

AYRSHIRE HOUSING
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2017

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AYRSHIRE HOUSING
OPERATING AND FINANCIAL REVIEW
FOR THE YEAR ENDED 31ST MARCH 2017

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 31st March 2017.

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 over 1,500 houses thanks to an active acquisition and development programme predominantly but not exclusively in South Ayrshire.

Our Mission

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

Our Values

Our mission is underpinned by these core values:

We listen - to everyone we work for and with.

We engage - as we actively involve our tenants, the community and our people in shaping our work.

We show respect - as we strive to provide equal and accessible services to all.

We seek challenge - to ensure best value to our tenants and wider community benefits.

These values shape the work of all Ayrshire Housing's people. They are statements of what all who engage with us should expect.

Our Vision

This is what we want to demonstrate to all we work for and with. The vision underpins our day to day work. It is the context for our detailed business objectives.

Our vision is to:

- 🏠 Be valued by all our tenants and other service users.
 - We will show year on year increases in satisfaction and participation levels.
- 🏠 Increase the wellbeing of our communities.
 - We will demonstrate a growing impact in the wider community.
- 🏠 Provide more affordable housing.
 - We will increase access to affordable housing without compromising the quality of service to our tenants.
- 🏠 Be seen as a distinctive and effective organisation by the people of Ayrshire.
 - We will find new ways to demonstrate the benefits we bring as a community and tenant controlled housing association.

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.

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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.

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 Regulator's most recent *Analysis of the Finances of Registered Social Landlords (March 2017)* broadly confirms this trend. It highlights though continuing challenges around welfare reform, 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. This plan is the product of extensive discussion involving every member of the Board and the staff team. Two all day sessions focused on the association's operating environment, the improvement of our existing services, and new ways of engaging with our users and the wider community. The Board has assessed the association's current financial health and performance. This shows that performance and service level standards exceed the majority of its peers in Ayrshire and beyond. The Board carries out a financial health check to ensure that the plan remains relevant.

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 even at recently enhanced levels increase uncertainty and financial risk. This has prompted the association to take a cautious approach to new building.

On a more positive note, a 2016 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 challenges and opportunities:

Demonstrating value to our tenants

The recent independent survey of tenant satisfaction, mentioned above, showed very high levels of satisfaction with the services offered. The majority of tenants, for example, say that they get excellent value for money for their rent payments. Very positive feedback is also received from continuous repairs and new tenants' surveys.

Welfare reform is creating real hardship and worry for our tenants, as well as putting pressure on the association's revenue base. This is compounded by the declining or at best static living standards of many of our tenants and applicants. Whilst this situation creates demands for new services, it also has the potential to put a strain on the quality of the services which our tenants' value through pressure on our income base and the staff time needed to secure it.

We must therefore be ever more mindful of our primary obligation to our tenants in terms of rent setting and service standards as we consider new investment opportunities in the light of still challenging grant rates.

We are striving to increase the tenants influence over the rents we charge and the range of services offered in return. In addition to our established consultation and feedback mechanisms we are now being challenged by an independent tenant scrutiny panel.

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Addressing housing need

We operate in an area of high demand for affordable housing. This brings many benefits in terms of low void levels and good levels of tenancy sustainment. On the other hand, it creates the expectation from our partners that we will continue to expand our stock to meet waiting list demands. Ayrshire Housing has a track record of high quality housing development and has the financial capacity for further activity. The increase in Scottish Government grant rates is to be welcomed. As with most housing associations, the rates though are still at levels which continue to require the internal subsidy of each development. This issue is compounded for Ayrshire Housing by the particular costs of development in an area where land is in short supply. The association will identify the potential for ongoing investment in its long-term financial plan. This has to be done on the basis that the primary obligation to maintain the stock to the benefit of existing and future tenants is not compromised. The association will focus on increasing the efficiency of its procurement activities - whether for new build or established stock purchases. It will develop further its partnership with South Ayrshire Council to help unlock new opportunities for both itself and the Council.

Widening our impact

Ayrshire Housing makes a real impact on the lives of those that it houses through the provision of good quality housing. As a major Ayrshire charity, Ayrshire Housing is well placed to extend its impact beyond a narrow definition of housing services. This has to be done in ways that are of direct or indirect benefit to tenants. For example, we support initiatives such as training and community initiatives in the neighbourhoods where we have stock. The association already has a solid track record of significant community, tenancy support and training projects supported through Lottery and Scottish Government funding. There is a commitment to build on this reputation to deepen partnerships with local community and voluntary organisations. Reductions in local government support for the voluntary sector and from Lottery and other funds however present real challenges. On the other hand, the community empowerment agenda around the delivery of services can open up new partnership opportunities.

The association has an annual turnover of almost £7.0 million and has significant programmes of investment in stock improvements and new construction. Historically, it has endeavoured to ensure that as much as possible of its activities benefit the Ayrshire economy. Ayrshire Housing is a public contracting body in terms of the Procurement Reform (Scotland) Act 2014. This provides the opportunity for the association to define how it achieves wider community and economic benefits from its purchasing arrangements.

Maintaining a vibrant organisation

Ayrshire Housing considers that it makes distinctive contribution through being focused on a particular area, and being tenant and community led. This underpins its commitment to maintaining its current independence. There are a number of challenges that may undermine this model for example around threats to rental income and a possible shift to larger developer associations.

