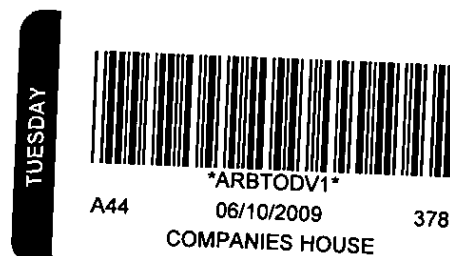




## MHA Care Group

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Annual Report & Accounts 2008 - 2009



### Head Office:

Epworth House Stuart Street Derby DE1 2EQ

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Website: [www.mha.org.uk](http://www.mha.org.uk)

Company Limited by Guarantee - No. 4038631

Registered as a Charity - No. 1083994

Registered Social Landlord with the Housing Corporation - No. LH4300

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## MHA CARE GROUP

### OFFICERS AND ADVISORS

#### Patrons

The Rt Hon The Lord Archer of Sandwell QC (President)  
 Baroness Kathleen Richardson of Calow, OBE  
 Pam Rhodes

#### Board

	Born	Term of office		Committee memberships
		Start	Finish	
Chair				
Brian Coldwell, OBE	1932	2002		Succession Committee, Remuneration Committee, Audit Committee
Other Board Members				
Ebele Akojie	1969	2007	Jul 2009	Audit Committee, Development Committee
Stephen Duckworth	1939	2002	Jul 2008	Pensions Committee
Rev Anne Gibson	1947	Jul 2009		
David Hall	1941	2006		Pensions Committee
David Hobbs	1947	2006		Development Committee
Shelagh Morgan	1953	2006		Remuneration Committee
Rev Peter Mortlock	1945	2000	Jul 2008	Development Committee, Remuneration Committee
Keith Salisbury	1946	Jul 2008		Remuneration Committee
Graham Smith	1950	Jul 2008		Development Committee
Alan White	1944	Jul 2008	Mar 2009	

## MHA CARE GROUP

### OFFICERS AND ADVISORS

#### Corporate Management Team

Name	Born	Joined	Position
Rev Dr Keith Albans	1956	2001	Group Director - Chaplaincy & Spirituality
Carol Artis	1953	2005	Group Director - Operations
Jane Barker	1961	1999	Group Director - Strategic Partnerships
Lorelei Jarvis	1956	Jun 2008	Group Director - Housing and Care
Roger Davies	1959	1999	Group Chief Executive
Rosie Forrest	1962	2006 - May 2009	Head of Human Resources
Anna Marshall-Day	1972	2006	Group Company Secretary
Paul Milner	1964	2002	Group Director - Finance
Steve Reynolds	1951	1999	Group Director - Service Improvements

#### Company Secretary

Anna Marshall-Day

#### Registered Office

MHA Care Group  
Epworth House  
Stuart Street  
DERBY  
DE1 2EQ

Tel: (01332) 296200  
Fax: (01332) 296925  
Email: [enquiries@mha.org.uk](mailto:enquiries@mha.org.uk)  
Website: [www.mha.org.uk](http://www.mha.org.uk)

#### Charity Registered Number

1083994

#### Registered Social Landlord Number

LH4300

#### Company Registered in England and Wales Number

4038631

## MHA CARE GROUP

### OFFICERS AND ADVISORS

#### Professional Advisors

##### Solicitors

Anthony Collins Solicitors LLP  
134 Edmund Street  
Birmingham  
B2 2ES

##### Registered Auditor

Baker Tilly UK Audit LLP  
Registered Auditor  
Chartered Accountants  
St Philips Point  
Temple Row  
Birmingham  
B2 5AF

##### Bankers

HSBC Plc  
70 Pall Mall  
London  
SW1Y 5EZ

AIB Group (UK) Plc  
61 Temple Row  
Birmingham  
B2 5LS

Nationwide Building Society  
Kings Park Road  
Moulton Park  
Northampton  
NN3 6NW

Barclays Bank plc  
15 Colmore Row  
Birmingham  
B3 2WN

##### Investment Advisors

Central Finance Board of the Methodist Church  
9 Bonhill Street  
London  
EC2A 4PE

## MHA CARE GROUP

### BOARD OF DIRECTORS' REPORT

31 March 2009

#### 1. Structure, Governance and Management

##### Governing Document

MHA Care Group is a company limited by guarantee (Companies House No. 4038631), a registered Charity (Registered Charity No. 1083994) and a Registered Social Landlord (Housing Corporation No. LH4300). It is governed by Memorandum and Articles of Association.

MHA Care Group is responsible for strategic direction, policy and the employment of the senior management team. The relationship between the Group members is defined in an Independence Agreement. Management Agreements have been established whereby services provided by the Group parent to the subsidiaries are clearly defined.

##### Organisational Structure

The Board consists of up to 12 Board Members, a third of whom are Methodist Church appointments, a third of whom are independent nominations and a third of whom are representatives from the Group's subsidiary organisations.

The Board has the following committees:

- The Audit Committee advises the Board on all matters relating to the annual financial statements, external audit, risk management and internal controls.
- The Pensions Committee, which includes representatives of management and staff, advises the Board on the operation of the pension scheme.
- The Remuneration Committee determines, on behalf of the Board, the remuneration of the corporate management team.
- The Development Committee acts, under delegated authority from the Board, to approve expenditure on new developments and negotiated contracts.
- The Board Succession Committee ensures that a full complement of Board Members with a wide and relevant range of skills and experience service the Board.

The Board delegates the day-to-day operations to the Corporate Management Team who report back to the Board and various Committees.

The Group complies with the NHF Code of Governance, subject to the following:

- As an organisation concerned with older people, it is not considered appropriate to apply an age limit for Board members.

##### Election and Appointment of Board Members

The Church appointees are formally appointed by the Conference of the Methodist Church. The Independent nominees are appointed by the Board at its annual general meeting. The representatives of the Group's subsidiary Boards are appointed by the subsidiary Boards. The recruitment of new Board Members is through a process of advertisement, application and interviews.

## MHA CARE GROUP

### BOARD OF DIRECTORS' REPORT

31 March 2009

Board Members may serve for a maximum period of six consecutive years, subject to re-election during that period. The Chair may serve for a maximum period of nine years.

Members who served on the Board during the year are shown in the list of officers on page 4.

#### Induction and Training of Board Members

New Board members receive full induction as set out in the Board Member Code of Conduct. A Board Member Reference Book is provided on appointment. This contains the constitutional documents along with policies and information relevant to the work of the Charity. In addition, all Board members are 'linked' with a local care home or housing scheme in order to get to know projects, residents, tenants, volunteers and staff and further develop understanding of the work of the organisation. Visits to local projects are also an annual feature of Board meetings. Training of all board members is provided in accordance with requirements and as a result of annual performance appraisals.

The Board Members decide the strategic aims of the Group. They do not undertake management tasks, though they hold to account those employed to perform management and executive functions. Decisions are taken in accordance with the instructions laid down in the Group's Standing Orders and related policy documents.

#### Patrons

We would like to take this opportunity to thank our patrons. Their support is invaluable in raising the profile of the organisation and helping us to reach out to more older people in need. Opening new projects, supporting national events and backing major capital appeals generates essential charitable income and the time and contribution given by our patrons is greatly appreciated.

