

**MHA AUCHLOCHAN  
REPORT AND FINANCIAL STATEMENTS  
31 March 2016**

Charity Registered No. SC040155  
Company Registration No. SC352117

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**MHA AUCHLOCHAN  
BOARD OF DIRECTORS' REPORT INCLUDING STRATEGIC REPORT  
31 MARCH 2016**

**1. STRATEGIC REPORT**

**Objectives and Activities**

The objective of MHA Auchlochan ("the Charity" or "MHAA") are to provide services for the relief of older people and other adults in need, particularly (but not limited to) those with mental illness or physical/learning disabilities. The range of services includes:

- Accommodation; and/or
- Care and support services; and/or
- Any other provision, in the United Kingdom or elsewhere, which may facilitate an improved quality of life.

MHAA's mission is to improve the quality of life for older people, inspired by Christian concern. Our main objectives for the coming year are to continue to provide high quality care, accommodation and support services and to reach out to a greater number of older people through the creation of more retirement living capacity on the site.

For the 2015/16 financial year, this was achieved primarily through the redevelopment of the provision at the Nethanvale Care Home to become a Retirement Living Community. Longer term, we continue to explore ways to improve the quality of service for our residents still further, and to pursue additional development opportunities on the site.

Our Values underpin all our work and strategy. We are a Christian-based charity, combining professional standards and management with the highest levels of care and support for older people. Our values are:

- We respect every person as a unique individual
- We treat others, especially the most frail and vulnerable, with the dignity we wish for ourselves
- We are open and fair in all our dealings
- We always seek to improve, to become the best we can be
- We nurture each person's body, mind and spirit to promote a fulfilled life

**Public Benefit**

The Board has due regard of the Charities Act 2011 and the Charity Commission guidance on public benefit, in particular the requirement that public benefit can no longer be presumed but must be demonstrated. We are confident in our role as a charity delivering services to the public and meeting the Charity Commission's public benefit requirements now and into the future.

MHAA provides dementia specialist care in residential and nursing care homes, retirement living with care, communities and resource centres. Our person-centred care recognises each person as a unique individual and addresses their own spiritual and physical needs, with both reassurance and support. Our services are open to all. Our Care Home residents are split broadly 34:66 into those that are fully self-funded and those that are partially or fully funded by the local authority or the National Health Service (NHS), meaning that our services are open to all.

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**Public Benefit (continued)**

Our care homes and retirement living schemes are made up of diverse communities and opportunities are made available for individuals to develop and practise their faith as they feel appropriate. Whilst our work is inspired by the Christian faith we have always welcomed people from all religious traditions, as well as those without any religious affiliation.

Every MHAA care service is supported by a dedicated Chaplain, who come from a range of denominations. Some are ordained ministers and others are lay people. They provide a listening presence and one-to-one pastoral support for all residents and staff members, whatever their backgrounds or need. They organise worship for those who wish to take part. Residents are encouraged to maintain links with their local faith communities.

For many residents, MHAA will provide them with their last home. Our Chaplains have a particular role in helping residents, and their relatives, approach their final years, hopefully with a sense of acceptance, peace and fulfilment.

MHAA aims to ease the symptoms of dementia with understanding and expertise. We focus on individual needs and support older people in achieving interesting and satisfying lives. Our dementia specialist care has been shown to improve well-being, following sound research and long-term experience and continues to develop to meet the changing needs of older people. The MHA group has developed a national music therapy programme. They have recruited an in-house team of trained music therapists to deliver weekly one-to-one and group music therapy sessions for residents diagnosed with dementia. MHA now employs 18 full time music therapists. MHAA participates in this service provision.

**Significant Activities**

The significant charitable activities undertaken are:

i. Care Homes

Residential, dementia and nursing care homes offer 24-hour person-centred care and support for residents in specially designed accommodation. All residents have a private room with en-suite bedrooms and spacious dining facilities, communal areas and gardens. Full and varied activities programmes, including opportunities for music therapy and shared worship or one-to-one meetings with a Chaplain for spiritual support (faith-based or not, as required), are made available to meet the needs and preferences of each resident.

ii. Retirement Living

There are purpose-built bungalows and apartments run by MHAA, each with individual kitchen, bathroom, bedroom and living areas for independence and privacy coupled with shared areas for activities, social events and friendship. These are available for rent, shared ownership and purchase.

The manager organises cleaning and maintenance of the building and gardens and is also on hand to provide help and assistance when needed. Services with care offer the addition of 24-hour staffing to provide person-centred care and support to meet individual needs, including specialist dementia care.

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**Significant Activities (continued)**

MHAA is grateful for the support of its volunteers. Our volunteers help to significantly improve the quality of life for people living in the retirement village or our care home. This help includes befriending visits, supporting older people on social outings and trips and helping run activities such as lunch clubs, crafts and keep fit activities.

**Achievements and Performance**

We are continuously looking to reconfigure and ultimately expand the amount of care we provide through the provision of more places. The charity therefore, with the support of its parent, invests a substantial value in the provision of additional settings where these services can be delivered.

The following KPI's illustrate the MHAA settings maintained:

	<b>2016</b>	<b>2015</b>
Number of Care Homes	2	3
Number of Care Home Places	127	132
Number of Retirement Living Communities	1	1
Number of Retirement Properties Served	183	183

**Financial Review**

The Statement of Financial Activities shows total income of £7,194,000 (2015: £6,557,000), a 9.1% increase on the previous financial year.

The net decrease in funds of £11,000 is added to the total deficit brought forward of £4,473,000. The parent Charity Board continue to review the deficit position at MHAA and are committed to maintaining support for the charity so as to maintain its going concern status. The Board continues to investigate ways to invest in the site to increase provision and are confident that MHAA will successfully eliminate the deficit in due course.

The directors do not consider the market value at 31 March 2016 of the freehold land and buildings to be materially different from the amount stated.

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**Key Performance Indicators**

	<b>2015/16</b>	<b>2014/15</b>
	<b>Actual £'000</b>	<b>Actual £'000</b>
Total income	7,194	6,557
Operating costs	7,205	6,501
(Deficit)/surplus for the year	(11)	56
	<b>2015/16</b>	<b>2014/15</b>
Service users – Care homes	119	132
Service users – Independent living	211	207
Occupancy – Care homes	90.8%	86.4%
Service user satisfaction:		
Care homes	97%	96%

**Reserves Policy**

The Board of Directors have considered the level of reserves which should be maintained within the Charity and this is reviewed annually. Such reserves are needed to cover, for example, working capital, the risk of possible shortfalls in charitable income and other contingencies.