Such trends though are an impetus to demonstrate our strengths in new ways. The association is financially strong and maintaining this is central to its overall business planning. Tenant satisfaction levels are high. It will build on this positive relationship to ensure that our tenants have a real influence over rent levels and service standards.

In meeting current challenges with optimism, sustaining the strength of our team of volunteer Board members and paid staff must be to the fore in the association's overall business planning. The governance structure with its built in stakeholder control is a key strength in moving the organisation forward. Maintaining the skills base and morale of staff will be critical in developing more effective ways of working and new initiatives. For these reasons, nurturing our human resources warrants its own detailed business objective.

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External Influences

Ayrshire Housing's operating environment is 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 continuing 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.

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.

How We Manage Risk

Both the business planning process and the performance management system are designed to control the association's exposure to risk.

We have identified four strategic areas of risk:

The inability to sustain planned levels of rental income

The falling incomes in real terms of many of our tenants potentially threaten our current high levels of rental collection and could also lead to higher levels of stock turnover. There is also the risk of regulatory action to control rent levels or at least rent increases in the sector.

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Our controls include:

- Budgeting on the basis of minimal levels of rental growth.
- Rigorous arrears and void controls built into the performance management system.
- Investment in money advice services.
- Work with credit unions and other partners.

A Failure to maintain the stock to the required standards

A poorly developed investment plan could result in a failure to meet statutory requirements and greater tenant aspirations.

Our controls include:

- The regular review of a comprehensive life cycle cost plan for the stock.
- Ensuring that there is a sufficient risk envelope built into the overall risk management strategy to cope with unforeseen increases in investment due to construction cost inflation or new standards.

Failure to maintain and enhance current high levels of service delivery and satisfaction

Providing excellent service is at the very centre of the association's purpose. Falling standards will result in tenant dissatisfaction and possible regulatory intervention.

Our controls include:

- Key performance indicators backed by tenant feedback.
- A new independent tenants survey in 2016.
- Membership of benchmarking groups.
- Investment in staff training and new skills.
- Extending online services.

Poor budgetary and cost control

A lack of effective controls could result in wasted resources and, if not checked in the long-term, financial viability being compromised.

Our controls include:

- Robust annual budgets linked to the long-term financial plan.
- Demanding KPIs for rent collection and void management.
- Management accounts to the Board each quarter.
- A review of the procurement strategy in 2016.
- Effective project management.

Ensuring Financial Viability

The association's 30-year financial plan is designed to ensure the management and maintenance of the stock to the highest standards, the funding of loan obligations and sufficient reserves for contingencies. It is based on a conservative assumption on rental growth. For example, no more than inflation rent increases have been assumed for the next five years. Notwithstanding having 69% of loans at fixed rates, the weighted average cost of capital used in the financial plan is considerably higher than current costs and is likely to remain so even if there is a gradual rise in variable rates.

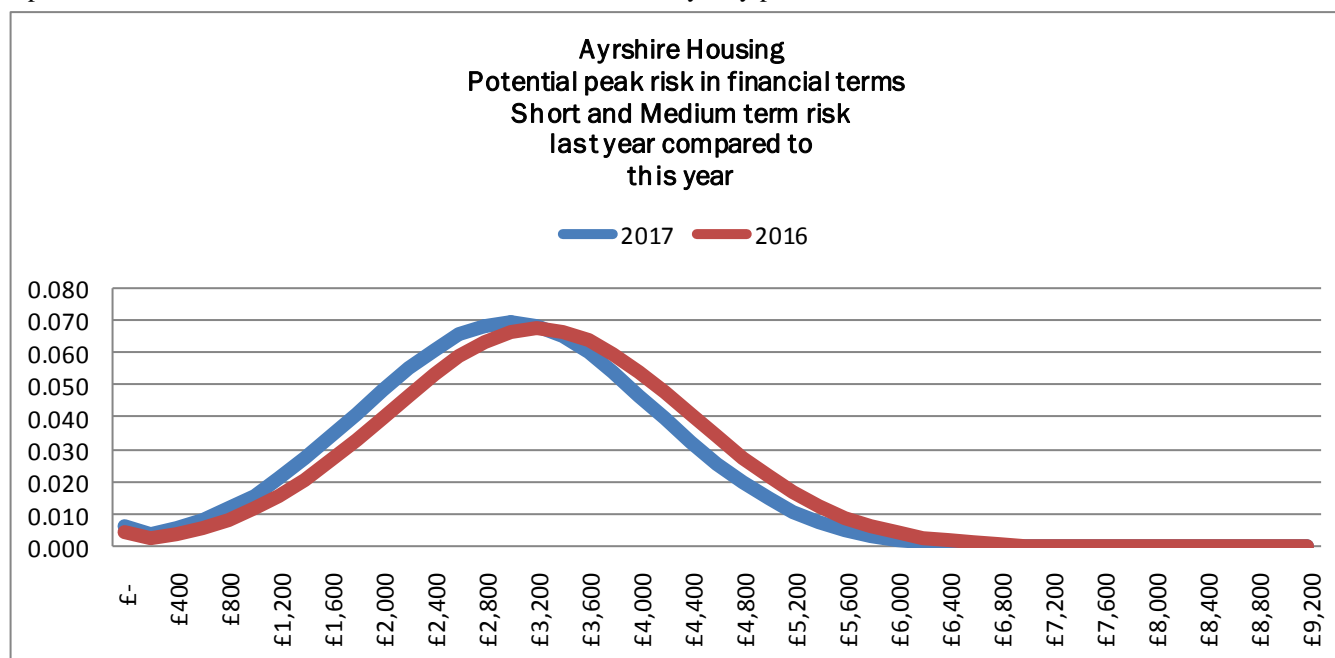
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The association is in the fortunate position of having built up significant cash reserves through prudent financial management by the current and previous Boards. Not least, decisions not to immediately fix interest rates on new borrowings have borne fruit with substantial increases in our cash reserves through savings in interest paid. We maintain such cash reserves for two reasons. Firstly, a degree of cash reserves is needed to provide adequate working capital in turbulent or difficult times such as those being envisaged with the full implementation of Universal Credit (UC) together with unforeseen additional expenditures such as the introduction of EESSH. Secondly, it allows the organisation to meet housing need through new provision once the grant climate offers a more attractive financial package for us to re-engage in a development programme of substance. Current and past Boards have taken a very prudent stance in terms of both organisational and specific development risks. They have been selective about any potential development projects. Ayrshire Housing is therefore financially viable and will remain that way if it continues to manage the business in such a manner.

