061</b>	<b>526,740</b>	-	<b>434,047</b>		



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

	2019 £	2018 £
Aggregate emoluments payable to key management personnel with emoluments greater than £60,000		
Emoluments excluding employers pension	95,358	69,439
Employers pension contributions	6,509	6,807
Total emoluments payable	101,867 =====	76,246 =====

The emoluments payable to, or received by, the Chief Executive / acting Chief Executive amount to:

Emoluments excluding employers pension	95,358	69,439
Employers pension contributions	6,509	6,807
Total emoluments payable	101,867 =====	76,246 =====

Payments to other organisations for the provision of Director's services	-	-
	=====	=====

The emoluments of key management personnel (excluding pension contributions) over £60,000 were within the following ranges :-

£60,001 to £70,000	1	1
£71,001 to £80,000	-	-
£80,001 to £90,000	-	-
	=====	=====

The key management personnel are ordinary members of the Association's pension scheme described in note 23. No enhanced or special terms apply to membership and they have no other pension arrangements to which the Association contributes. No emoluments were paid to any member of the Board during the year.

PENTLAND HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. **Employee Information**

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
The average monthly number of full time equivalent persons employed during the year was:	20	20
	=====	=====

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Staff costs		
Wages and salaries	546,723	490,782
Social security cost	43,797	39,698
Pension costs (Note 23)	40,821	38,155
Pension deficit contributions (Note 18)	93,000	90,000
	-----	-----
	724,341	658,635
	=====	=====

7. **Disposal of Tangible Fixed Assets**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Proceeds from disposal of other fixed assets	63,442	-
Carrying value of other fixed assets	35,656	-
	-----	-----
Gain / (Loss) on disposal of tangible fixed assets	27,786	-
	=====	=====

8. **Interest and other finance income**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Bank Interest receivable	3,726	2,738
Interest receivable from subsidiary	16,500	16,500
	-----	-----
	20,226	19,238
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 9. Interest payable and similar charges

	2019 £	2018 £
Bank loans and overdrafts	72,366	56,155
Net interest on defined benefit pension liability	17,000	-
Finance charges payable under finance leases	-	-
	<u>89,366</u>	<u>56,155</u>
Unwinding of discounted pension liability	-	4,000
	<u>-</u>	<u>4,000</u>
Other Finance Costs / (Income)	<u>89,366</u>	<u>60,155</u>

## 10. Surplus / (deficit) on ordinary activities

Surplus / (deficit) on ordinary activities is stated after charging:-	2019	2018
	£	£
Depreciation of tangible fixed assets		
- housing properties	434,804	353,813
- other fixed assets	4,656	9,507
External Auditors remuneration		
- in their capacity as auditors	9,600	10,610
External Auditors remuneration		
- in their capacity as non-auditors	13,380	22,500
	<u>=====</u>	<u>=====</u>

## 11. Tax on surplus / (deficit) on ordinary activities

	2019 £	2018 £
Current tax		
UK corporation tax on surplus for the year	-	-
Adjustments in respect of previous periods	-	-
	<u>-</u>	<u>-</u>
	<u>=====</u>	<u>=====</u>

The Association has been recognised by the HM Revenue and Customs as a charity for taxation purposes. Provided its income is derived from and applied to charitable purposes, no taxation liability arises.

PENTLAND HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Tangible Fixed Assets - Housing Properties

	Housing held for Letting £	Housing Properties in the Course of Construction £	Other Properties £	Total £
<b>Cost / Valuation</b>				
At 1 April 2018	12,191,115	653,973	-	12,845,088
Additions	323,565	-	-	323,565
Disposals	(84,616)	-	-	(84,616)
Revaluation	(238,949)	-	-	(238,949)
<b>At 31 March 2019</b>	<b>12,191,115</b>	<b>653,973</b>	<b>-</b>	<b>12,845,088</b>
<b>Depreciation</b>				
As at 1 April 2018	-	-	-	-
Adjustment for disposals	(77,652)	-	-	(77,652)
Charge for the year	434,804	-	-	434,804
Eliminated on revaluation	(357,152)	-	-	(357,152)
<b>At 31 March 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Values</b>				
As at 31 March 2019	12,191,115	653,973	-	12,845,088
As at 31 March 2018	12,191,115	653,973	-	12,845,088

Component replacement costs of £323,565 (2018 - £333,115) were capitalised during the year.