#### Connected Charities

MHA Care Group works closely with its three subsidiary charitable organisations:

Methodist Homes for the Aged (MHA)

Methodist Homes Housing Association (Association)

MHA Auchlochan (Auchlochan)

#### Risk Management

The Board oversees strategic risk annually with additional operational risk assessment through delegation to the Audit Committee. Risk control is exercised appropriately by Executive Directors undertaking a formal half yearly review of strategic and operational risks for their respective areas. Risk Management is embedded into the organisation by the Executive Director and Senior Managers cascading the risk reviews and obtaining feedback to inform the half yearly review.

The key risks likely to affect the Charity's ability to meet its objectives include: the impact of the economic recession on the property market and the availability of funding affecting the ability to meet growth and financial performance targets, pension scheme liabilities could become

## MHA CARE GROUP

### BOARD OF DIRECTORS' REPORT

31 March 2009

unsustainable, seriously poor reputation at one or more projects and an existing or new subsidiary performs adversely to plan, undermining confidence of supporters and lenders. These risks are monitored and appropriate actions taken.

#### 2. Objectives and Activities

The objects of MHA Care Group are to provide services for older people and other adults in need in the United Kingdom and elsewhere, particularly (but not limited to) those with mental illness or physical/learning disabilities by providing:

- accommodation; and/or
- care and support services; and/or
- any other provision which may facilitate an improved quality of life.

The Board has considered their response to the change to the law, as embodied in the Charities Act 2006, requiring that public benefit can no longer be presumed but must be demonstrated. In addition, they have had due regard for Charity Commission guidance on the subject. 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.

Our Mission is to improve the quality of life for older people, inspired by Christian concern.

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

Our main objectives for the coming year:

- to ensure the quality of services is maintained and enhanced;
- to develop our managers and staff to enhance their experience of working for MHA and enhance our service;
- to extend our services to more older people; and
- to reach out to other organisations of similar values who may wish to become part of MHA Care Group or receive our management services.

The strategies to achieve these objectives and the measures of success are:

- to upgrade some of our existing buildings to create a more attractive place to live, to time and budget;
- to build new Homes and Housing schemes to a high standard, to time and budget;
- to provide personal development opportunities for managers and staff; to seek direct feedback and reductions in staff turnover and absence rates;
- to continue to develop our person-centred service for older people and seek user satisfaction improvements;
- to ensure each Home and Scheme achieves quality and financial targets; and
- to take opportunities to develop partnerships with like-minded organisations.

**MHA CARE GROUP**  
**BOARD OF DIRECTORS' REPORT**  
**31 March 2009**

**Significant Activities**

The significant activities undertaken are:

i. Residential, Dementia and Nursing Care Homes

24-hour person-centred care and support in specially designed accommodation, mostly with private en-suite bedrooms and spacious dining facilities, communal areas and gardens. Full and varied activity programmes, including shared worship, are made available to meet the needs of each individual.

ii. Independent Living and Independent Living with Care

Purpose-built apartments with individual kitchen, bathroom, bedroom and living areas for independence and privacy coupled with shared areas for activities, social events and friendship. The Manager organises cleaning and maintenance of the building and gardens and is also on hand to provide assistance, ensuring safety and security. Housing with Care offers the addition of 24-hour staffing to provide person-centred care and support to meet individual needs, including specialist dementia care.

iii. Independent Living with Care for Sale

All the advantages of Independent Living, but available for purchase to individuals or couples who wish to own their home and benefit from support as required.

iv. Live at Home schemes

Companionship, outings and help with shopping, nourishing hot meals and social activities organised by staff supported by volunteers - all designed to help older people stay independent and supported in their own home and community.

v. Consultancy Services to other charitable organisations

MHA provides management expertise in the day-to-day running of care homes and housing, managing all operations on behalf of other organisations.

## MHA CARE GROUP

### BOARD OF DIRECTORS' REPORT

31 March 2009

#### 3. Achievements and Performance

2008 marked the 65th anniversary of MHA Care Group's subsidiary, Methodist Homes for the Aged and residents throughout our nationwide projects enjoyed various celebrations.

Our focus on improving the quality of life of older people continues. We are indebted to so many generous donors including 5,000 committed volunteers who give their time, and 5,000 dedicated staff, who continue to support our work, enable older people to live life to the full and gives us a strong base to continue for a further 65 years into the future. The whole Group now provides housing, care and support to 12,700 older people nationwide

In 2008/9,

We said we would:

Here's what we did:

Deliver a quality service

- Achieved quality ratings of 85% of our services at 'good' or 'excellent' from the Commission of Social Care Inspection, the independent regulator of care services in England.
- Carried out an independent survey for those in our care homes, who gave a satisfaction level of over 80%.
- Those using our housing services gave a satisfaction rating of 78%.
- MHA's own exacting Standards and Values Assessments of all care services show an achievement of 87% for standards and 'Green' for values.
- Continued our accreditation with the Centre for Sheltered Housing Studies.

Develop our services in the areas of well-being, chaplaincy, end of life, and dementia care

- 36 MHA staff now qualified in reflexology providing therapy to residents promoting relaxation, with a further 6 in training.
- Extended activities each day to support well-being, with many 'Seize the Day' events arranged to assist residents in fulfilling personal ambitions.
- Supported a network of over 100 Chaplains providing individual pastoral support and worship services.
- Shared our 'Final Lap' training with all staff to support older people and their families as they near the end of their life.

**MHA CARE GROUP**  
**BOARD OF DIRECTORS' REPORT**  
**31 March 2009**

In 2008/9,

We said we would:

Here's what we did:

Develop plans for operating retirement communities

- Auchlochan, an established retirement village in Scotland, comprising four care homes and around 150 housing with care apartments, joined the Group in January 2009, enabling us to extend our special service to an extra 400 older people.

Offer our special management services to similar organisations

- Provided management services to two smaller charities and three faith-based non-profit organisations, delivering quality care for 220 more older people.

Develop purpose-built care homes with design features to meet the needs of today and tomorrow's older people

- Opened two new Care Homes in Bolton and Carterton, providing specialist residential, nursing and dementia care for 130 older people.

Extend our housing with 24-hour care offering a greater range of support for older people

- Completed our apartments in Dore, Sheffield and Hitchin offering 53 new homes with around-the-clock care and support for older people.
- We have been successful in achieving a £1.8m grant from the Department of Health and £1.5m from the Homes and Communities Agency to build 45 apartments with 24-hour care in Leeds to meet the multi-faith and cultural needs of older people in south Leeds which includes a large Muslim population.

Invest in improving existing services so that buildings are maintained to the highest standards, complementing the care and support provided to older people

- Acquired a nursing home adjacent to our existing home in Newport Pagnell, which is being extended to provide an additional 15 places for dementia care, as part of our programme to improve and extend the range of accommodation and care services.
- Upgraded and refurbished our home in Hull to provide improved facilities for residents.
- Completed an extensive refurbishment programme throughout our housing schemes to improve safety and security, upgrade heating and replace kitchens and bathrooms.

