



**MHA AUCHLOCHAN
REPORT AND FINANCIAL STATEMENTS
31 March 2017**

Charity Registered No. SC040155
Company Registration No. SC352117



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MHA AUCHLOCHAN BOARD OF DIRECTORS' REPORT INCLUDING STRATEGIC REPORT 31 MARCH 2017

The Trustees of MHA Auchlochan present their report and financial statements for MHA Auchlochan for the year ended 31 March 2017. The trustees confirm that the annual report and financial statements of the Charity comply with current statutory regulations, the requirements of the Charity's governing document and the provisions of the Statement of Recommended Practice 'Accounting and Reporting by Charities' (SORP 2015) as they apply in England and in Scotland.

1. STRATEGIC REPORT

Objectives and Activities

Who we are

MHA Auchlochan (MHAA) is a retirement village based near Lesmahagow in South Larnarkshire, Scotland. It is part of Methodist Homes (MHA), an award-winning charity providing care, accommodation and support services for older people throughout Britain. MHA is one of the most well-respected care providers in the sector and amongst the largest charities in Britain, providing services to older people since we were set up in 1943. MHA also includes the subsidiaries Methodist Homes Housing Association, Silk Healthcare Holdings Ltd, Silk Healthcare Ltd and Swiftbuild Properties Ltd.

The village is home to around 320 residents who live in a unique place to enjoy later life, with retirement living and care homes set amidst a 50-acre country estate. It combines a range of property and accommodation options as well as flexible care and support services for those who need them.

The range of accommodation includes bungalows to studios and luxury serviced apartments to the brand new one and two bedroom apartments at Nethanvale, as well as the two care homes Lower Johnshill and Bank House.

MHAA benefits from being operationally managed by the wider MHA group, benefiting from their existing finance, decision-making and governance structures.

Mission

MHAA's mission is to improve the quality of life for older people. It wants to tackle loneliness and isolation among older people by connecting people in communities that care.

Values

Our values underpin all our services. They 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

Activities

MHAA provides a range of accommodation and care across the site, along with a host of activities and events for residents to participate in, including an on-site bistro to enjoy, various clubs and societies, trips out and events in the Douglas Suite to join in with.

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Activities (continued)

At Auchlochan's heart is the delightful 1.5 acre Walled Garden. Built around 1900, the garden was originally designed as a source of fruit and vegetables for the estate.

During 2016/17, the main activity at MHAA was the redevelopment of Nethanvale. The former care home has been repurposed as retirement living and includes 52 one and two bedroomed apartments alongside communal areas for residents to enjoy, as well as having access to all of MHAA's facilities and activities.

Longer term, we continue to explore ways to improve the quality of service for our residents still further.

You can find out more about the development at Nethanvale and what Auchlochan has to offer at www.nethanvaleretirementliving.org.uk

To find out more about MHA, visit www.mha.org.uk

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.

The Charities Protection and Social Investment Act 2016 received Royal Assent on 16 March 2016 and most of the provisions will be implemented over time.

MHAA's person-centred care recognises each resident and member 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 32:68 (2016: 34:66) into those that are fully self-funded and those that are partially or fully funded by the local authority or the NHS, demonstrating that our services are open to all.

Our care homes and retirement living schemes are made up of diverse communities. Opportunities are made available for individuals to develop and practise their faith as they feel appropriate.

Every MHAA care service is supported by a dedicated Chaplain. They provide a listening presence and one-to-one pastoral support for all residents and staff members, whatever their backgrounds or need. 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.

The MHA group is a pioneer in the field of developing a music therapy programme for its residents who are living with dementia, including those living at MHAA. MHA now employs 21 music therapists who provide one-to-one and group sessions across the group.

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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. There is a full and varied activities programme for all residents, as well as the provision of music therapy for residents living with dementia. Chaplains provide spiritual care for residents and their families, whether through one-to-one support (faith-based or not) or through group activities. Chaplains also provide opportunities for shared worship, regardless of an individual's faith, or no faith.

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.

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 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. This year we have completed the re-development of Nethanvale which consisted of an additional 52 one and two bedroom apartments out of the former care home. Actual sales in the year were lower than expected; however, we have focused additional marketing attention to this area and have seen an increase in interest.

A by product of MHAA being operationally managed as part of the wider MHA group is that it is able to benefit from their wider financial control systems, governance and decision-making structures. These are built to be part of an organisation with a turnover of around £200 million.