In terms of cash reserves it is possible to demonstrate how much cash should be set aside to cover the many and various risks associated with a business such as ours. Recently risks have become apparent which have not previously been on the horizon of housing organisations. Of most concern is the impact of welfare reforms and subsidy levels for affordable housing but there are many risks which we have identified. If these possible events have their financial impacts and probabilities added to them, it is possible to calculate that some £3M of free reserves should be held to fully cope with all the financial risks. It is possible to plot these and illustrate the distribution of risks and where they may peak:



Housing associations in Scotland confront a wide array of risks both internal and external. The risks identified should be mitigated by Board and management action but there is reassurance that if certain events do occur as predicted then the organisation is sufficiently robust to cope. Ayrshire Housing can demonstrate that it has the capacity to withstand shocks and maintain both its purpose and functioning.

The Board is committed to ensuring that Ayrshire Housing remains financially viable and has the resilience to deal with unforeseen risks. The Board and senior management are focused on demonstrating the following reporting and control structure:

- ▲ Good understanding of the demands on cash flows and how these link to the financial plan.
- ▲ Debt and covenant position.
- ▲ Understanding the investment requirements needed to sustain services and maintain assets over their lifetime and what any funding requirements are.
- ▲ Demonstrating the capacity to react to unforeseen circumstances and ensuring more than sufficient working capital to deal with negative situations.
- ▲ A clear insight through performance indicators into how the business is performing.

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Delivering Excellent Performance

Ayrshire Housing's Board is made up of 5 tenants, 5 community members and 3 Councillors from South Ayrshire Council. A broad range of interests and skills underpins their stewardship of the association's assets and future development. They are supported by a team of 27 employees. This team has an excellent range of skills and a very low level of turnover. Recent staff surveys show high levels of commitment. This is reflected in the maintenance of a Healthy Work Lives award at the highest gold level.

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 monthly narrative reports, business 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 allowing year on year performance comparisons. In all relevant cases, performance betters both local and national averages. Where applicable, the targets provide comfort with regard to the relevant budget assumptions. In addition, the Board receives reports showing performance against the Housing Charter's indicators.

Key Performance Indicators - Targets and Actual 2016/17

Housing Management	2016/17 Target	2016/17 Actual
Current non-technical arrears	1.75% of total gross rent	0.96%
Void re-let times	16 days or less	17 days
Void rent loss	No more than 0.8% of total rent due	0.35%
Housing application processing	Within 10 days	8 days

Property Management	2016/17 Target	2016/17 Actual
Emergency repairs performance	97% attendance within 4 hours	96.11%
Average emergency completion time	Within 3 hours	2.11 hours
Other repairs	96% completed on time	98.27%
Average general repair completion time	Within 6 days	4.7 days
Gas safety certificates	100% compliance aimed for and never below external benchmark of 93%	100.00%
Satisfaction with repairs service	At least 90% satisfied	96.10%
Repairs "right first time"	90% of all applicable repairs	93.44%
Appointments kept	95% of all applicable jobs	98.70%

Projects	2016/17 Target	2016/17 Actual
Development pipeline	50+ plots secured at any time	53
Mortgage to Rent and other acquisitions	Minimum of 4 purchases committed	3
Existing stock innovation	Minimum of 1 projects developed	1
Jointly commissioned services	Minimum 2 wider role initiatives secured	1
Community collaborations	Minimum of 1 new collaboration secured	0
Collaboration with SAC	Minimum of 1 joint project delivered	1

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Key Performance Indicators - Targets and Actual 2016/17 (cont'd)

Financial Matters	2016/17 Target	2016/17 Actual (adjusted to exclude grants released from deferred income)
Staff costs	Less than 22% of turnover	21.2%
Administration cost/tenancy	Less than £876 per tenancy	£878
Liquidity - current assets:current liabilities (adjusted for development overdrafts)	1.10:1	3.67:1
Liquidity - cash:current liabilities (adjusted for development overdrafts)	1:1	3.41:1
Interest cover - operating surplus:interest payable (adjusted for depreciation)	1.47:1	3.25:1
Debt per unit	Maximum of £25,000 (as adjusted to reflect new HAG assumptions)	£16,788

General Operational Matters	2016/17 Target	2016/17 Actual
Board meetings quorate per session (AGM to AGM)	100%	100%
Board attendance per session	Average of 75%	81%
New Community Members	10 extra	3

Performance in the year ended 31 March 2017

Turnover

Turnover has increased by £1.9M to £8.3M which includes grants released from deferred income and reflects modest stock additions and the annual rent increase.