The Association's lenders have standard securities over Housing Property with a carrying value of £10,476,000.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

**12 Tangible Fixed Assets - Housing Properties**

The housing properties held for letting were revalued in March and October 2017 by an independent professional external valuer, Jones Lang LaSalle. The basis of the valuation was with reference to Existing Use Value – Social Housing. The properties held for letting were valued at £12,127,115 as indicated by the appraisal. The unit purchased in the year, under the Mortgage to Rent Scheme, has a carrying value of the purchase price.

Royal Institute of Chartered Surveyors use a discounted cash flow method. The key assumptions made were as follows:-

- Discount rate – 6% - 6.5%
- Rent increase – Inflation + 1%

The directors feel that the value at 31 March 2019 of the properties valued will not be materially different from the figure stated above.

**Carrying Value**

If housing properties held for letting had not been revalued they would have appeared in the balance sheet as:

	<b><u>2019</u></b> <b>£</b>	<b><u>2018</u></b> <b>£</b>
Cost	23,235,198	23,043,847
Accumulated depreciation	(6,560,758)	(6,124,500)
	-----	-----
Net book value at 31 March	16,674,440	16,919,347
	=====	=====

PENTLAND HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Tangible fixed assets - other

	Office Premises £	Equipment £	Total £
<b>Cost</b>			
At 1 April 2018	65,677	29,033	94,710
Additions	-	5,994	5,994
Disposals	(65,677)	(21,300)	(86,977)
	-----	-----	-----
As at 31 March 2019	-	13,727	13,727
	-----	-----	-----
<b>Depreciation</b>			
At 1 April 2018	30,021	24,050	54,071
Charge for the year	437	4,219	4,656
On Disposals	(30,458)	(21,118)	(51,576)
Depreciation charge for year	-	-	-
	-----	-----	-----
As at 31 March 2019	-	7,151	7,151
	-----	-----	-----
<b>Net Book Value</b>			
As at 31 March 2019	-	6,576	6,576
	=====	=====	=====
As at 31 March 2018	35,656	4,983	40,639
	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14 Fixed asset investments

	Shared Ownership £	Other Investments £	Total £
<b>Cost</b>			
At 1 April 2018	559,925	100,002	659,927
Additions	-	-	-
Disposals	-	-	-
Revaluation	-	-	-
As at 31 March 2019	<b>559,925</b>	<b>100,002</b>	<b>659,929</b>
<b>Impairment</b>			
At 1 April 2018	-	-	-
Written off	-	-	-
Written back	-	-	-
Eliminated on disposals	-	-	-
As at 31 March 2019	-	-	-
<b>Carrying value</b>			
As at 31 March 2019	<b>559,925</b>	<b>100,002</b>	<b>659,927</b>
As at 31 March 2018	559,925	100,002	659,927

Other investments are measured at cost less impairment on the basis that they represent shares in entities that are not publicly traded and the fair value cannot otherwise be measured reliably.

Included within other investments is a 100% holding in the ordinary share capital of Pentland Community Enterprises Limited, a company incorporated in Scotland. At the year end, the aggregate capital and reserves of the company amounted to £15,211 and surplus for the year amounted to £73,586.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 15 Trade and other debtors

	2019 £	2018 £
Trade debtors (gross social housing rent arrears)	132,735	110,067
Less : provision for doubtful debt	(22,444)	(16,348)
Trade debtors (others)	143,508	141,837
Amounts owed by group undertakings	574,829	627,490
Prepayments and accrued income	27,828	18,536
	-----	-----
	856,456	881,582
	=====	=====

The Association assesses the recoverability of gross rent arrears through an assessment process which considers the scale and terms of repayment arrangements. The potential discounting of arrears has not been deemed to be material.

