

30546

# The Methodist Chapel Aid Association Ltd

ANNUAL REPORT & ACCOUNTS



# 2001

# Contents

## Page

3	Chairman's Statement
5	Loans
8	Deposits
9	Investments
10	Supervision & Audit
11	Report of the Directors
13	Income and Expenditure Account
14	Balance Sheet
14	Cash Flow Statement
15	Notes and Accounting Policies
20	Independent Report of the Auditors

# Directors who served during the year

W. Arthur H. Holroyd, M.A., D.S.A., F.H.S.M. (Chairman)

Rev. Kenneth E. Street, M.A., B.A. (Deputy Chairman)

Rev. Dr. Stuart J. Burgess, B.D., M.Ed., M.Th., M.A.

Michael Greenberg, F.C.C.A.

Rev. Nichola G. Jones, M.A., B.A.

G. Alan Pimlott, A.C.I.B.

Diane Tokins

# Officers, Bankers and Advisers

**Secretary and Registered Office: 1 Telford Terrace, York YO24 1DQ**

**Secretary and Chief Executive:**

John A. Wells, F.C.M.A., M.I.Mgt.

**Principal Bankers:**

HSBC Bank plc  
13 Parliament Street  
York YO1 8XS

**Company Accountant:**

David Jackson, B.A. (Hons), A.C.M.A.

**Assisted by:**

Linda Hetherington  
Margaret A Pratt

**Solicitors:**

Harrowell Shaftoe  
1 St. Saviourgate  
York YO1 8ZQ

**Auditors:**

PKF  
Pannell House  
6 Queen Street  
Leeds LS1 2TW

**Registered No: 30546**

# The Chairman's Statement

The Board takes pride in the support that Chapel Aid has continued to provide to the Methodist Church in the past year. 139 loans to church and circuit trustees were active at some point during the year, and the total sum out on loan at the same time reached a new record peak of £3.1 million. In the great majority of cases the loan was used to repair or upgrade existing church premises, and there were also 13 bridging loans to enable manses to be purchased.

A loan can enable building work to proceed in a timely way, sometimes bringing cost savings as well as operational benefits. We are pleased to know that even when approved loans have not subsequently been taken up the promise of a loan from Chapel Aid has sometimes itself been sufficient for a scheme to go ahead in advance of fundraising efforts.

A loan has of course to be paid back, but it is to the great credit of Methodist trustees that almost all loans have been cleared promptly, helped by Chapel Aid's longstanding policy of keeping the cost of borrowing to a minimum. The Company has had no need to establish a reserve for bad debts.

## Interest rates

As with all other deposit taking institutions Chapel Aid has been moving in uncharted waters in response to frequent reductions in the Bank of England's interest rates over the past 2 years. This aspect of our work has therefore demanded, and has received, close attention by the Board.

2001 began with the Company's interest rates charged to borrowers at 4.75% for term loans and 5.75% for bridging loans. Interest rates paid to our depositors ranged from 4.35% to 6.85%. By the end of the year the Board had decided to amend rates with effect from 1 January 2002 to levels which represented a 1.5% reduction in the rates charged to borrowers over the period and a 2.4% reduction in the rates paid to depositors.

During its deliberations the Board had to take account of at least four competing influences:

- Its policy of charging the lowest practicable rates to borrowers
- The imperative of sustaining the level of funds deposited with the company since these are an essential basis for the making of loans
- Its policy of maintaining stability in its rates of interest as far as possible
- The level of income received from the company's investments, including interest paid in the money market.

Borrowers, depositors and shareholders alike can be assured that the Board will continue to review its interest rates in the light of these criteria, in order to sustain the long term ability of Chapel Aid to make loans available.

In last year's Annual Report it was stated that interest rates currently being charged to borrowers were the lowest for many years. With rates at only **3.25%** for term loans and **4.25%** for bridging loans from 1 January 2002 the lowest rates for many decades may now be a more accurate claim.

### The Memorandum and Articles of Association

The Company must operate within the terms of its Memorandum and Articles of Association, which are authorized by shareholders at a general meeting. In their present form loans are allowed only to Methodist trustees, and then only for building related purposes.

After a careful review of other possible ways in which the company might in the future provide a service to the Methodist Church, and indeed to the wider church, the Board has come to the conclusion that the Company should be permitted by its Memorandum and Articles to make loans

- to individuals as well as trustees
- for other purposes as well as building related
- to other Christian Churches and individuals as well as Methodist.

