



Alexander Sloan
Accountants and Business Advisers

Cernach Housing Association Limited

Report and Financial Statements

For the year ended 31 March 2019

Registered Housing Association No. HAC23

FCA Reference No. 2374R(S)

Scottish Charity No. SCO36607

CERNACH HOUSING ASSOCIATION LIMITED

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CERNACH HOUSING ASSOCIATION LIMITED

MANAGEMENT COMMITTEE, EXECUTIVES AND ADVISERS YEAR ENDED 31 MARCH 2019

MANAGEMENT COMMITTEE

John Brannan	Chairperson
Andy Biddell	Vice Chairperson
Michael Mellon	Secretary
Susan McDonald MBE	
Rosemary McGill	
Tracy Bowie	
Karen McGinley	
Frank John	
Shereen Frank	
Muriel Wylie	
Jean McFarlane	
Diane McMillan	
Andy Keegan	Appointed 27 August 2018
Nicola Kemp	Resigned 28 June 2018
Ann Hardie	Resigned 13 September 2018
Janette Meechan	Resigned 13 September 2018

EXECUTIVE OFFICERS

Caroline Jardine	Director
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REGISTERED OFFICE

79 Airgold Drive
Drumchapel
Glasgow
G15 7AJ

EXTERNAL AUDITORS

Alexander Sloan
Accountants and Business Advisers
180 St Vincent Street
Glasgow
G2 5SG

INTERNAL AUDITORS

Quinn Internal Audit &
Business Support Services
55 Lady Place
Livingston
EH54 6TB

FINANCE AGENTS

FMD Financial Services
KCEDG Commercial Centre
Ladyloan Place
Drumchapel
Glasgow

BANKERS

Bank of Scotland
789 Dumbarton Road
Clydebank
G81 4BY

SOLICITORS

Harper McLeod
The Ca'd'oro
45 Gordon Street
Glasgow
G1 3PE

CERNACH HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019

The Management Committee presents its report and the Financial Statements for the year ended 31 March 2019.

Legal Status

The Association is a registered non-profit making organisation under the Co-operative and Community Benefit Societies Act 2014 No.2374R(S). The Association is governed under its Rule Book. The Association is a registered Scottish Charity with the charity number SCO36607.

Principal Activities

The principal activities of the Association are the provision and management of affordable rented accommodation.

Review of Business and Future Developments

The members of the Management Committee are satisfied with the Association's financial performance in the year. The surplus for the year was £1,094,904 (2018 - £1,192,953). Net assets now stand at £10,379,422 (2018 - £9,384,526).

One of the activities for the the Association in the last year was the joint development at Linkwood Drive with Glasgow Housing Association progressing on site. At the current time, we are on course to take ownership of the 36 new homes in September 2019. Glasgow City Council has also approved grant funding of over £5 million to help provide a further 48 new homes in a second phase to follow on from the Linkwood project. We are planning to fund the non-grant element of the first phase from reserves and we are considering the same approach for the second phase

Three years ago, the Management Committee decided to limit rent increases to inflation only throughout the period of the 30-year plan and this continues to be the case. We also reduced our assumption on inflation and revised our long-term projections to reflect the updated stock condition survey carried out in October 2017. With all of this, the Association remains very healthy in the short, medium and long term with the financial plans holding up well to robust sensitivity analysis.

Operationally, the year commenced with the Association continuing to meet the challenges posed by the impact of reforms to the welfare benefits system in the UK on levels of lost income; Universal Credit roll out started in Glasgow in December 2018 and we are therefore yet to see the full effects of this change. The Management Committee is pleased to note that arrears have continued to reduce in the past twelve months despite the challenges currently being faced. We also completed the scheduled bathroom replacement contract and fencing renewal works in parts of the estate. We will continue with the scheduled planned maintenance programme in the coming year.

Our community development work continued this year with another successful Gala Day – other events included a Christmas party for local children, a Christmas lunch for our older residents and a summer day trip to the coast. We submitted a successful bid for a fifth year of funding for a People and Communities Fund project on behalf of COPE as part of our wider role work and, as part of Glasgow City Council's *Thriving Places* Initiative, we continue to be the employing organisation for a fully-funded Community Connector post.

CERNACH HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019

Management Committee and Executive Officers

The members of the Management Committee and the Executive Officers are listed on Page 1.

Each member of the Management Committee holds one fully paid share of £1 in the Association. The Executive Officers hold no interest in the Association's share capital and, although not having the legal status of Directors, they act as Executives within the authority delegated by the Management Committee.

The members of the Management Committee are also Trustees of the Charity. Members of the Management Committee are appointed by the members at the Association's Annual General Meeting.

Statement of Management Committee's Responsibilities

The Co-operative and Community Benefit Societies Act 2014 requires the Management Committee to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing those Financial Statements, the Management Committee is required to:-

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business;
- prepare a statement on Internal Financial Control.

The Management Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable them to: ensure that the Financial Statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing (Scotland) Act 2010 and the Determination of Accounting Requirements 2019. They are also responsible for safeguarding the assets of the Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. It is also responsible for ensuring the Association's suppliers are paid promptly.