**MHA CARE GROUP**  
**BOARD OF DIRECTORS' REPORT**  
**31 March 2009**

In 2008/9,  
We said we would:

Here's what we did:

Support staff to achieve the skills and knowledge required to serve older people

- Delivered development training to managers and those with potential to make the most of their abilities and provide a high-class service.
- Provided innovative 'e-learning' to all staff, with training in care, health and safety, food hygiene, diversity, and end of life care.
- Extended induction for new care staff to include our 'buddies' scheme, additional training and support to facilitate the settling in period
- Supported our care staff with 59% now qualified to NVQ level 2 or above.

Provide a variety of community services to enable people to continue living in their own homes

- Supported our live at home initiative to help 8,000 older people remain independent and enjoy life.
- Piloted a home care service for people with dementia in Bradford.

**Employees, Equality and Diversity**

MHA Care Group employs the Corporate Management Team, senior managers and staff working in supporting functions such as Finance, IT, Property, HR and Fundraising. The Group is fortunate in employing so many managers and staff who share our values and provide an exceptional service to older people, and we are grateful for their contribution.

The Board establish the objectives of the Group Chief Executive and monitor achievement.

The Board and Corporate Management Team work closely together to establish the right policy and strategic framework for our work. Performance objectives are established throughout the organisation and measured on a regular basis.

The Group is committed to achieving equality through diversity and its policies and strategies recognise that all people have the right to their own distinct and diverse identity. The Group recognises it has an obligation to make services more responsive to communities and individual needs, and aims to meet these diverse needs by having a diverse workforce that reflects the local population and has the skills and understanding to achieve service objectives. The Group has taken positive steps to adopt good policy and practice in employing people with disabilities.

# MHA CARE GROUP

## BOARD OF DIRECTORS' REPORT

31 March 2009

### 4. Financial Review

The Income and Expenditure account shows turnover for the year of £104.4m a 10% increase on the previous financial year. We exceeded our financial targets for the year as a result of increasing the number of care homes.

The net movement of funds of £14.1m is added to the total balances brought forward of £110.3m

### Key Indicators

	2009/10 Target £m	2008/09 Target £m	2008/09 Actual £m	2007/08 Actual £m	2006/07 Actual £m	2005/06 Actual £m
Total income	110.2	101.1	104.4	93.1	76.8	68.0
Operating costs	95.2	89.2	89.2	77.4	65.0	60.5
Net interest charges	1.1	1.6	1.2	1.0	0.7	0.6
Surplus for the year	13.9	13.4	14.1	15.0	11.2	8.0
Service users - Homes	3,100	3,000	3,200	2,850	2,600	2,500
- Independent Living	1,600	1,580	1,500	1,450	1,300	1,300
- Community Services	8,000	8,000	8,000	8,000	8,000	8,000
Occupancy - Homes	96.0%	97.1%	95.8%	95.9%	96.4%	96.1%
- Independent Living	98.5%	98.0%	99.2%	99.5%	99.6%	99.3%
Service user satisfaction						
Charity	80%	83%	80%	81%	81%	79%
Housing Association	80%	80%	78%	78%	88%	88%
Cost of fundraising to charitable income	12.2%	12.7%	11.7%	10.9%	13.7%	15.6%

Occupancy levels were below expectation throughout the period with relatively high variances during the first half year.

## MHA CARE GROUP

### BOARD OF DIRECTORS' REPORT

31 March 2009

#### Reserves Policy

The Board of Directors have considered the level of reserves which should be maintained within the Group 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 £5m are needed to cover such items, and to enable the Group to continue to operate to meet its charitable objectives. Actual reserves were £14.7m (2008 £11.9m).

The level of free reserves, excluding long-term loans (which have been taken out to finance the development programme), restricted and designated funds and those invested in fixed assets are £29.4m (2008 £24.9m). The reserves are earmarked for future service development.

#### Investment Policy

This policy covering investment objectives is reviewed half-yearly by the Audit Committee and has been drawn up with assistance from our investment advisors, the Central Finance Board of the Methodist Church (CFB), to cover the different types of funds held, as follows:

- General funds target to provide working capital in line with the reserves policy by investing 65% to 85% in equities (actual 14%) and 15%-35% in fixed interest securities (actual 7%).
- Restricted funds target (excluding Live at Home and Amenity Funds) investing 50%-75% in equities (actual 13%), 25%-50% in fixed interest securities (actual 9%) and 0%-10% in cash (actual 82%).
- Permanent endowment funds target investing 100% (actual 96%) in fixed interest securities excluding a minimum cash balance of £100,000 (actual 4%).

The investments have been traded during the year, on the advice of the investment manager to comply with the Ethical Fundraising policy and the strong policies of the CFB on ethical investments, in order to move towards the agreed objectives.

The equity investments decreased in value by 32% against FTSE All Share index of 33%. The fixed interest investments increased in value between 9.5% and 11.0% against FTSE Short Gilt index Composite Index of 11.1%.

#### Principal Funding Sources

MHA has arranged a loan facility with the Allied Irish Bank to draw up to £41m (£35.6m drawn). During the year £6.6m was drawn down from Allied Irish Bank loan facility. After the end of the financial year a further loan facility of £20m has been arranged with Barclays Bank plc. Methodist Homes Housing Association has arranged a loan facility with the Nationwide Building Society to draw up to £5m (drawn £2.4m). Fixed assets additions of £17.7m were financed by loan drawn down of £6.6m grants received of £0.5m and the balance of expenditure being met from reserves. This expenditure enables us to redevelop existing properties to meet new standards as well as to build new ones and extend services for older people.

## MHA CARE GROUP

### BOARD OF DIRECTORS' REPORT

31 March 2009

#### 5. Future Developments

MHA Care Group will review and develop its services in the following respects:

- Provision of Management Services – ensuring value for money and quality of service, to charitable organisations to whom we currently provide services, as well as extending the delivery of service to other organisations with similar values and ethos.
- Well-Being, Social Care and Activities – ensuring all residents have access to therapeutic, stimulating and fun activities seven days a week within group and individual programmes, using local champions, involving all staff and providing resources for individual homes.
- Chaplaincy – to complete the development of chaplaincy in homes and schemes, including the use of paid chaplains and individually agreed roles and services
- End of Life Care – to put to use the training which has been rolled out to all homes and schemes during the past 12 months, aiming to create confidence and understanding for staff to enable a positive and open approach to end-of-life care.
- Design – to continue to develop detailed specifications for the design and facilities within new and refurbished homes and schemes, to ensure they provide maximum comfort, stimulation and orientation and benefit from the latest technology and ideas from around the world.
- Catering – develop further the work started in 2007/8 to ensure our care settings provide the most nutritious, well presented, interesting and dignified meals experience possible.
- Staff – employing staff who have the right skills, experience, attitude and motivation to ensure our high standards are maintained 24 hours per day, 7 days per week, and to develop professional higher degree level training for senior managers.
- Retirement Communities – we will explore opportunities to develop services for older people in retirement communities, looking to create partnerships with developers to share the risk on building and selling the accommodation.

