

**AYRSHIRE HOUSING**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

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**AYRSHIRE HOUSING**  
**OPERATING AND FINANCIAL REVIEW**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

**Background**

The Trustees of Ayrshire Housing are pleased to present their review together with the audited financial statements for Ayrshire Housing for the year ended 31<sup>st</sup> March 2016.

**Activities**

The Ayrshire Housing Group consists of Ayrshire Housing (parent) a registered social landlord with charitable status and Ayrshire Homestake Limited, our one subsidiary company retained as a vehicle to pursue potentially non-charitable activities. The subsidiary company has not yet traded.

The Group Head Office is in Ayr and Ayrshire Housing has properties throughout Ayrshire. Ayrshire Housing is now one of Ayrshire's leading housing associations with a stock of almost 1,500 houses thanks to an active acquisition and development programme predominantly but not exclusively in South Ayrshire.

**Mission Statement**

*We aim to enhance the well being of our tenants and the wider communities of Ayrshire through high quality housing and related services.*

We aim to do this by:

- The provision of high quality affordable housing.
- Creating and maintaining attractive neighbourhoods that provide a positive environment for residents to live in - now and in the future.
- Supporting socially useful economic activity and regeneration strategies beyond our immediate tenant base through work with the voluntary sector and other agencies.
- Constantly demonstrating that our services surpass the needs and aspirations of their users.
- Supporting tenants and other service users to lead independent and fulfilling lives.
- Ensuring that our properties are maintained to the highest standards over the long-term.
- Demonstrating quality and genuine value for money in all that we do.
- Engaging with our service users, the wider community and key partners to give them a real stake in the development of Ayrshire Housing.

Our Corporate Plan, reviewed by the Board annually, sets out how we will work to deliver the Mission Statement by analysing the external environment; identifying key objectives at an operational level; setting performance indicators and setting strategy for the association's promotion and engagement with stakeholders. The corporate plan also provides for the review and further development of the thirty-year financial plan; the annual budget and the agreed work plan of the Director.

**Our Approach to Business Planning**

In October 2009, the Scottish Housing Regulator issued guidance to housing associations on business planning. This was in light of its survey *Social Landlords in Scotland: Shaping up for improvement (July 2009)*. This confirmed that housing associations generally provide good standards of service to tenants and others. On the other hand, it raised concerns that many associations do not have adequate plans in place to guarantee the long-term quality of their stock and their tenancy services. The report also considered that many associations need to do more in terms of developing financial plans which can maintain access to funding on favourable terms.

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In January 2011, the Regulator published a further analysis of the finances of regulated social landlords: *Beyond the Crunch?* It “conclude[s] that the sector is facing significant but manageable financial stresses”. It however reiterates that associations are exposed to increasing uncertainty due to general economic conditions, emerging UK and Scottish Government policy developments (e.g. on housing benefit and capital grants) and a more stringent financial regime being imposed by existing and potential lenders. The March 2012 update *Weathering the Storm?* reiterates these challenges but recognises that at an aggregated level there has been a significant improvement in the financial performance of Scotland’s housing associations. The Regulators’s most recent *Analysis of the Finances of Registered Social Landlords* (March 2015) broadly confirms this trend. It highlights though significant and deepening challenges around welfare reform, the impact of low general inflation particularly in terms of meeting loan covenants and absorbing employee pension costs. The Regulator issued new recommended practice for Business Planning in December 2015 which has influenced the focus and content of our new business plan for the period 2016-17 to 2019-20.

Given the challenges of welfare reform and other external developments, Ayrshire Housing must demonstrate that in responding to these the interests of its tenants and the local communities are being properly served. Further, it needs to be satisfied that its current corporate arrangements continue to be in the best interests of its charitable beneficiaries.

Ayrshire Housing’s financial position remains strong and we compare well in terms of general performance with our peers. New demands are emerging however. Internally, the growth in our stock, tenant and applicant numbers means that we need to focus more rigorously on the long-term social worth of the stock and standards of service. Externally, new build subsidies at unsustainable levels increase uncertainty and financial risk. This has prompted the association to take a cautious approach to new building pending an improvement in the funding environment.

On a more positive note, a 2013 independent survey of tenants’ views has reported continued high levels of satisfaction and engagement with the association. This continues to be confirmed by regular feedback sought as part of our day to day operations. The Board is also convinced that it has a generally sound governance regime in place given added breadth by its constituency structure.

The Board identified the following key business tasks;

- 🏠 To build on continued clear objectives and strong performance.
- 🏠 To manage the financial and public policy risks that the association is now increasingly exposed to.
- 🏠 To demonstrate the capacity to maintain the stock to tenants’ expectations over the long-term.
- 🏠 To maintain the financial capacity for prudent growth.
- 🏠 To make clear the benefits of the association’s financial robustness and geographically focused investment potential to key partners.
- 🏠 Reflecting the association’s maturity, to focus more publicly on the wider benefits of the association’s tenant and neighbourhood service strengths.
- 🏠 To strengthen further the contribution of both the volunteer Board and employees to the association’s continued success.

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**External Influences**

Ayrshire Housing's operating environment is now more complex and challenging. Five key issues remain at the fore:

- The continuing impact of the Scottish Government's approach to affordable housing, despite recent increases in grant levels for new developments.
- The enhanced role of the Councils in the planning and delivery of affordable housing investment.
- The negative impact of changes to welfare benefits coupled with the generally adverse economic position of many of our tenants.
- The more rigorous terms for obtaining capital finance alongside the stricter scrutiny of existing loan agreements.
- The impact of accounting changes with regard to asset impairment and employee pension liabilities.

The main focus for Ayrshire Housing is likely to remain the South Ayrshire Council area. The investment context is provided by that Council's Local Housing Strategy (LHS) and Strategic Housing Investment Plan (SHIP). Whilst there is a demand for affordable housing in all areas, these documents suggest prioritising investment towards areas of highest demand, for example Ayr and Prestwick linked increasingly to the release of Section 75 sites. The current problems in the private housebuilding industry should however point towards a much more pragmatic and outcome focused approach to investment delivery, in particular in terms of the programming of locations with different housing needs prioritisation.

Ayrshire Housing has a track record of responding with speed and flexibility to shifts in priority and site availability. On the other hand, the continued low level of government development grants seriously reduces the ability to develop at a scale commensurate with pressing housing needs.

This should encourage the strengthening of joint working with, in particular, South Ayrshire Council to unlock new opportunities and to maximise investment in the area. The introduction of Council led investment planning could potentially reduce the level of direct development work but this could be balanced to some degree by the provision of development services to the Council, and by joint strategies particularly around regeneration and community care. An example of such co-operation was our appointment as project manager for South Ayrshire Council's first new housing development in 30 years.

Ayrshire Housing is also well placed given that its investment potential can be focused without the complication of competing relationships on one area.

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Regulation

The Scottish Housing Regulator continues its move to a more risk based approach to regulation. This creates a clear incentive for the association to focus on the soundness of its own internal management and audit regimes. There is continued focus by the Regulator on income generation (i.e. rents) and the management of pension deficits and the impact of accountancy changes following the adoption of Financial Reporting Standard 102 in the UK. It expects housing associations will have effective stress tested financial plans in place. This is so that the ability to honour loan covenants can be demonstrated alongside continuing to meet tenant service standards. In late 2015 the regulator also emphasised the importance of good business planning given potential increased development activity and the potential impact of the Office for National Statistics review of the status of Scottish RSLs and the potential implications for credit ratings of RSLs.

It is also clear that the Regulator places less weight in the virtues of Scotland's distinctive community based housing associations than its predecessors. So such associations need to be able to demonstrate their continuing distinctiveness and inherent efficiency if they are to justify their continued independence.

The *Scottish Social Housing Charter* creates an additional level of external scrutiny of the quality of services. More constructively, it provides an incentive to improve still further our engagement with tenants and other users.

Cost of Finance

In terms of historic borrowing, the association has benefited from the currently low interest rates. Rates though are likely to increase at some point in the future which underpinned the decision recently to fix the rates for a greater proportion of its borrowings.

In terms of future borrowing, lenders' margins are likely to continue to rise over and above the underlying rates. The increasing focus of lenders on asset values as their exposure to risk increases with falling grant rates is likely to present new challenges given that the majority of the association's assets are already pledged to a variety of lenders. The uncertain prospects for substantial and regular grant funding make tendering to restructure existing loans to free up future borrowing capacity problematical.

# AYRSHIRE HOUSING

## OPERATING AND FINANCIAL REVIEW

### FOR THE YEAR ENDED 31ST MARCH 2016

#### Governance

The Board of Ayrshire Housing is fortunate in its breadth of representation and skills. Driving Ayrshire Housing forward requires co-ordination between senior staff and the Board, and control and monitoring frameworks that focus in clear business objectives. The structure of Board meetings aims to ensure an appropriate balance between performance management and forward thinking.

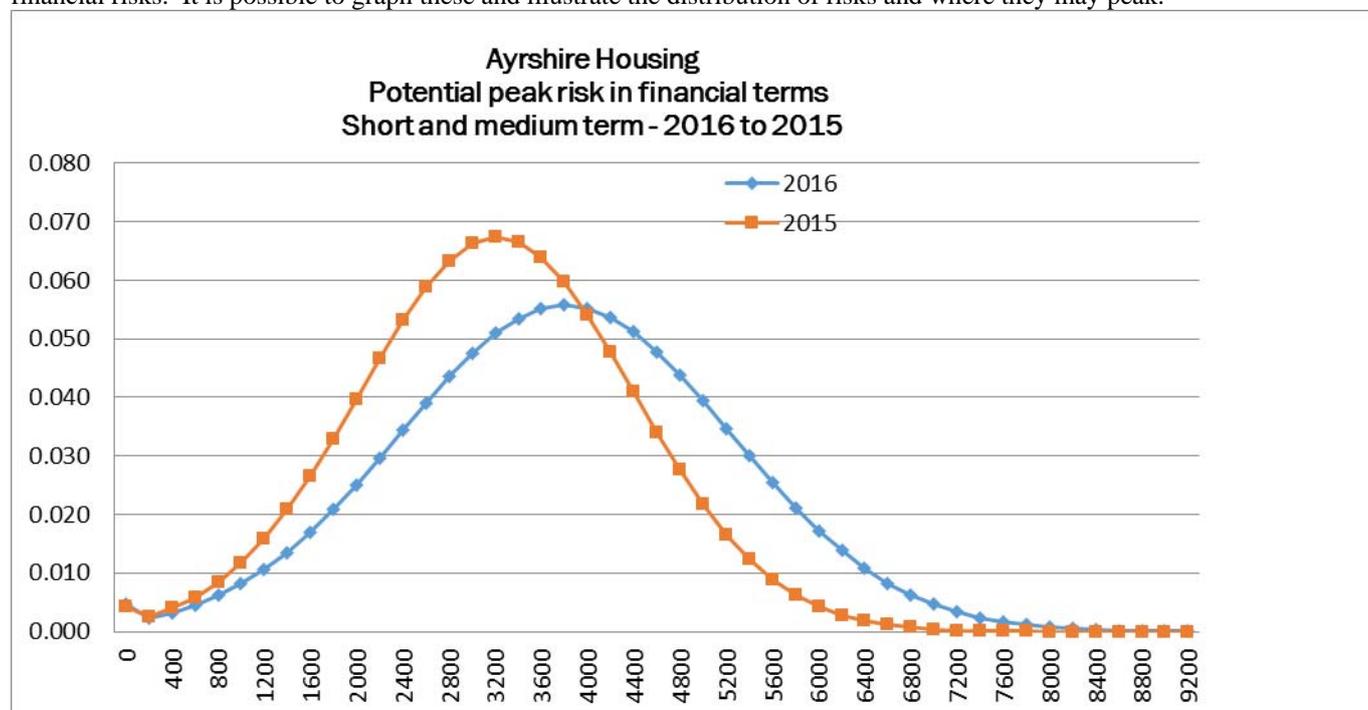
The new Regulation Framework (2012) places even more focus on the Board demonstrating its effectiveness. For a membership-based organisation like Ayrshire Housing, the Framework places a clear obligation on the Board to demonstrate its accountability to the association's membership, which includes all its tenants. The Board commissioned an independent assessment of its governance arrangements. As a result, it has reviewed its training and development to further ensure its compliance with the regulatory standards and more generally the strength of its overall stewardship.