The Board is now proposing at a general meeting that the sole limit on the range of loans which can be offered is that **every loan should be seen to be furthering the purpose of the Methodist and/or other Christian Church.**

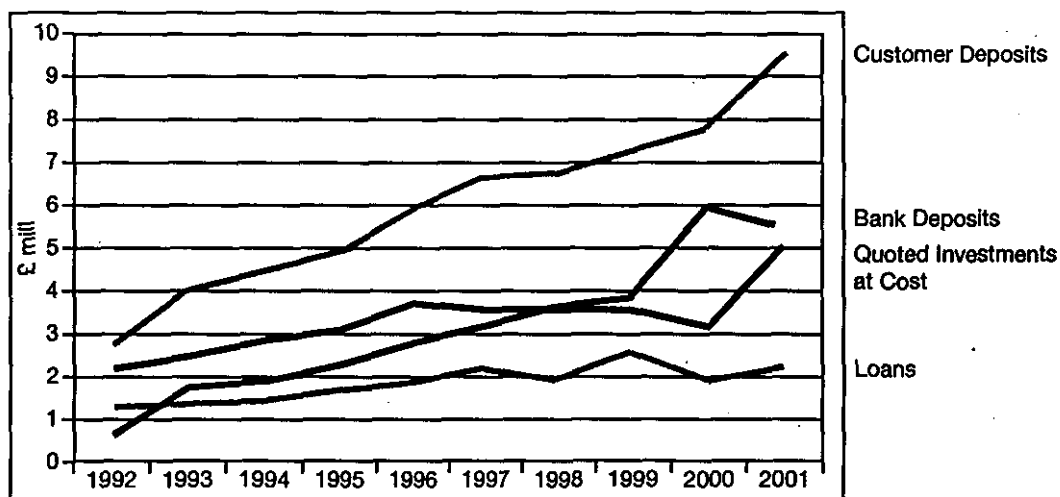
If the new Memorandum and Articles as recommended are approved the Board will adopt a cautious approach in its consideration of where and when the range of the company's work can be extended, and in establishing screening procedures which minimize the risk of bad debts.

### The Company's strength

As will be seen from the Annual Accounts the Company's financial position is eminently sound. The fall in the operating surplus for the year is the result of the Board's desire to maintain the stability of its interest rates for as long as possible and to give due notice both to borrowers and to depositors of amended rates. The strength of the balance sheet is such that the company has £3.3 million more available to lend than was out on loan on 31 December 2001.

With several major issues to be considered the Directors have been most grateful for all the information and expert advice which has been supplied so readily by the company's officers, as well as for the professional and committed way in which the day to day services have been maintained.

W.Arthur H.Holroyd  
Chairman



# Loans

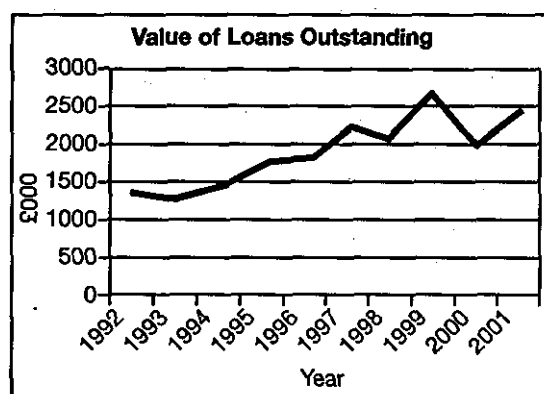
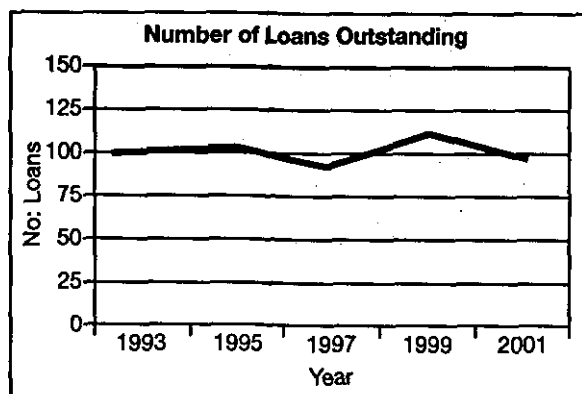
The Company has had another active year, with 42 new loans advanced (an increase of 31% on 2000) and 139 circuits and churches receiving help from us (an increase of 4% on 2000). The size of loans requested was also higher this year, resulting in a higher total amount on loan at the end of 2001 (£2.3m compared with £1.9m. at the end of 2000).