## 16 Creditors : amounts falling due within one year

	2019 £	2018 £
Amounts falling due within one year:		
Bank loans and overdrafts	245,793	242,246
Trade creditors	210,724	131,514
Rents paid in advance	19,739	13,472
Other tax and social security	11,104	15,233
Pension past service deficit	-	93,000
Finance Leases	-	-
Other creditors	70,867	74,847
Government grants	-	-
Accruals and deferred income	56,961	30,129
	-----	-----
	615,188	600,441
	=====	=====

Bank loans and overdrafts totalling £4,502,143 (2018 - £4,738,691) are secured by specific charges over the Association's housing properties. The payment terms and interest rate of housing loans are given in note 17.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 17. Creditors : amounts falling due after more than one year

	2019 £	2018 £
Bank loans and overdrafts	4,256,350	4,496,445
Deferred income – Housing Association Grants	997,697	997,697
Loan arrangement fees	(8,320)	(8,840)
	-----	-----
	5,245,727	5,485,302
	=====	=====

Loans of £65,000 from the local authority are secured by standard security over land acquired. The land bank loan is for a five year term interest free term.

Included above are loan arrangement fees deferred of £8,320. The fees are deferred in accordance with and released to the Income and Expenditure Account over the term of the loan. During the year £520 was released to interest payable and other charges.

Housing Loans are secured by specific charges on the Association's properties and are repayable at varying rates of interest from Libor+0.47% to Libor +1.75% and in instalments due as follows:-

Loan Repayment	2019 £	2018 £
Within one year	245,793	242,246
Between one and two years	249,397	310,793
Between two and five years	766,633	759,244
In five years or more	3,240,320	3,426,408
	-----	-----
	4,502,143	4,738,691
	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 18 Provisions for liabilities – pension provision

	2019 £	2018 £
Provision at 1 April 2018	367,861	456,861
Being de-recognise pension deficit liability	(367,861)	
Unwinding of discount factor (interest expense)	-	4,000
Deficit contribution paid	-	(90,000)
Remeasurements – impact of any change in assumptions	-	(3,000)
Remeasurements – amendments to the contribution schedule	-	-
	-----	-----
Provision at 31 March 2019	-	367,861
	=====	=====
Due within one year	-	93,000
Due after more than one year	-	274,861
	-----	-----
	-	367,861
	=====	=====

## 19 Share capital

	2019 No.	2018 No.
At 1 April 2018	157	155
Issued during the year	6	2
Cancelled during the year	(16)	-
	-----	-----
At 31 March 2019	147	157
	=====	=====

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

## 20 Reserves

## Income and expenditure reserve

The income and expenditure reserve represents cumulative surplus and deficits net of other adjustments.

PENTLAND HOUSING ASSOCIATION LIMITED

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2019

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 **Capital Commitments**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
Capital expenditure that has been approved for but has not been provided for in the financial statements including major repair component replacements	-	-
	=====	=====

The amount contracted for at 31 March 2019 will be funded by the proposed financing:

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
HAG	-	-
Agreed overdraft	-	-
Agreed private loans and shared equity sales	-	-
Other grants	-	-
Existing cash reserves	-	-
	-----	-----
	-	-
	=====	=====

## 22 Related party transactions

During the period ended 31 March 2019 the Association had the following related and associated undertakings :

Name	Relationship	Status	Registered by Social Housing Regulator
Pentland Community Enterprises Limited	100% subsidiary	Limited Company	Non-regulated

Board members J. Hair, R. Bell, C. MacDonald, N. Robertson, J. Kelly and J. Perry are Directors of PCE, a wholly owned subsidiary of the Association.

During the year the Association incurred wages, insurance, rent and overhead costs of £29,384 which were recharged to PCE. The Association also charged interest of £16,500 to PCE in relation to a commercial loan of £550,000 outstanding from PCE at 31 March 2019. The term of the loan is 25 years with a commercial rate of interest applied of Bank of England Base plus current mark up of 2.25%. The Association continues to hold standard security over PCE's garage stock as part of the loan agreement.