The Board has established a sub-committee to ensure that the impact of its employee pension liabilities is regularly reviewed and managed as needs be in the overall interests of the association.

#### Risk Management and Financial Viability

We are in the fortunate position of having built up significant cash reserves through prudent financial management by the current and previous Boards. Not least, decisions not to immediately fix interest rates on new borrowings have borne fruit with substantial increases in our cash reserves through savings in interest paid. Current and past Boards are to be commended for the difficult but prudent stance they have taken in their view of both organisational risk and specific development risk and the decision to be very selective about any potential development. Ayrshire Housing is therefore financially viable and will remain that way if we continue to manage the business in a similar manner.

In terms of cash reserves it is possible to demonstrate how much of our cash reserves should be available to accommodate the many and various risks associated with a business such as ours. Recently risks have become apparent which have not been on the horizon of housing organisations. Of most concern is the impact of the welfare reforms and the reduction in the subsidy for affordable housing but there are many risks which we have identified. If these possible events have financial impacts and probabilities added to them, it is possible to calculate that we should have some £3.8M of free reserves to fully cope with the financial risks. It is possible to graph these and illustrate the distribution of risks and where they may peak.



#### Resilience

The social housing sector in Scotland confronts a wide array of risks both internal and external. The risks identified are hopefully mitigated by Board and management action but there is reassurance that if certain events do occur as predicted then the organisation is sufficiently resilient to cope. We can demonstrate that we have the capacity to withstand shocks and maintain both purpose and function.

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**Key Business Issues**

**Maintaining Independence**

Ayrshire Housing is committed to maintaining its independence. This is not as an end in itself. Rather it is on the basis that it has a distinctive place both locally and in the wider Scottish housing association movement. It is tenant and community led with a clear area of operation and is well regarded, both nationally and locally. It has a strong potential for investment focused on a defined geographical area, and key strategic and development partners.

Ayrshire Housing welcomes however collaborations with other housing associations where these are appropriate to realise mutually beneficial objectives. For example, the recently formed Eydent - the Alliance of Ayrshire Housing Associations. Eydent is taking forward a number of joint initiatives centred on meeting the challenge of welfare reform and strengthening the governance arrangements of its members.

Ayrshire Housing will also seek collaborative arrangements with local authorities as they decide to resume house building on a long-term basis. In this regard, the further strengthening of the partnership with South Ayrshire Council remains a key focus for the Board and the Director.

**Housing Development**

The absence of significant funding for affordable housing, lower grant rates and potentially more competition for grant present many associations with real challenges. The prospects for independent development appear likely to diminish due to a combination of limited direct site purchase opportunities linked to adverse funding arrangements and the likely preference of housebuilders to offer package deals if and when Section 75 sites are brought forward. Ayrshire Housing is fortunate that it has now grown to a size that housing development is no longer its primary focus.

Notwithstanding the challenges we will consider positively new opportunities to secure grant funding. This includes advancing Section 75 sites in which we have secured or can secure an interest.

We will also seek to use our internal financial strength to bring forward innovative projects at a deliverable and sustainable scale. These are likely to focus on small scale new build together with off the shelf acquisition and possibly the conversion of existing properties.

We consider that there is little prospect or value in pursuing low cost home ownership or mid-market renting at least in the medium term.

We will continue to support the Mortgage to Rent scheme so long as it continues on a workable basis. This is proving to be a useful vehicle for steady stock growth as well as bringing real social benefits to individual households.

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**Financial Capacity**

Ayrshire Housing is financially strong with a solid asset base, and a funded stock maintenance and improvement plan. The challenge over the coming period will be to utilise this strength to support modest stock growth and to absorb the negative effect of welfare reform and our tenant's generally falling living standards on revenue collection. The Board remains committed to keeping rent increases as low as possible whilst maintaining high service standards underpinned by continued financial strength.

**Supporting Individuals and Communities**

Diversification into new areas of activity will continue to be pursued which support the Mission Statement. Such activities will also help to foster new collaborations with key partners and project the geographic focus of Ayrshire Housing. These are likely to centre on regeneration, training, and support services to individuals. The increasing focus on community asset holding may lead to new opportunities linked to support beneficial developments through our skills and financial resources.

We will identify the resourcing potential in our financial plan as we shift the primary business development focus from stock growth to a broader view of the activities that may benefit our tenants and the communities they are part of.

**Tenant Engagement**

As it meets future challenges and the Social Housing Charter obligations, Ayrshire Housing will continue to ensure that its obligations to existing and potential tenants remain to the fore. New forms of engagement with our tenants and applicants will be needed to support Board consideration of business developments which may have an impact on rent levels, service standards or access to housing.

More immediately, mitigating the negative effects of welfare reforms both on our tenants livelihoods and on rental income is now a major focus for the association. The priority will be to develop our engagement with tenants in a way that safeguards our income whilst at the same time being seen to offer tangible benefits to all tenants.

**Performance Management**

At each meeting, Ayrshire Housing's Board receives reports underpinned where appropriate by key performance indicators (KPIs) around the following activity areas to demonstrate progress in delivering the above corporate objectives:

- 📌 Projects (Business Development)
- 📌 Housing Management
- 📌 Property Maintenance
- 📌 Financial Matters
- 📌 Marketing and Public Relations
- 📌 General Operational Matters

**Key Performance Indicators**

Complementing the narrative reports where applicable, critical activities are measured against the following key performance indicators (KPIs). Generally, these are consistent with those set out in previous Internal Management and Corporate Plans following comparison with national benchmarks where these were available. In all relevant cases, performance is intended to at the very least exceed that of the median housing association in Scotland. The targets have also been reviewed against performance achieved in recent years and are intended to where appropriate better this. Where applicable, the targets provide comfort with regard to the relevant budget assumptions.

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**Key Performance Indicators/Cont...**

<b>Housing Management</b>	<b>2015/16 Target</b>	<b>2015/16 Actual</b>
Current non-technical arrears	1.75% of total gross rent	1.06%
Former tenant non-technical arrears	No more than 1.3% of total rent due	0.88%
Void re-let times	16 days or less	25 days
Void rent loss	No more than 0.8% of total rent due	1.7%
Housing application processing	Within 10 days	9 days

<b>Property Management</b>	<b>2015/16 Target</b>	<b>2015/16 Actual</b>
Emergency repairs performance	97% attendance within 4 hours	97.5%
Other repairs	96% completed on time	96.3%
Gas safety certificates	100% compliance aimed for and never below external benchmark of 93%	100%
Satisfaction with repairs service	At least 80% satisfied	95.5%

<b>Projects</b>	<b>2015/16 Target</b>	<b>2015/16 Actual</b>
Development pipeline	50+ plots secured at any time	57 including S75s
Off the shelf acquisition	Minimum of 4 purchases committed	5 units bought
Existing stock innovation	Minimum of 2 projects developed	1 energy efficiency project
Jointly commissioned services	Minimum 2 wider role initiatives secured	2 training projects
Community collaborations	Minimum of 1 new collaboration secured	3 applications from community groups received
Collaboration with SAC	Minimum of 1 joint project delivered	Online application form

<b>Financial Matters</b>	<b>2015/16 Target</b>	<b>2015/16 Actual</b>
Staff costs	Less than 21% of turnover	20.7%
Administration cost/tenancy	Less than £851 per tenancy	£849
Liquidity - current assets:current liabilities (adjusted for development overdrafts)	1.10:1	3.4:1
Liquidity - cash:current liabilities (adjusted for development overdrafts)	1:1	3.19:1
Interest cover - operating surplus;interest payable (adjusted for depreciation)	1.96:1	3.13:1
Debt per unit	Maximum of £25,000 (as adjusted to reflect new HAG assumptions)	£17,808

<b>General Operational Matters</b>	<b>2015/16 Target</b>	<b>2015/16 Actual</b>
Board meetings quorate per session (AGM to AGM)	100%	100%
Board attendance per session	Average of 75%	69%
New Community Members	10 extra	1

**Performance in the year ended 31 March 2016**

**Turnover**

Turnover has increased by £247k to £6.4 M reflecting modest stock additions and the annual rent increase. Rents accounted for 98.4% of our turnover with grants now representing 1.2% of turnover following the introduction of the new reporting format and a very small percentage (0.4%) relating to recoveries made from owners for landscape maintenance.