**MHA CARE GROUP**  
**BOARD OF DIRECTORS' REPORT**  
**31 March 2009**

The spread and range of services provided will be widened through the following planned developments:

- Bedford 62 place care home - completion due July 2009
- Bexhill Complete major refurbishment and extension of existing home
- Bristol A new care home offering residential, nursing and dementia care in 76 care suites and apartments
- Dovercourt Obtain planning permission and commence work on a major upgrade and extension of Alexandra Court
- Harrogate Commence refurbishment of Berwick Grange to provide 28 leasehold apartments for sale with 24-hour care
- Leamington Spa 50 place home to replace Homewood our existing care home - completion due February 2010.
- Letchworth Complete refurbishment and extension of existing care home to offer additional places
- Lytham St Annes Major improvements to existing care home
- Newport Pagnell 15 bed dementia extension plus major refurbishment works - completion June 2009
- Norwich Obtain planning permission and commence work on a major upgrade and extension of Cromwell House
- Oldham 19 bed addition and major refurbishment - completion due March 2010
- Rhos on Sea 51 apartments with 24-hour care, developed in partnership with Adlington
- Whitstable 50 place care home to replace Cliff Dene. Ultimately to be a dementia care home. Completion is planned for March 2010.

We will aim to extend our 24-hour care services to our existing sheltered housing, subject to resident consultation.

**Statement as to Disclosure of Information to Auditor**

The directors who were in office on the date of approval of these statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor are unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

**MHA CARE GROUP**  
**BOARD OF DIRECTORS' REPORT**  
**31 March 2009**

**Auditor**

A resolution to reappoint Baker Tilly UK Audit LLP, as auditor will be put to the members at the annual general meeting.

The report of the board was approved on 15 July 2009 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Brian Coldwell', written in a cursive style.

**BRIAN COLDWELL**

Epworth House  
Stuart Street  
Derby  
DE1 2EQ

## MHA CARE GROUP

### STATEMENT OF THE BOARD'S RESPONSIBILITIES

31 March 2009

#### Financial Statements

We are required under Companies Act and Housing Association legislation to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group at the end of the financial year and of the income and expenditure of the Group for the year ended on that date.

In preparing these financial statements we are required to:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether applicable accounting standards and statements of recommended practice have been followed, and give details of any departures; and
- prepare the financial statements on a going concern basis unless in our view the Charity will be unable to continue in operation.

We are also responsible for:

- keeping proper accounting records, which disclose with reasonable accuracy at anytime the financial position of the Group;
- maintaining a satisfactory system of control over the accounting records and transactions;
- safeguarding the Group's assets;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Internal Financial Control Assurance

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

Following publication in July 2007 of the Housing Corporation circular 07/07 Internal Controls Assurance, the Board confirms there is an ongoing process for identifying, evaluating and managing significant risks to the achievement of the Group's strategic objectives. It has established the following key procedures, which are designed to provide effective internal financial control:

- **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 Three Year Plan, which incorporates an Annual Budget, and receives regular financial and management reports which identify variances from budget and key financial indicators.

## MHA CARE GROUP

### STATEMENT OF THE BOARD'S RESPONSIBILITIES

31 March 2009

- **Monitoring systems:**

The Board has an Audit Committee, which reviews reports from management, external auditors and internal auditors 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 financial control for the year ended 31 March 2009 and until 15 July 2009. No weaknesses were found which resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements or in the auditor's report of those financial statements.

# **MHA CARE GROUP**

## **INDEPENDENT AUDITOR'S REPORT TO**

### **THE MEMBERS OF MHA CARE GROUP**

We have audited the financial statements on pages 23 to 52.

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

#### **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 (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Boards' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

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, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006 and whether the information given in the Board of Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, 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 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 Board of Directors' Report. 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.

**MHA CARE GROUP**  
**INDEPENDENT AUDITOR'S REPORT TO**  
**THE MEMBERS OF MHA CARE GROUP**

**Basis of Opinion**

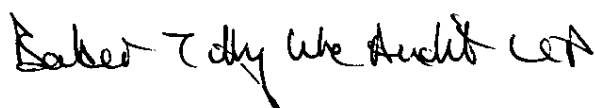
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the affairs of the Company and of the Group as at 31 March 2009 and of the surplus of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006; and
- the information given in the Board of Directors' Report is consistent with the financial statements.



BAKER TILLY UK Audit LLP  
Registered Auditor  
Chartered Accountants  
Birmingham

15 July 2009

# MHA CARE GROUP

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2009

		2009		2008	
	Notes	£'000	£'000	£'000	£'000
<b>Turnover</b>					
Continuing Operations		102,893		93,118	
Acquisitions		1,542		-	
		<u>          </u>		<u>          </u>	
	2		104,435		93,118
<b>Operating costs</b>					
Continuing Operations		(87,706)		(77,404)	
Acquisitions		(1,535)		-	
		<u>          </u>		<u>          </u>	
	2		(89,241)		(77,404)
<b>Operating surplus</b>	6		15,194		15,714
Surplus on disposal of property assets			77		325
Deficit on sale of current assets			(11)		-
Investment income			785		761
Interest payable and similar charges	7		(1,956)		(1,775)
			<u>          </u>		<u>          </u>
<b>Surplus recognised for the year</b>	17		14,089		15,025
			<u>          </u>		<u>          </u>

The result for the year related wholly to continuing activities.

# MHA CARE GROUP

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS

For the year ended 31 March 2009

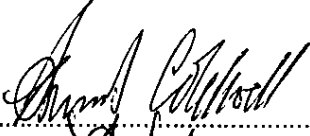
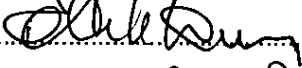
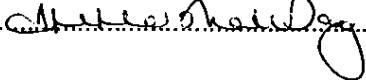
	2009 £'000	2008 £'000
Surplus for the year	14,089	15,025
Decrease in market value of investments	(614)	(210)
Decrease in market value of investment property	(15)	-
Actuarial (loss)/gain on pension scheme	(6,009)	1,867
	<hr/>	<hr/>
Total surpluses and losses recognised since last annual report	7,451	16,682
	<hr/>	<hr/>

**MHA CARE GROUP**  
**PARENT COMPANY BALANCE SHEET**  
**As at 31 March 2009**

		2009		2008	
	Notes	£'000	£'000	£'000	£'000
<b>Current assets</b>					
Debtors	11	459		247	
Cash at bank		812		841	
		<hr/>		<hr/>	
		1,271		1,088	
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	13	(469)		(400)	
		<hr/>		<hr/>	
<b>Net current assets</b>			802		688
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			802		688
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Revenue reserves	17		802		688
			<hr/>		<hr/>

The above relates to MHA Care Group's own balance sheet and not that of its subsidiary companies.