**Information about other related party transactions and outstanding balances are outlined below.**

One member of the Board of Management is also a tenant of the Association. The tenancy is on the same terms as for other tenants and no advantage can be gained from the position.

During the financial year, Board members were charged rent totalling £5,489 (2018 - £5,218). As at 31 March 2019 the amount of £Nil (2017 – £Nil) was due to the Association.

Where members of the Board of Management are also councillors or employees of related local authorities, there are no transactions to disclose that were not made at arm's length or not made under the normal commercial terms.

NOTES TO THE FINANCIAL STATEMENTS (continued)

**23 Retirement Benefits**

The Association participates in the Scottish Housing Associations' Pension Scheme (the "scheme"), a multi-employer scheme which provides benefits to some 150 non-associated employers. The scheme is a defined benefit scheme in the UK.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 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 last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2015. This valuation revealed a deficit of £198m. A recovery plan has been put in place to eliminate the deficit which runs to 28 February 2022 for the majority of employers, although certain employers have different arrangements.

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.

For financial years ending on or before 28 February 2019, it has not been possible for the Association to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the Association has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the Association to account for the Scheme as a defined benefit scheme.

For accounting purposes, two actuarial valuations for the scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in conjunction with the Association's fair share of the Scheme's total assets to calculate the Association's net deficit or surplus at the accounting period start and end dates.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 23 Retirement Benefits (continued)

**Present values of defined benefit obligation, fair value of assets and defined benefit asset (liability)**

	<b>2019</b> <b>£(000's)</b>	<b>2018</b> <b>£(000's)</b>
Fair value of plan assets	3,241	2,910
Present value of defined benefit obligation	3,981	3,628
Surplus (deficit) in plan	(740)	(718)
Unrecognised surplus	-	-

**Reconciliation of the impact of the asset ceiling**

	<b>2019</b> <b>£(000's)</b>
Impact of asset ceiling at start of period	-
Effect of the asset ceiling included in net interest cost	-
Actuarial losses (gains) on asset ceiling	-
Impact of asset ceiling at end of period	-

**Reconciliation of opening and closing balances of the defined benefit obligation**

	<b>2019</b> <b>£(000's)</b>
Defined benefit obligation at start of period	3,628
Current service cost	-
Expenses	3
Interest expense	93
Contributions by plan participants	-
Actuarial losses (gains) due to scheme experience	57
Actuarial losses (gains) due to changes in demographic assumptions	10
Actuarial losses (gains) due to changes in financial assumptions	266
Benefits paid and expenses	(76)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Exchange rate changes	-
Defined benefit obligation at end of period	3,981

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 23 Retirement Benefits (continued)

**Reconciliation of opening and closing balances of the fair value of plan assets**

	<b>2019 £(000's)</b>
Fair value of plan assets at start of period	2,910
Interest income	76
Experience on plan assets (excluding in interest income) – gain (loss)	236
Contributions by the employer	95
Contributions by plan participants	-
Benefits paid and expenses	(76)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rates changes	-
Fair value of plan assets at end of period	3,241

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £312,000.

**Defined benefit costs recognised in statement of comprehensive income (SOCl)**

	<b>2019 £(000's)</b>
Current service cost	-
Expenses	3
Net interest expense	17
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Defined benefit costs recognised in statement of comprehensive income (SoCl)	20

**Defined benefit costs recognised in other comprehensive income**

	<b>2019 £(000's)</b>
Experience on plan assets (excluding amounts included in net interest cost) – gain (loss)	236
Experience gains and losses arising on the plan liabilities – gain (loss)	(57)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation – gain (loss)	(10)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation – gain (loss)	(266)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognised) gains (loss)	(97)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) – gain (loss)	-
Total amount recognised in other comprehensive income – gain (loss)	(97)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 23 Retirement Benefits (continued)