The total amount advanced to Trustees during the year was £2,810,454. 9 of these advances were for bridging loans to enable manse purchases to go ahead, and 33 were for term loans. In addition there were 39 approved loans upon which no advance had been made by the end of the year.

At 31 December 2001 a total of 97 loans were outstanding, each running its agreed course. As has almost invariably been the case the staged repayments were made promptly by Church Councils and we do not anticipate any bad debts arising.

The value of individual loan advances varied from a term loan of £3,000 for flat roof replacement and upgrading of windows and heating system to two loans of £250,000 each for the purchase of replacement manses.

Interest rates charged on loans remained at their lowest level for many years, being **4.25%** for Term Loans and **5.25 %** for Bridging Loans during the last nine months of the year. As is noted in the Chairman's Statement the rates to be charged at the beginning of 2002 are even lower.



Methodist International House was established forty years ago to provide accommodation for overseas students in Manchester. The house, which is over a hundred years old, provides a supportive base for students and comprises study bedrooms and associated common facilities.

The scheme involved extensive modernisation of the accommodation.

#### Loans advanced during the year

\*Ashfield Methodist Circuit  
 Barnehurst Methodist Church  
 Bristol North Methodist Circuit  
 Bristol South Methodist Circuit (2 loans)  
 Buckley & Deeside Methodist Circuit  
 Centenary Methodist Church, Camborne  
 Chelmsford Methodist Circuit  
 \*Chepstow & Caldicot Methodist Circuit  
 Delph Methodist Church, Oldham  
 Eastleigh Methodist Circuit  
 Emmanuel Methodist Church, Barnsley  
 \*Exmouth & Budleigh Salterton Methodist Circuit  
 Fareham Methodist Church  
 Gillingham Methodist Church  
 Gleadless Methodist Church, Sheffield  
 Gledholt Methodist Church, Huddersfield  
 Holmfirth Methodist Circuit  
 \*Huddersfield East Methodist Circuit  
 Illogan Highway Methodist Church, Redruth  
 Lewisham Methodist Church

Leyton Trinity Methodist Church, London  
 Mawdesley Methodist Church, Ormskirk  
 Methodist International House, Manchester  
 Mosborough Methodist Church, Sheffield  
 Murdishaw Church and Centre, Runcorn  
 North Lancashire Methodist District (2 loans)  
 Penwortham Methodist Church, Preston  
 Sandy Methodist Church  
 Sheffield Methodist District (2 loans)  
 South Chingford Methodist Church, London  
 South Petherton & Crewkerne Methodist  
 Circuit  
 Staveley Methodist Church, Chesterfield  
 Torrington Methodist Church  
 Troon Methodist Church  
 Waingroves Methodist Church, Ripley  
 \*Watford Methodist Circuit  
 Wesley Methodist Church, Millbrook, Cornwall  
 West Bridgford Methodist Church  
 \*Wimborne Methodist Circuit

\* Loans which were opened and closed during 2001

# Deposits

The total value of Deposit Accounts invested with the Company increased by 23% during the year to a record level of £9,417,563, receipts exceeding withdrawals by £1,739,093.

This is the largest increase for many years and may in part reflect the comparatively attractive rates of interest which were available as interest rates elsewhere reduced more quickly than those available with the Company.

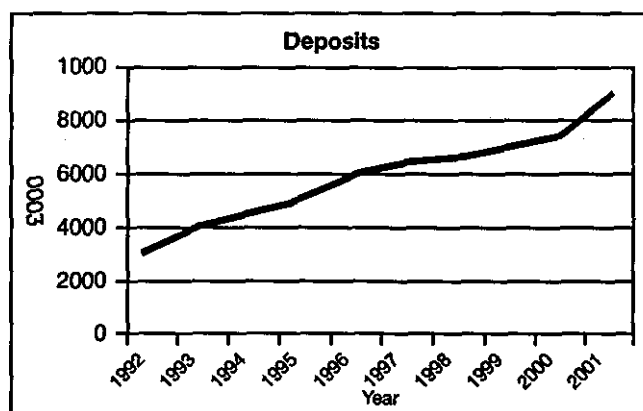
The number of personal depositors has increased from 803 to 908 and the total number of depositors at 31 December 2001 was 1,345, an increase of 95 during the year. At present 437 Churches and Circuits hold Premium and Standard accounts amounting to £2,840,776.