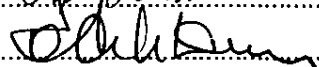
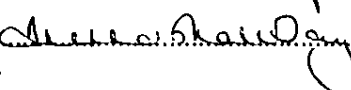
The financial statements on pages 23 to 52 were approved by the Board and authorised for issue on 15 July 2009 and signed on its behalf by:

 ..... (Board Member)  
 ..... (Board Member)  
 ..... (Secretary)

**MHA CARE GROUP**  
**CONSOLIDATED BALANCE SHEET**  
**As at 31 March 2009**

	Notes	Group 2009		Group 2008	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Tangible fixed assets					
Housing properties:					
Gross cost	8	200,265		167,517	
Less: Social Housing Grants	8	(34,592)		(34,592)	
Other Grants	8	(9,017)		(8,960)	
Depreciation	8	(15,319)		(12,412)	
		<u>141,337</u>		<u>111,553</u>	
Other	8	<u>7,722</u>		<u>7,171</u>	
			149,059		118,724
Investment properties	10		<u>1,024</u>		<u>90</u>
			150,083		118,814
<b>Current assets</b>					
Retirement housing stock		20,033		15,201	
Debtors	11	5,819		5,636	
Investments	12	3,286		3,911	
Cash at bank		<u>17,150</u>		<u>11,478</u>	
		46,288		36,226	
Creditors: amounts falling due within one year	13	<u>(11,116)</u>		<u>(7,809)</u>	
<b>Net current assets</b>			35,172		28,417
<b>Total assets less current liabilities</b>			<u>185,255</u>		<u>147,231</u>
Pension liability	19		(9,325)		(4,276)
<b>Total assets less current liabilities including pension liability</b>			<u>175,930</u>		<u>142,955</u>
Creditors: amounts falling due after more than one year	14		56,096		32,624
<b>Capital and reserves</b>					
Revaluation reserve	17	103		778	
Endowment reserve	17	799		764	
Restricted reserve	17	18,058		15,678	
Revenue reserves	17	<u>98,822</u>		<u>93,111</u>	
		117,782		110,331	
Negative Goodwill	16	<u>2,052</u>		<u>-</u>	
			119,834		110,331
			<u>175,930</u>		<u>142,955</u>

The financial statements on pages 23 to 52 were approved by the Board and authorised for issue on 15 July 2009 and signed on its behalf by:

 (Board Member)  
 (Board Member)  
 (Secretary)

**MHA CARE GROUP**  
**CONSOLIDATED CASH FLOW STATEMENT**  
For the year ended 31 March 2009

		2009		2008	
	Notes	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	20(a)		16,440		16,085
Returns on investments and servicing of finance					
Investment income		785		761	
Interest paid		(2,092)		(2,199)	
			(1,307)		(1,438)
Capital expenditure					
Housing properties		(16,730)		(18,478)	
Other fixed assets		(1,031)		(874)	
Investment properties		(205)		-	
Social Housing and other grants received		485		7,905	
Receipts on disposal of housing properties		117		785	
			(17,364)		(10,662)
Acquisitions					
Cash acquired with Auchlochan Trust			814		-
Net cash flow before use of liquid resources and financing			(1,417)		3,985
Management of liquid resource					
Payments to acquire investments		(492)		(366)	
Proceeds from sale of investments		492		-	
			-		(366)
			(1,417)		3,619
Financing					
Increase in loans		24,900		-	
Loans repaid		(17,811)		(16)	
			7,089		(16)
Increase in cash	20(b)		5,672		3,603

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

#### 1. Principal Accounting Policies

##### Introduction and Accounting Basis

The financial statements of the Group are prepared under the historical cost accounting rules, with the exception of investments which are shown at market value, and in accordance with the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2006, applicable financial reporting standards and the Statement of Recommended Practice (SORP) "Accounting by Registered Social Landlords 2008".

Investment properties are accounted for in accordance with SSAP 19, "Accounting for Investment Properties", which provides that these should be stated at open market value and not be subject to periodic depreciation charges (unless held on lease). This is contrary to the Companies Act 1985 which requires fixed assets to be depreciated. Current cost accounting or the revaluation of specific assets to market value, as determined at the date of their last valuation, is also permitted.

The treatment of investment properties under the Companies Act does not give a true and fair view as these assets are not held for consumption in the Group's activities but as investments, the disposal of which would not materially affect any charitable activities of the Group. In such a case it is the current value of these investments, and changes in that current value, which are of prime importance. Consequently, for the proper appreciation of the financial position, the accounting treatment required by SSAP 19 is considered appropriate for investment properties. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Details of the current value and historical cost information for investment properties are given in note 10.

##### Basis of Consolidation

The Group financial statements consolidate the financial statements of MHA Care Group and its subsidiary undertakings. Intra-group profits are eliminated on consolidation. Surpluses and deficits of companies entering or leaving the Group are included from the date of acquisition or up to the date of disposal. The net assets of subsidiaries acquired are included on the basis of their fair value at the date of acquisition being the date at which control passes.

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

#### Turnover

Turnover represents the Group's rental and service charge income, donations, fees and certain revenue grants. All income is recognised on a receivable basis.

#### Donations, Legacies and Other Voluntary Income

Donations, legacies and other voluntary income are included in income when the Group is certain of receipt.

#### Retirement Housing Stock

Income and expenditure represents amounts relating to individual units sold during the year on a long-term lease. Unsold units and work in progress at the year end are treated as stock and are therefore valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal.

#### Operating Costs

Overheads relating to housing developments are capitalised and excluded from operating costs.

#### Shared Ownership and Staircasing

Development of shared ownership housing properties is dealt with under fixed assets in the same manner as for housing properties, except that costs relating to the first tranche sales are taken to current assets and costs relating to the remaining tranches are transferred to properties on completion.

Under shared ownership arrangements, the Group disposes of a long lease of share ownership housing units to persons who occupy them, at a consideration of between 50% and 100% of value. The occupier has the right to purchase further proportions at the current valuation up to 100%.

Upon sale, the first tranche proceeds are included within turnover and related costs charged to operating costs. Disposals of the second and subsequent staircasing tranches are treated as fixed asset disposals in the normal manner and the resultant profit, shown within "Surplus on sale of housing properties".

#### Apportionment of Management Expenditure

All Head Office staff are employed by MHA Care Group. Costs are shared on the basis of the proportion of time spent by each member of staff on work associated with each subsidiary. The Head Office premises are jointly occupied and office services are shared.

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

Costs which cannot be directly and wholly attributed to one organisation are shared pro rata to salary costs.

Within the financial statements of the Group, management expenses are allocated, again on the basis of the time spent, to four separate items:

- i) Development
- ii) Management
- iii) Services
- iv) Maintenance.

#### Tangible Fixed Assets and Depreciation

Housing properties, including properties under construction, are stated at cost less applicable Social Housing Grants and other grants.

The cost of housing properties includes applicable overhead expenditure and capitalised interest. Interest on loans deemed to be financing a development is capitalised up to the date of practical completion of a scheme.

Housing properties in the course of development are stated at cost and are transferred into housing properties when completed.

Fixed assets with a cost of more than £10,000 are capitalised and depreciated. Improvements which enhance the future economic benefits of the property or extends its overall useful life are capitalised and are fully written off over the expected useful life of the property.

Land is stated at cost and is not depreciated.

Freehold and long leasehold buildings are depreciated over their expected useful life of forty years, or the life of the lease if shorter, on a straight-line basis.

Computer equipment and motor vehicles are depreciated over three to five years except for minibuses financed from restricted funds, which are written off in the year of purchase.

#### Impairment

Where housing properties have suffered a diminution in value, the fall in value is recognised in the Income and Expenditure Account after taking account of any related social housing grant. An impairment review is carried out and appropriate impairment provisions made.