# AYRSHIRE HOUSING

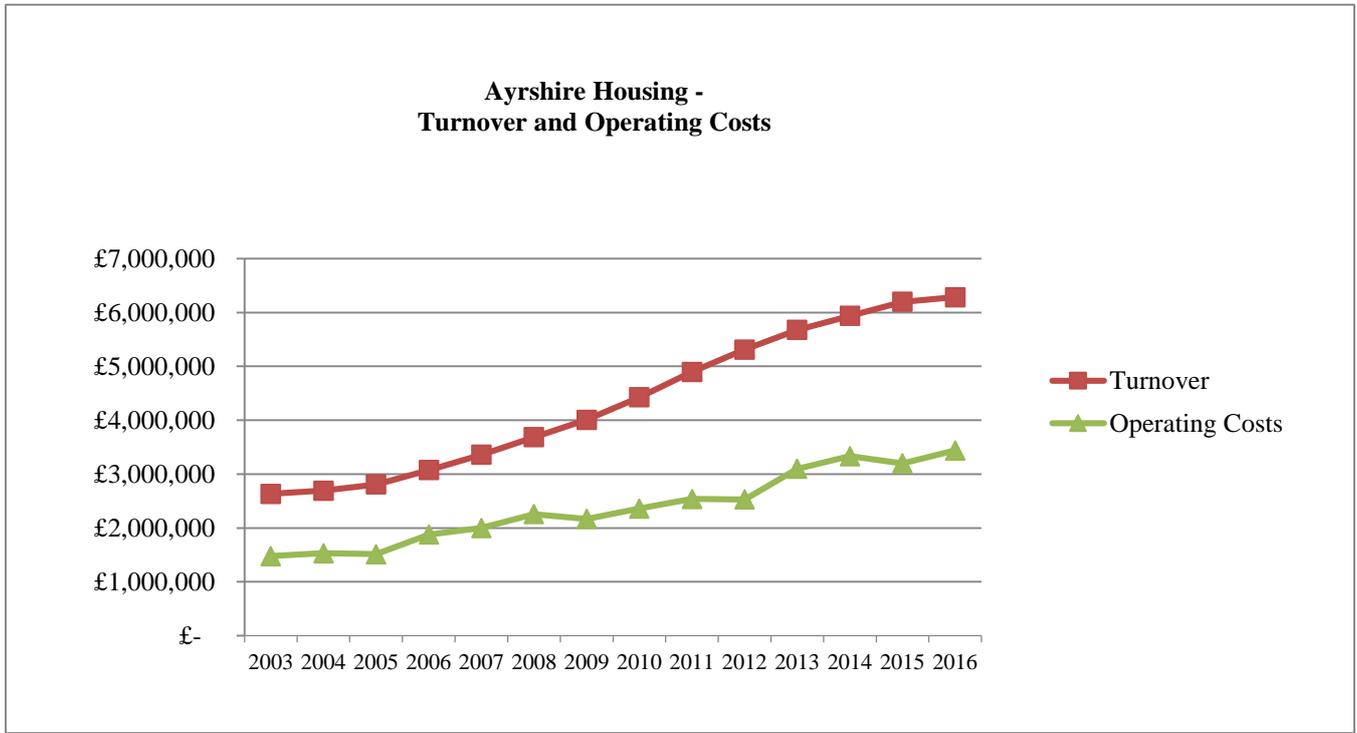
## OPERATING AND FINANCIAL REVIEW

### FOR THE YEAR ENDED 31ST MARCH 2016

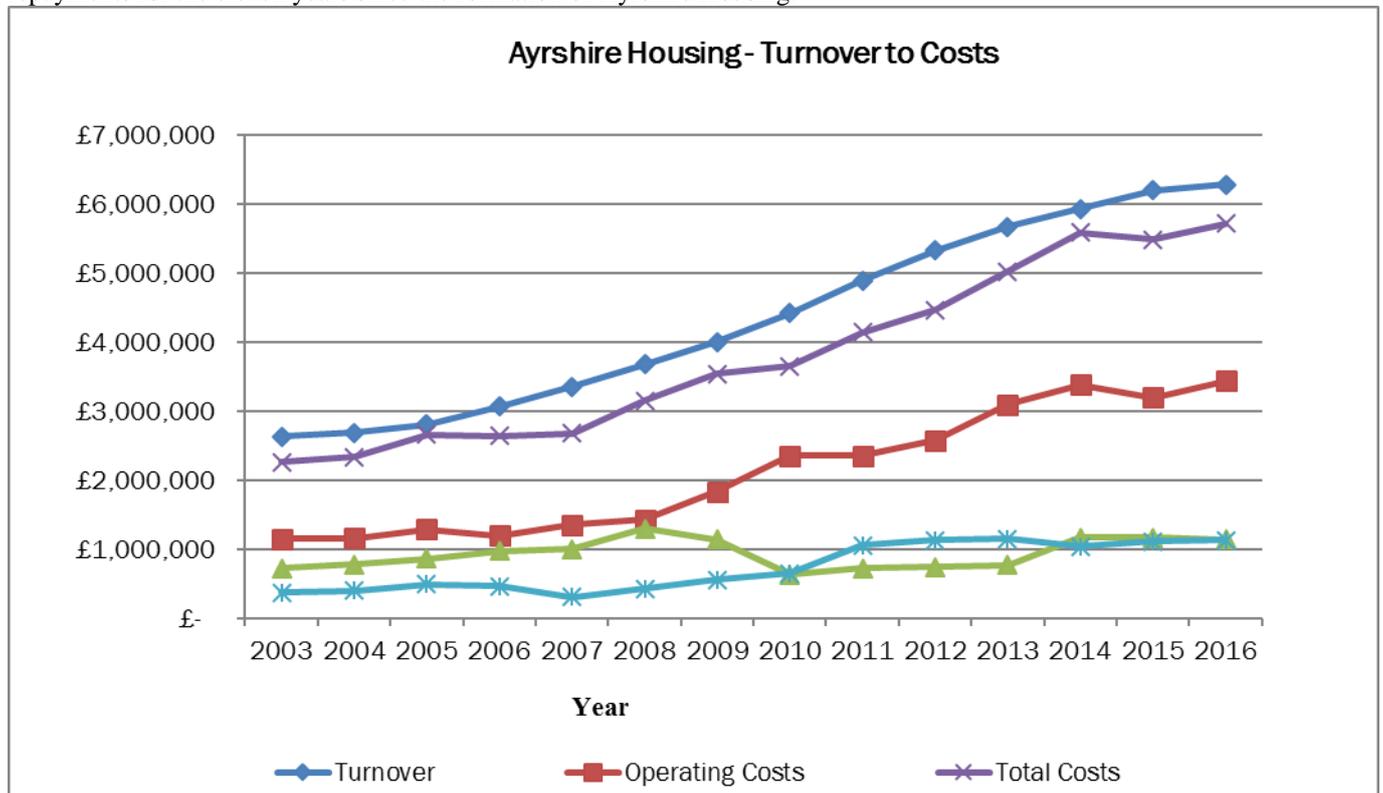
#### Operating Costs

Operating costs represent 54% of turnover which is 3% higher than the previous year due in part to higher expenditure on void repairs.

The trends in both the above since the formation of Ayrshire Housing in its current form in 2003 is illustrated below:



The growth in turnover can be further illustrated against operating surplus, interest payable and total costs including loan repayments for the eleven years since the formation of Ayrshire Housing.



## AYRSHIRE HOUSING

### OPERATING AND FINANCIAL REVIEW

#### FOR THE YEAR ENDED 31ST MARCH 2016

##### Interest

Sterling base rates remained low in the year to 31 March 2016 and this had a positive effect on the variable rate loans within our portfolio.

##### Surplus for the Year

Surplus on ordinary activities for the year was £1.9M compared to £2M for 2014/15 (restated). This exceeded budgeted projections due largely to the reduction in interest payable on our variable rate based borrowings and higher rental receipts from individual acquisitions.

##### Reserves

Financial reserves, consisting of revenue reserves set aside to manage the general risks faced by the association, stood at £17.8M. This represents an increase of 14% over the same reserves at 31 March 2015.

##### Cash flow

Positive cash flows of £6M were generated from our operating activities. Interest payable was £1,145k offset slightly by interest receivable of £24k. We spent £3.5M on our development projects, improvement works and acquisitions. We also repaid capital of £1.9M of our housing loans as per the individual loan agreements and the application of surplus cash to reduce our indebtedness to one of our lenders.

##### Capital Structure and Treasury Policy

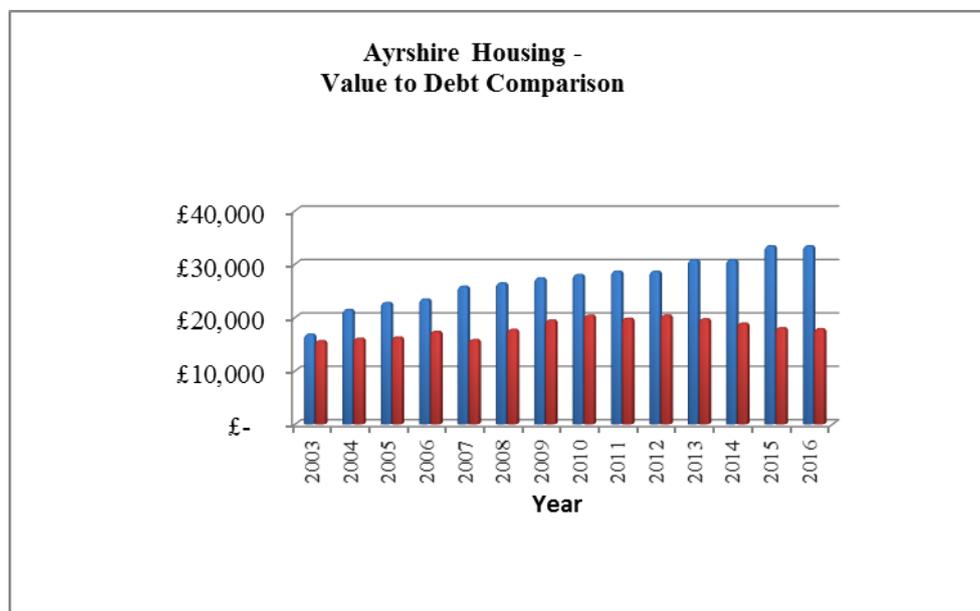
Borrowings at the year end were £27.2M. This debt is borrowed wholly from banks and building societies in the UK together with finance through the Scottish Government's Bond finance scheme.

The Board recognises that the association's level of debt makes it important to consider its treasury policy. The treasury function operates within a framework of clearly defined Board approved policies, procedures and delegated authorities. The association borrows on a conventional basis with loans typically repayable over 30 years. These loans are mainly secured over the properties being financed.

Maturity profile: the following table provides an analysis of when the debt falls due for repayment.

Between one and two years	£ 2.5M
Between three and five years	£ 4.0M
In five years or more	£ 20.7M
<b>Total</b>	<b>£ 27.2M</b>

A graphical representation of our Loan to Value can be found in the graph below:



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**Future Prospects:**

The association's financial position is sound and a trend of improvement in its financial and operational performance has been maintained over many years. We comply with all of our lenders covenants which, based on our financial projections, will continue into the future. The introduction of FRS 102 alters how financial information will be reported and it is now of crucial importance that any potential impact on our covenant position is fully examined prior to approving any new initiative.

We will continue to manage our finances in a prudent manner and will also deliver value for money to our tenants and private owners.

We will achieve this by:

- Setting rents at levels which are affordable to our tenants;
- Providing a high quality service and
- Tight cost control.

We have a well motivated and competent workforce of 27 employees with a relatively low staff turnover. We are full members of the Federation of Employers in Voluntary Housing which provides us with support in managing and developing our staff to foster a culture of continuous improvement.