Operating Costs

Operating costs represent 43% of turnover which is 10% lower than the previous year due to grant income released from deferred income.

Interest

Sterling base rates remained low in the year to 31 March 2017 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 £4.7M compared to £3.0M for 2015/16. This exceeded budgeted projections due largely to the transfer of grants from deferred income and 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 £19.1M. This represents an increase of 7% over the same reserves at 31 March 2016.

Cash flow

Positive cash flows of £3.6M were generated from our operating activities. Interest payable was £1,121k offset slightly by interest receivable of £23k. We spent £1.6M on our development projects, improvement works and acquisitions. We also repaid capital of £1.3M 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.

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Capital Structure and Treasury Policy

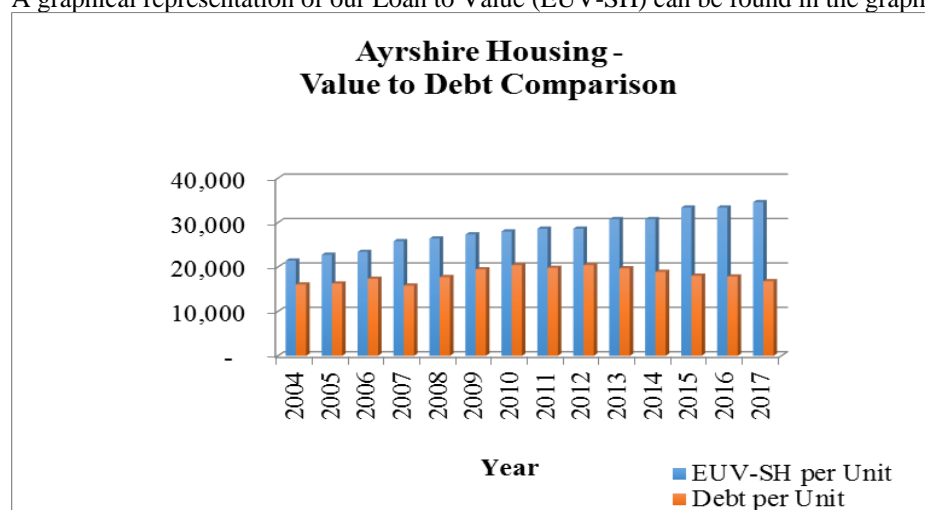
Borrowings at the year end were £26.0M. This debt is borrowed wholly from banks and building societies in the UK together with finance through the Scottish Government's Bond finance scheme.

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	£ 2.6M
Between three and five years	£ 4.0M
In five years or more	£ 19.4M
Total	£ 26.0M

A graphical representation of our Loan to Value (EUV-SH) can be found in the graph below:



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 altered how financial information is 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.

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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 ESSH 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.

Company Secretary

AYRSHIRE HOUSING
ADVISORS AND REGISTERED OFFICE
FOR THE YEAR ENDED 31ST MARCH 2017

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 2017

The Trustees present their report and the audited financial statements for the year ended 31st March 2017.

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.

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REPORT OF THE TRUSTEES
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The Trustees and Executive Officer

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

Executive Officer

. J. Whiston

Trustees

. R. Leith	(Chairperson)	. F. Maguire	
. S. Reid	(Resigned 7/9/16)	. R. Martin	
. P. Torrance	(Resigned 2/11/16)	. Cllr W. J. Grant	
. F. Barr	(Resigned 7/9/16)	. G. Dawson	
. Cllr J. Hampton		. S. Leslie	
. Cllr I. Cavana		. L. Craig	
. K. George	(Appointed 7/9/16)	. Professor R. Pyper	(Appointed 22/2/17)
. S. Williamson	(Appointed 7/9/16)	. A. Paton	(Appointed 22/2/17)

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
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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 31st March 2017. No weaknesses were found in internal financial controls which resulted in material losses, contingencies, or uncertainties which require disclosure in the financial statements or in the Auditor's Report on the financial statements.

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 :

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REPORT OF THE TRUSTEES
FOR THE YEAR ENDED 31ST MARCH 2017

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 30th 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.

Company Secretary

AYRSHIRE HOUSING
REPORT BY THE AUDITOR TO THE TRUSTEES
ON CORPORATE GOVERNANCE MATTERS
FOR THE YEAR ENDED 31ST MARCH 2017

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 I 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 31st March 2017 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 31st March 2017 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 I 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 2017

	Notes	2017 £	2016 £
Revenue	2	8,289,319	6,443,675
Operating costs	2	(3,577,719)	(3,476,026)
Operating Surplus	2	<u>4,711,600</u>	<u>2,967,649</u>
Gain/(loss) on disposal of property, plant and equipment	5	37,815	48,216
Interest receivable and other income	8	23,493	23,942
Interest payable and similar charges	9	(1,120,755)	(1,144,963)
Decrease in valuation of housing properties on initial measurement		(2,345,925)	-
Other finance charges	13	(18,000)	(9,000)
Surplus Before Tax		<u>1,288,228</u>	<u>1,885,844</u>
Revaluation of Housing Properties		1,765,454	-
Actuarial (loss) gain in respect of pension scheme	22	(160,000)	197,000
Total Comprehensive Income		<u><u>2,893,682</u></u>	<u><u>2,082,844</u></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 2017