#### Social Housing Grants

Where housing developments have been financed wholly or partly by Social Housing Grants or other grants, the cost of these developments has been reduced by the amount of the grant received. Grants received in excess of the costs to date of schemes in the course of development are shown as current liabilities. Capital grants conditional on the occurrence of specific events are recognised when those events have occurred.

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

Social Housing Grants are repayable under certain circumstances, primarily following sale of a property. Where property is charged, Social Housing Grant normally ranks as subordinated unsecured debt.

#### Retirement Housing Stock

Income and expenditure represents amounts relating to individual units sold during the year on a long-term lease. Unsold units and work in progress at the year end are treated as stock and are therefore valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal.

#### Investments

Investments in securities are shown in the financial statements at their market value at the balance sheet date.

#### 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. Liquid resources are short-term investment deposits and receipts.

#### Revaluation Reserve

This reserve represents the unrealised surpluses arising from the revaluation of investments.

#### Pensions: Defined Benefit Schemes

The Group's pension arrangements comprise various defined benefit and defined contribution schemes.

Where the underlying assets and liabilities of the defined benefit schemes can be separately identifiable, the Group recognises in full the schemes' surplus or deficit on the balance sheet. Actuarial gains and losses for these schemes are included in the statement of recognised surpluses and deficits. Current and past service costs, curtailments and settlements are recognised within operating surplus. Returns on scheme assets and interest on obligations are recognised as other finance income or expenses.

Where it is not possible to separately identify the share of the underlying assets and liabilities of a defined benefit scheme, the amount charged to the Income and Expenditure account represents the contributions payable in the year.

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

The defined benefit schemes are funded, with the assets held separately from the Group in separate trustee administered funds. Full actuarial valuations, by a professionally qualified actuary, are obtained at least every three years, and updated to reflect current conditions at each balance sheet date. The pension scheme assets are measured at fair value. The pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency. A pension scheme asset is recognised on the balance sheet only to the extent that the surplus may be recovered by reducing future contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent the Group has a legal or constructive obligation to settle the liability.

For defined contribution schemes contributions are charged to the Income and Expenditure Account as they become payable in accordance with the rules of the scheme.

#### Negative Goodwill

When fair value of the consideration is less than the fair value of the separable net assets acquired, the difference is treated as negative goodwill, which is capitalised and taken to reserves.

Negative goodwill is amortised in line with the assets giving rise to the goodwill.

#### Taxation

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

The Group is registered for VAT. Most of the Group's income (rents and grants) is exempt for VAT purposes.

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 2. Turnover, Operating Surplus and Surplus Before Transfer of Funds

	Group 2009				Group 2008			
	Turnover	Cost of sales	Operating costs	Surplus/ (Deficit)	Turnover	Cost of sales	Operating costs	Surplus / (Deficit)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Social Housing</b>								
Income and expenditure from services								
Housing accommodation	9,294	-	7,840	1,454	8,351	-	6,249	2,102
Care homes	79,802	-	71,654	8,148	70,820	-	62,395	8,425
Live at Home	1,617	-	2,715	(1,098)	1,366	-	2,496	(1,130)
	<u>90,713</u>	<u>-</u>	<u>82,209</u>	<u>8,504</u>	<u>80,537</u>	<u>-</u>	<u>71,140</u>	<u>9,397</u>
<b>Other income and expenditure</b>								
Charitable income	7,495	-	875	6,620	7,853	-	853	7,000
Shared ownership first tranche sales	-	-	-	-	535	474	-	61
Retirement Housing	6,023	5,009	-	1,014	4,027	3,837	-	190
Other	204	-	1,148	(944)	166	-	1,100	(934)
	<u>104,435</u>	<u>5,009</u>	<u>84,232</u>	<u>15,194</u>	<u>93,118</u>	<u>4,311</u>	<u>73,093</u>	<u>15,714</u>
Operating Surplus	117	-	40	77	237	-	110	127
Sale of fixed assets	-	-	-	-	548	-	350	198
Sale of investment properties								
	<u>104,552</u>	<u>5,009</u>	<u>84,272</u>	<u>15,271</u>	<u>93,903</u>	<u>4,311</u>	<u>73,553</u>	<u>16,039</u>
Deficit on sale of current assets				(11)				-
Investment income				785				761
Interest payable and similar charges				(1,956)				(1,775)
Surplus before transfers for the year				<u>14,089</u>				<u>15,025</u>

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 3. Income and Expenditure from Services

	Sheltered housing £'000	Care homes £'000	Live at Home £'000	2009 Total £'000	2008 Total £'000
<b>Income from services</b>					
Rents receivable net of identifiable service charges	3,404	-	-	3,404	3,183
Service income	2,069	-	-	2,069	1,858
Charges for support services	3,886	-	-	3,886	3,389
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Gross rents receivable	9,359	-	-	9,359	8,430
Less: Rent losses from voids	(65)	-	-	(65)	(79)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net rents receivable	9,294	-	-	9,294	8,351
Other services income	-	79,776	1,617	81,393	69,703
Revenue grants from local authorities and other agencies	-	26	-	26	2,483
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total income from services	9,294	79,802	1,617	90,713	80,537
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Expenditure from services</b>					
Management	709	4,323	282	5,314	4,834
Services	1,625	-	-	1,625	1,482
Support services costs	3,982	61,123	2,433	67,538	58,393
Routine maintenance	508	1,712	-	2,220	2,053
Planned maintenance	35	282	-	317	257
Major repairs	387	1,362	-	1,749	1,149
Bad debts	7	87	-	94	6
Depreciation	587	2,765	-	3,352	2,966
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditure on services	7,840	71,654	2,715	82,209	71,140
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Operating surplus/(deficit) on services	1,454	8,148	(1,098)	8,504	9,397
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 4. Staff

Average monthly number employed including the Group Chief Executive (Full-time equivalent)	2009 Number	2008 Number
Care homes	2,502	2,305
Sheltered housing	257	165
Live at Home	80	73
Office staff	139	108
	<hr/>	<hr/>
	2,978	2,651
	<hr/>	<hr/>

No employees earned over £60,000 excluding pension contributions during the year (2008 Nil)

Group staffing costs including directors' emoluments	£'000	£'000
Wages and salaries	52,390	45,809
Social security costs	3,687	3,124
Other pension costs	2,089	1,836
	<hr/>	<hr/>
	58,166	50,759
	<hr/>	<hr/>

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

#### 5. Directors' Emoluments

The directors of the company under housing association legislation comprise the Board members, the Group Chief Executive and senior members of the management team.

	2009 £'000	2008 £'000
Directors' emoluments		
Including pension contributions and benefits in kind	788	656
Highest paid director	<u>          </u>	<u>          </u>
Excluding pension contributions (Group Chief Executive)	<u>117</u>	<u>108</u>

Number of Directors to whom emoluments (including benefits in kind but excluding pension contributions) were paid during the year and whose emoluments fall within the following bands:

	2009 Number	2008 Number
Nil*	10	10
Between £20,001 and £30,000	-	-
Between £30,001 and £40,000	-	-
Between £40,001 and £50,000	2	2
Between £50,001 and £60,000	2	2
Between £60,001 and £70,000	1	-
Between £70,001 and £80,000	-	2
Between £80,001 and £90,000	2	1
Between £90,001 and £100,000	1	-
Between £100,001 and £110,000	-	1
Between £110,001 and £120,000	1	-
	<u>          </u>	<u>          </u>
	2009 £'000	2008 £'000

The Directors were reimbursed expenses not chargeable to United Kingdom Income Tax amounting to:

53	41
----	----

The Group Chief Executive is an ordinary member of the Group pension scheme (see note 19) and not subject to any enhanced or special terms nor does the Group make any contribution to an individual pension.