The association is following a number of strategies which we expect will contribute and inform the above actions.

The association continues to invest in housing through its development and refurbishment programme. However, new build opportunities may now be lost through the reduced amount of grant assistance currently available from government. We will look towards innovative approaches in generating finance to allow much needed new houses to be delivered where possible.

Our major repair programme remains a key element of our strategy to provide good quality homes for all of our tenants. Our financial projections demonstrate that we will be able to meet our obligations under the Scottish Housing Quality Standards and the new EESSH requirements.

We are aware of the possible impact that a continued economic recession may have on our tenants. Our housing officers work closely with all our tenants identifying issues as early as possible to ensure that the tenant is aware of the different types of assistance available to them. In this way it is hoped to minimise rent arrears and bad debt write off and other costs associated with rent arrears.

**AYRSHIRE HOUSING**  
**ADVISORS AND REGISTERED OFFICE**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

**Auditor**

Armstrongs, Chartered Accountants  
142 West Nile Street  
Glasgow, G1 2RQ

**Bankers**

The Royal Bank of Scotland plc  
Corporate Banking  
139 St Vincent Street  
Glasgow, G2 5JF

**Legal advisors**

HBJ Gateley  
19 Canning Street  
Edinburgh, EH3 8EU

**Registered Office**

119 Main Street  
Ayr, KA8 8BX

**Registration Information**

The Scottish Housing Regulator Registered Number :	Housing (Scotland) Act 2014 304
Recognised Scottish Charity :	SC027906
Company Registration Number:	SC185652

**AYRSHIRE HOUSING**  
**REPORT OF THE TRUSTEES**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

The Trustees present their report and the audited financial statements for the year ended 31<sup>st</sup> March 2016.

**Legal Status**

The Company is a registered Scottish Charity with the charity number SCO27906.

**Principal Activities**

Ayrshire Housing is a company limited by guarantee and is governed by its Memorandum and Articles of Association. Accordingly the Company has no share capital. It is a registered charity and is registered with the Housing Regulator as a Registered Social Landlord. The Company's principal activities are the provision, construction, improvement and management of rented and shared ownership accommodation.

**AYRSHIRE HOUSING**  
**REPORT OF THE TRUSTEES**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

**The Trustees and Executive Officer**

The Trustees and Executive Officer of the Company are as follows:-

Executive Officer

. J. Whiston

Trustees

. R. Leith	(Chairperson)	. Cllr W. J. Grant	(Appointed 25.09.15)
. S. Reid	(Vice Chairperson)	. R. McRoberts	(Resigned 09.09.15)
. P. Torrance		. G. Dawson	
. Cllr C. Wilson	(Resigned 26.05.15)	. C. O'Donnell	(Resigned 09.09.15)
. F. Barr		. S. Leslie	(Appointed 09.09.15)
. Cllr J. Hampton		. D. McVittie	(Appointed 09.09.15 - resigned 27.01.16)
. Cllr I. Cavana		.	
. F. Maguire	(Resigned 09.09.15 - re-appointed 29.10.15)	. W. McWilliam	(Appointed 09.09.15 - resigned 26.10.15)
.		.	
. M. Low	(Resigned 09.09.15)	. L. Craig	(Appointed 09.09.15)
. R. Martin	(Appointed 09.09.15)		

**Insurance**

The Company has purchased insurance against liabilities in relation to the Company arising from the actions of Trustees and other officers of the Company.

**Statement of Trustees' Responsibilities**

The Companies Act 2006 requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the income and expenditure of the Company for the year ended on that date. In preparing those financial statements, the Trustees 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 Company will continue in business;
- . prepare a statement on Internal Financial Control.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. It is also responsible for ensuring the Company's suppliers are paid promptly.

The Trustees must in determining how amounts are presented within items in the Statement of Comprehensive Income and Statement of Financial Position, have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting practices.

In so far as the Trustees are aware:

- . there is no relevant audit information (information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware, and
- . The Trustees have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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**REPORT OF THE TRUSTEES**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

**Statement on Internal Financial Control**

The Trustees acknowledge their ultimate responsibility for ensuring that the Company has in place a system of controls that is appropriate for the business environment in which it operates. These controls are designed to give reasonable assurance with respect to:

- . the reliability of financial information used within the Company, or for publication;
- . the maintenance of proper accounting records;
- . the safeguarding of assets against unauthorised use or disposition.

It is the Trustees' 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 of the Company's systems include ensuring that:

- . formal policies and procedures are in place, including the ongoing documentation of key systems and rules in relation to the delegation of authority, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets;
- . experienced and suitably qualified staff take responsibility for important business functions and annual appraisal procedures have been established to maintain standards of performance;
- . forecasts and budgets are prepared which allow the Trustees, staff and governing body to monitor the key business risks, financial objectives and progress being made towards achieving the financial plans set for the year and for the medium term;
- . quarterly financial management reports are prepared promptly, providing relevant, reliable and up-to-date financial and other information, with significant variances from budget being investigated as appropriate;
- . regulatory returns are prepared, authorised and submitted promptly to the relevant regulatory bodies;
- . all significant new initiatives, major commitments and investment projects are subject to formal authorisation procedures, through the Trustees;
- . the Trustees receive reports from management and from external and internal auditors to provide reasonable assurance that control procedures are in place and are being followed and that a general review of the major risks facing the Company is undertaken;
- . formal procedures have been established for instituting appropriate action to correct any weakness identified through the internal or external audit reports.

The Trustees have reviewed the effectiveness of the system of internal financial control in existence in the Company for the year ended 31<sup>st</sup> March 2016. 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.

**Auditor**

A resolution to re-appoint Armstrongs, Chartered Accountants, as auditor will be put to the members at the annual general meeting.

**By order of the Board**

**Secretary**

Dated :

**AYRSHIRE HOUSING**  
**REPORT OF THE TRUSTEES**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

Key procedures that have been established, and are designed to provide effective internal financial control, are:-

**Control environment** - the Company has an organisational structure with clearly defined lines of responsibility, job descriptions and delegation of authority. These are set out in accordance with the Company's Standing Orders and Policy and Procedure Manuals. The Company has complied with the Scottish Housing Regulator Code of Audit Practice (SHGN 97/06).

**Information systems** - the Company has a comprehensive system of financial reporting. The annual budget and thirty year projections are approved by the Trustees. Quarterly actual results are reported against budget and any significant adverse variances are examined by management and remedial action taken. There are quarterly and thirty year cashflow projections and revised budget forecasts are considered as at 30<sup>th</sup> September each year.

**Control procedures** - policies and procedures are maintained for all areas of operations. In particular, there are clearly defined policies for development projects and capital expenditure. Large or unusual capital expenditure projects require Trustees' approval.

The Trustees are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and to enable it to ensure that the financial statements comply with the requirements of the Companies Act 2006, the Housing (Scotland) Act 2014 and the Determination of Accounting Requirements April 2014. It is also responsible for safeguarding the assets of the Trust and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Corporate Governance**

The Company has complied throughout the accounting period with the Code of Best Practice published by the Cadbury Trustees in 1992 on the Financial Aspects of Corporate Governance.

In accordance with the requirements of the Scottish Housing Regulator, the auditors have confirmed that they consider this statement appropriately reflects the Company's compliance with those paragraphs of the Code of Best Practice required to be revised by them. The auditors have also confirmed that, in their opinion, with regard to the Trustees' Statement on Internal Financial Control on page fifteen the Trustees have provided the disclosures required by Paragraph 4.5 of the Code of Best Practice as supplemented by the related guidance for Trustees and such a statement is not inconsistent with the information of which they are aware from their audit work on the financial statements.

**AYRSHIRE HOUSING**  
**REPORT BY THE AUDITOR TO THE TRUSTEES**  
**ON CORPORATE GOVERNANCE MATTERS**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

In addition to our audit of the financial statements, we have reviewed your statement on page fourteen concerning the Company'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 Advice Notes which are 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 Auditing Practices Board. The Bulletin does not require us to review the effectiveness of the Company's procedures for ensuring compliance with the guidance notes, nor to investigate the appropriateness of the reasons given for non-compliance.

**Opinion**

In our opinion the Statement on Internal Financial Control on page fifteen has provided the disclosures required by the relevant Regulatory Standards within the publication "Our Regulatory Framework" and associated Regulatory Advice Notes 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 Trustee members, directors and officers of the Company, and examination of relevant documents, we have satisfied ourselves that the Trustees' Statement on Internal Financial Control appropriately reflects the Company's compliance with the information required by the relevant Regulatory Standards in respect of internal financial controls contained within the publication "Our Regulatory Framework" and associated Regulatory Advice Notes issued by the Scottish Housing Regulator in respect of internal financial controls.

Adam Armstrong, LLB, CA, (Senior Statutory Auditor),  
for and on behalf of Armstrongs,  
Statutory Auditor,  
Chartered Accountants,  
Victoria Chambers,  
142, West Nile Street,  
Glasgow,  
G1 2RQ.

Dated :

## AYRSHIRE HOUSING

### REPORT OF THE INDEPENDENT AUDITOR

#### TO THE TRUSTEES' OF AYRSHIRE HOUSING

We have audited the financial statements of Ayrshire Housing for the year ended 31<sup>st</sup> March 2016 which comprise a Statement of Comprehensive Income, Statement of Changes in Reserves, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and to the charity's trustees as a body, in accordance with Section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the Company'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 Company and the Company's members as a body and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of Trustees and Auditor**

As explained more fully in the Statement of Trustee's Responsibilities set out on page fourteen, the Trustees are responsible for the preparation of the financial statements which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Trustees to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31<sup>st</sup> March 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements in the Companies Act 2006, Schedule 1, the Housing (Scotland) Act 2014, the Determination of Accounting Requirements 2014, the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

**REPORT OF THE INDEPENDENT AUDITOR TO  
THE MEMBERS OF AYRSHIRE HOUSING**

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

We are required to report to you if, in our opinion:

- the information given in the Report of the Trustees is inconsistent with the financial statements;
- proper books of account have not been kept by the Company in accordance with the requirements of the legislation;
- a satisfactory system of control over transactions has not been maintained by the Company in accordance with the requirements of the legislation;
- the Statement of Comprehensive Income to which our report relates, and the Statement of Financial Position are not in agreement with the books of the Company;
- 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.

Adam Armstrong, LLB, CA, (Senior Statutory Auditor),  
for and on behalf of Armstrongs,  
Statutory Auditor,  
Chartered Accountants,  
Victoria Chambers,  
142 West Nile Street,  
Glasgow,  
G1 2RQ.