	Revenue reserve	Revaluation reserve	Total excluding non- controlling interest	Non- controlling interest	Total including non- controlling interest
	£	£	£	£	£
Current Year					
Balance at 1 April 2016	17,769,791	12,058,266	29,828,057	-	29,828,057
Surplus/(deficit) from Statement of Comprehensive Income	2,893,682	-	2,893,682	-	2,893,682
Transfer from revaluation reserves to income and expenditure reserve	181,891	(181,891)	-	-	-
Revaluation of properties transfer from income and expenditure reserve to revaluation reserve	(1,765,454)	1,765,454	-	-	-
Balance at 31 March 2017	<u>19,079,910</u>	<u>13,641,829</u>	<u>32,721,739</u>	<u>-</u>	<u>32,721,739</u>

	Revenue reserve	Revaluation reserve	Total excluding non- controlling interest	Non- controlling interest	Total including non- controlling interest
	£	£	£	£	£
Prior Year					
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>

The notes form part of these financial statements.

AYRSHIRE HOUSING
STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH 2017

	Notes	2017 £	2016 £
Non-Current Assets			
Tangible assets - social housing	14(a)	52,555,038	52,402,269
Other non current assets - property, plant and equipment	14(b)	416,916	409,843
		<u>52,971,954</u>	<u>52,812,112</u>
Current Assets			
Trade and other debtors	16	519,262	449,943
Investments	15	2	1
Cash and cash equivalents		<u>6,909,403</u>	<u>7,059,387</u>
		7,428,667	7,509,331
Less: Creditors falling due within one year	17	(2,016,426)	(2,259,524)
Net Current Assets		<u>5,412,241</u>	<u>5,249,807</u>
Total Assets less Current Liabilities			
Creditors : amounts falling due after more than one year	18	(24,917,594)	(26,348,435)
Deferred Income			
Deferred capital grants	21	(81,862)	(1,554,427)
Provisions for liabilities	22	(663,000)	(331,000)
Net Assets		<u>32,721,739</u>	<u>29,828,057</u>
Equity			
Revenue reserve	23	19,079,910	17,769,791
Revaluation reserves	20	13,641,829	12,058,266
		<u>32,721,739</u>	<u>29,828,057</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 2017

	Notes	2017 £	2016 £
Net Cash Inflow from Operating Activities	19	3,637,508	5,970,968
Cashflow from Investing Activities			
Purchase of tangible fixed assets		(1,611,810)	(3,518,272)
Net proceeds from sale of tangible fixed assets		116,400	108,172
Grants received		10,090	-
		<hr/>	<hr/>
Net Cash Outflow from Investing Activities		2,152,188	2,560,868
Cashflow from Financing Activities			
Interest received on cash and cash equivalents		23,493	23,942
Interest paid on loans		(1,120,755)	(1,144,963)
New secured loans		52,320	1,607,169
Repayments of borrowings		(1,257,230)	(1,894,097)
		<hr/>	<hr/>
Net Cash Outflow from Financing		(2,302,172)	(1,407,949)
Increase in Cash		<hr/>	<hr/>
		(149,984)	1,152,919
Opening Cash and Cash Equivalents		<hr/>	<hr/>
		7,059,387	5,906,468
Closing Cash and Cash Equivalents		<hr/> <hr/>	<hr/> <hr/>
		6,909,403	7,059,387

AYRSHIRE HOUSING
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST MARCH 2017

	Share Capital £	Revenue Reserve £	Total £
Current Year			
Balance as at 1st April 2016	-	17,769,791	17,769,791
Realisation of property revaluation gains of previous years	-	44,450	44,450
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	-	137,441	137,441
Transfer from revenue reserve to revaluation reserve	-	(1,765,454)	(1,765,454)
Surplus for Year	-	2,893,682	2,893,682
Balance as at 31st March 2017	<u>-</u>	<u>19,079,910</u>	<u>19,079,910</u>

	Share Capital £	Revenue Reserve £	Total £
Prior Year			
Balance as at 1st April 2015	-	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
Balance as at 31st March 2016	<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 2017

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 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 2017

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 2017

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 2017

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 2017

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

		2017		
	Notes	Revenue	Operating Costs	Operating Surplus/ (Deficit)
		£	£	£
Social Lettings	3	7,881,060	3,501,832	4,379,228
Other Activities	4	408,259	75,887	332,372
Total		8,289,319	3,577,719	4,711,600