The following values illustrate the MHAA settings maintained:

| | 2017 | 2016 |
|---|------|------|
| Number of Care Homes | 2 | 2 |
| Number of Care Home Places | 131 | 127 |
| Number of Retirement Living Communities | 1 | 1 |
| Number of Retirement Properties Served | 212 | 183 |

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Financial Review

The Statement of Financial Activities shows total income of £7,074,000 (2016: £7,194,000), a 1.7% decrease on the previous financial year.

The net increase in funds of £104,000 is added to the total deficit brought forward of £4,484,000. 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 2017 of the freehold land and buildings to be materially different from the amount stated.

Key Performance Indicators

| | <u>2016/17</u> | <u>2015/16</u> |
|------------------------------------|----------------|----------------|
| | Actual | Actual |
| | £'000 | £'000 |
| Total income | 7,074 | 7,194 |
| Operating costs | 6,970 | 7,205 |
| (Deficit)/surplus for the year | 104 | (11) |
| | <u>2016/17</u> | <u>2015/16</u> |
| Service users – Care homes | 111 | 119 |
| Service users – Independent living | 222 | 211 |
| Occupancy – Care homes | 84.7% | 90.8% |
| Service user satisfaction: | | |
| Care homes | 97% | 97% |

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 £955,000 in total of which, £6,000 is restricted funds (2016: £937,000 and £8,000 respectively).

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 utilised in the financial year. The balance at 31 March 2017 was £7,466,000 (2016: £10,525,000). Fixed assets additions of £4,646,000 (2016: £3,360,000), have been met from inter-company borrowings.

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Risk Management

The MHA 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 also 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.

The key risks likely to affect the group's ability to meet its objectives include:

- Impact of state funding available in the care and housing sector - local authorities continue to pay care and nursing home fees at a level which falls short of that which is required to deliver quality care for older people, at the same time as costs continue to rise. Management monitors the levels of funding on a monthly basis and report these to the Board, who take appropriate commercial and pricing decisions to protect the charity.
- Brexit - the process, negotiations and eventual outcome are likely to have a range of impacts, especially in relation to potential tighter restrictions on EU citizens living and working in the UK, bringing increased pressures on recruitment and staffing.
- Workforce - the national shortage of nurses is expected to continue and likely to be exacerbated by restrictions on recruitment from abroad, removal of the nursing training bursary and aging workforce. Recruitment of non-nursing staff will continue to be competitive and, while the introduction of the Apprenticeship Levy offers opportunities for MHA to build career pathways into recruitment, it does so at a cost to MHA of more than £500k a year.
- National Living Wage - our approach to staff pay and benefits package has been aimed disproportionately at the lowest paid among our frontline staff so we continue our move to paying all staff the Living Wage. The Board is regularly appraised of this and sets pay policy through agreement of the annual pay review process.
- Reputational risk - the management of quality is a high priority for MHA. We have 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. A poor reputation can undermine confidence of supporters and lenders.
- Change management - MHA operates within a dynamic sector and to enable it to deliver its growth strategy, has adopted an integrated approach to managing cultural, process and systems change.
- Fundraising/charity - the 'individual donor' market continues to face scrutiny and criticism which has led to further regulation and increased donor suspicion.

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.

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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 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.

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 2017, the charitable company was a subsidiary of Methodist Homes. The group also comprised of charitable organisation, Methodist Homes Housing Association Limited and trading subsidiaries Silk Healthcare Holdings Ltd, Silk Healthcare Ltd and Swiftbuild Properties Ltd acquired during the year.

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 Board has the following committees, all of which have a group-wide remit:

- **Audit Committee** – advises the Board on all matters relating to the annual financial statements, external audit, risk management and internal financial control.
- **Finance Committee** – provides guidance on financial strategy and reviews management information, budgets and forecasts.
- **Remuneration Committee** – determines, on behalf of the Board, the remuneration of the Leadership Team.
- **Quality Committee** – focuses on three key areas of quality: resident safety, care effectiveness and resident experience.
- **Property Committee** – approves expenditure on significant capital projects and reviews progress and quality controls.
- **Governance Committee** – has delegated responsibility for ensuring good governance of the charity and identifying and proposing new Board members.

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Organisational Structure (continued)

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. 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.

In addition, MHAA benefits from MHA's wider governance oversight.

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.