Dated :

**AYRSHIRE HOUSING**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

	Notes	2016 £	Restated 2015 £
Revenue	2	6,443,675	6,197,056
Operating costs	2	( 3,476,026)	( 3,162,345)
<b>Operating Surplus</b>	2	<u>2,967,649</u>	<u>3,034,711</u>
Gain/(loss) on disposal of property, plant and equipment	5	48,216	28,321
Interest receivable and other income	8	23,942	29,688
Interest payable and similar charges	9	( 1,144,963)	( 1,175,491)
Grants released	10	-	134,866
Other finance charges	13	( 9,000)	( 50,000)
<b>Surplus Before Tax</b>		<u>1,885,844</u>	<u>2,002,095</u>
Unrealised surplus/(deficit) on revaluation of housing properties	20	-	3,096,692
Actuarial (loss) gain in respect of pension scheme	22	197,000	( 137,000)
<b>Total Comprehensive Income</b>		<u>2,082,844</u>	<u>4,961,787</u>

The results for the year relate wholly to continuing activities.

There is no material difference between the surplus for the year stated above and the historical cost equivalent.

The notes form part of these financial statements.

**AYRSHIRE HOUSING**

**STATEMENT OF CHANGES IN RESERVES**

**FOR THE YEAR ENDED 31ST MARCH 2016**

	<b>Revenue reserve</b>	<b>Revaluation reserve</b>	<b>Total excluding non- controlling interest</b>	<b>Non- controlling interest</b>	<b>Total including non- controlling interest</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Current Year</b>					
Balance at 1 April 2015	15,553,007	12,192,206	27,745,213	-	27,745,213
Surplus/(deficit) from Statement of Comprehensive Income	2,082,844	-	2,082,844	-	2,082,844
Transfer from revaluation reserves to income and expenditure reserve	133,940	( 133,940)	-	-	-
Balance at 31 March 2016	<u>17,769,791</u>	<u>12,058,266</u>	<u>29,828,057</u>	<u>-</u>	<u>29,828,057</u>
	<b>Revenue reserve</b>	<b>Revaluation Reserve</b>	<b>Total excluding non- controlling interest</b>	<b>Non- controlling interest</b>	<b>Total including non- controlling interest</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Prior Year</b>					
Balance at 1 April 2014	13,576,702	9,206,724	22,783,426	-	22,783,426
Surplus/(deficit) from Statement of Comprehensive Income	4,961,787	-	4,961,787	-	4,961,787
Transfer from revaluation reserves to income and expenditure reserve	( 2,985,482)	2,985,482	-	-	-
Balance at 31 March 2015	<u>15,553,007</u>	<u>12,192,206</u>	<u>27,745,213</u>	<u>-</u>	<u>27,745,213</u>

The notes form part of these financial statements.

**AYRSHIRE HOUSING**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31ST MARCH 2016**

	<b>Notes</b>	<b>2016</b> £	<b>Restated</b> <b>2015</b> £
<b>Non-Current Assets</b>			
Tangible assets - social housing	14(a)	52,402,269	49,765,832
Other non current assets - property, plant and equipment	14(b)	409,843	358,207
		<u>52,812,112</u>	<u>50,124,039</u>
<b>Current Assets</b>			
Trade and other debtors	16	449,943	752,396
Investments	15	1	1
Cash and cash equivalents		<u>7,059,387</u>	<u>5,906,468</u>
		7,509,331	6,658,865
<b>Less: Creditors falling due within one year</b>	17	( 2,259,524)	( 1,632,544)
<b>Net Current Assets</b>		<u>5,249,807</u>	<u>5,026,321</u>
<b>Total Assets less Current Liabilities</b>			
<b>Creditors</b> : amounts falling due after more than one year	18	( 26,348,435)	( 26,696,171)
<b>Deferred Income</b>			
Deferred capital grants	21	( 1,554,427)	( 180,976)
Provisions for liabilities	22	( 331,000)	( 528,000)
<b>Net Assets</b>		<u>29,828,057</u>	<u>27,745,213</u>
<b>Equity</b>			
Revenue reserve	23	17,769,791	15,553,007
Revaluation reserves	20	12,058,266	12,192,206
		<u>29,828,057</u>	<u>27,745,213</u>

These financial statements were approved by the Trustees on

and signed on their behalf by:

Chairperson

Trustee

Secretary

The notes form part of these financial statements.

**AYRSHIRE HOUSING**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

	<b>Notes</b>	<b>2016</b> £	<b>Restated</b> <b>2015</b> £
<b>Net Cash Inflow from Operating Activities</b>	19	5,970,968	3,423,354
<b>Cashflow from Investing Activities</b>			
Purchase of tangible fixed assets		( 3,518,272)	( 1,567,795)
Proceeds from sale of tangible fixed assets		108,172	57,235
Grants received		-	501,421
		<hr/>	<hr/>
<b>Net Cash Outflow from Investing Activities</b>		2,560,868	2,414,215
<b>Cashflow from Financing Activities</b>			
Interest received on cash and cash equivalents		23,942	29,688
Interest paid on loans		( 1,144,963)	( 1,175,491)
New secured loans		1,607,169	-
Repayments of borrowings		( 1,894,097)	( 1,112,493)
		<hr/>	<hr/>
<b>Net Cash Outflow from Financing</b>		( 1,407,949)	( 2,258,296)
<b>Increase in Cash</b>		<hr/>	<hr/>
		1,152,919	155,919
<b>Opening Cash and Cash Equivalents</b>		<hr/>	<hr/>
		5,906,468	5,750,549
<b>Closing Cash and Cash Equivalents</b>		<hr/> <hr/>	<hr/> <hr/>
		7,059,387	5,906,468

**AYRSHIRE HOUSING**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

	<b>Share Capital £</b>	<b>Revenue Reserve £</b>	<b>Total £</b>
<b>Balance as at 1<sup>st</sup> April 2015</b>	-	15,553,007	15,553,007
Realisation of property revaluation gains of previous years		28,898	28,898
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount		105,042	105,042
Surplus for Year	-	2,082,844	2,082,844
<b>Balance as at 31<sup>st</sup> March 2016</b>	<u>-</u>	<u>17,769,791</u>	<u>17,769,791</u>



## AYRSHIRE HOUSING

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31ST MARCH 2016

#### 1. Principal Accounting Policies

##### Statement of Compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 - 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice for social housing providers 2014. The Association is a Public Benefit Entity in terms of its compliance with Financial Reporting Standard 102.

##### Revenue

The Company recognises rent receivable net of losses from voids. Service Charge Income (net of voids) is recognised with expenditure incurred as this is considered to be the point when the service has been performed and the revenue recognition criteria is met.

Government Grants are released to income over the expected useful life of the asset to which it relates.

##### Retirement Benefits

The Company participates in the Scottish Housing Association Defined Benefit Pension Scheme and retirement benefits to employees of the Organisation 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 Members taken as a whole.

The Organisation accounts for amounts that it has agreed to pay towards the Scheme deficit in accordance with paragraph 28.11A of FRS 102. The present value of this liability has been recognised in the Statement of Financial Position. The discount rate applied to this obligation is that of a yield rate for the high quality corporate bond.

The Organisation participates in the centralised Strathclyde Pensions Trust defined benefits pension scheme and retirement benefits to employees of the Organisation are funded by the contributions from all participating employers and employees in the scheme. Payments are made to the Trust in accordance with periodic calculations by consulting actuaries and are based on pension costs applicable across the various participating employers taken as a whole.

The expected cost to the Organisation of pensions is charged to income so as to spread the cost of pensions over the service lives of the employees in the scheme taken as a whole.

The Organisation has fully adopted accounting standard FRS17 'Retirement Benefits' during the year. The impact of this standard has been reflected throughout the financial statements.

The difference between the fair value of the assets held in the Organisation's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Organisation's Statement of Financial Position as a pension scheme liability.

##### Valuation of Housing Properties

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Housing properties are principally properties available for rent and are stated at valuation.

Completed housing and shared ownership properties are stated at fair value less accumulated depreciation and any accumulated impairment losses. Housing under construction and land are not depreciated. Completed housing properties are professionally valued on an existing use basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not materially differ from the fair value of the properties at the year end. Surpluses and deficits are reflected in the Statement of Comprehensive Income. Permanent diminutions in value of housing property are charged in the Statement of Comprehensive Income.

Improvements are capitalised where these result in an enhancement of the economic benefits of the property. Such enhancement can occur if the improvements result in an increase in rental income, a material reduction in future maintenance costs or a significant extension of the life of the property. Works to existing properties, which fail to meet the above criteria, are charged to the Statement of Comprehensive Income.



## AYRSHIRE HOUSING

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31ST MARCH 2016

#### 1. Principal Accounting Policies (continued)

##### Valuation of Housing Properties (continued)

Reviews for impairment of housing properties are carried out regularly and any impairment in an income-generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of an income-generating unit exceeds the higher of its net realisable value or its value in use. Value in use represents the net present value of expected future cash flows from these units. Impairment of assets would be recognised in the Statement of Comprehensive Income.

##### Work to Existing Housing Properties

Expenditure on improvements to existing property, which adds to the value of the property or extends its useful life, is capitalised as part of the cost of the property. All other maintenance expenditure is written off the Statement of Comprehensive Income in the year in which it is incurred.

##### Sale of Housing Properties

Properties are disposed of under the appropriate legislation and guidance. All costs and grants relating to the share of property sold are removed from the financial statements at the date of sale, except for first tranche sales. Any grants received that cannot be repaid from the proceeds of sale are abated and the grants removed from the financial statements.

The Statement of Recommended Practice states that the disposal of shared-ownership properties first tranche sales be included in turnover at completion with the balance being classified as fixed assets. Due to the Company's last shared-ownership scheme being off-site in 2000 and records only being required to be held for six years, this exercise has not been carried out.

##### Depreciation - Housing Properties

Properties other than heritable land are depreciated at rates calculated to reduce net book value of each component of the property to its estimated residual value, on a straight line basis, over the expected remaining life of the component. Heritable land is not depreciated. The estimated useful lives of the assets and components is shown in the table below:

Building	60 years	Bathrooms	30 years
Roof	40 years	Kitchens	20 years
Windows	30 years	Wiring	40 years
Radiators	30 years	Lift	20 years
Boilers	15 years		

##### Depreciation and Impairment of Other Non-Current Assets

Non-current assets are stated at cost less accumulated depreciation. Depreciation is charged by equal instalments commencing with the year of acquisition at rates estimated to write off costs less any residual value over the expected economic useful lives at annual rates:-

Furniture and Fittings	- 20% straight line
IT Systems	- 20% straight line
Offices	- 2% straight line
Let Properties	- 20% straight line

The carrying value of non-current assets are reviewed for impairment at the end of each reporting period.