		2016		
	Notes	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
Total		6,443,675	3,476,026	2,967,649

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 2017	2016
	£	£	£	£
Revenue from Lettings				
Rent receivable net of identifiable service chrgs	6,064,278	41,553	6,105,831	6,044,196
Service charges receivable	328,273	-	328,273	307,767
Gross Rents Receivable	6,392,551	41,553	6,434,104	6,351,963
Less: Rent losses from voids	(74,216)	-	(74,216)	(104,750)
Net Rents Receivable	6,318,335	41,553	6,359,888	6,247,213
Grants released from Deferred Income (note 10)	1,482,656	-	1,482,656	-
Grants from the Scottish Ministers	38,516	-	38,516	79,134
Total Income from Social Letting Activities	7,839,507	41,553	7,881,060	6,326,347
Expenditure on Social Letting Activities				
Management and maintenance admin costs	1,383,793	12,887	1,396,680	1,289,298
Reactive repairs and maintenance	1,082,218	-	1,082,218	1,148,000
Bad debts - rents and service charges	36,517	-	36,517	35,996
Planned and cyclical maint incl major repairs	215,537	-	215,537	182,747
Depreciation of social housing	765,617	5,263	770,880	748,266
Operating Costs for Social Letting Activities	3,483,682	18,150	3,501,832	3,404,307
Operating Surplus on Letting Activities - 2017	4,355,825	23,403	4,379,228	2,922,040
Operating Surplus on Letting Activities - 2016	2,897,071	24,969	2,922,040	

No service charges were receivable on housing accommodation not eligible for housing benefit (2016 - £Nil).

AYRSHIRE HOUSING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2017

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

	Grants from Scottish Ministers £	Other Revenue Grants £	Supporting People Income £	Other Income £	Total Turnover £	Operating Costs- Bad Debt £	Other Operating Costs £	Operating Surplus/ Deficit for 2017 £	Operating Surplus/ Deficit for 2016 £
Wider Action Role	-	-	-	-	-	-	-	-	-
Care & Repair	-	-	-	-	-	-	-	-	-
Factoring	-	-	-	23,409	23,409	-	-	23,409	23,208
Development Activities	-	287,722	-	-	287,722	-	-	287,722	-
Support Activities	-	-	-	-	-	-	-	-	-
Care Activities	-	-	-	-	-	-	-	-	-
Other Management Services	-	-	-	-	-	-	-	-	-
Aids & Adaptations	-	84,318	-	-	84,318	-	75,887	8,431	9,755
Other Activities	-	-	-	-	-	-	-	-	-
Commercial Rent	-	-	-	12,810	12,810	-	-	12,810	12,646
Total from Other Activities 2017	-	372,040	-	36,219	408,259	-	75,887	332,372	
Total from Other Activities 2016	81,474	-	-	35,854	117,328	-	71,719		45,609

AYRSHIRE HOUSING
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2017

5. Profit on Disposal of Fixed Assets

	2017	2016
	£	£
Proceeds from sale of fixed assets	<u>121,600</u>	<u>111,175</u>
Less: Cost of Sales		
Value of property	78,585	59,596
Legal and valuation costs	<u>5,200</u>	<u>3,363</u>
	<u>83,785</u>	<u>62,959</u>
	<u>37,815</u>	<u>48,216</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.

	Number of Officers	2017 £	Number of Officers	2016 £
Total Emoluments (including pension contributions and benefits in kind)				
60,000 to 69,999	2	136,572	2	135,015
70,000 to 79,999	-	-	-	-
80,000 to 89,999	1	84,643	1	83,559
90,000 to 99,999	-	-	-	-
100,000 to 109,999	-	-	-	-
	<u>3</u>	<u>221,215</u>	<u>3</u>	<u>218,574</u>
Total Emoluments (excluding pension contributions) to the highest paid Director		<u>69,365</u>		<u>68,678</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>15,278</u>	<u>1</u>	<u>14,881</u>
Total expenses reimbursed to the Board in so far as not chargeable to United Kingdom Income Tax		<u>1,371</u>		<u>541</u>

AYRSHIRE HOUSING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2017

7. Employee Information

	2017	2016
	£	£
The monthly average number of full time equivalent employees (excluding Executive Trustees) during the year was :-	<u>22.5</u>	<u>23.5</u>
The average total number of Employees employed during the year was	<u>28</u>	<u>27</u>
Wages and Salaries	781,052	791,012
Social Security Costs	78,616	63,374
Pension Contributions	<u>109,236</u>	<u>99,410</u>
	<u>968,904</u>	<u>953,796</u>

Pension deficit contributions for the year were £40,118 (2016 - £38,000).

8. Interest Receivable and Other Income

	2017	2016
	£	£
Interest receivable on deposits	<u>23,493</u>	<u>23,942</u>

9. Interest Payable and Similar Charges

	2017	2016
	£	£
Loan Interest	<u>1,120,755</u>	<u>1,144,963</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):-

	2017	2016
	£	£
Operating lease	12,269	12,401
Depreciation/loss on sale - tangible other fixed assets	22,032	21,978
Depreciation - tangible land & buildings fixed assets	770,880	748,266
Auditor's remuneration (excl. VAT)	6,790	6,675
Bad debts	<u>36,517</u>	<u>35,996</u>