New Board members receive full induction which includes our Code of Conduct, constitutional documents, Board Manual, policies and information relevant to the work of the charity. All Board members visit services and further develop understanding of the work of the organisation as well as appropriate training. Insurance has been taken to indemnify Board members against liability for wrongful acts.

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

Connected Charities

During the year to 31 March 2017, MHAA worked closely with five associated organisations:

| | |
|--|---------------------------------|
| Methodist Homes (MHA) | - parent company |
| Methodist Homes Housing Association (MHHA) | - fellow subsidiary undertaking |
| Silk Healthcare Holdings Ltd (SHHL) | - fellow subsidiary undertaking |
| Silk Healthcare Ltd (SHL) | - subsidiary of SHHL |
| Swiftbuild Properties Ltd (SPL) | - subsidiary of SHHL |

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.

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.

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Staff Members (continued)

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 purposes of company law) are responsible for preparing the Trustees' Annual Report (including the Strategic Report) and the financial statements in accordance with applicable law and regulation.

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 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). 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 then apply them consistently.
- Observe the methods and principles in the Statement of Recommended Practice: Accounting and Reporting by Charities (2015).
- Make judgments and estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards, comprising FRS 102, 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 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's 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.

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.

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Going concern

MHAA is reliant on the support of its parent charity Methodist Homes. 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, via MHA's continued support, 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 parent 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 MHA Board is supported by the Audit Committee of MHA, 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.

The Board has reviewed the effectiveness of the system of internal control for the year ended 31 March 2017 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.

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BOARD OF DIRECTORS' REPORT INCLUDING STRATEGIC REPORT
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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 10th August 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'D. Hall', with a horizontal line underneath it.

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

**MHA AUCHLOCHAN
BOARD, OFFICERS AND ADVISORS
31 MARCH 2017**

Reference and Administrative details

Board

Chair

Dr. David Hall

Start

Nov 2014

**Term of office
Committee Membership**

MHA Governance Committee
MHA Audit Committee

Other Board Members

Andrew Mason

Nov 2014

MHA Property Committee

Joy Kingsbury

Nov 2014

Vanella Jackson

Jul 2015

MHA Property Committee

Mark Terry

Aug 2015

Leadership Team

Name

Rev Dr Keith Albans

Carol Artis

Anna Marshall-Day

Annie Webber

Adrian Bagg

Joy Kingsbury

Mark Terry

Sue Allchurch

Lincoln Clarke

Rev Dr Chris Swift

Start

2001

2005

2006

2013

2014

2014

2015

2015

2017

2017

Resigned

2017

2017

2016

Position

Director of Chaplaincy & Spirituality

Director of Care Homes

Director of People Development

Director of Quality

Chief Executive

Director of Retirement Living

Director of Finance

Director of Marketing

Director of Marketing

Director of Chaplaincy & Spirituality

Company Secretary

Mark Terry

**MHA AUCHLOCHAN
BOARD, OFFICERS AND ADVISORS
31 MARCH 2017**

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; Website: 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

Barclays Bank
1 Snowhill,
Snow Hill Queensway,
Birmingham,
B3 2WN

Investment Advisors

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

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Independent auditors' report to the members of MHA Auchlochan

Report on the financial statements

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 2017 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).

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 2017;
- 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.

Opinion on other matter prescribed by the Companies Act 2006

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.

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Independent auditors' report to the members of MHA Auchlochan

Other matters on which we are required to report by exception

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.

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the trustees

As explained more fully in the Trustees' Responsibilities Statements set out on page 8, 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.

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Independent auditors' report to the members of MHA Auchlochan