The Management Committee 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 Management Committee are aware:

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

CERNACH HOUSING ASSOCIATION LIMITED

REPORT OF THE MANAGEMENT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2019

Statement on Internal Financial Control

The Management Committee acknowledges its ultimate responsibility for ensuring that the Association 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 Association, or for publication;
- the maintenance of proper accounting records;
- the safeguarding of assets against unauthorised use or disposition

It is the Management Committee's responsibility to establish and maintain systems of Internal Financial Control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. Key elements of the Association's systems include ensuring that:

- formal policies and procedures are in place, including the ongoing documentation of key systems and rules relating to the delegation of authority, which allow the monitoring of controls and restrict the unauthorised use of Association'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 management team and the Management Committee to monitor key business risks, financial objectives and the 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 Management Committee;
- the Management Committee receive reports from management and from the 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 Association is undertaken;
- formal procedures have been established for instituting appropriate action to correct any weaknesses identified through internal or external audit reports.

The Management Committee has reviewed the effectiveness of the system of internal financial control in existence in the Association for the year ended 31 March 2019. No weaknesses were found in the 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.

Donations

During the year the Association made charitable donations amounting to £625 (2018 - £600).

Auditors

A resolution to re-appoint the Auditors, Alexander Sloan, Accountants and Business Advisers, will be proposed at the Annual General Meeting.

By order of the Management Committee


MICHAEL MELLON

Secretary

8 August 2019

CERNACH HOUSING ASSOCIATION LIMITED

REPORT BY THE AUDITORS TO THE MEMBERS OF CERNACH HOUSING ASSOCIATION LIMITED ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the Financial Statements, we have reviewed your statement on page 4 concerning the Association's compliance with the information required by the Regulatory Standards in respect of internal financial controls contained in the publication 'Regulation of Social Housing in Scotland' 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 relating 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 Association'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 4 has provided the disclosures required by the relevant Regulatory Standards contained within the publication 'Regulation of Social Housing in Scotland' and associated Regulatory Advice Notes by the Scottish Housing Regulator in respect of internal financial controls and is consistent with the information which came to our attention as a result of our audit work on the Financial Statements.

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



ALEXANDER SLOAN

Accountants and Business Advisers

Statutory Auditors

GLASGOW

8 August 2019



Alexander Sloan

Accountants and Business Advisers

CERNACH HOUSING ASSOCIATION LIMITED

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

Opinion

We have audited the financial statements of Cernach Housing Association Limited (the 'Association') for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members, as a body, in accordance with the Co-operative and Community Benefit Society Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The Management Committee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

- proper books of account have not been kept by the Association in accordance with the requirements of the legislation;
- a satisfactory system of control over transactions has not been maintained by the Association in accordance with the requirements of the legislation;
- the Statement of Comprehensive Income and Statement of Financial Position are not in agreement with the books of account of the Association; or
- we have not received all the information and explanations we require for our audit.

CERNACH HOUSING ASSOCIATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CERNACH HOUSING ASSOCIATION LIMITED (Continued)

Responsibilities of the Management Committee

As explained more fully in the Statement of Management Committee's Responsibilities as set out on Page 3, the Management Committee are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Management Committee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Committee.
- Conclude on the appropriateness of the Management Committee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Association to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Association's audit. We remain solely responsible for our audit opinion.

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



ALEXANDER SLOAN
Accountants and Business Advisers
Statutory Auditors
GLASGOW
8 August 2019



Alexander Sloan
Accountants and Business Advisers

CERNACH HOUSING ASSOCIATION LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019	2018
		£	£
REVENUE	2	3,792,052	3,736,449
Operating Costs	2	<u>(2,690,447)</u>	<u>(2,556,125)</u>
OPERATING SURPLUS		1,101,605	1,180,324
Loss On Sale Of Housing Stock	7	(18,889)	-
Release of Negative Goodwill	22	55,575	55,575
Interest Receivable and Other Income		26,260	15,706
Interest Payable and Similar Charges	8	(61,647)	(57,508)
Other Finance Income / (Charges)	11	<u>(8,000)</u>	<u>(1,144)</u>
		(6,701)	12,629
SURPLUS FOR THE YEAR	9	<u>1,094,904</u>	<u>1,192,953</u>
Other comprehensive income			
Adjustment relating to Opening Pension Liability	25	(40,000)	-
Actuarial Gains/ (Losses) on defined benefit Pension Plan	25	<u>(60,000)</u>	-
TOTAL COMPREHENSIVE INCOME		<u>994,904</u>	<u>1,192,953</u>

The notes on pages 12 to 31 form part of these financial statements.

CERNACH HOUSING ASSOCIATION LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Notes	2019		2018	
		£	£	£	£
NON-CURRENT ASSETS					
Housing Properties - Depreciated Cost	12 (a)		26,535,565		22,628,204
Other Non-current Assets	12 (b)		587,248		622,442
			<u>27,122,813</u>		<u>23,250,646</u>
Negative Goodwill	22		(2,278,585)		(2,334,160)
CURRENT ASSETS					
Receivables	14	261,857		136,273	
Cash at bank and in hand		4,623,962		4,510,231	
		<u>4,885,819</u>		<u>4,646,504</u>	
CREDITORS: Amounts falling due within one year	15	(1,125,348)		(750,743)	
NET CURRENT ASSETS			<u>3,760,471</u>		<u>3,895,761</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			28,604,699		24,812,247
CREDITORS: Amounts falling due after more than one year	16		(2,935,427)		(3,515,089)
PENSIONS AND OTHER PROVISIONS FOR LIABILITIES AND CHARGES					
Scottish Housing Association Pension Scheme	25	(354,000)		-	
			<u>(354,000)</u>		<u>-</u>
DEFERRED INCOME					
Social Housing Grants	18	(14,297,764)		(11,253,846)	
Other Grants	18	(638,086)		(658,786)	
			<u>(14,935,850)</u>		<u>(11,912,632)</u>
NET ASSETS			<u>10,379,422</u>		<u>9,384,526</u>
EQUITY					
Share Capital	19		128		136
Revenue Reserves			10,733,294		9,384,390
Pension Reserves			(354,000)		-
			<u>10,379,422</u>		<u>9,384,526</u>

The Financial Statements were approved by the Management Committee and authorised for issue and signed on their behalf on 8 August 2019.