\* Board members received no emoluments for their services.

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 6. Operating Surplus

	2009	2008
	£'000	£'000
Stated after charging/(crediting):		
Housing properties depreciation	2,907	2,726
Depreciation on other tangible fixed assets	764	517
External Auditor's remuneration (including VAT) – parent company	4	4
External Auditor's other services (including VAT)		
• Audit of subsidiaries	35	31
• Other services pursuant to legislation	10	6
• Tax services	36	9
Internal Auditor's remuneration (including VAT)	9	9
Amortisation of negative goodwill	(20)	-
	<u>          </u>	<u>          </u>

### 7. Interest Payable and Similar Charges

	2009	2008
	£'000	£'000
On bank loans repayable wholly or partly in more than 5 years	1,728	1,745
On other loans repayable wholly or partly in more than 5 years	25	26
Other finance charges	203	4
	<u>          </u>	<u>          </u>
	1,956	1,775
	<u>          </u>	<u>          </u>

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 8. Group Tangible Fixed Assets

Housing properties	Residential Care Homes £'000	Housing Properties held for letting £'000	Housing Properties under development £'000	Total £'000
<b>Cost</b>				
At 1 April 2008	101,324	66,188	5	167,517
Acquired from Auchlochan Trust	15,820	190	100	16,110
Additions during the year	14,526	2,099	53	16,678
Disposals during the year	(40)	-	-	(40)
At 31 March 2009	131,630	68,477	158	200,265
<b>Social Housing Grants</b>				
At 1 April 2008	-	34,592	-	34,592
Received during the year	-	-	-	-
At 31 March 2009	-	34,592	-	34,592
<b>Other Grants</b>				
At 1 April 2008	-	8,960	-	8,960
Received during the year	-	24	33	57
At 31 March 2009	-	8,984	33	9,017
<b>Depreciation</b>				
At 1 April 2008	9,966	2,446	-	12,412
Charge for year	2,351	556	-	2,907
At 31 March 2009	12,317	3,002	-	15,319
<b>Net book value</b>				
At 31 March 2009	119,313	21,899	125	141,337
At 1 April 2008	91,358	20,190	5	111,553

**MHA CARE GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2009**

**8. Group Tangible Fixed Assets (continued)**

Included within housing properties and residential care homes above is land of £28,787,000 (2008 £19,925,000) which is not depreciated.

Additions to housing properties includes capitalised interest of £133,000 (2008 £142,000). The cumulative amount of capitalised interest included is £3,031,000 (2008 £2,898,000). Also within additions is project management costs of £27,000 (2008 £nil).

Housing properties comprise:	2009 £'000	2008 £'000
Freehold	134,049	106,565
Long leasehold	7,288	4,988
	<hr/>	<hr/>
	141,337	111,553
	<hr/>	<hr/>

Other	Freehold offices £'000	Furniture equipment & vehicles £'000	Total £'000
Cost			
At 1 April 2008	2,116	7,069	9,185
Acquired from Auchlochan Trust	200	84	284
Additions	1	1,030	1,031
	<hr/>	<hr/>	<hr/>
At 31 March 2009	2,317	8,183	10,500
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 April 2008	323	1,691	2,014
Charge for the year	224	540	764
	<hr/>	<hr/>	<hr/>
At 31 March 2009	547	2,231	2,778
	<hr/>	<hr/>	<hr/>
Net book value			
31 March 2009	1,770	5,952	7,722
	<hr/>	<hr/>	<hr/>
At 1 April 2008	1,793	5,378	7,171
	<hr/>	<hr/>	<hr/>

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 9. Capital Commitments

	Group	
	2009 £'000	2008 £'000
Expenditure contracted, less certified	13,175	7,677
Expenditure authorised by the Board, but not contracted	10,244	11,673
	<u>23,419</u>	<u>19,350</u>

### 10. Investment Properties

	2009 Group £'000	2008 Group £'000
<b>Freehold land and buildings – UK</b>		
Value at 1 April	90	440
Acquired from Auchlochan Trust	744	-
Additions	205	-
Adjustment arising on revaluation	(15)	-
Disposal	-	(350)
	<u>1,024</u>	<u>90</u>
Value at 31 March	1,024	90
	<u>779</u>	<u>35</u>
Cost at 31 March	779	35

Investment Properties were valued at 31 March 2009 by Pinders Professional & Consultancy Services Limited, Chartered Surveyors, on the basis of market value.

### 11. Debtors

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Arrears of rent and services	4,756	5,046	-	-
Other debtors	1,063	590	38	12
Amounts due from subsidiary undertakings	-	-	421	235
	<u>5,819</u>	<u>5,636</u>	<u>459</u>	<u>247</u>

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 12. Investments

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Methodist Church Central Finance Board:				
Equity units	1,729	2,460	-	-
Fixed Interest units	1,557	1,451	-	-
	<u>3,286</u>	<u>3,911</u>	<u>-</u>	<u>-</u>

### 13. Creditors: Amounts falling due within one year

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade creditors	1,911	1,121	258	199
Advance payments of rent and service charges	2,085	1,958	-	-
Taxation and social security	1,296	982	103	94
Accruals and deferred income	2,916	2,732	-	-
Social Housing Grant in advance of expenditure	428	-	-	-
Housing loans – interest	252	102	-	-
Housing loans – principal	4	4	-	-
Banking loans – principal	1,678	384	-	-
Other creditors	546	526	108	107
	<u>11,116</u>	<u>7,809</u>	<u>469</u>	<u>400</u>

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

#### 14. Creditors: Amounts falling due after more than one year

	Group	
	2009	2008
	£'000	£'000
Loans:		
Between one and two years	3,431	1,564
Between three and five years	5,202	2,710
In five years or more	47,463	28,350
	<hr/>	<hr/>
	56,096	32,624
	<hr/>	<hr/>

The loans are secured on certain care home and housing properties.

£3,874,000 of the balance is payable in varying instalments until 2049 and interest is payable at a weighted average rate of 8.27%.

On £18,300,000 of the balance there is a capital repayment holiday until January 2012 and it is then repayable in equal instalments until 2024. Interest is payable at LIBOR plus a margin of 1%.

The remaining balance of £33,922,000 is payable in equal instalments until 2030.

The interest rates payable on this loan are as follows:

- £5,000,000 is fixed at a rate of 5.87% until February 2014,
- £5,000,000 is fixed at a rate of 5.52% until August 2015,
- £5,000,000 is payable at LIBOR but limited within the range of 5.675% to 6.775% including a margin until November 2017,
- the balance is payable at a margin of 0.775% above LIBOR.

#### 15. Share Capital

The company is limited by guarantee and has no share capital.