The Board considers that minimum reserves of cash and investments of approximately £500,000 are needed to cover such items, and to enable the Charity to continue to operate to meet its charitable objectives. Actual cash reserves were £937,000 (2015: £858,000).

Since MHAA is confident that it can meet its liabilities as they fall due from projected future income without significantly impacting on its planned level of charitable activity, it continues to calculate its 'free' or general reserves without setting aside any designated reserves.

**Principal Funding Sources**

The Charity has arranged a loan facility with the Allied Irish Bank which was fully drawn at 31 March 2016. The balance at 31 March 2016 was £10,525,000 (2015: £11,670,000). Fixed assets additions of £3,360,000 (2015: £983,000), have been met from borrowings.

**Risk Management**

The Board oversees strategic risk annually with additional operational risk assessment through delegation to the MHA Audit Committee, which owns the risk framework. The risk register is reviewed by the MHA Finance Committee and any risk outcomes or recommendations are reported to the Board.

Risk control is exercised appropriately by Executive Directors undertaking a formal half yearly review of strategic and operational risks for their respective areas. Risk management is embedded into the organisation by Executive Directors and Senior Managers calculating the risk reviews and obtaining feedback to inform the half yearly reviews.

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**Risk Management (continued)**

The key risks likely to affect the Charity's ability to meet its objectives include: the impact of the economic recession on the care and housing sector and particularly the availability of state funding affecting our ability to serve older people with limited personal means and a seriously poor reputation at one or more schemes, undermining confidence of supporters and lenders. Recent announcements regarding the move to a National Living Wage are also likely to impact the sector. These risks are monitored and appropriate actions taken. The Board's plans to address these specific risks are as follows:

i) **The Availability of State Funding**

Management monitor the levels of funding on a monthly basis and report these to the Board by means of KPIs. The Board takes appropriate commercial and pricing decisions to protect the Charity.

ii) **Reputational Risk**

In an environment of increasing legislation, the management of quality is a high priority for the Charity. Management employ an internal system of risk monitoring that focuses on key factors that might indicate potential quality concerns, which are then investigated. The Board is regularly appraised of the results of this monitoring and associated actions.

iii) **National Living Wage**

The Charity has a long-standing policy of seeking to pay above minimum wage levels. Further to this the Charity endeavours to strike the right balance between passing on cost increases to service users and providing an attractive employment proposition. The Board is regularly appraised of this and sets pay policy through agreement of the annual pay review process.

iv) **Change Management**

The charity operates within a dynamic sector and to enable it to deliver its growth strategy which, in turn, will enable it to help more older people enjoy a better old age, it adopts an integrated approach to managing cultural, process and system change.

**Financial Risk Management**

Financial risks are identified by the Executive Directors as part of the annual business planning process and are monitored on a regular basis. Financial performance is reported to the MHA Finance Committee for further scrutiny as delegated by the Board. Key areas of risk that impact the Charity's operations include the management of working capital and long-term funding required to support the Charity's growth plans. The Charity takes a risk-averse approach to the effect of interest rates on its borrowings and has entered into appropriate hedging.

**Future Developments**

The MHA Board has agreed a strategy for the MHA group with ambitions to become the leading charity for older people. MHA plans to triple the number of people directly supported by the charity to 50,000 people each year and influence national policy that will help many more. In order to extend our services to more older people, we plan to increase the number of our operating sites through new build and to redevelop existing facilities where provision can be extended or improved. With regards to MHAA, this means that we

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**Future Developments (continued)**

will continue to investigate ways to improve and further develop the site to increase both the amount and quality of the provision.

**Quality**

We will continue to focus on achieving high standards to improve quality of life for older people. The basis of our performance management is MHAA's Standards, measuring performance in quality of care, staffing and finance.

We will:

- Complete the redevelopment of the Nethanvale Care Home into Retirement Living apartments; and
- Continue to assess the viability of providing additional accommodation on site and provide additional site facilities in conjunction with our residents.

**2. STRUCTURE, GOVERNANCE AND MANAGEMENT**

**Governing Document**

MHAA is a company limited by guarantee (Companies House No. SC352117) and a registered Charity (Registered Charity No SC040155). It is governed by its Memorandum and Articles of Association, last amended April 2011. The charitable company was incorporated on 4 December 2008 and registered with OSCR on 29 December 2008.

For the year to 31 March 2016, the charitable company was a subsidiary of Methodist Homes. The connected charitable organisation, Methodist Homes Housing Association Limited, was also a subsidiary of this group.

**Organisational Structure**

The Board consists of up to seven Board Members.

Methodist Homes has the following committees all of which have a group-wide remit including MHAA:

- The Audit Committee advises the Board on all matters relating to the annual financial statements, external audit, risk management and internal financial control.
- The Finance Committee provides guidance on financial strategy and reviews management information, budgets and forecasts.
- The Remuneration Committee determines, on behalf of the Board, the remuneration of the Leadership team. The Committee benchmarks management salaries against prevailing market rates as required.
- The Quality Assurance Committee has been established to provide assurance to the Charity Board that effective strategies and systems for the management and reporting of matters relating to the quality of care practice are in place and to scrutinise those on behalf of the Board. This will be structured under three dimensions of quality: Resident Safety; Care Effectiveness; Resident Experience.
- The Property Committee acts on behalf of the Board in assessing the strategy for development expenditure and advises the Board in property matters. The Committee approves expenditure on significant capital projects and reviews progress and quality controls.



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**Organisational Structure (continued)**

- The Governance Committee takes delegated responsibility on behalf of the Board for ensuring good governance of the charity, for identifying and proposing new members of the Board, and for their induction, support and development.

The Board delegates authority for day-to-day management to the Executive Leadership Team. Whilst the leadership team may have the title of Director they are not statutory directors, except for Executive Leadership Team members who are 'parent appointed' as Board members. References within this report to Directors refer to Board Members with statutory responsibilities.

Board members receive no remuneration. The Board delegates the remuneration of the Executive Leadership Team to the Remuneration Committee, who benchmark management salaries against appropriate comparable organisations.

**Election and Appointment of Board Members**

MHAA Board Members are appointed by the Board of Methodist Homes from the membership of the MHA Board through delegation to the Governance Committee.

The Chair is eligible to serve for one term of four years. Board members are eligible to serve for two terms of three years. The maximum term of office for a Board Member who becomes Chair is nine years, subject to re-election during that period.

Members who served on the Board during the period are shown in the list of officers on page 11.

**Induction and Training of Board Members**

New Board Members receive full induction which includes our Code of Conduct, Board Manual, constitutional documents, policies and information relevant to the work of the Charity.

In addition, all Board Members visit services and further develop understanding of the work of the organisation. Visits to services are also an annual feature of Board meetings. Training of all Board Members is provided in accordance with requirements and as a result of annual performance appraisals. Insurance has been taken to indemnify Board Members against liability for wrongful acts.