12. Tax on Surplus on Ordinary Activities

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

13. Other Finance Income/Charges

	2017	2016
	£	£
Unwinding of Discounted Liabilities	<u>18,000</u>	<u>9,000</u>

AYRSHIRE HOUSING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2017

14. Non-Current Assets

a) Housing Properties

	Heritable Housing Prop. Held For Letting £	Rented Accommod Under Construction £	Shared Ownership Held For Letting £	Total £
Cost/Valuation				
As at 1 st April 2016	50,080,058	2,448,094	454,000	52,982,152
Additions	446,074	1,136,631	-	1,582,705
Revaluation	519,397	-	-	519,397
Disposals	(183,291)	-	-	(183,291)
Transfers	3,286,687	(3,241,687)	(45,000)	-
Write down on initial recognition	(2,345,925)	-	-	(2,345,925)
As at 31 st March 2017	<u>51,803,000</u>	<u>343,038</u>	<u>409,000</u>	<u>52,555,038</u>
Depreciation				
As at 1 st April 2016	574,348	-	5,535	579,883
Charge for year	765,771	-	5,109	770,880
Disposals	(104,706)	-	-	(104,706)
Transfers	10,644	-	(10,644)	-
Transfer on revaluation	(1,246,057)	-	-	(1,246,057)
As at 31 st March 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 31st March 2017	<u>51,803,000</u>	<u>343,038</u>	<u>409,000</u>	<u>52,555,038</u>
Net book value at 31st March 2016	<u>49,505,710</u>	<u>2,448,094</u>	<u>448,465</u>	<u>52,402,269</u>

Development Administration cost capitalised amounted to £34,233 (2016 - £33,370) for which grants of £Nil (2016 - £Nil) were received in the year.

Completed housing properties were revalued on the basis of existing use value for social housing at 31 March 2017 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 2017

14. Non-Current Assets stated at Cost

a) Housing Properties (continued)

	2017	2016
Cost of Properties	113,705,386	112,202,490
Less: Social Housing and Other Grants	<u>63,727,911</u>	<u>63,679,304</u>
	49,977,475	48,523,186
Less: Depreciation	(7,345,437)	(6,575,781)
	<u><u>42,632,038</u></u>	<u><u>41,947,405</u></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 2017

14. Non-Current Assets
b) Other Tangible Assets

	Office Premises £	Fixtures and Fittings £	Computer Equipment £	Let Properties Furniture & Fittings £	Total £
As at 1 st April 2016	446,375	110,215	291,093	161,920	1,009,603
Additions in year	3,678	1,692	23,735	-	29,105
As at 31 st March 2017	<u>450,053</u>	<u>111,907</u>	<u>314,828</u>	<u>161,920</u>	<u>1,038,708</u>
Aggregate Depreciation					
As at 1 st April 2016	78,147	107,361	252,528	161,724	599,760
Charge for Year	9,204	877	11,755	196	22,032
As at 31 st March 2017	<u>87,351</u>	<u>108,238</u>	<u>264,283</u>	<u>161,920</u>	<u>621,792</u>
Net Book Value as at 31st March 2017	<u>362,702</u>	<u>3,669</u>	<u>50,545</u>	<u>-</u>	<u>416,916</u>
Net Book Value as at 31st March 2016	<u>368,228</u>	<u>2,854</u>	<u>38,565</u>	<u>196</u>	<u>409,843</u>

AYRSHIRE HOUSING
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2017

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.

Ayrshire Housing also holds one issued share in Our Power Energy Supply Limited, a company registered in England and Wales.

The principal activity of Our Power Energy Supply Limited is the supply of affordable household energy.

16. Trade and Other Receivables

	2017	2016
	£	£
Rental Debtors	126,413	293,161
Less: Provision for Doubtful Debts	(10,000)	(10,000)
Other Receivables	402,849	166,782
	<u>519,262</u>	<u>449,943</u>

17. Creditors - Amounts falling due within one year

	2017	2016
	£	£
Housing Loans	1,266,765	1,247,800
SHAPS past service deficit contribution	54,216	40,249
Trade Payables	293,577	260,069
Development Creditors	40,658	475,701
Other Taxes and Social Security	40,003	36,064
Accruals and Deferred Income	31,233	47,070
Prepaid Rents	289,974	152,571
	<u>2,016,426</u>	<u>2,259,524</u>

Creditors due within one year include development guarantees totalling £Nil (2016 - £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

	2017	2016
	£	£
Loans	24,704,810	25,928,684
Liability for SHAPs Past Service Deficit Contributions	212,784	419,751
	<u>24,917,594</u>	<u>26,348,435</u>

Loans are secured by specific charges on the Company's properties and are repayable at rates of interest ranging from 0.72% to 6.01% (2016 - 0.93% to 6.01%) which will mature over a period of 6 to 27 years as follows: -

	2017	2016
	£	£
Between one and two years	1,397,044	1,307,765
Between two and five years	4,102,119	2,774,685
In five years or more	19,418,431	22,265,985
	<u>24,917,594</u>	<u>26,348,435</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 2017

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 £22.9M. Interest rates range from 0.72% to 5.87%.
Nationwide	14 loans repayable between 2022 and 2035. Standard Security over 257 properties. EUV-SH £9.3M. Interest rates 0.77%.
Bank of Scotland	9 loans repayable between 2023 and 2035. Standard Security over 232 properties. EUV-SH £7.6M. Interest rates range from 3.41% to 5.74%.
Co-op	1 loan repayable in 2029. Floating Charge over 342 units. MVT £15.5M. Interest rates range from 1.07% 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 1.06% (2016 - 2.29%).