Three major depositors within the Connexion, the **Property Fund**, **London Mission Fund** and **Home Mission Fund**, hold total balances of £800,000 on two years notice of withdrawal. The **Methodist Ministers' Housing Society** opened a deposit account with a £500,000 deposit this year. These accounts give long term stability and indicate a welcome expression of support for the Company's activities by the Connexion. Interest was paid on these accounts at the rate of 6.35% for three months and 5.85% for the last nine months of the year.

In April 2001 the Company introduced a new range of tax free deposit accounts (ISAs), and these were warmly received by depositors. TESSA Only Individual Savings Accounts (TOISAs) are available to holders of maturing TESSAs, and Mini Cash Individual Savings Accounts (MCISAs) are available to anyone over the age of 16 years. Since their launch 38 TOISAs and 113 MCISAs have been opened, with balances amounting to £740,814 at the end of the year.

The total balances of **TESSAs** reduced by £461,483 over the year as many reached maturity but most of these funds remained deposited with the Company, being transferred into the new ISA accounts. The number of TESSA holders reduced by 49 to 67 at the year end. Upon maturity 35 TESSAs were reinvested in TESSA Only ISAs. Interest rates ranged from 5.35% to 5.85% from April onwards.

The **Methodist Ministers Savings Scheme**, which was introduced in 1996 has now passed the milestone of £1 million deposited with the Company, with 273 ministers, deacons and lay workers holding accounts. Interest rates ranged from 4.10% to 5.10% for most of the year, on accounts which have immediate access whenever required.





# Investments

## Stock Market

In helping to fund loans to Methodist Trustees the Company has, almost since its inception, invested funds on the stock market. The book value of equities and UK Government stocks at the end of December 2001 was £5,113,359, an increase of £1,858,884, and the market value was £8,352,299. Approximately 33% of the market value of the Company's investments were represented by Government stocks.

The Board's target continues to concentrate on long term investments, and there have been some changes during the year in pursuit of this policy.

Purchases of shares were made at a cost of £1,214,900 and Government stock at a cost of £894,433. These purchases reduced the funds being held on the money market.

The book value of shares sold during the year was £56,020 and the surplus arising from those sales was £28,702. Some Government stocks matured, amounting to £160,941.

It is the Company's policy to avoid investments in companies which are substantially involved in tobacco, alcohol, gambling and/or the arms trade. Investments are regularly reviewed to ensure that this policy is applied, and the policy itself will be the subject of a full review during the coming year.

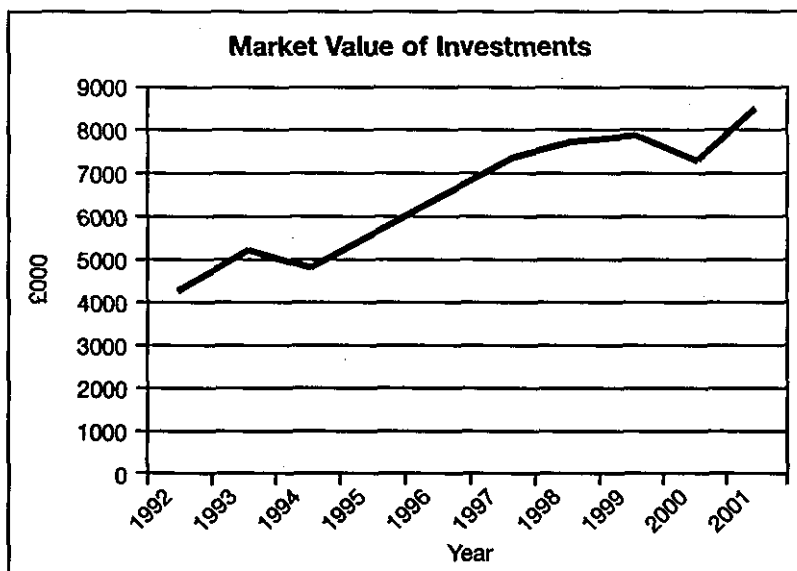
## Bank Deposits

Bank deposits reduced by only 7% during the year despite considerable investment in equities and gilts.

## Market Returns

Gross dividends received on equities was £174,770 (3.2% yield), and interest earned on gilts was £191,264 (6.9% yield), the overall yield amounting to 4.6% in 2001 compared with 4.11% in 2000.

During a difficult year for all investors the market value of the Company's portfolio suffered a severe reduction after the events of September 11th but began to recover towards the end of the year. Overall the value of investments on the stock market increased by £1,171,672 from £7,180,627 at the end of 2000 to £8,352,299 at the end of 2001 as a result of purchases.