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
17 September 2017

MHA AUCHLOCHAN
STATEMENT OF FINANCIAL ACTIVITIES
FINANCIAL YEAR ENDED 31 March 2017

| | | Unrestricted | Restricted | 2017 | 2016 |
|--|-------------|----------------|------------|----------------|----------------|
| | | Funds | Funds | Total | Total |
| | | £'000 | £'000 | £'000 | £'000 |
| | Note | | | | |
| Income and endowments from: | | | | | |
| Donations and legacies | 2 | - | 12 | 12 | 1 |
| Charitable activities | 4 | 7,057 | - | 7,057 | 7,192 |
| Investments | 3 | 5 | - | 5 | 1 |
| Total | | <u>7,062</u> | <u>12</u> | <u>7,074</u> | <u>7,194</u> |
| Expenditure on: | | | | | |
| Charitable activities | 5 | | | | |
| Homes | | 3,622 | 7 | 3,629 | 4,253 |
| Housing with care | | 2,079 | 5 | 2,084 | 1,773 |
| Retirement housing for sale | | 1,234 | - | 1,234 | 755 |
| Other | | 23 | - | 23 | 17 |
| Total charitable activities | | <u>6,958</u> | <u>12</u> | <u>6,970</u> | <u>6,798</u> |
| Exceptional items | 9 | - | - | - | 407 |
| Total | | <u>6,958</u> | <u>12</u> | <u>6,970</u> | <u>7,205</u> |
| Net income/(expenditure) | | <u>104</u> | <u>-</u> | <u>104</u> | <u>(11)</u> |
| Reconciliation of funds: | | | | | |
| Total (deficit)/surplus brought forward | 15 | (4,490) | 6 | (4,484) | (4,473) |
| Total (deficit)/surplus carried forward | | <u>(4,386)</u> | <u>6</u> | <u>(4,380)</u> | <u>(4,484)</u> |

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 2017
 Company Registration No: SC352117

| | Note | Unrestricted Funds £'000 | Restricted Funds £'000 | 2017 Total £'000 | 2016 Total £'000 |
|--|------|--------------------------------|------------------------------|------------------------|------------------------|
| Fixed assets | | | | | |
| Tangible fixed assets | 10 | 31,784 | - | 31,784 | 28,298 |
| Current assets | | | | | |
| Debtors | 11 | 570 | - | 570 | 344 |
| Cash at bank and in hand | | 949 | 6 | 955 | 937 |
| Total current assets | | 1,519 | 6 | 1,525 | 1,281 |
| Liabilities | | | | | |
| Creditors: Amounts falling due within one year | 12 | (17,638) | - | (17,638) | (11,494) |
| Net current (liabilities)/ assets | | (16,119) | 6 | (16,113) | (10,213) |
| Total assets less current liabilities | | 15,665 | 6 | 15,671 | 18,085 |
| Creditors: Amount falling due after more than one year | 13 | (6,396) | - | (6,396) | (10,240) |
| Provisions for liabilities | 14 | (13,655) | - | (13,655) | (12,329) |
| Total net (liabilities)/ assets | | (4,386) | 6 | (4,380) | (4,484) |
| The funds of the charity: | | | | | |
| Restricted income funds | 15 | - | 6 | 6 | 6 |
| Unrestricted income funds | 15 | (4,386) | - | (4,386) | (4,490) |
| Total charity (deficit)/ surplus | | (4,386) | 6 | (4,380) | (4,484) |

The financial statements on pages 16 to 34 were approved on behalf of the Board and authorised for issue on 10th August 2017 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 2017

| | | 2017 | | 2016 | |
|---|------|---------|---------|---------|---------|
| | Note | £'000 | £'000 | £'000 | £'000 |
| Net cash generated from operating activities | 16 | | 2,490 | | 2,926 |
| Cash flow from investing activities: | | | | | |
| Investment income | 3 | 5 | | 1 | |
| Purchase of tangible fixed assets | | - | | (2,275) | |
| Proceeds from the sale of tangible fixed assets | | 754 | | 959 | |
| Net cash used in investing activities | | | 759 | | (1,315) |
| Cash flow from financing activities: | | | | | |
| Interest paid and similar charges | | (235) | | (415) | |
| Repayments of borrowings | | (2,996) | | (1,117) | |
| Net cash used in financing activities | | | (3,231) | | (1,532) |
| Net change in cash and cash equivalents | | | 18 | | 79 |
| Cash and cash equivalents at the beginning of the reporting year | | | 937 | | 858 |
| Cash and cash equivalents at the end of the reporting year | | | 955 | | 937 |

MHA AUCHLOCHAN
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

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 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 2017

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 2017

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 reassessed 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 2017

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 2017

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 2017

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 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 2017

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 | 2017 Total £'000 | 2016 Total £'000 |
|-----------|--------------------------------|------------------------------|------------------------|------------------------|
| Donations | - | 12 | 12 | 1 |

3. Investments

| | Unrestricted Funds £'000 | Restricted Funds £'000 | 2017 Total £'000 | 2016 Total £'000 |
|---------------------------|--------------------------------|------------------------------|------------------------|------------------------|
| Bank and deposit interest | 5 | - | 5 | 1 |