19. Statement of Cash Flows

	2017 £	2016 £
<i>Reconciliation of operating surplus to balance as at 1st April 2016</i>		
Operating Surplus	4,711,600	2,967,649
Depreciation	792,912	770,244
Change in debtors	(69,320)	302,454
Changes in creditors	(262,061)	596,304
Changes in provisions	(1,517,623)	1,343,317
Unwinding of Discount on Pension Liability	(18,000)	(9,000)
Balance as at 1 st April 2017	<u>3,637,508</u>	<u>5,970,968</u>

20. Revaluation Reserves

	2017 £	2016 £
Balance at 01.04.16	12,058,266	12,192,206
Transfer on Disposal of Properties	(44,450)	(28,898)
Depreciation Adjustment	(137,441)	(105,042)
Revaluation of properties	1,765,454	-
Balance at 31.03.17	<u>13,641,829</u>	<u>12,058,266</u>

21. Deferred capital grants

	Housing property held for letting £	Shared ownership held for letting £	Total £
Balance at 01.04.16	1,554,427	-	1,554,427
Additions during year	10,091	-	10,091
Transfers during year	(1,482,656)	-	(1,482,656)
Balance at 31.03.17	<u>81,862</u>	<u>-</u>	<u>81,862</u>

AYRSHIRE HOUSING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2017

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 31st March 2011.

	2017	2016
Last actuarial date	31 st March 2017	31 st March 2016
Inflation/Pension Increase Rate	2.4%	2.2%
Salary scale increase per annum	4.4%	4.2%
Discount rate	2.7%	3.6%
	2017	2016
	£	£
Estimated employer asset share	<u>1,648,000</u>	<u>1,303,000</u>
Present value of scheme liabilities	2,311,000	1,634,000
Present value of unfunded liabilities	-	-
Total value of liabilities	<u>2,311,000</u>	<u>1,634,000</u>
Net Pension Liability	<u>663,000</u>	<u>331,000</u>
Analysis of amount charged to operating profit	2017	2016
	£	£
Service costs	48,000	60,000
Past service costs	-	-
Curtailment and settlements	-	-
Decrease in irrecoverable surplus	-	-
Total operating gain	<u>48,000</u>	<u>60,000</u>
Analysis of amount credited to other finance income	2017	2016
	£	£
Expected return on employers assets	-	-
Interest on pension scheme liabilities	(60,000)	(78,000)
Net return	<u>(60,000)</u>	<u>(78,000)</u>
Net revenue account gain	<u>(12,000)</u>	<u>(18,000)</u>

AYRSHIRE HOUSING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2017

22. Retirement Benefit Obligations (continued)

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

	2017	2016
	£	£
Experience gains and losses arising on the scheme liabilities	259,000	(9,000)
Changes in financial assumptions underlying the present value of the scheme liabilities	(563,000)	251,000
Actual gain/(loss) in pension plan	(304,000)	242,000
Actuarial gain recognised in Statement of Comprehensive Income	(304,000)	242,000

Movement in surplus/(deficit) during the year

	2017	2016
	£	£
Deficit at 1 st April 2016	(331,000)	(528,000)
Current service cost	(48,000)	(60,000)
Employers contributions	32,000	33,000
Net returns on assets	(12,000)	(18,000)
Actuarial gain/(loss)	(304,000)	242,000
Deficit at 31 st March 2017	(663,000)	(331,000)

History of Experience Gains and Losses

	2017	2016
	£	£
Fair value of employer assets	1,648,000	1,303,000
Present value of defined benefit obligation	2,311,000	1,634,000
Surplus/(Deficit)	(663,000)	(331,000)

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.

A formal actuarial valuation for the Scheme was carried out at 30th September 2015 by a professionally qualified actuary using the Projected Unit Credit method. This actuarial valuation showed assets of £616m, liabilities of £814m and a deficit of £198m. To eliminate this funding shortfall, the Trustee has asked the participating employers to make additional contributions - increasing at 3% per annum - to February 2022. The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Scheme liabilities. (Recently, a provisional valuation of the Scheme was carried out in September 2016. This showed assets of £810m, liabilities of £1,020m and a larger deficit of £210m).

AYRSHIRE HOUSING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2017

22. Retirement Benefit Obligations (continued)

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 £267,000 (2016: £460,000). 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 £54,216 and there will be an annual increase of 3% per annum until the year 2022.

The total pension cost for the Company was £149,353 (2016: £137,410) inclusive of deficit adjustment £40,118 (2016 - £38,000) of which £19,642 (2016: £18,456) was unpaid and is included in creditors.

23. Revenue Reserves

	2017	2016
	£	£
Balance at 01.04.16	17,769,791	15,553,007
Surplus for the year	2,893,682	2,082,844
Transfer (to)/from revaluation reserves	(1,583,563)	133,940
Balance at 31.03.17	<u>19,079,910</u>	<u>17,769,791</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 £18,385 (2016 - £17,138), which is at arm's length. Repairs carried out to properties occupied by tenant Board members amounted to £1,813 (2016 - £3,521).

25. Commitments Under Operating Leases

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

	2017	2016
	£	£
Expiring within one year	9,389	10,457
Expiring between one and two years	4,694	14,083
Expiring between two and five years	-	-
	<u>14,083</u>	<u>24,540</u>

AYRSHIRE HOUSING
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2017

26. Housing Stock

2017 **2016**

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

General Needs	1,498	1,476
Shared Ownership	12	13
	1,510	1,489

27. Capital Commitments

2017 **2016**
£ £

Expenditure authorised and contracted	1,408,000	1,226,572
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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 31st March 2017, the Company had £Nil contingent liabilities (2016 - £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.

30. Post Balance Sheet event

The loan with Co-op Bank was redeemed on 31 July 2017 using Ayrshire Housing's own resources.