The Board Members decide the strategic aims of the Charity and hold to account management to perform executive functions. Decisions are taken in accordance with the instructions laid down in the Charity's Standing Orders and related policy documents.

**Connected Charities**

During the year to 31 March 2016, MHAA worked closely with two associated charitable organisations:

Methodist Homes (MHA)	- parent company
Methodist Homes Housing Association	- fellow subsidiary undertaking

The Executive Leadership Team are employed by MHA but take responsibility for the day-to-day management of all associated organisations, including MHAA. MHAA's operating policies are therefore aligned with those of MHA.

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**Staff Members**

MHAA is fortunate in employing so many staff members who share our values and provide an exceptional service to older people. We are careful in our recruitment and committed to retaining good managers and staff members through rewards, training, personal development and career opportunities, flexible benefits and engagement, including motivation and participation. We are grateful for the contribution and work of all staff, who together, make a real difference to the lives of older people.

Consultation with staff members has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interest, and that all staff members are aware of the quality measures and financial performance of their local service and of MHA as a whole.

Communication with all staff members continues through regular 1-1 meetings, team meetings and newsletters.

MHAA understands and values the differences in people and has a commitment to creating an environment that treats each individual fairly. A commitment not to discriminate against any person or group on any basis, underpins our policies and actions. We are open to all and actively support those with disabilities giving full and fair consideration at recruitment and support throughout employment. MHAA continues to ensure we reflect the diversity of the local population.

**Trustees' Responsibilities Statement**

The trustees (who are also directors of MHAA) for the purpose of company law are responsible for preparing the Board of Directors' Report including the strategic report and the financial statements in accordance with applicable law and regulations.

Company law requires the trustees to prepare financial statements for each financial year. Under that law the trustees have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102). Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the charitable company for that period.

In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and apply them consistently;
- observe the methods and principles in the Charities SORP;
- 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.
- Take cognisance of Scottish Law as and when it applies

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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**Trustees' Responsibilities Statement (continued)**

The trustees are responsible for the maintenance and integrity of the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Going concern**

The trustees have reviewed the financial position of the entity for a period of two years from the year end against the expected recurring operational income, expenditure and interest costs in conjunction with the entity's banking covenants. On this basis the trustees consider that the charity has access to sufficient resources to continue in existence for the foreseeable future. The net deficit position is considered to be sustainable on the basis that operational surpluses are expected to continue in the future. Further redevelopment of the site is expected to generate surplus funds that will return reserves to a positive position. MHAA forms a key part of the strategy of the parent.

The Charity and the Board has committed to continue that support. For these reasons the trustees continue to adopt the going concern basis in preparing the entity's financial statements.

The trustees consider that there are no material uncertainties about the charity's ability to continue as a going concern.

**Internal Financial Control Assurance**

The Board is responsible for the MHAA's systems of internal financial control. Such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Board confirms there is an ongoing process for identifying, evaluating and managing significant risks to the achievement of the MHAA's strategic objectives. It has established the following key procedures, which are designed to provide effective internal financial controls:

- **Control environment and procedures:**  
The Board has approved Standing Orders, which establish clear management responsibilities in relation to financial control and limits to management discretion. Financial processes are supervised by staff with appropriate experience and qualifications.
- **Risk management:**  
The Board has adopted Financial Strategies, which are designed to identify and control significant risks facing the organisation. All significant initiatives and capital investments are subject to formal authorisation procedures.
- **Management information:**  
The Board approves annually a rolling plan, which incorporates an Annual Budget, and receives regular financial and management reports which identify variances from budget and key financial indicators.
- **Monitoring systems:**  
The Board has an Audit Committee, which reviews reports from management, external auditors and internal control assurance processes to provide reasonable assurance that control procedures are in place and being followed. The Committee makes regular reports to the Board.

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**Internal Financial Control Assurance (continued)**

The Board has reviewed the effectiveness of the system of internal control for the year ended 31 March 2016 and until the date of approval of the financial statements. No weaknesses were found that resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements, or in the auditors' report on those financial statements.

**Statement of Disclosure of Information to Auditors**

In accordance with the provisions of Section 418 of the Companies Act 2006, each of the persons who are trustees of the Company at the date when this report is approved confirms that:

- (a) so far as the trustee is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) they have taken all the steps that they ought to have taken as a trustee in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Independent Auditors**

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office. A resolution concerning their re-appointment will be proposed at the Annual General Meeting.

The report of the board was approved on 15 September 2016 and signed on its behalf by:

Dr. David Hall  
Chair  
Auchlochan House  
New Trows Road  
Lesmahagow  
ML11 0GS



**MHA AUCHLOCHAN  
BOARD, OFFICERS AND ADVISORS  
31 MARCH 2016**

**Reference and Administrative details**

<b>Board</b>	<b>Born</b>	<b>Term of office Start</b>	<b>Committee Membership</b>
<b>Chair</b>			
Dr. David Hall	1941	Nov 2014	MHA Governance Committee
<b>Other Board Members</b>			
Andrew Mason	1963	Nov 2014	MHA Property Committee
Joy Kingsbury	1960	Nov 2014	
Vanella Jackson	1961	Jul 2015	MHA Property Committee
Mark Terry	1963	Aug 2015	

**Leadership Team**

<b>Name</b>	<b>Born</b>	<b>Start</b>	<b>Position</b>
Rev Dr Keith Albans	1956	2001	Director of Chaplaincy & Spirituality
Carol Artis	1953	2005	Director of Care Homes
Anna Marshall-Day	1972	2006	Director of People Development
Annie Webber	1960	2013	Director of Quality
Adrian Bagg	1962	2014	Chief Executive
Joy Kingsbury	1960	2014	Director of Retirement Living
Mark Terry	1963	2015	Director of Finance
Sue Allchurch	1963	2015	Director of Marketing

**Company Secretary**

Mark Terry

**MHA AUCHLOCHAN  
BOARD, OFFICERS AND ADVISORS  
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**Registered Office**

MHA Auchlochan  
Auchlochan House  
New Trows Road  
Lesmahagow  
ML11 0GS

Tel: (01555) 893592/892221

Fax: (01555) 894902

Email: [auchlochan.enquiries@mha.org.uk](mailto:auchlochan.enquiries@mha.org.uk); Website: [www.mhaauchlochan.org.uk](http://www.mhaauchlochan.org.uk)