Chairperson



Vice Chairperson



Secretary



The Notes on pages 12 to 31 form part of these financial statements.

CERNACH HOUSING ASSOCIATION LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019	2018
		£	£
Net cash inflow from operating activities	17	1,693,295	1,443,464
Investing Activities			
Acquisition and Construction of Properties	(4,693,976)	(218,895)	
Purchase of Other Fixed Assets	(5,220)	(5,927)	
Social Housing Grant Received	3,479,619	82,714	
Proceeds on Disposal of Properties	9,611	-	
Net cash outflow from investing activities		(1,209,966)	(142,108)
Financing Activities			
Interest Received on Cash and Cash Equivalents	26,260	15,706	
Interest Paid on Loans	(59,100)	(54,743)	
Loan Principal Repayments	(336,765)	(336,914)	
Share Capital Issued	7	26	
Net cash outflow from financing activities		(369,598)	(375,925)
Increase in cash		113,731	925,431
Opening Cash & Cash Equivalents		4,510,231	3,584,800
Closing Cash & Cash Equivalents		<u>4,623,962</u>	<u>4,510,231</u>
Cash and Cash equivalents as at 31 March			
Cash		4,623,962	4,510,231
		<u>4,623,962</u>	<u>4,510,231</u>

The notes on pages 12 to 31 form part of these financial statements.

CERNACH HOUSING ASSOCIATION LIMITED

STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2019

	Share Capital	Scottish Housing Association Pension reserve	Revenue Reserve	Total
	£	£	£	£
Balance as at 31 March 2017	117	-	8,191,437	8,191,554
Issue of Shares	26	-	-	26
Cancellation of Shares	(7)	-	-	(7)
Surplus for the year	-	-	1,192,953	1,192,953
Balance as at 31 March 2018	<u>136</u>	<u>-</u>	<u>9,384,390</u>	<u>9,384,526</u>
Balance as at 1 April 2018	136	-	9,384,390	9,384,526
Issue of Shares	7	-	-	7
Cancellation of Shares	(15)	-	-	(15)
Other comprehensive income	-	(354,000)	254,000	(100,000)
Surplus for the year	-	-	1,094,904	1,094,904
Balance as at 31 March 2019	<u>128</u>	<u>(354,000)</u>	<u>10,733,294</u>	<u>10,379,422</u>

The notes on pages 12 to 31 form part of these financial statements.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS

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', Statement of Recommended Practice for social housing providers 2014 and the Co-operative and Community Benefits Societies Act 2014. The Association is a Public Benefit Entity in terms of its compliance with Financial Reporting Standard 102, applicable for accounting periods on or after 1 January 2015.

Basis of Accounting

The Financial Statements have been prepared in accordance with applicable Accounting Standards, the Statement of Recommended Practice - Accounting by Registered Social Landlords 2014, and on the historical cost basis. They also comply with the Determination of Accounting Requirements 2019. A summary of the more important accounting policies is set out below.

Revenue

The Association recognises rent receivable net of losses from voids. Service Charge Income (net of voids) is recognised with expenditure as it is 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 they relate.

Retirement Benefits

The Association participates in the Scottish Housing Associations Defined Benefit Pension Scheme where retirement benefits to employees of the Association are funded by the 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 organisations taken as a whole. The Association accounts for this scheme as a defined benefit pension scheme in accordance with FRS 102. New employees are offered membership of the SHAPS defined contribution scheme. Contributions to defined contribution plans are recognised as an employee benefit expense when they are due.

Valuation Of Housing Properties

Housing Properties are stated at cost less accumulated depreciation. Housing under construction and Land are not depreciated. The Association depreciates housing properties by major component on a straight line basis over the estimated useful economic lives of each identified component. All components are categorised as Housing Properties within note 12. Impairment reviews are carried out if events or circumstances indicate that the carrying value of the components listed below is higher than the recoverable amount.

Component	Useful Economic Life
Structure	50 years
Electrics	30 years
Bathrooms	30 years
Internal Doors	30 years
Windows	25 years
Gutters	25 years
Central Heating	15 years
Boilers	15 years
Kitchens	15-20 years
Land	N/A

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. PRINCIPAL ACCOUNTING POLICIES

Depreciation and Impairment of Other Non-Current Assets

Non-current Assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the expected economic useful lives of the assets at the following annual rates:

Asset Category	Depreciation Rate
Office Premises	2%
Furniture and Fittings	10-25%

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

Social Housing Grant and Other Grants in Advance/Arrears

Social Housing Grants and Other Capital Grants are accounted for using the Accrual Method as outlined in Section 24 of Financial Reporting Standard 102. Grants are treated as deferred income and recognised in income on a systematic basis over the expected useful life of the property and assets to which they relate.

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.