# Supervision

## **Financial Services Authority**

The Company is supervised by the Financial Services Authority and it is reassuring to note that our organisation is categorised as low risk. During recent discussions with the FSA no major areas of concern have been raised. The level at which the Company's activities are monitored by the FSA reflects this assessment.

In view of the EU requirement whereby banks with a small capital base receive close supervision, the Board took the decision last year to enlarge the Company's capital base to a figure well in excess of the euro 5 million threshold, and this year the Company's capital base has been maintained at around 12% above this threshold.

# Audit

## **External Audit**

The external auditors' unqualified report on the accounts is set out on page 20.

## **Audit Committee**

The Company's own Audit Committee has continued to monitor the financial aspects of the Company's work with the expert help of Mr David Hatliff, its internal auditor.

# Report of the Directors

The principal activity of the Company, in which there was no change during the year, is the financing of loans to Methodist Trustees for the provision and upkeep of Methodist property.

## **Directors' Responsibilities**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the surplus or deficit for that period. In preparing those financial statements the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom.

## **Corporate Governance**

In achieving high standards of corporate governance the Company has taken into account the relevant features of the Principles of Good Governance and Code of Best Practice published by the Hampel Committee on Corporate Governance (the Combined Code).

## **Performance**

- The Accounts reveal the satisfactory state of the affairs of the Company.
- The Company has remained profitable. The operating surplus for the year was £53,118 and at 31 December 2001 the Company's capital base was 12% above the euro 5 million threshold.
- Its capacity to make loans has increased as a result of additional funds deposited with the Company.
- In addition to the benefit to Methodist Trustees of loan interest rates at well below market rates the Company made donations of £14,000 for Methodist charitable purposes, and a further £2,800 was donated by the MCA Charitable Trust.


## Proposals

- The Directors propose a transfer from the Income and Expenditure account to General Reserve of £100,000.
- The Directors propose a dividend of £5.00 per fully paid share and 12.50 pence per partly paid share of the Company, payable on 30 April 2002.
- Rev. Dr. S J Burgess and Rev. K E Street retire by rotation and, being eligible, offer themselves for re-election.

The interests of the Directors in the share capital of the Company are shown on page 19.

## Auditors:

The Auditors, PKF, have indicated their willingness to continue in office and their re-appointment for the coming year is proposed.

*By Order of the Board*  
J.A.WELLS   
Secretary  
30 January 2002

# Income and Expenditure Account

For the year ended 31st December 2001

	Notes	2001 £	2000 £
Interest receivable – on loans to Methodist Trustees	1(b)	111,232	108,022
Interest receivable – on debt securities	1(c)	191,264	149,728
Interest receivable – on National Savings and bank deposits		255,786	301,414
Interest payable to depositors	1(b)	(450,721)	(424,254)
Dividend income from equity shares	1(c)	157,954	163,367
Other operating income		(6,970)	14,651
Administrative expenses – staff costs	2	(104,642)	(100,444)
Administrative expenses – other	3	(88,029)	(90,827)
Depreciation	10	(12,756)	(12,378)
<b>Operating surplus</b>		<u>53,118</u>	<u>109,279</u>
Surplus on disposal of investments during the year		99,051	523,018
Amounts written off fixed asset investments	4	(33,489)	(24,321)
<b>Surplus on ordinary activities before taxation</b>		<u>118,680</u>	<u>607,976</u>
Tax on surplus on ordinary activities	5	7,451	(81,932)
<b>Surplus for the year after taxation</b>		<u>126,131</u>	<u>526,044</u>
Dividends proposed	6	(599)	(575)
<b>Surplus for the financial year</b>		<u>125,532</u>	<u>525,469</u>
Transfer to general reserve	13	(100,000)	(500,000)
<b>Net surplus retained</b>		<u>25,532</u>	<u>25,469</u>
Balanced brought forward		429,173	403,704
<b>Balance carried forward</b>	13	<u><u>454,705</u></u>	<u><u>429,173</u></u>

All amounts relate to continuing operations.

The Company has no other recognised gains or losses other than the surplus for the year.

The movements on reserves are set out in Note 13.