MHA AUCHLOCHAN
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

4. Charitable activities

| | Unrestricted Funds £'000 | Restricted Funds £'000 | 2017 Total £'000 | 2016 Total £'000 |
|--|--------------------------------|------------------------------|------------------------|------------------------|
| Income from charitable activities | | | | |
| Fees and charges | 5,553 | - | 5,553 | 5,482 |
| Rents | 416 | - | 416 | 393 |
| Sale of retirement housing | 1,088 | - | 1,088 | 1,317 |
| Total income from charitable activities | 7,057 | - | 7,057 | 7,192 |

5. Analysis of expenditure on charitable activities

| | Note | Homes £'000 | Housing with Care £'000 | Retirement Housing for Sale £'000 | Other £'000 | 2017 Total £'000 | 2016 Total £'000 |
|---|------|----------------|-------------------------------|--|----------------|------------------------|------------------------|
| Staff costs | 8 | 2,368 | 995 | - | - | 3,363 | 3,195 |
| Operational costs: | | | | | | | |
| Supplies and services | | 709 | 576 | - | 9 | 1,294 | 1,219 |
| Repairs and rents | | 72 | 182 | - | 2 | 256 | 394 |
| Retirement housing cost of sales | | - | - | 462 | - | 462 | 579 |
| Finance charges | | - | - | 772 | - | 772 | 176 |
| Depreciation | 10 | 390 | 327 | - | - | 717 | 547 |
| Bank loan interest | | 88 | - | - | - | 88 | 426 |
| Other costs | | 2 | 4 | - | - | 6 | 245 |
| Governance costs | 7 | - | - | - | 12 | 12 | 17 |
| Total expenditure on charitable activities | | 3,629 | 2,084 | 1,234 | 23 | 6,970 | 6,798 |

Expenditure on charitable activities was £6,970,000 (2016: £6,798,000) of which £6,958,000 was unrestricted (2016: £6,790,000) and £12,000 was restricted (2016: £8,000).

MHA AUCHLOCHAN
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 March 2017

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 with Care £'000 | Retirement Housing for Sale £'000 | Other £'000 | 2017 Total £'000 | 2016 Total £'000 |
|---|----------------|-------------------------------|--|----------------|------------------------|------------------------|
| Income from charitable activities | | | | | | |
| Fees and charges | 4,305 | 1,248 | - | - | 5,553 | 5,482 |
| Rents | - | 416 | - | - | 416 | 393 |
| Sale of retirement housing | - | - | 1,088 | - | 1,088 | 1,317 |
| Total | 4,305 | 1,664 | 1,088 | - | 7,057 | 7,192 |
| Expenditure on charitable activities | | | | | | |
| Staff costs | (2,541) | (995) | - | - | (3,536) | (3,195) |
| Operational costs | (1,088) | (1,089) | (1,234) | (23) | (3,434) | (3,603) |
| Support costs | - | - | - | - | - | - |
| Total | (3,629) | (2,084) | (1,234) | (23) | (6,970) | (6,798) |
| Total surplus/(deficit) | 676 | (420) | (146) | (23) | 87 | 394 |

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 | 2017 Total £'000 | 2016 Total £'000 | Basis of Allocation |
|------------------------------------|-----------------------------|---------------------------------|------------------------|------------------------|------------------------|
| External auditors – audit services | - | 12 | 12 | 13 | Governance |
| Trustee expenses | - | - | - | 4 | Governance |
| Total | - | 12 | 12 | 17 | |

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 2017

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

| | 2017 | 2016 |
|--|---------------|---------------|
| | Number | Number |
| Average number of employees | 201 | 186 |
| Average monthly number employed (full time equivalent) | 162 | 162 |
| | £'000 | £'000 |
| Staffing costs: | | |
| Wages and salaries | 3,109 | 2,980 |
| Social security costs | 216 | 180 |
| Other pension costs: | | |
| - Defined contribution pension costs | 38 | 35 |
| | <u>3,363</u> | <u>3,195</u> |

No emoluments were paid during the year to any Board Members (2016: nil). The number of directors who received reimbursement for the cost of travel to and from meetings was nil (2016: nil). The cost of travel reimbursed was £nil (2016: £nil). 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 was 1 employee (2016: nil) employed by MHA Auchlochan earning between £60,000 and £70,000 per annum in the year.