Sales Of Housing Properties

First tranche Shared Ownership disposals are credited to turnover on completion. The cost of construction of these sales is taken to operating costs. In accordance with the Statement of Recommended Practice, disposals of subsequent tranches are treated as non-current asset disposals with the gain or loss on disposal shown in the Statement of Comprehensive Income.

The remaining equity in the property is treated as a non-current asset investment, which is matched with the grant received.

Taxation

The Association is a Registered Scottish Charity and is not liable to taxation on its charitable activities.

Leases/Leased Assets

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Assets held under finance leases and hire purchase contracts are capitalised in the Statement of Financial Position and are depreciated over their useful lives.

Works to Existing Properties

The Association capitalises major repairs expenditure where these works result in an enhancement of economic benefits by increasing the net rental stream over the life of the property.

Capitalisation Of Development Overheads

Directly attributable development administration costs relating to development activities are capitalised in accordance with the Statement of Recommended Practice.

Development Interest

Interest incurred on financing a development is capitalised up to the date of practical completion of the scheme.

Property Development Cost

The proportion of the development cost of shared ownership properties expected to be disposed of as a first tranche sale is held in current assets until it is disposed of. The remaining part of the development cost is treated as a fixed asset. Surpluses made on the disposal of first tranche sales are taken to the Statement of Comprehensive Income in accordance with the Statement of Recommended Practice.

Property developments that are intended for resale are included in current assets until disposal.

Negative Goodwill

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

VAT

The Association is VAT registered but a large proportion of its income is exempt for VAT purposes. As a result most of the VAT paid is not recovered and therefore expenditure is shown inclusive of VAT.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. PRINCIPAL ACCOUNTING POLICIES

Key Judgements made in the application of Accounting Policies

a) *The Categorisation of Housing Properties*

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

b) *Identification of cash generating units*

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

c) *Financial instrument break clauses*

The Association has considered the break clauses attached to the financial instruments that it has in place for its loan funding. In the judgement of the Management Committee, these break clauses do not cause the financial instrument to be classified as a complex financial instrument and therefore they meet the definition of a basic financial instrument.

d) *Pension Liability*

The Association participates in a defined benefit pension scheme arrangement with the Scottish Housing Association Pension Scheme. The fund is administered by the Pensions Trust. This year the Pension Trust have developed a method of calculating each member's share of the assets and liabilities of the scheme. The Association has decided that this method is appropriate and provides a reasonable estimate of the pension assets and liabilities of the Association and has therefore adopted this valuation method.

Financial Instruments - Basic

The Association classes all of its loans as basic financial instruments including agreements with break clauses. The Association recognises basic financial instruments in accordance with Section 11 of Financial Reporting Standard 102.

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

Estimation Uncertainty

The preparation of financial statements requires the use of certain accounting estimates. It also requires the Management Committee to exercise judgement in applying the Association'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, are disclosed below.

a) *Rent Arrears - Bad Debt Provision*

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

b) *Life Cycle of Components*

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

c) *Useful life of properties, plant and equipment*

The Association assesses the useful life of its properties, plant and equipment and estimates the annual charge to be depreciated based on this assessment.

d) *Costs of shared ownership*

The Association allocates costs to shared ownership properties on a percentage basis split across the number of properties the Association owns.

e) *Defined pension liability*

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

f) *Allocation of share of assets and liabilities for multi employer scheme*

Judgements in respect of the assets and liabilities to be recognised are based upon source information provided by administrators of the multi employer pension schemes and estimations performed by the Pensions Trust.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. PARTICULARS OF TURNOVER, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM AFFORDABLE LETTING AND OTHER ACTIVITIES

	Notes	2019			2018		
		Turnover £	Operating Costs £	Operating Surplus / (Deficit) £	Turnover £	Operating Costs £	Operating Surplus / (Deficit) £
Affordable letting activities	3	3,629,927	2,513,298	1,116,629	3,543,347	2,355,289	1,188,058
Other Activities	4	162,125	177,149	(15,024)	193,102	200,836	(7,734)
Total		3,792,052	2,690,447	1,101,605	3,736,449	2,556,125	1,180,324

3. PARTICULARS OF INCOME & EXPENDITURE FROM AFFORDABLE LETTING ACTIVITIES

	General Needs Housing £	Sheltered Housing £	Shared Ownership £	2019 Total £	2018 Total £
Revenue from Lettings					
Rent receivable net of service charges	3,051,757	38,237	37,590	3,127,584	3,036,264
Service charges receivable	-	23,334	3,360	26,694	28,327
Gross income from rent and service charges	3,051,757	61,571	40,950	3,154,278	3,064,591
Less: Rent losses from voids	8,661	-	-	8,661	5,498
Net Rents Receivable	3,043,096	61,571	40,950	3,145,617	3,059,093
Grants released from deferred income	419,069	2,110	35,221	456,400	460,240
Other revenue grants	27,910	-	-	27,910	24,014
Total turnover from affordable letting activities	3,490,075	63,681	76,171	3,629,927	3,543,347
Expenditure on affordable letting activities					
Management and maintenance administration costs	881,003	17,764	11,814	910,581	853,633
Service Costs	-	23,334	3,360	26,694	28,327
Planned and cyclical maintenance, including major repairs	420,376	-	-	420,376	391,494
Reactive maintenance costs	393,103	-	-	393,103	322,783
Bad Debts - rents and service charges	4,429	-	-	4,429	(6,353)
Depreciation of affordable let properties	730,461	4,015	23,639	758,115	765,405
Operating costs of affordable letting activities	2,429,372	45,113	38,813	2,513,298	2,355,289
Operating surplus on affordable letting activities	1,060,703	18,568	37,358	1,116,629	1,188,058
2018	1,150,159	18,841	19,058		