Charity Registered Number SC040155

Company Registered Scotland Number SC352117

**Professional Advisors**

**Solicitors**

TC Young  
69a George Street  
Edinburgh EH2 2JG

**External Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT

**Bankers**

HSBC Plc  
70 Pall Mall  
London SW1Y 5EZ

AIB Group (UK) Plc  
Podium Floor,  
St. Helens,  
1 Undershaft,  
London,  
EC3A 8AB

**Investment Advisors**

Central Finance Board of the Methodist Church  
9 Bonhill Street  
London EC2A

## MHA AUCHLOCHAN

### **Independent auditors' report to the members of MHA Auchlochan**

#### **Report on the financial statements**

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##### **Our opinion**

In our opinion, MHA Auchlochan's financial statements (the "financial statements"):

- give a true and fair view of the state of the charitable company's affairs as at 31 March 2016 and its incoming resources and application of resources, including its income and expenditure and cash flows 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 Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

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##### **What we have audited**

The financial statements, included within the MHA Auchlochan Report and Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 March 2016;
- the statement of financial activities and the summary income and expenditure account for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the trustees have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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##### **Opinion on other matter prescribed by the Companies Act 2006**

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In our opinion, the information given in the Board of Directors' Report including Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## MHA AUCHLOCHAN

### **Independent auditors' report to the members of MHA Auchlochan**

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#### **Other matters on which we are required to report by exception**

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##### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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##### **Trustees' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of trustees' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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#### **Responsibilities for the financial statements and the audit**

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##### **Our responsibilities and those of the trustees**

As explained more fully in the Trustees' Responsibilities Statements set out on pages 8 and 9, the trustees are responsible for the preparation of the financial statements and for being satisfied that they 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and the Companies Act 2006 and regulations made under those Acts (including regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and Chapter 3 of Part 16 of the Companies Act 2006) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



## **Independent auditors' report to the members of MHA Auchlochan**

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### **What an audit of financial statements involves**

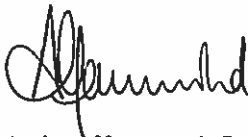
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the charitable company'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.

We primarily focus our work in these areas by assessing the trustees' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Andrew Hammond (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
15 September 2016

MHA AUCHLOCHAN  
STATEMENT OF FINANCIAL ACTIVITIES  
FINANCIAL YEAR ENDED 31 MARCH 2016

		Unrestricted	Restricted	2016	2015
		Funds	Funds	Total	Total
		£'000	£'000	£'000	£'000
	<b>Note</b>				
<b>Income and endowments from:</b>					
Donations and legacies	2	1	-	1	60
Charitable activities	4	7,184	8	7,192	6,494
Investments	3	1	-	1	3
<b>Total</b>		<b>7,186</b>	<b>8</b>	<b>7,194</b>	<b>6,557</b>
<b>Expenditure on:</b>					
Charitable activities	5				
Homes		4,253	-	4,253	5,016
Housing with care		1,773	-	1,773	1,376
Retirement housing for sale		755	-	755	1,306
Other		9	8	17	212
Total charitable activities		6,790	8	6,798	7,910
Exceptional items	9	407	-	407	(1,409)
<b>Total</b>		<b>7,197</b>	<b>8</b>	<b>7,205</b>	<b>6,501</b>
<b>Net (expenditure)/income</b>		<b>(11)</b>	<b>-</b>	<b>(11)</b>	<b>56</b>
<b>Reconciliation of funds:</b>					
Total (deficit)/ surplus brought forward	15	(4,479)	6	(4,473)	(4,529)
<b>Total (deficit)/ surplus carried forward</b>		<b>(4,490)</b>	<b>6</b>	<b>(4,484)</b>	<b>(4,473)</b>

The results for the year relate wholly to continuing activities.

There are no other gains and losses than as stated above, so no separate Statement of Comprehensive Income has been presented.

There is no difference between the reported results and those prepared on an historical cost basis.

MHA AUCHLOCHAN  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2016

	Note	Unrestricted Funds £'000	Restricted Funds £'000	2016 Total £'000	2015 Total £'000
<b>Fixed assets</b>					
Tangible fixed assets	10	28,298	-	28,298	25,892
<b>Current assets</b>					
Debtors	11	344	-	344	550
Cash at bank and in hand		929	8	937	858
<b>Total current assets</b>		<b>1,273</b>	<b>8</b>	<b>1,281</b>	<b>1,408</b>
<b>Liabilities</b>					
Creditors: Amounts falling due within one year	12	(11,492)	(2)	(11,494)	(6,170)
<b>Net current (liabilities)/ assets</b>		<b>(10,219)</b>	<b>6</b>	<b>(10,213)</b>	<b>(4,762)</b>
<b>Total assets less current liabilities</b>		<b>18,079</b>	<b>6</b>	<b>18,085</b>	<b>21,130</b>
Creditors: Amount falling due after more than one year	13	(10,240)	-	(10,240)	(11,834)
Provisions for liabilities	14	(12,329)	-	(12,329)	(13,769)
<b>Total net (liabilities)/ assets</b>		<b>(4,490)</b>	<b>6</b>	<b>(4,484)</b>	<b>(4,473)</b>
<b>The funds of the charity:</b>					
Restricted income funds	15	-	6	6	6
Unrestricted income funds	15	(4,490)	-	(4,490)	(4,479)
<b>Total charity (deficit)/ surplus</b>		<b>(4,490)</b>	<b>6</b>	<b>(4,484)</b>	<b>(4,473)</b>

The financial statements on pages 16 to 34 were approved on behalf of the Board and authorised for issue on 15 September 2016 and signed on its behalf by:

Dr. David Hall  
Chair  
Auchlochan House  
New Trows Road Lesmahagow  
ML11 0GS



MHA AUCHLOCHAN  
CASH FLOW STATEMENT  
FINANCIAL YEAR ENDED 31 MARCH 2016

		2016		2015	
	Note	£'000	£'000	£'000	£'000
<b>Net cash generated from operating activities</b>	16		2,926		2,256
<b>Cash flow from investing activities:</b>					
Investment income	3	1		3	
Purchase of tangible fixed assets		(2,275)		(983)	
Proceeds from the sale of tangible fixed assets		959		-	
<b>Net cash used in investing activities</b>			(1,315)		(980)
<b>Cash flow from financing activities:</b>					
Interest paid and similar charges		(415)		(449)	
Repayments of borrowings		(1,117)		(1,082)	
<b>Net cash used in financing activities</b>			(1,532)		(1,531)
<b>Net change in cash and cash equivalents</b>			79		(255)
<b>Cash and cash equivalents at the beginning of the reporting year</b>			858		1,113
<b>Cash and cash equivalents at the end of the reporting year</b>			937		858

**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2016**

**1. Accounting Policies**

**General information**

MHAA is limited by guarantee and is a registered charity. It is incorporated and domiciled in the UK. The address of its registered office is Auchlochan House, New Trows Road, Lesmahagow, ML11 0GS.