# Balance Sheet

As at 31st December 2001

	Notes	2001 £	2000 £
Cash and bank balances	8	5,690,832	6,116,114
Loans and advances to customers	7, 8	2,288,432	1,908,364
Debt securities – issued by public bodies	9	2,586,675	1,886,672
Equity shares	9	2,526,684	1,367,804
Tangible fixed assets	10	33,622	42,416
Other assets		22,494	58,047
Prepayments and accrued income		51,780	45,565
<b>Total assets</b>		<b>13,200,519</b>	<b>11,424,982</b>
Deposits by banks – repayable on demand		7,755	16,801
Customer accounts – repayable on demand	11	3,284,654	2,910,615
Customer accounts – with agreed periods of notice	11	6,132,909	4,767,855
Other liabilities – taxation and social security		26,664	105,114
Accruals and deferred income		70,748	64,890
Provisions for liabilities and charges – provision for tax	5	1,887	9,337
Called up share capital	12	1,197	1,197
Reserves – general reserve	13	3,220,000	3,120,000
Income and expenditure account	13	454,705	429,173
<b>Total liabilities</b>		<b>13,200,519</b>	<b>11,424,982</b>

Approved by the Board on 30 January 2002  
W. A. H. HOLROYD, Chairman  
K. E. STREET, Director  
J. A. WELLS, Secretary

# Cash Flow Statement

For the year ended 31st December 2001

	Notes	2001 £	2000 £
<b>Net cash inflow from operating activities</b>	14	1,460,081	1,403,953
<b>Taxation</b>			
Taxation paid by deduction at source		(78,459)	(11,259)
<b>Total tax paid</b>		(78,459)	(11,259)
<b>Capital expenditure and financial investment</b>	15	(1,797,283)	855,686
<b>Equity dividend paid</b>		(575)	(550)
<b>Increase/(decrease) in cash</b>	16	(416,236)	2,247,830

# Notes and Accounting Policies

For the year ended 31st December 2001

## 1. Accounting policies

### (a) Basis of preparation of financial statements

The Company is an authorised institution under the Banking Act 1987 and therefore in accordance with Section 257 of the Companies Act 1985 these financial statements are prepared in compliance with Section 255 of and Schedule 9 to the Companies Act 1985 and in accordance with applicable accounting standards.

### (b) Interest

Interest credited to depositors and charged to borrowers is calculated on the outstanding balance on a daily basis at six-monthly rests. The dates to which interest is calculated are: borrowers 30th June and 31st December; depositors 15th May and 15th November.

### (c) Investment income

Dividend income from equity shares: dividends received are accounted for on the basis of cash and exclude the attributable tax credit. This policy is in accordance with Financial Reporting Standard No. 16 and has been adopted during the year. The comparative figures have been amended accordingly.

Interest receivable on debt securities: provision is made for the gross amount of interest accrued on fixed interest bearing securities.

### (d) Depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets in equal instalments over their expected useful lives.

The following rates have been applied:

Leasehold improvements	15 years
Office equipment	5 years
Computer equipment	3 to 5 years

### (e) Operating leases

Operating lease rentals are charged in the profit and loss account on a straight line basis over the term of the lease.

### (f) Deferred tax

Provision is made for deferred tax using the liability method to the extent that it is probable that a liability will crystallise.

### (g) Investments

Equity investments are stated at cost less provision for any permanent diminution in value. Debt securities are stated as cost, with premiums/discounts to par value amortised on a straight line basis over the period to redemption.

The Company's other accounting policies are disclosed under the appropriate headings in the following notes.

## 2. Staff costs

Staff costs were as follows:

	2001 £	2000 £
Wages and Salaries	96,159	92,518
Social Security Costs	8,483	7,926
	<u>104,642</u>	<u>100,444</u>

Wages and salaries includes an amount of £9,300 (2000: £9,000) paid in respect of directors' emoluments.

The average monthly number of employees (full time equivalent) during the year was

No.	No.
3	3
<u>3</u>	<u>3</u>

## 3. Other administrative expenses

Included within other administrative expenses is an amount of £6,022 (2000: £5,846) in respect of the auditors' remuneration in their capacity as auditors, and an amount of £1,473 (2000: £1,431) in respect of other services.

Also included within other administrative expenses is an amount of £5,000 (2000: £5,000) in respect of operating leases for land and buildings.

#### 4. Amounts written off fixed asset investments

	2001 £	2000 £
Amortisation of premium on Treasury Stock	33,489	24,321
	<u>33,489</u>	<u>24,321</u>

The premium on Treasury Stock is amortised on a straight line basis over the period from purchase to redemption date.