Included within planned and cyclical maintenance are amounts for major repairs of £79,650 (2018 - £82,872)

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. PARTICULARS OF REVENUE, OPERATING COSTS AND OPERATING SURPLUS OR DEFICIT FROM OTHER ACTIVITIES

	Grants From Scottish Ministers	Other Revenue Grants	Other Income	Total Turnover	Operating Costs Other	Operating Surplus / (Deficit) 2019	Operating Surplus / (Deficit) 2018
	£	£	£	£	£	£	£
Wider role activities	27,500	-	-	27,500	27,500	-	-
Welfare Rights	-	-	-	-	15,024	(15,024)	(7,734)
Factoring	-	-	10,838	10,838	10,838	-	-
Agency or management services	-	-	63,964	63,964	63,964	-	-
Other activities	8,623	51,200	-	59,823	59,823	-	-
Total From Other Activities	36,123	51,200	74,802	162,125	177,149	(15,024)	(7,734)
2018	-	114,896	78,206	193,102	200,836	(7,734)	

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. OFFICERS' EMOLUMENTS

	2019	2018
	£	£
The Officers are defined in the Co-operative and Community Benefit Societies Act 2014 as the members of the Management Committee, managers and employees of the Association.		
Aggregate Emoluments payable to Officers with Emoluments greater than £60,000 (excluding Pension Contributions)	<u>73,041</u>	<u>71,187</u>
Pension contributions made on behalf on Officers with emoluments greater than £60,000	<u>7,252</u>	<u>7,065</u>
Emoluments payable to Chief Executive (excluding pension contributions)	<u>73,041</u>	<u>71,187</u>
Total Emoluments paid to key management personnel	<u>80,293</u>	<u>78,252</u>

The number of Officers, including the highest paid Officer, who received emoluments (excluding pension contributions) over £60,000 was in the following ranges:

	Number	Number
£70,001 to £80,000	<u>1</u>	<u>1</u>

6. EMPLOYEE INFORMATION

	2019	2018
	No.	No.
The average monthly number of full time equivalent persons employed during the year was:	<u>15</u>	<u>14</u>
The average total number of Employees employed during the year was	<u>15</u>	<u>14</u>
Staff Costs were:	£	£
Wages and Salaries	517,762	498,485
Social Security Costs	50,718	48,928
Other Pension Costs	<u>50,326</u>	<u>49,720</u>
	<u>618,806</u>	<u>597,133</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. LOSS ON SALE OF HOUSING STOCK

	2019	2018
	£	£
Sales Proceeds	9,611	-
Cost of Sales	28,500	-
Loss On Sale Of Housing Stock	<u>(18,889)</u>	<u>-</u>

8. INTEREST PAYABLE & SIMILAR CHARGES

	2019	2018
	£	£
On Bank Loans & Overdrafts	59,100	54,743
On Other Loans	2,547	2,765
	<u>61,647</u>	<u>57,508</u>

9. SURPLUS FOR THE YEAR

	2019	2018
	£	£
Surplus For The Year is stated after charging/(crediting):		
Depreciation - Tangible Owned Fixed Assets	798,529	803,911
Auditors' Remuneration - Audit Services	8,880	8,790
Loss on sale of fixed assets	<u>18,889</u>	<u>-</u>

10. TAX ON SURPLUS ON ORDINARY ACTIVITIES

The Association is a Registered Scottish Charity and is not liable to United Kingdom Corporation Tax on its charitable activities.

11. OTHER FINANCE CHARGES

	2019	2018
	£	£
Unwinding of Discounted Pension Liabilities	-	1,144
Net Interest on Pension Obligations	8,000	-
	<u>8,000</u>	<u>1,144</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. NON-CURRENT ASSETS

(a) Housing Properties	Housing Properties Held for Letting £	Housing Properties In course of Construction £	Shared Ownership Completed £	Total £
COST				
As at 1 April 2018	32,541,290	119,024	1,406,860	34,067,174
Additions	222,071	4,471,905	-	4,693,976
Disposals	(107,193)	-	(43,212)	(150,405)
As at 31 March 2019	<u>32,656,168</u>	<u>4,590,929</u>	<u>1,363,648</u>	<u>38,610,745</u>
DEPRECIATION				
As at 1 April 2018	10,870,493	-	568,477	11,438,970
Charge for Year	734,477	-	23,638	758,115
Disposals	(107,193)	-	(14,712)	(121,905)
As at 31 March 2019	<u>11,497,777</u>	<u>-</u>	<u>577,403</u>	<u>12,075,180</u>
NET BOOK VALUE				
As at 31 March 2019	<u>21,158,391</u>	<u>4,590,929</u>	<u>786,245</u>	<u>26,535,565</u>
As at 31 March 2018	<u>21,670,797</u>	<u>119,024</u>	<u>838,383</u>	<u>22,628,204</u>

Additions to housing properties in the course of construction include capitalised development administration costs of £30,537 (2018 - £36,310) and housing properties held for letting includes capitalised major repair costs to existing properties of £222,081 (2018 - £99,871).

All land and housing properties are heritable.

Total expenditure on existing properties in the year amounted to £1,035,550 (2018 - £814,148). The amount capitalised is £222,071 (2018 - £99,871) with the balance charged to the statement of comprehensive income. The amounts capitalised can be further split between component replacement of £222,071 (2018 - £99,871) and improvement of £nil (2018 - £nil).