9. Exceptional items

| | 2017 | 2016 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| Remediation provision | - | 481 |
| Tax provision | - | (71) |
| Legal provision | - | (3) |
| Total costs | <u>-</u> | <u>407</u> |

The remediation provision (formerly called the demolition provision) relates to ongoing works at Auchlochan village for planned refurbishment.

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 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.

MHA AUCHLOCHAN
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2017

10. Tangible fixed assets

| | Care Homes: Freehold Land and Buildings at valuation £'000 | Care Homes: Related Equipment at cost £'000 | Other: Freehold Land and Buildings at cost £'000 | Other: Furniture, Equipment and Vehicles at cost £'000 | Assets in the course of construction £'000 | Total £'000 |
|---------------------------------|---|--|---|--|--|----------------|
| Cost/valuation | | | | | | |
| 01 April 2016 | 17,089 | 176 | 12,670 | 582 | - | 30,517 |
| Additions during the year | 99 | 1 | 778 | - | 3,768 | 4,646 |
| Disposals during the year | - | - | (443) | - | - | (443) |
| 31 March 2017 | 17,188 | 177 | 13,005 | 582 | 3,768 | 34,720 |
| Accumulated depreciation | | | | | | |
| 01 April 2016 | 1,105 | 4 | 958 | 152 | - | 2,219 |
| Charge for the year | 384 | 6 | 284 | 43 | - | 717 |
| 31 March 2017 | 1,489 | 10 | 1,242 | 195 | - | 2,936 |
| Net book value | | | | | | |
| 31 March 2017 | 15,699 | 167 | 11,763 | 387 | 3,768 | 31,784 |
| 31 March 2016 | 15,984 | 172 | 11,712 | 430 | - | 28,298 |

Additions to assets in the course of construction includes capitalised interest of £98,000 (2016: £nil). The cumulative amount of capitalised interest is £98,000 (2016: £nil).

The Net Book Value at 31 March 2017 represents fixed assets used for:

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Direct charitable purposes: | | |
| Homes | 16,260 | 16,156 |
| Housing | 15,524 | 12,142 |
| | <u>31,784</u> | <u>28,298</u> |
| | | |
| | 2017 £'000 | 2016 £'000 |
| Included within freehold land and buildings is land which is not depreciated | 2,834 | 2,834 |
| | <u>2,834</u> | <u>2,834</u> |

MHA AUCHLOCHAN
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 March 2017

10. Tangible fixed assets (continued)

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.

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

| | Unrestricted Funds £'000 | Restricted Funds £'000 | 2017 Total £'000 | 2016 Total £'000 |
|--------------------------------------|--------------------------------|------------------------------|------------------------|------------------------|
| Trade debtors | 350 | - | 350 | 319 |
| Other debtors | 145 | - | 145 | 1 |
| Prepayments and other accrued income | 75 | - | 75 | 24 |
| | <u>570</u> | <u>-</u> | <u>570</u> | <u>344</u> |

12. Creditors: amounts falling due within one year

| | Unrestricted Funds £'000 | Restricted Funds £'000 | 2017 Total £'000 | 2016 Total £'000 |
|-----------------------------------|--------------------------------|------------------------------|------------------------|------------------------|
| Amounts due to parent undertaking | 14,730 | - | 14,730 | 8,162 |
| Accruals and deferred income | 638 | - | 638 | 1,920 |
| Taxation and social security | 103 | - | 103 | 83 |
| Other creditors | 264 | - | 264 | 212 |
| Loans repayable in one year | 1,903 | - | 1,903 | 1,117 |
| | <u>17,638</u> | <u>-</u> | <u>17,638</u> | <u>11,494</u> |

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12. Creditors: amounts falling due within one year (continued)

Amounts payable to parent undertaking comprise a formal loan of £3,500,000 (2016: £3,500,000) which is interest bearing at a rate of 0.5% per annum, unsecured and repayable on demand, and £11,230,000 (2016: £4,662,000) 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

| | 2017 £'000 | 2016 £'000 |
|-------------------------------|---------------|---------------|
| Deferred income - flat sales: | | |
| Recognisable 1 – 2 years | 173 | 170 |
| Recognisable 3 – 5 years | 317 | 304 |
| Recognisable 5 years + | 343 | 358 |
| | <u>833</u> | <u>832</u> |
| Bank loans due: | | |
| Repayable 1 – 2 years | 1,576 | 1,089 |
| Repayable 3 – 5 years | 2,128 | 1,549 |
| Repayable 5 years + | 1,859 | 6,770 |
| | <u>5,563</u> | <u>9,408</u> |
| | <u>6,396</u> | <u>10,240</u> |

The loan is secured on certain residential homes properties representing 93% (2016: 93%) of the Freehold Land and Buildings. The loan is repayable in quarterly instalments until December 2024.