#### 5. Taxation

The UK taxation rates applied are as follows:

	2001	2000
Corporation tax on net income	30%	30%
Corporation tax on net chargeable gains	30%	30%

The tax charge (credit) is made up as follows:

	£	£
UK Corporation Tax	-	77,631
Adjustment in respect of previous years	(3,113)	-
Deferred taxation	(4,338)	4,301
	<u>(7,451)</u>	<u>81,932</u>

Provision is made for deferred taxation, using the liability method, at the rates at which the liability is expected to crystallise, as follows:

	£
At 1st January 2001	9,337
Movement in the year	(7,450)
At 31st December 2001	<u>1,887</u>
The provision is made up as follows:	£
Chargeable gains rolled over	6,541
Short term timing differences	(3,798)
Accelerated capital allowances	(856)
	<u>1,887</u>

#### 6. Dividends

	2001 £	2000 £
Dividends proposed:		
Partly paid up shares at 12.50p (2000: 12.00p)	514	493
Fully paid up shares at £5.00 (2000: £4.80)	85	82
	<u>599</u>	<u>575</u>

#### 7. Loans and advances to customers

At 31st Dec 2000 £	Advanced £	Repaid £	At 31st Dec 2001 £
1,908,364	2,810,454	2,430,386	2,288,432

#### 8. Analysis of maturity of bank deposit accounts, loans and advances to customers and customer accounts

##### Bank deposit accounts

Balances on bank deposit accounts are all due to mature in three months or less.

##### Loans and advances to customers

The maturity of advances secured on property from the balance sheet date is as follows:

	2001 £	2000 £
Repayable on demand	-	-
In more than three months but not more than one year	386,080	444,100
In more than one year but not more than five years	1,241,377	1,066,515
In more than five years	660,975	397,749
	<u>2,288,432</u>	<u>1,908,364</u>



## Customer accounts

Deposits are repayable from the date of the balance sheet in the ordinary course of business as follows:

	2001 £	2000 £
In one year or less or repayable on demand	8,087,843	6,863,095
In more than one year but not more than two years	1,329,720	815,375
	<u>9,417,563</u>	<u>7,678,470</u>

## 9. Quoted investments Equity shares

	At 31st Dec 2000 £	Purchases £	Disposals £	Amounts written off investments £	At 31st Dec 2001 £
At cost	<u>1,367,804</u>	<u>1,214,900</u>	<u>(56,020)</u>	<u>-</u>	<u>2,526,684</u>
At market value	<u>4,988,796</u>				<u>5,555,025</u>

## Debt Securities – issued by public bodies

	At 31st Dec 2000 £	Purchases £	Disposals £	Amounts written off investments £	At 31st Dec 2001 £
At cost	<u>1,886,672</u>	<u>894,433</u>	<u>(160,941)</u>	<u>(33,489)</u>	<u>2,586,675</u>
At market value	<u>2,191,831</u>				<u>2,797,274</u>

If the above investments were realised at the balance sheet date tax implications would arise on gains/losses made. These have not been quantified in the accounts.

Amounts written off investments are detailed in Note 4.

## 10. Fixed assets

	Leasehold Improvements £	Office Equipment £	Computer Equipment £	Total £
<b>Cost</b>				
At 1st January 2001	27,747	15,755	52,819	96,321
Additions	-	-	3,962	3,962
At 31st December 2001	<u>27,747</u>	<u>15,755</u>	<u>56,781</u>	<u>100,283</u>
<b>Depreciation</b>				
At 1st January 2001	5,491	9,919	38,495	53,905
Charge for year	1,850	2,862	8,044	12,756
At 31st December 2001	<u>7,341</u>	<u>12,781</u>	<u>46,539</u>	<u>66,661</u>
<b>Net book amounts</b>				
At 31st December 2001	<u>20,406</u>	<u>2,974</u>	<u>10,242</u>	<u>33,622</u>
At 31st December 2000	<u>22,256</u>	<u>5,836</u>	<u>14,324</u>	<u>42,416</u>

## 11. Customer accounts

Amounts standing to the credit of depositors

	At 31st Dec 2000 £	Received £	Withdrawn £	At 31st Dec 2001 £
Repayable on demand	5,706,310			7,082,078
With agreed periods of notice	1,972,160			2,335,485
	<u>7,678,470</u>	<u>3,323,863</u>	<u>(1,584,770)</u>	<u>9,417,563</u>

**12. Share capital**

There was no change in the share capital during the year.