The Association's Lenders have standard securities over Housing Property with a carrying value of £7,868,592 (2018 - £8,104,964).

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. NON CURRENT ASSETS (Continued)

(b) Other Tangible Assets	Office Premises £	Furniture & Equipment £	Total £
COST			
As at 1 April 2018	611,829	700,418	1,312,247
Additions	-	5,220	5,220
As at 31 March 2019	<u>611,829</u>	<u>705,638</u>	<u>1,317,467</u>
AGGREGATE DEPRECIATION			
As at 1 April 2018	142,517	547,288	689,805
Charge for year	11,876	28,538	40,414
As at 31 March 2019	<u>154,393</u>	<u>575,826</u>	<u>730,219</u>
NET BOOK VALUE			
As at 31 March 2019	<u>457,436</u>	<u>129,812</u>	<u>587,248</u>
As at 31 March 2018	<u>469,312</u>	<u>153,130</u>	<u>622,442</u>

13. CAPITAL COMMITMENTS

	2019 £	2018 £
Capital Expenditure that has been contracted for but has not been provided for in the Financial Statements	<u>957,902</u>	<u>-</u>

The above commitments will be financed by a mixture of public grant, private finance and the Association's own resources.

14. RECEIVABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £	2018 £
Arrears of Rent & Service Charges	93,566	100,405
Less: Provision for Doubtful Debts	<u>(43,902)</u>	<u>(45,614)</u>
Other Receivables	49,664	54,791
	<u>212,193</u>	<u>81,482</u>
	<u>261,857</u>	<u>136,273</u>

15. PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £	2018 £
Housing Loans	346,494	349,049
Trade Payables	131,902	88,593
Rent Received in Advance	127,373	115,734
Other Taxation and Social Security	15,038	13,822
Other Payables	63,503	73,671
Liability for Past Service Contributions	-	82,548
Accruals and Deferred Income	<u>441,038</u>	<u>27,326</u>
	<u>1,125,348</u>	<u>750,743</u>

At the statement of financial position date, there were pension contributions outstanding of £nil (2018 - £13,525).

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019	2018
	£	£
Liability for Past Service Contributions	-	245,452
Housing Loans	2,935,427	3,269,637
	<u>2,935,427</u>	<u>3,515,089</u>
Housing Loans		
Amounts due within one year	346,494	349,049
Amounts due in one year or more but less than two years	357,251	360,994
Amounts due in two years or more but less than five years	998,031	1,158,244
Amounts due in more than five years	1,580,145	1,750,399
	<u>3,281,921</u>	<u>3,618,686</u>
Less: Amount shown in Current Liabilities	346,494	349,049
	<u>2,935,427</u>	<u>3,269,637</u>
Liability for Past Service Contributions		
Amounts due within one year	-	82,548
Amounts due in one year or more but less than two years	-	83,759
Amounts due in two years or more but less than five years	-	161,693
	<u>-</u>	<u>328,000</u>
Less: Amount shown in Current Liabilities	-	82,548
	<u>-</u>	<u>245,452</u>

In 2018, the liability for the past service contributions was previously accounted for in accordance with FRS 102 para 28.13A and represented the present value of the contributions payable. The cash out flows in the prior year were discounted at a rate of 1.51%.

In 2019, the defined benefit obligation is shown under Pension and Other Provisions for Liabilities and Charges in the Statement of Financial Position. Further details are provided in note 26.

The Association has a number of long term housing loan, the terms and conditions of which fall into the following ranges:

Effective interest rate of base plus 0.45% and Libor plus 0.475% to 1.675%, expiring between 2022 and 2044.

A total of 360 housing properties are secured to lenders in respect of these loan facilities which have been valued in the financial statements as follows:

	2019	2018
	£	£
Due to lenders at the year end	3,302,070	3,641,382
Effective interest rate adjustment	(20,149)	(22,696)
Loans at amortised cost using the effective interest rate	<u>3,281,921</u>	<u>3,618,686</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. STATEMENT OF CASH FLOWS

<i>Reconciliation of surplus for the year to net cash inflow from operating activities</i>		2019	2018	
		£	£	
Surplus for the year		1,094,904	1,192,953	
Depreciation		798,529	803,912	
Loss on disposal		18,889	-	
Amortisation of Capital Grants		(456,401)	(460,244)	
Change in debtors		(125,584)	35,508	
Change in creditors		459,708	(114,885)	
Unwinding of Discount on Pension Liability		(74,000)	(1,144)	
Release of Negative Goodwill		(55,575)	(55,575)	
Transfer of interest to financial activities		32,840	42,946	
Share Capital Written Off		(15)	(7)	
Net cash inflow from operating activities		<u>1,693,295</u>	<u>1,443,464</u>	
Reconciliation of net cash flow to movement in net debt				
	2019		2018	
	£	£	£	
Increase in cash	113,731	925,431		
Cashflow from change in net debt	<u>335,765</u>	<u>375,899</u>		
Movement in net debt during the year		450,496	1,301,330	
Net funds (debt) at 1st April 2018		891,545	(409,785)	
Net funds at 31 March 2019		<u>1,342,041</u>	<u>891,545</u>	
Analysis of changes in net debt				
	At	Cashflows	Non cash	At
Cash at bank and in hand	01 April 2018		movements	31 March 2019
	4,510,231	113,731		4,623,962
Debt: Due within one year	(349,049)	335,765	(334,210)	(345,494)
Due after more than one year	(3,259,637)	-	334,210	(2,935,427)
Net Funds	<u>891,545</u>	<u>450,496</u>	-	<u>1,342,041</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. DEFERRED INCOME