**AYRSHIRE HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

**1. Principal Accounting Policies** (continued)

**Social Housing Grant and Other Grants**

Social Housing Grants and Other Capital Grants are accounted for using the Performance Method as outlined in Section 24 of Financial Reporting Standard 102. Grants are treated as deferred income and recognised in income on completion of the project to which the grant relates. A grant which does not impose specified future performance conditions is recognised as revenue when grant proceeds are received or receivable. A grant that imposes specified future performance-related conditions on the Company is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability. For Housing Association Grant this means that the grant is recognised as revenue on completion of the property.

Social Housing Grant attributed to individual components is written off to the Statement of Comprehensive Income when these components are replaced.

Social Housing Grant received in respect of revenue expenditure is credited to the Statement of Comprehensive Income in the same period as the expenditure to which it relates.

Although Social Housing Grant is treated as a grant for accounting purposes, it may nevertheless become repayable in certain circumstances, such as the disposal of certain assets. The amount repayable would be restricted to the net proceeds of sale.

**Estimation Uncertainty**

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Trustees to exercise judgement in applying Ayrshire Housing's Accounting Policies. The areas requiring a higher degree of judgement, or complexity, and areas where assumptions or estimates are most significant to the financial statements, is disclosed below:

*Rent Arrears - Bad Debt Provision*

The Organisation assesses the recoverability of rent arrears through a detailed assessment process which considers: tenant payment history, arrangements in place, and court action.

*Life Cycle of Components*

The Organisation estimates the useful lives of major components of its housing property with reference to surveys carried out by external qualified surveyors.

**Leases/Leased Assets**

Assets held under operating leases are not capitalised. The lease rentals are expensed to the Statement of Comprehensive Income in the year in which they are incurred.

**Capitalisation of Interest**

Interest incurred on the financing of a development is capitalised up to the date of completion of the scheme if the net book value or net realisable value is lower than its value in use.

**Derivative Financial Instruments**

The Organisation uses an interest-rate swap to manage its exposure to interest-rate movements. The fair value of these contracts is recorded in the Statement of Financial Position and is determined by discounted future cash flows at the prevailing market rates at the balance sheet date.

The Organisation's interest rate swap is not designated as a hedging instrument.

**Negative Goodwill**

Negative goodwill created through the acquisition is written off to the Statement of Comprehensive Income as the non-cash assets acquired are depreciated or sold.

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**1. Principal Accounting Policies** (continued)

**Key judgements made in the application of Accounting Policies**

a) *Exemptions taken in the transition to FRS 102*

The Organisation has considered and taken advantage of the following exemptions in its first time application of FRS 102:

- i) The Organisation has not revisited previous accounting estimates
- ii) The Organisation has not revisited the accounting of previous business combinations

b) *The Categorisation of Housing Properties*

In the judgement of the Trustees the entirety of the Organisation's housing stock is held for social benefit and is therefore classified as Property, Plant and Equipment in accordance with FRS 102.

c) *Identification of cash generating units*

The Organisation considers its cash-generating units to be the schemes in which it manages its housing property for asset management purposes.

**Financial Instruments - Basic**

The Organisation recognises basic financial instruments in accordance with Section 11 of Financial Reporting Standard.

The Organisation's debt instruments are measured at amortised cost using the effective interest rate method.

AYRSHIRE HOUSING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2016

2. Particulars of Revenue, Cost of Sales, Operating Costs and Operating Surpluses / (Deficits)

	Notes	2016		
		Revenue	Operating Costs	Operating Surplus/ (Deficit)
		£	£	£
Social Lettings	3	6,326,347	3,404,307	2,922,040
Other Activities	4	117,328	71,719	45,609
<b>Total</b>		<b><u>6,443,675</u></b>	<b><u>3,476,026</u></b>	<b><u>2,967,649</u></b>

	Notes	2015		
		Revenue	Operating Costs	Operating Surplus/ (Deficit)
		£	£	£
Social Lettings	3	6,166,647	3,162,345	3,004,302
Other Activities	4	30,409	-	30,409
<b>Total</b>		<b><u>6,197,056</u></b>	<b><u>3,162,345</u></b>	<b><u>3,034,711</u></b>

None of the income or expenditure from lettings related to special needs.

3. Particulars of Income and Expenditure from Social Letting Activities

	General Needs £	Shared Ownership £	Total 2016 £	2015 £
<b>Revenue from Lettings</b>				
Rent receivable net of identifiable service chrgs	6,001,643	42,553	6,044,196	5,932,630
Service charges receivable	<u>307,767</u>	-	<u>307,767</u>	<u>287,364</u>
<b>Gross Rents Receivable</b>	<b>6,309,410</b>	<b>42,553</b>	<b>6,351,963</b>	<b>6,219,994</b>
Less: Rent losses from voids	( 104,750)	-	( 104,750)	( 53,347)
<b>Net Rents Receivable</b>	<b><u>6,204,660</u></b>	<b><u>42,553</u></b>	<b><u>6,247,213</u></b>	<b><u>6,166,647</u></b>
Grants from the Scottish Ministers	<u>79,134</u>	-	<u>79,134</u>	-
<b>Total Income from Social Letting Activities</b>	<b><u>6,283,794</u></b>	<b><u>42,553</u></b>	<b><u>6,326,347</u></b>	<b><u>6,166,647</u></b>
<b>Expenditure on Social Letting Activities</b>				
Management and maintenance admin costs	1,277,249	12,049	1,289,298	1,239,896
Reactive repairs and maintenance	1,148,000	-	1,148,000	968,016
Bad debts - rents and service charges	35,996	-	35,996	14,029
Planned and cyclical maint incl major repairs	182,747	-	182,747	234,154
Depreciation of social housing	742,731	5,535	748,266	706,250
<b>Operating Costs for Social Letting Activities</b>	<b><u>3,386,723</u></b>	<b><u>17,584</u></b>	<b><u>3,404,307</u></b>	<b><u>3,162,345</u></b>
<b>Operating Surplus on Letting Activities - 2016</b>	<b><u>2,897,071</u></b>	<b><u>24,969</u></b>	<b><u>2,922,040</u></b>	<b><u>3,004,302</u></b>
<b>Operating Surplus on Letting Activities - 2015</b>	<b><u>2,979,394</u></b>	<b><u>24,908</u></b>	<b><u>3,004,302</u></b>	

No service charges were receivable on housing accommodation not eligible for housing benefit (2015 - £Nil).

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

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

	<b>Grants from Scottish Ministers £</b>	<b>Other Revenue Grants £</b>	<b>Supporting People Income £</b>	<b>Other Income £</b>	<b>Total Turnover £</b>	<b>Operating Costs- Bad Debt £</b>	<b>Other Operating Costs £</b>	<b>Operating Surplus/ Deficit for 2016 £</b>	<b>Operating Surplus/ Deficit for 2015 £</b>
Wider Action Role	-	-	-	-	-	-	-	-	-
Care & Repair	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	23,208	23,208	-	-	23,208	18,071
Development Activities	81,474	-	-	-	81,474	-	71,719	9,755	-
Support Activities	-	-	-	-	-	-	-	-	-
Care Activities	-	-	-	-	-	-	-	-	-
Other Management Services	-	-	-	-	-	-	-	-	-
Aids & Adaptations	-	-	-	-	-	-	-	-	-
Other Activities	-	-	-	-	-	-	-	-	-
Commercial Rent	-	-	-	12,646	12,646	-	-	12,646	12,338
<b>Total from Other Activities 2016</b>	81,474	-	-	35,854	117,328	-	71,719	45,609	-
<b>Total from Other Activities 2015</b>	-	-	-	30,409	30,409	-	-	-	30,409

**AYRSHIRE HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

**5. Profit on Disposal of Fixed Assets**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Proceeds from sale of fixed assets	<u>111,175</u>	<u>58,640</u>
<b>Less: Cost of Sales</b>		
Value of property	59,596	28,917
Legal and valuation costs	<u>3,363</u>	<u>1,402</u>
	<u>62,959</u>	<u>30,319</u>
	<u>48,216</u>	<u>28,321</u>

**6. Directors Emoluments**

The directors are defined as the members of the Board of Trustees, the Executive Officer and any other person reporting directly to the Board of Trustees whose total emoluments exceed £60,000 per annum.

None of the Trustees received any remuneration during the year.

	<b>Number of Officers</b>	<b>2016 £</b>	<b>Number of Officers</b>	<b>2015 £</b>
Total Emoluments (including pension contributions and benefits in kind)				
60,000 to 69,999	2	135,015	2	132,871
70,000 to 79,999	-	-	-	-
80,000 to 89,999	1	83,559	1	82,232
90,000 to 99,999	-	-	-	-
100,000 to 109,999	-	-	-	-
	<u>3</u>	<u>218,574</u>	<u>3</u>	<u>215,103</u>
Total Emoluments (excluding pension contributions) to the highest paid Director		<u>68,678</u>		<u>67,663</u>
Total Emoluments (excluding pension contributions) to the Chairman amounted to		<u>Nil</u>		<u>Nil</u>
Pension contribution payable to Officers in excess of £60,000				
Salary	<u>1</u>	<u>14,881</u>	<u>1</u>	<u>14,569</u>
Total expenses reimbursed to the Board in so far as not chargeable to United Kingdom Income Tax		<u>541</u>		<u>563</u>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**7. Employee Information**

	<b>2016</b>	<b>2015</b>
	£	£
The monthly average number of full time equivalent employees (excluding Executive Trustees) during the year was :-	<u>23.5</u>	<u>24.3</u>
The average total number of Employees employed during the year was	<u>27</u>	<u>26</u>
Wages and Salaries	791,012	752,155
Social Security Costs	63,374	61,604
Pension Contributions	<u>99,410</u>	<u>93,767</u>
	<u>953,796</u>	<u>907,526</u>

Pension deficit contributions for the year were £38,000 (2015 - restated £37,000).

**8. Interest Receivable and Other Income**

	<b>2016</b>	<b>2015</b>
	£	£
Interest receivable on deposits	<u>23,942</u>	<u>29,688</u>

**9. Interest Payable and Similar Charges**

	<b>2016</b>	<b>2015</b>
	£	£
Loan Interest	<u>1,144,963</u>	<u>1,175,491</u>

**10. Grants Released**

Grants received for the construction of housing properties are reported as Deferred Income until completion and then released to income in the year of completion.

**11. Surplus for Year**

Surplus is stated after charging/(crediting):-

	<b>2016</b>	<b>Restated 2015</b>
	£	£
Operating lease	12,401	12,418
Depreciation/loss on sale - tangible other fixed assets	21,978	22,525
Depreciation - tangible land & buildings fixed assets	748,266	706,250
Auditor's remuneration (excl. VAT)	6,675	6,656
Bad debts	<u>35,996</u>	<u>14,029</u>

**12. Tax on Surplus on Ordinary Activities**

The organisation was granted charitable status on 5<sup>th</sup> May 1998 and as such is no longer subject to taxation.