**Summary of significant accounting policies**

The principal accounting policies adopted, judgments and key sources of estimation uncertainty in the preparation of the financial statements are as follows:

**Basis of preparation**

These financial statements have been prepared under the historical cost convention except for Freehold Care Homes which are held at valuation and in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP (FRS 102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006. The Charities SORP (FRS 102) and FRS 102 have been early adopted at 31 March 2015. The date of transition is 1 April 2013.

The Charity constitutes a public benefit entity as defined by FRS 102.

**Going concern**

The trustees have reviewed the financial position of the entity for a period of two years from the year end against the expected recurring operational income, expenditure and interest costs in conjunction with the entity's banking covenants. The entity's parent undertaking, Methodist Homes has confirmed its commitment to providing ongoing financial support. On this basis the trustees consider that the charity has more than sufficient resources to continue in operational existence for the foreseeable future. For this reason the trustees continue to adopt the going concern basis in preparing the entity's financial statements.

The trustees consider that there are no material uncertainties about the charity's ability to continue as a going concern.

**Exemptions for qualifying entities under FRS 102**

FRS 102 allows a qualifying entity certain disclosure exemptions. MHAA is a qualifying entity as its results are consolidated into the consolidated financial statement of Methodist Homes which are publicly available.

The Charity has taken advantage of the following exemptions:

- (i) From the financial instrument disclosures, required under FRS102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statements of Methodist Homes in which the Association is consolidated; and
- (ii) From disclosing the key management personnel compensation in total, as required by FRS102 paragraph 33.7.

**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2016

**1. Accounting Policies (continued)**

**Income recognition**

All income is recognised once the charity has entitlement to the income, any performance conditions attached to the item(s) of income have been met, it is probable that the income will be received and the amount of income receivable can be measured reliably.

Donations are recognised when the charity has been notified in writing of both the amount and settlement date. In the event that a donation is subject to conditions that require a level of performance before the charity is entitled to the funds, the income is deferred and not recognised until either those conditions are fully met, or the fulfilment of those conditions is wholly within the control of the charity and it is probable that those conditions will be fulfilled in the reporting period. The Charity received substantial amounts of voluntary help from its supporters but no attempt is made to place a financial value on these services and they are not included in these financial statements. Voluntary help covers a range of activities from fundraising to helping with activities in the homes.

Legacy gifts are recognised on a case by case basis following the granting of probate when the administrator/executor for the estate has communicated in writing both the amount and settlement date. In the event that the gift is in the form of an asset other than cash or a financial asset traded on a recognised stock exchange, recognition is subject to the value of the gift being reliably measurable with a degree of reasonable accuracy and the title to the asset having been transferred to the charity.

Interest on funds held on deposit is included when receivable and the amount can be measured reliably by the charity; this is normally upon notification of the interest paid or payable by the bank.

*Charitable Activities*

Fees, charges and rents – Income represents the amounts charged for occupation costs and services provided in the year, and is recognised on a receivables basis.

Supported retirement housing for sale – Income and expenditure represents amounts relating to individual units sold during the year on long-term lease. A sale is recognised on completion where the contract is unconditional and the risks and rewards of ownership have passed.

Transactions with a guaranteed buyback commitment are not recognised at the date of completion, but are accounted for as operating leases for the period to when it is considered probable that the property will be bought back (currently considered by the directors to be ten years from the completion date). This principle applies irrespective of the duration of the buyback commitment.

The difference between the sale price and the buyback price is recognised as rental revenue on a straight-line basis over the duration of the buyback commitment. The property is initially recognised at production cost in property, plant and equipment. Depreciation expense is calculated over expected useful economic life of the property by the straight-line method, on the basis of the property's cost less its estimated residual value, representing the anticipated resale price on the property market.

**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2016**

**1. Accounting Policies (continued)**

**Income recognition (continued)**

Provision is made for the expected value of the buyback commitment in the future, discounted at the appropriate risk-free rate (being the relevant ten and five year government bond rates depending on the remaining expected life of the individual commitments by property). The carrying value of the provision is re-assessed at each financial reporting period end to adjust for transactions during the period, changes in remaining lives of the commitments, and periodic fluctuations in the risk free rate. The unwinding of the associated discount factor is recognised within interest payable and similar charges.

On the buyback of a property under the guaranteed commitment by the company, any resulting gain or loss is recognised within the Operating Surplus / (Deficit) in the period, as is the release of any associated buyback provision. The remaining unwound discount is released to interest.

**Expenditure recognition**

Expenditure is recognised once there is a legal or constructive obligation to make a payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

*Central Costs*

All staff employed in the central office are employed by Methodist Homes, the office premises are jointly occupied and office services are shared.

Within the financial statements of the Charity, these expenses are allocated on the basis of time spent to three items:

(i) Charitable activities

These costs relate to services provided centrally and identified as wholly or mainly in support of direct charitable expenditure, together with an appropriate proportion of management and office overheads.

(ii) Costs of generating funds

All expenses relating to fundraising, publicity and public relations (except the marketing of accommodation and care services) are charged to this heading. This item bears an appropriate proportion of management and office overheads

(iii) Governance costs

These costs relate to the corporate management of the organisation itself. They include expenses of trustees' meetings, audit fees, office relocation costs and other corporate management costs.

**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2016**

**1. Accounting Policies (continued)**

**Allocation of support and governance costs**

Support costs have been allocated between governance costs and other support costs. Support costs are those functions that assist the work of the charity but do not directly undertake charitable activities. Support costs include back office costs, finance, personnel and payroll. Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. These costs include costs related to statutory audit and legal fees together with an apportionment of overhead and support costs. These costs have been allocated between cost of raising funds and expenditure on charitable activities. The bases on which support costs have been allocated are set out in note 7.

**Tangible fixed assets and depreciation**

Land is stated at cost and is not depreciated.

Freehold buildings include applicable overhead expenditure and capitalised interest. Interest on loans deemed to be financing a development is capitalised up to the date of practical completion.

Freehold care homes and the equipment therein are held at valuation and are depreciated at the revalued amount over the life of the asset. Fixed assets with an aggregate cost of more than £5,000 (note 10) are capitalised and depreciated. Improvements which enhance the future economic benefits of the property or extend its overall useful life are capitalised and are fully written off over the expected useful life of the property.

The Charity has previously adopted a policy of revaluing freehold care homes and equipment at a frequency of every three years and they were stated at their revalued amount less any subsequent depreciation and accumulated impairment losses. The Charity has adopted the transition exemption under FRS 102 paragraph 35.10(d) and elected to use the previous revaluation as deemed cost.

Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Depreciation on assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Freehold buildings are depreciated over their expected useful life of forty years.

Computer equipment and motor vehicles are depreciated over three to five years

**Financial instruments**

The Charity has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

i) **Financial assets**

Basic financial assets, including trade and other debtors, cash and bank balances, are initially recognised at transaction value unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.



**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2016

**1. Accounting Policies (continued)**

**Financial instruments (continued)**

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

**ii) Financial liabilities**

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

**iii) Offsetting**

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Impairment of non-financial assets**

Where housing properties and retirement housing stock have suffered a diminution in value, the fall in value is recognised in the Statement of Financial Activities. An impairment review is carried out and appropriate impairment provisions made.

**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2016**

**1. Accounting Policies (continued)**

**Retirement housing stock**

Unsold units of retirement housing stock and work in progress at the year end are treated as fixed assets and are therefore valued at the lower of cost and estimated selling price less cost to complete and sell. Estimated selling price less cost to complete and sell is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Cost includes capitalised interest incurred on specific projects during the period of development and any other relevant applicable costs.

**Cash and cash equivalents and liquid resources**

Cash and cash equivalents comprise cash balances and deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**Fund accounting**

Unrestricted funds are available to spend on activities that further any of the purposes of charity. Designated funds are unrestricted funds of the charity which the directors have decided at their discretion to set aside to use for a specific purpose.

**Restricted income funds**

Restricted funds are donations which the donor has specified are to be solely used for particular areas of the charity's work or for specific artistic projects being undertaken by the charity. They represent voluntary income or grants from statutory authorities and fees and charges in Live at Home schemes, which have been received for purposes set out in note 2.

The application of these funds is restricted by the terms of a special appeal, the expressed wishes of the donor, the will of the testator, or the terms of the grant.

**Taxation**

The Charity has charitable status and is therefore not subject to Corporation Tax on its surplus from charitable activities.

The Charity is registered for VAT. Most of the Charity's income (residential charges, rents and grants) is exempt for VAT purposes, which significantly restricts the recovery of VAT on expenditure.

**Pensions**

The charity operates a defined contribution scheme and contributions are charged to the Statement of Financial Activities as they become payable in accordance with the rules of the scheme.

**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2016

**1. Accounting Policies (continued)**

**Critical judgements in applying the accounting policies**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements, estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

i) Provisions

The Charity has recognised provisions for the re-purchase of properties sold as leasehold interests under guaranteed buy-back arrangements, on the basis that the timing of the re-purchase is uncertain. Additionally provisions have been recognised in relation to liabilities in respect of exceptional items. The judgements, estimates and associated assumptions necessary to calculate these provisions are based on historical experience, professional advice and other reasonable factors.

ii) Exceptional items

Judgements are required as to whether items that are material in size, unusual or infrequent in nature should be disclosed as exceptional. Details of those items categorised as exceptional are outlined in note 9. Items are provided on an undiscounted basis.

**Future amendments to FRS 102**

The Charity will adopt any new provisions arising from future developments to FRS102 where relevant. As at the date of approval of the financial statements, the trustees do not consider that any current or proposed amendments will have a material impact on the reported results.

**2. Donations and legacies**

	Unrestricted Funds £'000	Restricted Funds £'000	2016 Total £'000	2015 Total £'000
Donations	1	-	1	60

Includes £nil from Methodist Homes, (2015: £nil)

**3. Investments**

	Unrestricted Funds £'000	Restricted Funds £'000	2016 Total £'000	2015 Total £'000
Bank and deposit interest	1	-	1	3

MHA AUCHLOCHAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2016

4. Charitable activities

	Unrestricted Funds £'000	Restricted Funds £'000	2016 Total £'000	2015 Total £'000
<b>Income from charitable activities</b>				
Fees and charges	5,474	8	5,482	5,752
Rents	393	-	393	471
Sale of retirement housing	1,317	-	1,317	271
<b>Total income from charitable activities</b>	<b>7,184</b>	<b>8</b>	<b>7,192</b>	<b>6,494</b>

5. Analysis of expenditure on charitable activities

	Note	Homes £'000	Housing Retirement with Care £'000	Housing for Sale £'000	Other £'000	2016 Total £'000	2015 Total £'000
Staff costs	8	2,356	839	-	-	3,195	3,043
Operational costs:							
Supplies and services		716	503	-	-	1,219	2,076
Repairs and rents		204	190	-	-	394	201
Retirement housing cost of sales		-	-	579	-	579	-
Finance charges		-	-	176	-	176	1,090
Depreciation	10	400	147	-	-	547	639
Bank loan interest		426	-	-	-	426	461
Other costs		151	94	-	-	245	387
Governance costs	7	-	-	-	17	17	13
<b>Total expenditure on charitable activities</b>		<b>4,253</b>	<b>1,773</b>	<b>755</b>	<b>17</b>	<b>6,798</b>	<b>7,910</b>

Expenditure on charitable activities was £6,798,000 (2015: £7,910,000) of which £6,790,000 was unrestricted (2015: £7,904,000) and £8,000 was restricted (2015: £6,000).

MHA AUCHLOCHAN  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2016

6. Summary analysis of expenditure and related income for charitable activities

This table shows the cost of the three main charitable activities and the sources of income directly to support those activities.

	Homes £'000	Housing Retirement with Care £'000	Housing for Sale £'000	Other £'000	2016 Total £'000	2015 Total £'000
<b>Income from charitable activities</b>						
Fees and charges	4,204	1,278	-	-	5,482	5,752
Rents	-	393	-	-	393	471
Sale of retirement housing	-	-	1,317	-	1,317	271
<b>Total</b>	<b>4,204</b>	<b>1,671</b>	<b>1,317</b>	<b>-</b>	<b>7,192</b>	<b>6,494</b>
<b>Expenditure on charitable activities</b>						
Staff costs	(2,356)	(839)	-	-	(3,195)	(3,043)
Operational costs	(1,897)	(934)	(755)	(17)	(3,603)	(4,867)
<b>Total</b>	<b>(4,253)</b>	<b>(1,773)</b>	<b>(755)</b>	<b>(17)</b>	<b>(6,798)</b>	<b>(7,910)</b>
<b>Total surplus/(deficit)</b>	<b>(49)</b>	<b>(102)</b>	<b>562</b>	<b>(17)</b>	<b>394</b>	<b>(1,416)</b>

7. Analysis of governance and support costs

The Charity initially identifies the costs of its support functions. It then identifies those costs which relate to the governance function. Having identified its governance costs, the remaining support costs together with the governance costs are apportioned between the key charitable activities undertaken (see note 5) in the year. Refer to the table below for the basis for apportionment and the analysis of support and governance costs.