	Housing Properties Held for Letting £	Housing Properties In course of Construction £	Shared Ownership Completed £	Total £
Social Housing Grants				
As at 1 April 2018	18,795,325	82,714	835,641	19,713,680
Additions in the year	-	3,479,619	-	3,479,619
Eliminated on disposal of components and property	(86,104)	-	(33,049)	(119,153)
As at 31 March 2019	<u>18,709,221</u>	<u>3,562,333</u>	<u>802,592</u>	<u>23,074,146</u>
Amortisation				
As at 1 April 2018	8,085,491	-	374,343	8,459,834
Eliminated on disposal	(86,104)	-	(33,049)	(119,153)
Amortisation in year	400,480	-	35,221	435,701
As at 31 March 2019	<u>8,399,867</u>	<u>-</u>	<u>376,515</u>	<u>8,776,382</u>
Net book value				
As at 31 March 2019	<u>10,309,354</u>	<u>3,562,333</u>	<u>426,077</u>	<u>14,297,764</u>
As at 31 March 2018	<u>10,709,834</u>	<u>82,714</u>	<u>461,298</u>	<u>11,253,846</u>
Other Grants				
As at 1 April 2018	1,123,003	-	-	1,123,003
As at 31 March 2019	<u>1,123,003</u>	<u>-</u>	<u>-</u>	<u>1,123,003</u>
Amortisation				
As at 1 April 2018	464,217	-	-	464,217
Amortisation in year	20,700	-	-	20,700
As at 31 March 2019	<u>484,917</u>	<u>-</u>	<u>-</u>	<u>484,917</u>
Net book value				
As at 31 March 2019	<u>638,086</u>	<u>-</u>	<u>-</u>	<u>638,086</u>
As at 31 March 2018	<u>658,786</u>	<u>-</u>	<u>-</u>	<u>658,786</u>
Total grants net book value as at 31 March 2019	<u>10,947,440</u>	<u>3,562,333</u>	<u>426,077</u>	<u>14,935,850</u>
Total grants net book value as at 31 March 2018	<u>11,368,620</u>	<u>82,714</u>	<u>461,298</u>	<u>11,912,632</u>

This is expected to be released to the Statement of Comprehensive Income in the following years:

	2019 £	2018 £
Amounts due within one year	456,401	460,244
Amounts due in one year or more	14,479,449	11,452,388
	<u>14,935,850</u>	<u>11,912,632</u>

19. SHARE CAPITAL

Shares of £1 each Issued and Fully Paid	2019 £	2018 £
As at 1 April 2018	136	117
Issued in year	7	26
Cancelled in year	(15)	(7)
As at 31 March 2019	<u>128</u>	<u>136</u>

Each member of the Association holds one share of £1 in the Association. These shares carry no rights to dividend or distributions on a winding up. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid thereon becomes the property of the Association. Each member has a right to vote at members' meetings.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. HOUSING STOCK

The number of units of accommodation in management at the year end was:-	2019	2018
	No.	No.
General Needs - New Build	337	337
General Needs - Rehabilitation	455	455
Shared Ownership	17	18
Supported Housing	2	2
	<u>811</u>	<u>812</u>

21. RELATED PARTY TRANSACTIONS

Members of the Management Committee are related parties of the Association as defined by Financial Reporting Standard 102.

Those members who are tenants of the Association have tenancies that are on the Association's normal tenancy terms and they cannot use their positions to their advantage.

The Management Committee members cannot use their position to their advantage. Any transactions between the Association and any entity with which a Management Committee member has a connection with is made at arm's length and is under normal commercial terms.

Transactions with Management Committee members (and their close family) were as follows:

	2019	2018
	£	£
Rent received from tenants on the Management Committee and their close family members	47,449	50,469
Factoring charges received from factored owners on the Management Committee and their close family members	755	948

At the year end total rent arrears owed by the tenant members on the Management Committee (and their close family) were £121 (2018 - £278).

At the year end total factoring arrears owed by the factored owners on the Management Committee (and their close family) were £nil (2018 - £256).

Members of the Management Committee who are tenants	10	11
Members of the Management Committee who are owner occupiers	<u>1</u>	<u>1</u>

22. NEGATIVE GOODWILL

	2019	2018
	£	£
As at 1 April 2018	2,334,160	2,389,735
Release during the year	(55,575)	(55,575)
As at 31 March 2019	<u>2,278,585</u>	<u>2,334,160</u>

23. DETAILS OF ASSOCIATION

The Association is a Registered Society registered with the Financial Conduct Authority and is domiciled in Scotland.

The Association's principal place of business is 79 Airgold Drive, Drumchapel, Glasgow.

The Association is a Registered Social Landlord and Scottish Charity that owns and manages social housing property in Drumchapel, Glasgow.

24. MANAGEMENT COMMITTEE MEMBER EMOLUMENTS

Management Committee members received £781 (2018 - £nil) in the year by way of reimbursement of expenses. No remuneration is paid to Management Committee members in respect of their duties to the Association.