The interest rates payable are as follows:

- £4,663,000 is a rate of 1% above LIBOR until 7 January 2024.
 - £599,000 is a rate of 1% above LIBOR until 7 September 2018.
 - £2,204,000 is a rate of 1% above LIBOR until 7 January 2024.
- £7,466,000

14. Provisions for liabilities

| | 01 April 2016 £'000 | Created on new transactions £'000 | Charge for year £'000 | Increase/ (decrease) in provision £'000 | Utilisation of provision £'000 | 31 March 2017 £'000 |
|-------------------------------|------------------------------|--|--------------------------------|---|---|------------------------------|
| Guaranteed property buy-backs | 11,907 | 1,631 | 772 | - | (1,077) | 13,233 |
| Remediation provision | 422 | - | - | - | - | 422 |
| Total | <u>12,329</u> | <u>1,631</u> | <u>772</u> | <u>-</u> | <u>(1,077)</u> | <u>13,655</u> |

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14. Provisions for liabilities (continued)

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 1.072% and 0.398% respectively (2016: 1.42% and 0.84%).

The remediation provision (formerly called the demolition provision) relates to ongoing works at Auchlochan village for planned refurbishment.

15. Analysis of charitable funds

| | 01 April 2016 £'000 | Income £'000 | Expenditure £'000 | Transfer £'000 | 31 March 2017 £'000 |
|-----------------------------------|---------------------------|-----------------|----------------------|-------------------|---------------------------|
| Analysis of fund movements | | | | | |
| a) Restricted | 6 | 12 | (12) | - | 6 |
| b) Unrestricted – general | (4,490) | 7,062 | (6,958) | - | (4,386) |
| Total | (4,484) | 7,074 | (6,970) | - | (4,380) |

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.

16. Notes to the Cash Flow Statement

| | | |
|--|---------------|---------------|
| a) Reconciliation of net income to net cash flow from operating activities | 2017 £'000 | 2016 £'000 |
| Net income/(expenditure) for the reporting year (as per the statement of financial activities) | 104 | (11) |
| Adjustments for: | | |
| Investment income | (5) | (1) |
| Interest payable | 88 | 426 |
| Surplus on sale of fixed assets | (311) | (552) |
| Depreciation charges | 717 | 547 |
| (Increase)/decrease in debtors | (226) | 206 |
| Increase in creditors | 2,123 | 2,311 |
| Net cash generated by operating activities | 2,490 | 2,926 |

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16. Notes to the Cash Flow Statement (continued)

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

| | 2017 | 2016 |
|--|----------------|-----------------|
| | £'000 | £'000 |
| Increase in cash and cash equivalents | 18 | 79 |
| Movement in borrowings | 2,996 | 1,117 |
| Change in net funds resulting from cash flows | <u>3,014</u> | <u>1,196</u> |
| Change in net funds resulting from non-cash flows | 63 | 28 |
| Movement in net debt | | |
| Net debt as at 1 April | <u>(9,588)</u> | <u>(10,812)</u> |
| Net debt as at 31 March | <u>(6,511)</u> | <u>(9,588)</u> |

c) Analysis of changes in net debt

| | 01 April 2016 | Cash flow | Non-cash changes | 31 March 2017 |
|------------------------------------|------------------|--------------|---------------------|------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cash at bank and in hand | 937 | 18 | - | 955 |
| Loans due within one year | (1,117) | 2,996 | (3,782) | (1,903) |
| Loans due after more than one year | (9,408) | - | 3,845 | (5,563) |
| | <u>(9,588)</u> | <u>3,014</u> | <u>63</u> | <u>(6,511)</u> |

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 8 employees (2016:9). Contributions to the scheme for the year were £10,779 (2016: £13,427). 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 £26,772 (2016: £22,007) and covered 147 (2016: 127) employees during the year.

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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:

| | 2017 | 2016 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Transactions | | |
| Pension contributions paid to the pension fund | 38 | 35 |
| | <u>38</u> | <u>35</u> |
| Balances | | |
| Pension contributions | (7) | (5) |
| | <u>(7)</u> | <u>(5)</u> |