**13. Other Finance Income/Charges**

	<b>2016</b>	<b>2015</b>
	£	£
Unwinding of Discounted Liabilities	<u>9,000</u>	<u>50,000</u>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**14. Non-Current Assets**  
**a) Housing Properties**

	Heritable Housing Prop. Held For Letting £	Rented Accommod Under Construction £	Shared Ownership Held For Letting £	Total £
<b>Current Year Cost</b>				
As at 1 <sup>st</sup> April 2015	48,523,866	787,966	454,000	49,765,832
Additions during year	1,784,531	1,660,128	-	3,444,659
Disposals	( 228,339)	-	-	( 228,339)
As at 31 <sup>st</sup> March 2016	<u>50,080,058</u>	<u>2,448,094</u>	<u>454,000</u>	<u>52,982,152</u>
<b>Depreciation</b>				
As at 1 <sup>st</sup> April 2015				
Provided during year	742,731	-	5,535	748,266
Eliminated on Disposal	( 168,383)	-	-	( 168,383)
As at 31 <sup>st</sup> March 2016	<u>574,348</u>	<u>-</u>	<u>5,535</u>	<u>579,883</u>
<b>Net book value at 31<sup>st</sup> March 2016</b>	<u>49,505,710</u>	<u>2,448,094</u>	<u>448,465</u>	<u>52,402,269</u>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**14. Non-Current Assets**

**a) Housing Properties** (continued)

	Heritable Housing Prop. Held For Letting £	Rented Accommod Under Construction £	Shared Ownership Held For Letting £	Total £
<b>Prior Year Cost</b>				
As at 1 <sup>st</sup> April 2014	45,504,001	252,208	472,000	46,228,209
Additions during year	960,786	535,758	-	1,496,544
Revaluation	2,105,170	-	52,000	2,157,170
Disposals	( 116,091)	-	-	( 116,091)
Transfers	70,000	-	( 70,000)	-
As at 31 <sup>st</sup> March 2015	<u>48,523,866</u>	<u>787,966</u>	<u>454,000</u>	<u>49,765,832</u>
<b>Grants</b>				
As at 1 <sup>st</sup> April 2014	706,903	134,866	-	841,769
Received in year	320,445	180,976	-	501,421
Transfers on revaluation	( 1,027,348)	( 315,842)	-	( 1,343,190)
As at 31 <sup>st</sup> March 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Grants</b>				
As at 1 <sup>st</sup> April 2014	141,085	-	-	141,085
Transfers on revaluation	( 141,085)	-	-	( 141,085)
As at 31 <sup>st</sup> March 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Depreciation</b>				
As at 1 <sup>st</sup> April 2014	631,151	-	5,599	636,750
Charge for year	701,025	-	5,225	706,250
Disposals	( 87,174)	-	-	( 87,174)
Transfer on revaluation	( 1,245,002)	-	( 10,824)	( 1,255,826)
As at 31 <sup>st</sup> March 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net book value at 31<sup>st</sup> March 2015</b>	<u>48,523,866</u>	<u>787,966</u>	<u>454,000</u>	<u>49,765,832</u>

Development Administration cost capitalised amounted to £33,370 (2015 - £32,173) for which grants of £Nil (2015 - £Nil) were received in the year.

Completed housing properties were revalued on the basis of existing use value for social housing at 27 May 2015 by Jones Lang LaSalle, Chartered Surveyors. The valuation report has been made in accordance with the RICS Appraisal and Valuation Manual. The Trustees do not believe that the values would have been materially different at the balance sheet date.

All housing properties are freehold.

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**14. Non-Current Assets**

**a) Housing Properties** (continued)

	<b>2016</b>	<b>2015</b>
Cost of Properties	111,917,291	108,621,247
Less: Social Housing and Other Grants	<u>63,679,304</u>	<u>62,346,024</u>
	48,237,987	46,275,223
Less: Depreciation	( 6,575,781)	( 5,827,515)
	<u>41,662,206</u>	<u>40,447,708</u>

**Impairment Charges**

The Association classifies its cash generating units in terms of the property schemes that it uses for asset management purposes.

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**14. Non-Current Assets**  
**b) Other Tangible Assets**

	Office Premises £	Fixtures and Fittings £	Computer Equipment £	Let Properties Furniture & Fittings £	Total £
<b>Current Year Cost</b>					
As at 1 <sup>st</sup> April 2015	392,670	109,253	272,146	161,920	935,989
Additions in year	53,705	962	18,947	-	73,614
As at 31 <sup>st</sup> March 2016	<u>446,375</u>	<u>110,215</u>	<u>291,093</u>	<u>161,920</u>	<u>1,009,603</u>
<b>Aggregate Depreciation</b>					
As at 1 <sup>st</sup> April 2015	68,096	105,153	243,841	160,692	577,782
Charge for Year	10,051	2,208	8,687	1,032	21,978
As at 31 <sup>st</sup> March 2016	<u>78,147</u>	<u>107,361</u>	<u>252,528</u>	<u>161,724</u>	<u>599,760</u>
<b>Net Book Value as at 31<sup>st</sup> March 2016</b>	<u>368,228</u>	<u>2,854</u>	<u>38,565</u>	<u>196</u>	<u>409,843</u>
<b>Prior Year Cost</b>					
As at 1 <sup>st</sup> April 2014	337,108	106,678	259,031	161,920	864,737
Additions in year	55,562	2,575	13,115	-	71,252
As at 31 <sup>st</sup> March 2015	<u>392,670</u>	<u>109,253</u>	<u>272,146</u>	<u>161,920</u>	<u>935,989</u>
<b>Aggregate Depreciation</b>					
As at 1 <sup>st</sup> April 2014	61,320	103,630	233,643	156,664	555,257
Charge for Year	6,776	1,523	10,198	4,028	22,525
As at 31 <sup>st</sup> March 2015	<u>68,096</u>	<u>105,153</u>	<u>243,841</u>	<u>160,692</u>	<u>577,782</u>
<b>Net Book Value as at 31<sup>st</sup> March 2015</b>	<u>324,574</u>	<u>4,100</u>	<u>28,305</u>	<u>1,228</u>	<u>358,207</u>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**15. Investment**

Ayrshire Housing holds the one issued share of Ayrshire Homestake Limited, a company registered in Scotland.

The principal activity of Ayrshire Homestake Limited is the administration of the new supply of shared equity properties.

**16. Trade and Other Receivables**

	<b>2016</b>	<b>2015</b>
	£	£
Rental Debtors	293,161	306,522
Less: Provision for Doubtful Debts	( 10,000)	( 10,000)
Other Receivables	<u>166,782</u>	<u>455,874</u>
	<u>449,943</u>	<u>752,396</u>

**17. Creditors - Amounts falling due within one year**

	<b>2016</b>	<b>2015</b>
	£	£
Housing Loans	1,247,800	1,217,126
SHAPS past service deficit contribution	40,249	39,115
Trade Payables	260,069	126,744
Development Creditors	475,701	20,430
Other Taxes and Social Security	36,064	33,178
Accruals and Deferred Income	47,070	61,889
Prepaid Rents	<u>152,571</u>	<u>134,062</u>
	<u>2,259,524</u>	<u>1,632,544</u>

Creditors due within one year include development guarantees totalling £Nil (2015 - £Nil) for which agreement in principal has been received for conversion into long term finance.

**18. Creditors - Amounts falling due after more than one year**

	<b>2016</b>	<b>2015</b>
	£	£
Loans	25,928,684	26,246,286
Liability for SHAPs Past Service Deficit Contributions	<u>419,751</u>	<u>449,885</u>
	<u>26,348,435</u>	<u>26,696,171</u>

Loans are secured by specific charges on the Company's properties and are repayable at rates of interest ranging from 0.93% to 6.01% (2015 - 0.91% to 6.01%) which will mature over a period of 7 to 28 years as follows:-

	<b>2016</b>	<b>2015</b>
	£	£
Between one and two years	1,307,765	1,287,800
Between two and five years	2,774,685	2,726,809
In five years or more	<u>22,265,985</u>	<u>22,681,562</u>
	<u>26,348,435</u>	<u>26,696,171</u>

The association has a number of long term housing loans as follows:

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**18. Creditors - Amounts falling due after more than one year** (continued)

RBS	13 loans repayable between 2027 and 2041. Standard Security over 578 properties. EUV-SH £22.3M. Interest rates range from 0.93% to 5.87%.
Nationwide	14 loans repayable between 2022 and 2035. Standard Security over 259 properties. EUV-SH £8.8M. Interest rates 0.99%.
Bank of Scotland	9 loans repayable between 2023 and 2035. Standard Security over 232 properties. EUV-SH £7.0M. Interest rates range from 3.41% to 5.57%.
Co-op	1 loan repayable in 2029. Floating Charge over 345 units. MVT £15.7M. Interest rates range from 1.39% to 6.01%.
Allia	1 bond repayable in 2026. Interest rate 3.27%.

The liability for past service contributions has been accounted for in accordance with FRS 102 para 28.13A and represents the present value of the contributions payable. The cash out flows have been discounted at a rate of 2.29% (2015 2.22%).

**19. Statement of Cash Flows**

	2016 £	2015 £
<i>Reconciliation of operating surplus to balance as at 1<sup>st</sup> April 2015</i>		
Operating Surplus	2,967,649	3,034,711
Depreciation	770,244	728,774
Change in debtors	302,454	( 173,852 )
Changes in creditors	596,304	( 116,279 )
Changes in provisions	1,343,317	-
Unwinding of Discount on Pension Liability	( 9,000 )	( 50,000 )
Balance as at 1 <sup>st</sup> April 2016	<u>5,970,968</u>	<u>3,423,354</u>

**20. Revaluation Reserves**

	2016 £	2015 £
Balance at 01.04.15	12,192,206	9,206,724
Transfer on Disposal of Properties	( 28,898 )	( 34,539 )
Depreciation Adjustment	( 105,042 )	( 76,671 )
Revaluation of properties	-	3,096,692
Balance at 31.03.16	<u>12,058,266</u>	<u>12,192,206</u>

**21. Deferred capital grants**

	Housing property held for letting £	Shared ownership held for letting £	Total £
<b>Current Year</b>			
Balance at 01.04.15	180,976	-	180,976
Additions during year	1,373,451	-	1,373,451
Balance at 31.03.16	<u>1,554,427</u>	<u>-</u>	<u>1,554,427</u>
<b>Prior Year</b>			
Balance at 01.04.15	134,866	-	134,866
Additions during year	180,976	-	180,976
Tranferred to Income in year	( 134,866 )	-	( 134,866 )
Balance at 31.03.16	<u>180,976</u>	<u>-</u>	<u>180,976</u>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**22. Retirement Benefit Obligations**

The Company is a member of two pension funds in order to provide benefits for its employees.

Firstly, the Company is a member of the Strathclyde Pension Fund administered by Glasgow Council, a defined benefit scheme, which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. The pension costs are assessed with the advice of independent qualified actuaries, using the projected unit method.