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RETIREMENT BENEFIT OBLIGATIONS

Scottish Housing Association Pension Scheme

Cernach Housing Association Limited participated in the Scottish Housing Association Pension Scheme (the Scheme). The Scheme is a multi-employer defined benefit scheme. The Scheme is funded. The Association is an admitted body under the Scottish Housing Association Fund, the assets of which are held in a separate Trustee administered Fund.

The last valuation of the Scheme was performed as at 30 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 £612m. The valuation revealed a shortfall of assets compared with the value of liabilities of £198m (equivalent to a past service funding level of 76%).

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30th 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 £341m and indicated an increase in the shortfall of assets compared to liabilities to approximately £207m, 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 Association may become liable for the obligations of a third party.

The administering authority has responsibility for the management of the Fund. As most of the Fund's investments are equity based, there is an inherent risk of volatility in the investment market having a significant effect on the value of the Fund's assets. In order to mitigate this risk, the Fund holds a diverse investment portfolio with a range of investment managers.

Change in Accounting Estimate

The pension fund is administered by the Pensions Trust. Previously only the past service deficit was included as a liability in the financial statements as the Association's share of the pension assets and liabilities could not be determined. This year the Pension Trust have developed a method of calculating each member's share of the assets and liabilities of the scheme. The figures are available at 1 April 2018 and 31 March 2019. The Association has decided that this method is appropriate and provides a reasonable estimate of the pension assets and liabilities of the Association and has therefore adopted this valuation method.

In January 2019, the FRC issued FRED 71 (Draft amendments to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland, Multiemployer defined benefit plans) which provides proposed changes to FRS 102 on how to treat the transition from defined contribution to defined benefit accounting. This method has been adopted by the Housing Association as the most appropriate treatment. As a result the change has been accounted for as a change in accounting estimate.

Due to the change in accounting estimate the past service deficit liability has been removed as the liability is included in the pension liability now calculated by the actuary and shown under Pension and Other Provisions for Liabilities and Charges in the Balance Sheet. The change has been reflected in Other Comprehensive Income as follows:

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RETIREMENT BENEFIT OBLIGATIONS

	2019
	£
Opening defined benefit obligation as at 1 April 2018 (per actuary)	368,000
Opening past service deficit liability under previous recognition basis	(328,000)
Movement to other comprehensive income	<u>£ 40,000</u>

As a result the unwinding of the past service deficit is no longer shown within finance charges. Instead the expenses, interest and other comprehensive income as detailed within this note are incorporated within the financial statements.

The following figures are prepared by the Actuaries in accordance with their understanding of FRS 102 and Guidance Note 36: Accounting for Retirement Benefits under FRS 102 issued by the Institute and Faculty of Actuaries.

Principal Actuarial Assumptions

	2019	2018
	%p.a.	%p.a.
Salary increases	3.3%	3.2%
Inflation RPI	3.3%	3.2%
Inflation CPI	2.3%	2.2%
Discount rate	2.3%	2.5%

Allowance for commutation of pension for cash at retirement for both years is 75% of maximum allowance.

Membership of the Scheme comprises the following:

	2019
	£000
Employee members	2
Deferred pensioners	7
Pensioners	6
	<u>15</u>

Mortality Rates

Life expectancy is based on the PFA92 and PMA92 tables, with mortality improvements projected based on members' individual year of birth. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males (Years)	Females (Years)
Current Pensioners	21.7	23.4
Future Pensioners	23.1	24.7

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RETIREMENT BENEFIT OBLIGATIONS

Fair value of scheme assets by category

	2019	2018
	£000	£000
Growth Assets	1,058	1,014
Matching Plus	449	430
Liability Driven Investment	943	864
Property	196	142
Net Current Assets	3	5
	<u>2,649</u>	<u>2,455</u>

None of the above assets includes any direct involvement in the Association's assets

Net Pension Liability

	2019
	£000
Fair value of employer's assets	2,649
Present value of scheme liabilities	(3,003)
	<u>(354)</u>

Reconciliation of fair value of employer assets

	2019
	£000
Opening fair value of employer assets	2,455
Expected Return on Assets	63
Contributions by Members	10
Contributions by the Employer	97
Actuarial Gains / (Losses)	100
Estimated Benefits Paid	(76)
Closing fair value of assets	<u>2,649</u>

The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £163,000.

Reconciliation of defined benefit obligations

	2019
	£000
Opening defined benefit obligation	2,823
Current Service Cost	15
Interest Cost	71
Contributions by members	10
Actuarial (Gains) / Losses	160
Estimated Benefits Paid	(76)
Closing defined benefit obligation	<u>3,003</u>

CERNACH HOUSING ASSOCIATION LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. RETIREMENT BENEFIT OBLIGATIONS

Analysis of amount charged to the Statement of Comprehensive Income

	2019 £000
Charged to operating costs:	
Service cost	(15)
Charged to Other Finance Costs / (Income)	
Expected Return on employer assets	63
Interest on pension scheme liabilities	(71)
Net interest on pension obligations	(8)
Net Charge to the Statement of Comprehensive Income	(23)

Actuarial Gain / (Loss) recognised in the Other Comprehensive Income

	2019 £000
Experience on plan assets	100
Experience gains and losses arising on the plan liabilities - gain / (loss)	5
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain / (loss)	(8)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	(157)
Total amount recognised in other comprehensive income - gain (loss)	(60)

Analysis of projected amount to be charged to the Statement of Comprehensive Income for the year ended 31 March 2019

	£000
Current service cost	14
Interest on obligation	7
Expenses	3
	<u>24</u>