	<b>ASSETS</b>	
	<b>2019</b>	<b>2018</b>
	<b>£(000's)</b>	<b>£(000's)</b>
Absolute Return	275	345
Alternative Risk Premia	181	110
Corporate Bond Fund	227	203
Credit Relative Value	56	-
Distressed Opportunities	55	13
Emerging Markets Debt	104	100
Fund of Hedge Funds	9	84
Global Equity	522	523
Index Linked All Stock Gilts	-	-
Infrastructure	136	53
Insurance-Linked Securities	84	80
Liability Driven Investment	1,154	1,024
Long Lease Property	39	-
Net Current Assets	3	5
Over 15 year Gifts	83	94
Private Debt	42	27
Property	64	115
Risk Sharing	94	27
Secured Income	113	107
Total Assets	3,241	2,910

None of the fair values of the assets shown include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by, the employer.



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NOTES TO THE FINANCIAL STATEMENTS (continued)

## 23 Retirement Benefits (continued)

## KEY ASSUMPTIONS

	2019 % per annum	2018 % per annum
Discount Rate	2.33	2.59
Inflation (RPI)	3.28	3.16
Inflation (CPI)	2.28	2.16
Salary Growth	3.28	3.16
Allowance for commutation of pension for cash at retirement 75% of max allowance		

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy At age 65 (Years)
Male retiring in 2019	21.7
Female retiring in 2019	23.4
Male retiring in 2039	23.1
Female retiring in 2039	24.7

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NOTES TO THE FINANCIAL STATEMENTS (continued)
**24 Legislative Provisions**

The Association is incorporated under the Co-operative and Community Benefit Societies Act 2014.

**25 Housing Stock**

The number of units of accommodation in management at the year end was:-

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
General needs	491	491
Supported Housing	-	-
Shared ownership	1	1
Managed for HSCHT	2	2
	<hr/>	<hr/>
	494	494
	<hr/>	<hr/>

**26 Commitments Under Operating Leases**

The Association has total commitments under non-cancellable operating leases as follows:

**Office Equipment**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<u>Expiry Date</u>		
Within 1 year	7,189	21,493
Between 2-5 years	23,883	39,701
Over 5 years	-	-
	<hr/>	<hr/>

**Land and Buildings**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<u>Expiry Date</u>		
Within 1 year	28,008	28,008
Between 2-5 years	49,014	77,022
Over 5 years	-	-
	<hr/>	<hr/>

**Lease Vehicles**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<u>Expiry Date</u>		
Within 1 year	8,335	11,588
Between 2-5 years	-	6,611
Over 5 years	-	-
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2019 £	2018 £
<b>27 Cash flow from operating activities</b>		
Operating surplus / (deficit) for the year	(100,895)	200,710
Depreciation and impairment of tangible fixed assets	439,460	363,341
Proceeds of sale of tangible fixed assets	-	-
Carrying amount of tangible fixed asset disposals	7,146	17,895
(Increase) / decrease in stock	-	-
(Increase) / decrease in trade and other debtors	25,126	(115,018)
Increase / (decrease) in trade and other creditors	11,763	(90,328)
Government grants utilised in the year	-	-
Adjustment for Share Capital Written Off	(16)	-
<b>Net cash flow from operating activities</b>	382,584	376,600

**28 Contingent Liabilities**

The Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the SFHA Scheme based on the financial position of the Scheme as at 30 September 2017. As of this date the estimated employer debt for the Association was £3,149,407. This is the latest available valuation. The Association has no intentions of withdrawing from the scheme and consequently no provision has been made in the financial statements.

As the Association adopts a policy of holding its housing properties at valuation, government grants are written off to the statement of comprehensive income, using the performance model, in the year in which the conditions of the grant are met. In the case of housing properties, grant conditions are considered to be fully met on completion of the development. Government grants of £16,370,906 have been accounted for under the performance model. Should the Association dispose of property in the future, this could give rise to a relevant event for the purposes of repayment or recycling such grant.