	General Support £'000	Governance Function £'000	Total £'000	Basis of Allocation
Trustee expenses	-	4	4	Invoiced events
External auditors – audit services	-	13	13	Governance
<b>Total</b>	<b>-</b>	<b>17</b>	<b>17</b>	

General support costs previously incurred by MHAA are now borne by the parent undertaking and recharged on an activity basis. See note 6.

**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2016

**8. Analysis of staff costs, trustee remuneration and expenses, and the cost of key management personnel**

	<b>2016</b>	<b>2015</b>
	<b>Number</b>	<b>Number</b>
Average number of employees	186	189
Average monthly number employed (full time equivalent)	162	163
	<b>£'000</b>	<b>£'000</b>
Staffing costs:		
Wages and salaries	2,980	2,817
Social security costs	180	188
Other pension costs:		
- Defined contribution pension costs	35	38
	<u>3,195</u>	<u>3,043</u>

No emoluments were paid during the year to any Board Members. The number of directors who received reimbursement for the cost of travel to and from meetings was nil (2015: 6). The cost of travel reimbursed was £nil (2015: £3,000). In the current year, all director expenses were paid by the parent charity.

A full analysis of emoluments paid to the Leadership team can be found in the Methodist Homes' financial statements. There were no employees (2015: nil) employed by MHA Auchlochan earning over £60,000 per annum in the year.

**9. Exceptional items**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Bank loan compensation income	-	(1,186)
Coalburn clawback income	-	(192)
Demolition provision	-	(333)
Total income	<u>-</u>	<u>(1,711)</u>
Demolition provision	481	-
Tax provision	(71)	212
Legal provision	(3)	90
Total costs	<u>407</u>	<u>302</u>
Net costs/(income)	<u>407</u>	<u>(1,409)</u>

The tax provision relates to prior year tax liabilities arising from the initial transaction to transfer assets and liabilities of the legacy Auchlochan Trust to the Charity. This involved the liquidation of various trading subsidiaries giving rise to a potential tax liability. This liability was settled during the financial year and the provision has been released. There are no further tax liabilities outstanding.

The demolition provision relates to the demolition site clearance and landscaping of Auchlochan House, a former care home on the site of the Auchlochan Village which was no longer used. The increase of the provision in the year arises from phase 3 of The Retreat.

**MHA AUCHLOCHAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2016

**9. Exceptional Items (continued)**

The legal provision relates to legal fees incurred in settling a dispute with a contractor over access to land. The dispute has now been resolved and no further legal fees are expected.

The bank loan compensation income was received as a result of historical loans taken out from a high street bank. These loans qualified as having been mis-sold under current the Financial Services Authority (FSA) rules and regulations. MHAA no longer has any dealing with the provider of this finance.

The Coalburn clawback income was received as a result of land previously sold to a developer later qualified for additional consideration.

**10. Tangible fixed assets**

	<b>Care Homes: Freehold Land and Buildings at valuation £'000</b>	<b>Care Homes: Related Equipment at cost £'000</b>	<b>Other: Freehold Land and Buildings at cost £'000</b>	<b>Other: Furniture, Equipment and Vehicles at cost £'000</b>	<b>Total £'000</b>
<b>Cost/valuation</b>					
1 April 2015	15,380	52	11,591	541	27,564
Additions during the year	1,603	124	1,592	41	3,360
Disposals during the year	-	-	(407)	-	(407)
Transfers between category	106	-	(106)	-	-
<b>31 March 2016</b>	<b>17,089</b>	<b>176</b>	<b>12,670</b>	<b>582</b>	<b>30,517</b>
<b>Accumulated depreciation</b>					
1 April 2015	857	3	669	143	1,672
Charge for the year	248	1	289	9	547
<b>31 March 2016</b>	<b>1,105</b>	<b>4</b>	<b>958</b>	<b>152</b>	<b>2,219</b>
<b>Net book value</b>					
<b>31 March 2016</b>	<b>15,984</b>	<b>172</b>	<b>11,712</b>	<b>430</b>	<b>28,298</b>
<b>31 March 2015</b>	<b>14,523</b>	<b>49</b>	<b>10,922</b>	<b>398</b>	<b>25,892</b>

No interest was capitalised during the year (2015: £nil).

MHA AUCHLOCHAN  
 NOTES TO THE FINANCIAL STATEMENTS  
 For the year ended 31 March 2016

**10. Tangible fixed assets (continued)**

The Net Book Value at 31 March 2016 represents fixed assets used for:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Direct charitable purposes:		
Homes	16,156	14,572
Housing	12,142	11,320
	<u>28,298</u>	<u>25,892</u>
	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Included within freehold land and buildings is land which is not depreciated	2,834	2,834
	<u>2,834</u>	<u>2,834</u>

Prior to the conversion to FRS102, the valuations of land and buildings for care homes were made in 2013 by Knight Frank on an existing use open market value basis, in accordance with the Statement of Assets Valuation Practice Note 4 and the Guidance Notes of the Royal Institution of Chartered Surveyors. The method used and significant assumptions applied in estimating the fair values for the care homes were by reference to the 'profits method' as this is the basis on which such properties are commonly bought or sold. In undertaking the valuation of the property, Knight Frank have made an assessment on the basis of a collation and analysis of appropriate comparable transactions, together with evidence of demand within the vicinity of the subject property and purchaser sentiment. Knight Frank have then applied these to the properties, taking into account size, location, aspect. Other material factors, such as where planned works were due to take place creating a reduced occupancy have been factored in.

The properties have been valued separately with the exception of Nethanvale and Lower Johnshill which would be sold as a single asset. As a result the values reported on an individual basis are an apportionment of the value as a whole. Knight Frank have assumed that the properties have been marketed in an orderly way.

Open Market Value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

The subject properties are valued having regard to trading potential, having been well maintained and effectively operated, offering high standards of care and meeting the requirements of the relevant regulatory bodies.

**11. Debtors**

	<b>Unrestricted</b>	<b>Restricted</b>	<b>2016</b>	<b>2015</b>
	<b>Funds</b>	<b>Funds</b>	<b>Total</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade debtors	319	-	319	516
Other debtors	1	-	1	17
Prepayments and other accrued income	24	-	24	17
	<u>344</u>	<u>-</u>	<u>344</u>	<u>550</u>



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**12. Creditors: amounts falling due within one year**

	<i>Unrestricted</i>	<i>Restricted</i>	<b>2016</b>	<b>2015</b>
	<b>Funds</b>	<b>Funds</b>	<b>Total</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade creditors	-	-	-	40
Amounts due to parent undertaking	8,162	-	8,162	3,989
Accruals and deferred income	1,920	-	1,920	701
Charges and rents in advance	-	-	-	111
Taxation and social security	83	-	83	85
Other creditors	210	2	212	258
Loans repayable in one year	1,117	-	1,117	986
	<u>11,492</u>	<u>2</u>	<u>11,494</u>	<u>6,170</u>

Amounts payable to parent undertaking comprise a formal loan of £3,500,000 (2015: £3,500,000) which is interest bearing at a rate of 0.5% per annum, unsecured and repayable on demand, and £4,662,000 (2015: £489,000) recharges arising from operational activities which is not interest bearing, is unsecured and payable on demand. Intercompany creditors have increased as a result of the parent company paying invoices on the company's behalf in the current year.