<b>Authorised</b>	5,000 shares of £10 each	<u>£50,000</u>
<b>Issued</b>	17 shares of £10 each fully paid	170
	4,108 shares of £10 each 25p paid	<u>1,027</u>
		<u>£1,197</u>

**13. Reserves**

	General Reserve £	Income and Expenditure Account £
At 1st January 2001	3,120,000	429,173
Net surplus for year	–	125,532
Transfer to general reserve	<u>100,000</u>	<u>(100,000)</u>
At 31st December 2001	<u>3,220,000</u>	<u>454,705</u>

**14. Reconciliation of operating surplus to net cash inflow from operating activities**

	2001 £	2000 £
Net surplus on ordinary activities	118,680	626,784
Decrease/(increase) in interest receivable and prepaid expenses	29,349	(18,736)
Depreciation	12,756	12,378
Effect of other deferrals and accruals on operating activities cash flow	5,833	5,474
Surplus on disposal of investments	(99,051)	(523,018)
Amounts written off investments	<u>33,489</u>	<u>24,321</u>
Net cash inflow from trading activities	101,056	127,203
Net increase in deposits	1,739,093	570,942
Net decrease/(increase) in loans to Methodist Trustees	<u>(380,068)</u>	<u>705,808</u>
Net cash inflow/(outflow) from operating activities	<u>1,460,081</u>	<u>1,403,953</u>

**15. Capital expenditure and financial investment**

Purchase of investments	(2,109,333)	(83,311)
Sale of investments	316,012	938,997
Purchase of tangible fixed assets	<u>(3,962)</u>	<u>–</u>
	<u>(1,797,283)</u>	<u>855,686</u>

**16. Analysis of the balances of cash as shown in the balance sheet**

	2001 £	2000 £	Cash flow £
Bank deposits	138,549	12,571	125,978
Bank deposit accounts	5,517,461	6,059,675	(542,214)
National Savings deposits	<u>27,067</u>	<u>27,067</u>	<u>–</u>
	<u>5,683,077</u>	<u>6,099,313</u>	<u>(416,236)</u>

## 17. Related party transactions

Two directors, Mr. Alan Pimlott and Rev. Kenneth Street, are members of the Board of the Trustees for the Methodist Church Purposes. Mr Alan Pimlott is also the Connexional Property Secretary of the Methodist Church.

All applications by church bodies for a loan are approved by the Property Committee of the Methodist Church.

Trustees for Methodist Church Purposes own 39.7% of the share capital of the Association. Mr Michael Greenberg, a director, has an interest in a loan of £26,250 to Harrogate Methodist Circuit.

Rev. Dr. Stuart Burgess, a director, has had an interest in a loan of £30,000 to Pocklington Methodist Church.

## 18. Directors' shareholdings

The interests of the directors in the share capital of the Company are stated below:

	No. of Ordinary Shares of £10 each, 25 pence paid	
	At 31 December 2001	At 31 December 2000
Rev. Dr. Stuart J. Burgess	30	30
Michael Greenberg	125	125
W. Arthur H. Holroyd	337	337
Rev. Nichola G. Jones	50	50
G. Alan Pimlott	—	—
Rev. Kenneth E. Street	10	10
Diane Tokins	50	50
	<u>602</u>	<u>602</u>

## 19. Other commitments

At 31st December 2001 the Company had annual commitments under operating leases as follows:

	Land and Buildings	
	2001	2000
	£	£
Expiry date:		
In more than 5 years	<u>5,000</u>	<u>5,000</u>

## 20. Financial Risk Management

### Interest Rate Risk

The Company does not take deposits or make loans on fixed rate terms and therefore is not directly exposed to movements in interest rates regarding its core business. The only fixed rate instruments held are government stock and all cash and bank balances are on variable interest rate terms. Consequently the Company does not actively manage interest rate risk and does not use hedging instruments or derivative financial instruments.

Derivatives are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract of agreement, such as interest rates, exchange rate or stock market indices.

Equity shares are held as long term investments and are not actively traded and therefore the company does not hedge against risks regarding stock market movements.

### Liquidity Risk

The Company's liquidity policy is to maintain sufficient liquid resources to cover cashflow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Company and to enable the Company to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets.

# Independent Report of the Auditors to the shareholders of The Methodist Chapel Aid Association Ltd

We have audited the financial statements of the Methodist Chapel Aid Association Limited for the year ended 31 December 2001 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement and the reports on Loans, Deposits, Investments, Supervision and Audit. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 2001 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PKF, Registered Auditors, Leeds, UK  
30 January 2002