The assumptions and other data that have the most significant effect on the determination of the contribution levels of the scheme were taken at the last actuarial date of 31<sup>st</sup> March 2011.

	<b>2016</b>	<b>2015</b>
	31 <sup>st</sup> March 2016	31 <sup>st</sup> March 2015
Last actuarial date	2.2%	2.5%
Inflation/Pension Increase Rate	4.2%	4.4%
Salary scale increase per annum	3.6%	3.3%
Discount rate		
	<b>2016</b>	<b>2015</b>
	£	£
Estimated employer asset share	<u>1,303,000</u>	<u>1,231,000</u>
Present value of scheme liabilities	1,634,000	1,759,000
Present value of unfunded liabilities	-	-
Total value of liabilities	<u>1,634,000</u>	<u>1,759,000</u>
Net Pension Liability	<u>331,000</u>	<u>528,000</u>
<b>Analysis of amount charged to operating profit</b>	<b>2016</b>	<b>2015</b>
	£	£
Service costs	60,000	45,000
Past service costs	-	-
Curtailment and settlements	-	-
Decrease in irrecoverable surplus	-	-
Total operating gain	<u>60,000</u>	<u>45,000</u>
<b>Analysis of amount credited to other finance income</b>	<b>2016</b>	<b>2015</b>
	£	£
Expected return on employers assets	-	63,000
Interest on pension scheme liabilities	( 78,000 )	( 63,000 )
Net return	<u>( 78,000 )</u>	<u>-</u>
Net revenue account gain	<u>( 18,000 )</u>	<u>45,000</u>

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**22. Retirement Benefit Obligations** (continued)

**Analysis of recognised gains/(losses) in Statement of Comprehensive Income**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Experience gains and losses arising on the scheme liabilities	( 9,000 )	97,000
Changes in financial assumptions underlying the present value of the scheme liabilities	<u>251,000</u>	( <u>219,000</u> )
Actual gain/(loss) in pension plan	242,000	( 122,000 )
Actuarial gain recognised in Statement of Comprehensive Income	<u>242,000</u>	( <u>122,000</u> )

**Movement in surplus during the year**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Deficit at 1 <sup>st</sup> April 2015	( 528,000 )	( 391,000 )
Current service cost	( 60,000 )	( 45,000 )
Employers contributions	33,000	30,000
Net returns on assets	( 18,000 )	-
Actuarial gain	242,000	( 122,000 )
Deficit at 31 <sup>st</sup> March 2016	<u>( 331,000 )</u>	<u>( 528,000 )</u>

**History of Experience Gains and Losses**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Fair value of employer assets	1,303,000	1,231,000
Present value of defined benefit obligation	1,634,000	1,759,000
Surplus/(Deficit)	( 331,000 )	( 528,000 )

Secondly, the Company participates in the Scottish Housing Association Pension Scheme ('the Scheme'). The Scheme is a multi-employer defined benefit scheme. The Scheme is funded and is contracted-out of the State Pension scheme. The Company will also enrol any staff member not a current member of either Pension Scheme into a Defined Contribution scheme administered by SHAPS under auto enrolment legislation.

It is not possible in the normal course of events to identify the share of underlying assets and liabilities belonging to individual participating employers as the Scheme is a multi-employer arrangement where the assets are co-mingled for investment purposes, benefits are paid from the total Scheme assets, and the contribution rate for all employers is set by reference to the overall financial position of the Scheme rather than by reference to individual employer experience. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS 102 represents the employer contribution payable.

The last formal valuation of the Scheme was performed as at 30<sup>th</sup> September 2015 by a professionally qualified Actuary using the Projected Unit Credit method. The market value of the Scheme's assets at the valuation date was £295million. The valuation revealed a shortfall of assets compared with the value of liabilities of £160 million (equivalent to a past service funding level of 64.8%).

**AYRSHIRE HOUSING**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2016**

**22. Retirement Benefit Obligations** (continued)

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30<sup>th</sup> September 2016. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the Scheme to £341 million and indicated an increase in the shortfall of assets compared to liabilities to approximately £207 million, equivalent to a past service funding level of 62.2%.

The Scheme operates on a 'last man standing' basis, meaning that in the event of an employer withdrawing from the Scheme and being unable to pay its share of the debt on withdrawal, then the liability of the withdrawing employer is re-apportioned amongst the remaining employer. Therefore, in certain circumstances the Company may become liable for the obligations of a third party.

All employers in the scheme have entered into an agreement to make additional contributions to fund the Scheme's past service deficit. This obligation has been recognised in terms 28.11A of Financial Reporting Standard 102. At the balance sheet date, the present value of this obligation was £460,000 (2015: £489,000). This was calculated by reference to the terms of the agreement and discounting the liability using the yield rate of high quality corporate bond with a similar term. The discount rate used was 4%.

The annual payment regarding the SHAPs pension deficit from 1 April 2017 is £41,456 and there will be an annual increase of 3% per annum until the year 2022.

The total pension cost for the Company was £137,410 (2015: £130,767) inclusive of deficit adjustment £38,000 (2015 - £37,000) of which £18,456 (2015: £17,217) was unpaid and is included in creditors.

**23. Revenue Reserves**

	<b>2016</b>	<b>2015</b>
	£	£
Balance at 01.04.15	15,553,007	13,576,702
Surplus for the year	2,082,844	4,961,787
Transfer to revaluation reserves	133,940	( 2,985,482)
Balance at 31.03.16	<u>17,769,791</u>	<u>15,553,007</u>

**24. Related Party Transactions**

Some members of the Trustees are tenants of the Company. Their transactions with the Company are all done on standard terms, as applicable to all tenants and they cannot use their position to their advantage.

Three Trustees are Councillors with South Ayrshire Council. Any transactions with the Council are made at arms length, on normal commercial terms and the said Trustees cannot use their position to their advantage.

During the period eight tenants of the Company acted as Trustees. In total they paid rent of £17,138 (2015 - £20,445), which is at arm's length. Repairs carried out to properties occupied by tenant Board members amounted to £3,521 (2015 - £915).

**25. Commitments Under Operating Leases**

At 31<sup>st</sup> March 2016 the total future minimum lease payments under non-cancellable operating leases were as follows:-

	<b>2016</b>	<b>2015</b>
	£	£
Expiring within one year	10,457	11,525
Expiring between one and two years	14,083	19,846
Expiring between two and five years	-	4,694
	<u>24,540</u>	<u>36,065</u>

**AYRSHIRE HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST MARCH 2016**

**26. Housing Stock**

**2016**                      **2015**

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

General Needs	1,476	1,474
Shared Ownership	13	14
	1,489	1,488

**27. Capital Commitments**

**2016**                      **2015**  
£                                      £

Expenditure authorised and contracted	1,226,572	28,431
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The Board of Management expect that expenditure they have authorised to be fully funded by the Scottish Housing Regulator, Local Authorities, banks and building societies or from own resources.

Expenditure not yet contracted, on a scheme by scheme basis, is subject to formal Trustee approval procedures.

**28. Contingent Liabilities**

At 31<sup>st</sup> March 2016, the Company had £Nil contingent liabilities (2015 - £Nil).

**29. Group Structure**

Ayrshire Housing is a housing company registered in Scotland and forms part of a group. The other member is Ayrshire Homestake Limited and the company is registered in Scotland. The main activity of Ayrshire Homestake Limited is the administration of the supply of low cost home ownership. Ayrshire Housing is considered to be the ultimate parent. Separate group accounts are not prepared as the Trustees are of the opinion that the group is exempt from this requirement.

AYRSHIRE HOUSING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2016

30. Transition to FRS 102

In accordance with the Statement of Recommended Practice the Company adopted the Financial Reporting Standard for UK & Ireland (FRS 102) for the accounting period beginning on 1<sup>st</sup> April 2015. As a result of this the comparative figures for the period ending 31<sup>st</sup> March 2015 have been restated in accordance with FRS 102.

The transition to FRS 102 has resulted in a number of changes in accounting policies compared with those used previously.

The following describes the differences between the assets and liabilities and income and expenditure as presented previously, and the amounts as restated to comply with the accounting policies selected in accordance with FRS 102 for the reporting period ending 31<sup>st</sup> March 2016.

Reconciliation of Capital & Reserves						
At 31 <sup>st</sup> March 2015				At 31 <sup>st</sup> March 2014		
Note	As previously Stated £	Effect of Transition £	As Restated £	As previously Stated £	Effect of Transition £	As Restated £
Non Current Assets	(i) 49,808,197	315,842	50,124,039	46,402,823	134,866	46,537,689
Negative Goodwill	-	-	-	-	-	-
Current Assets	6,658,865	-	6,658,865	6,329,091	-	6,329,091
Current Liabilities	(ii) ( 1,579,286)	( 53,258)	( 1,632,544)	( 1,702,313)	( 14,000)	( 1,716,313)
Non Current Liabilities	(ii) ( 26,774,286)	( 449,885)	( 27,224,171)	( 27,756,175)	( 476,000)	( 28,232,175)
Deferred Income	(i) -	( 180,976)	( 180,976)	-	( 134,866)	( 134,866)
	<u>28,113,490</u>	<u>( 368,277 )</u>	<u>27,745,213</u>	<u>23,273,426</u>	<u>( 490,000)</u>	<u>22,783,426</u>
Capital & Reserves	( 28,113,490)	368,277	( 27,745,213)	( 23,273,426)	490,000	( 22,783,426)

Reconciliation of Retained Surpluses for the Year  
Year Ended 31<sup>st</sup> March 2015

Note	As previously Stated £	Effect of Transition £	As Restated £
Revenue	(i) 6,197,056	134,866	6,331,922
Operating Costs	(i) & (ii) ( 3,199,202)	( 13,143)	( 3,212,345)
Other Income	28,321	-	28,321
Interest Receivable	29,688	-	29,688
Interest Payable	( 1,175,491)	-	( 1,175,491)
Surplus	<u>1,880,372</u>	<u>121,723</u>	<u>2,002,095</u>

Notes to the Reconciliations

(i) Social Housing Grants and Other Grants have been accounted for in accordance with the SORP which has meant that grants are no longer deducted from the cost of the capital asset, but are instead treated as deferred income which is recognised in income on satisfaction of grant conditions.

(ii) As the Association has entered into an agreement to make contributions to fund a deficit in the SHAPS pension scheme this has been recognised as a liability in accordance with the FRS. This liability was not previously recognised and payments made under this agreement were written off as operating costs. In addition to this the Association has an interest rate swap which was previously unrecognised, but now requires to be recognised at its fair value under FRS 102 Section 12.

(iii) The liability recognised as a result of (ii) above has been discounted to its present value. The unwinding of the discount is recognised as a finance cost in accordance with FRS 102 para 28.13A.