**13. Creditors: amounts falling due after more than one year**

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Deferred income - flat sales:		
Recognisable 1 – 2 years	170	207
Recognisable 3 – 5 years	304	370
Recognisable 5 years +	358	573
	<u>832</u>	<u>1,150</u>
Bank loans due:		
Repayable 1 – 2 years	1,089	5,993
Repayable 3 – 5 years	1,549	2,239
Repayable 5 years +	6,770	2,452
	<u>9,408</u>	<u>10,684</u>
	<u>10,240</u>	<u>11,834</u>

The loan is secured on certain residential homes properties representing 93% (2015: 98%) of the Freehold Land and Buildings. The loan is repayable in quarterly instalments until December 2024.

The interest rates payable are as follows:

- £5,000,000 is fixed at a rate of 5.2974% until 29 July 2016, thereafter being 1% above LIBOR; and
- The remaining balance is payable at margin of 1% above LIBOR

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14. Provisions for liabilities

	1 April 2015 £'000	Created on new transactions £'000	Charge for year £'000	Increase/ (decrease) in provision £'000	Utilisation of provision £'000	31 March 2016 £'000
Guarantee property buy-backs	13,009	118	(1,220)	-	-	11,907
Tax provision	412	-	-	(71)	(341)	-
Legal provision	200	-	-	(3)	(197)	-
Demolition provision	148	-	-	481	(207)	422
<b>Total</b>	<b>13,769</b>	<b>118</b>	<b>(1,220)</b>	<b>407</b>	<b>(745)</b>	<b>12,329</b>

The guarantee property buy-backs provision arises when MHAA enters into transactions to sell the leasehold interest in Retirement Living properties with an option (exercisable by either party) for MHAA to re-purchase the leasehold at a pre-agreed amount. Buy-back commitments have been estimated to average 10 years. Provisions are discounted at the appropriate risk free rate. The relevant ten and five year government bond rates have been used depending on the remaining expected life of the individual commitments by property, these being 1.42% and 0.84% respectively (2015: 1.58% and 1.00%).

Demolition provision relates to the demolition site clearance and landscaping of Auchlochan House, a former care home on the site of the Auchlochan Village which was no longer used. The increase of the provision in the year arises from phase 3 of The Retreat. They are provided on an undiscounted basis.

15. Analysis of charitable funds

	1 April 2015 £'000	Income £'000	Expenditure £'000	Transfer £'000	31 March 2016 £'000
<b>Analysis of fund movements</b>					
a) Restricted	6	-	-	-	6
b) Unrestricted – general	(4,479)	7,186	(7,197)	-	(4,490)
<b>Total</b>	<b>(4,473)</b>	<b>7,186</b>	<b>(7,197)</b>	<b>-</b>	<b>(4,484)</b>

These balances represent voluntary income or grants from statutory authorities which have been received for use at a specific home. The application of these funds is restricted by the terms of a special appeal, the expressed wishes of the donor, the will of the testator, or the terms of the grant.

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16. Notes to the Cash Flow Statement

a) Reconciliation of net income to net cash flow from operating activities

	2016 £'000	2015 £'000
Net (expenditure)/income for the reporting year (as per the statement of financial activities)	(11)	56
<b>Adjustments for:</b>		
Investment income	(1)	(3)
Interest payable	426	461
(Surplus)/deficit on sale of fixed assets	(552)	74
Depreciation charges	547	639
Decrease in debtors	206	37
Increase in creditors	2,311	992
<b>Net cash generated by operating activities</b>	<u>2,926</u>	<u>2,256</u>

b) Reconciliation of net cash flow to movement in net debt

	2016 £'000	2015 £'000
Increase/(Decrease) in cash and cash equivalents	79	(255)
Movement in borrowings	1,117	1,082
<b>Change in net funds resulting from cash flows</b>	<u>1,196</u>	<u>827</u>
<b>Change in net funds resulting from non-cash flows</b>	28	-
<b>Movement in net debt</b>		
Net debt as at 1 April	(10,812)	(11,639)
Net debt as at 31 March	<u>(9,588)</u>	<u>(10,812)</u>

c) Analysis of changes in net debt

	1 April 2015 £'000	Cash flow £'000	Non-cash changes £'000	31 March 2016 £'000
Cash at bank and in hand	858	79	-	937
Loans due within one year	(986)	1,117	(1,248)	(1,117)
Loans due after more than one year	(10,684)	-	1,276	(9,408)
	<u>(10,812)</u>	<u>1,196</u>	<u>28</u>	<u>(9,588)</u>

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**17. Parent undertaking**

The Charity's immediate and ultimate parent undertaking is Methodist Homes, a company incorporated in England, registered charity number 1083995.

The financial statements of Methodist Homes are available on request from the registered office: Epworth House, 3 Stuart Street, Derby, DE1 2EQ.

**18. Pension scheme**

A defined contribution scheme, Growth Plan 4, is available to all employees. The charge for the year covered 9 employees (2015:11). Contributions to the scheme for the year were £13,427 (2015: £17,710). The contribution rate for the Charity varied between 1% and 10% depending on the employees' contribution, which is a minimum of 1%.

During the year all employees were able to join the auto enrolment scheme. The auto enrolment scheme is compulsory for all employees who have not specifically opted out of the scheme. Methodist Homes contributed 1% of pensionable pay for all those included in the scheme from 1 April 2013. The scheme assets are held by The Pensions Trust. The charge for the year was £22,007 (2015: £19,971) and covered 127 (2015: 120) employees during the year.

**19. Related party transactions**

The Charity has taken advantage of the exemptions not to disclose any transactions with its parent undertaking conferred by paragraph 33.1A of FRS 102, 'related party transactions', on the grounds that the Charity's results are included in the consolidated financial statements of the parent undertaking.

The related party transactions are as follows:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Transactions</b>		
Pension contributions paid to the pension fund	35	38
	<u>35</u>	<u>38</u>
<b>Balances</b>		
Pension contributions	5	5
	<u>5</u>	<u>5</u>