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 16. Negative Goodwill Reserve

On 6th January 2009 MHA Auchlochan, a subsidiary of the Group acquired the trade, assets and liabilities of Auchlochan Trust. The transaction has been accounted for using the acquisition method of accounting. The net assets acquired on the transaction and the negative goodwill arising are as follows:

	Book Value £'000	Fair Value Adjustment £'000	Fair Value £'000
Residential Care Homes	16,410	(590)	15,820
Housing Properties	290	-	290
Other Fixed Assets	284	-	284
Retirement Housing Stock	2,119	-	2,119
Investment properties	744	-	744
Debtors	572	-	572
Cash at bank	814	-	814
Creditors	(720)	-	(720)
	<hr/>	<hr/>	<hr/>
	20,513	(590)	19,923
Loans	(17,666)	-	(17,666)
	<hr/>	<hr/>	<hr/>
	2,847	(590)	2,257
	<hr/>	<hr/>	<hr/>
Consideration and acquisition costs			(185)
			<hr/>
Negative goodwill arising on acquisition			2,072
Amortised in the period			(20)
			<hr/>
Negative goodwill at 31 March 2009			2,052
			<hr/>

The Residential Care Homes adjustment of £0.6m reflects a reduction in bed numbers at one care home , Auchlochan House, Auchlochan in order to facilitate the provision of dementia care.

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 16. Negative Goodwill Reserve (continued)

The following shows the results of Auchlochan Trust, for the period from acquisition to 31 March 2009, that were acquired by MHA Auchlochan:

	£'000
Turnover	1,542
Operating costs	(1,535)
Operating surplus	7
Profit on sale of fixed assets	77
Interest payable	(220)
Deficit for the period	(136)

The acquisition of Auchlochan Trust by MHA Auchlochan contributed £157,000 to the Group's net operating cash flows, paid £221,000 in respect of net returns on investments and servicing of finance and utilised £211,000 for housing properties and other fixed assets.

### 17. Group Reserves

	Revaluation Reserve £'000	Endowment Reserve £'000	Restricted Reserve Charitable Funds £'000	Revenue Reserve £'000	Total £'000
At 1 April 2008	778	764	15,678	93,111	110,331
Surplus for the year	-	-	2,380	11,709	14,089
Actuarial loss	-	-	-	(6,009)	(6,009)
(Deficit)/surplus on revaluation of assets	(664)	35	-	-	(629)
Disposal of revalued investment properties	(11)	-	-	11	-
At 31 March 2009	103	799	18,058	98,822	117,782

The restricted reserves relate to amounts donated or raised for use on specific homes or schemes.

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

#### 17. Group Reserves (continued)

Company	Revenue Reserve £'000
At 1 April 2008	688
Surplus for the year	114
	<hr/>
At 31 March 2009	802
	<hr/>

MHA Care Group is exempt from the requirement to produce a separate income statement. The company's surplus for the year to 31 March 2009 amounted to £114,000 (2008 £138,000).

#### 18. Contingent Liabilities

The Group had sold certain retirement housing stock where a guarantee has been given to the purchaser to buy back the property at an amount of 95% of the price paid by the purchaser. At 31 March 2009, the Group had commitments amounting to £3,558,320 (2008 £1,366,385) in respect of these properties.

On acquisition of assets from Auchlochan Trust, MHA Auchlochan has a commitment to buy back properties previously sold by Auchlochan Trust under a licence agreement, at a value based on a house price index. It is expected that properties purchased would be offered for sale at similar values.

#### 19. Pensions and Similar Obligations

The Group operates four pension schemes, three defined benefit schemes and a defined contribution scheme, all administered by The Pensions Trust. The Pensions Advisory Committee advises the Board on the operation of the pension schemes.

- (i) A defined benefit scheme, which is a funded scheme, with the assets held in separate trustee administered funds.

The financial assumptions used to calculate the group's scheme liabilities under FRS 17, "Retirement Benefits", are as follows:

	2009 % pa	2008 % pa	2007 % pa
Inflation	2.70	2.90	2.75
Rate of increase in salaries	4.20	4.40	4.25
Rate of increase for pensions in payment	2.10*	2.25*	2.25*
Rate of increase for deferred pensions	2.70*	2.90*	2.75*
Discount rate	6.70	6.60	5.40
Expected return on scheme assets	6.76	6.80	5.60

\* Pensions accrued before 1 January 2000 for members who joined the scheme before 1 November 1998 are subject to guaranteed fixed increases of 5% per annum in deferment and in payment.

**MHA CARE GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2009**

**19. Pensions and Similar Obligations (continued)**

The current mortality assumptions used in the valuation of the pension liabilities were:

Life expectancy	S1PXAYOBLC 1% minimum improvement	PMA92C2027MC (non-pensioners)	PMA92C2027MC (non-pensioners)
		PFA92C2015MC (pensioners)	PFA92C2015MC (pensioners)

The assumed life expectations on retirement age 65 are:

	2009 Years	2008 Years
Pensioner currently aged 65:		
Male	22.3	21.6
Female	25.0	24.4
Non-Pensioner currently aged 45:		
Male	24.4	22.4
Female	27.0	25.7

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment portfolio. Expected yields on bonds, on gross redemption yields at the balance sheet date whilst the expected returns on the equity and property investments reflect the long-term real rates of return experienced in the respective markets.

The fair value of assets in the scheme, the present value of the liabilities in the scheme and the long-term rate of return expected at the balance sheet date were:

	2009		2008	
	Fair Value £'000	Long-term rate of return expected %	Fair Value £'000	Long-term rate of return expected %
Equities	13,217	8.20	14,631	8.00
Government bonds	7,592	5.16	9,026	4.90
Cash	392	0.50	873	5.25
<b>Total market value of assets</b>	<b>21,201</b>	<b>6.97</b>	<b>24,530</b>	<b>6.76</b>
<b>Present value of scheme Liabilities</b>	<b>(30,526)</b>		<b>(28,806)</b>	
<b>Deficit in the scheme</b>	<b>(9,325)</b>		<b>(4,276)</b>	

The last formal valuation of the scheme was performed as at 30 September 2007 by a professionally qualified actuary. For the purpose of FRS 17, the valuation has been updated as at 31 March 2009.

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 19. Pensions and Similar Obligations (continued)

The Group has contributed at the rate of 20.9% of pensionable salaries over the accounting period, including member's contributions of 9.6% and has also made a special payment of £500,000. The actuary has confirmed that the existing contribution level can continue given the deficit which is forecast to be removed within 10 years.

Under the transitional arrangements of FRS 17, the Group's pension charge for the year calculated under FRS 17 assumptions is included in the financial statements.

Analysis of amounts charged to operating surplus	31 March 2009 £'000	31 March 2008 £'000
Current service cost	774	1,024
Analysis of amounts charged to other finance income	31 March 2009 £'000	31 March 2008 £'000
Expected return on scheme assets	1,712	1,667
Interest on pension scheme liabilities	(1,915)	(1,671)
Net cost	(203)	(4)
Analysis of amount recognised in the Statement of Recognised Surpluses and Deficits	31 March 2009 £'000	31 March 2008 £'000
Actuarial (loss)/gain recognised in the year	(6,009)	1,867
Actuarial (loss)/gain recognised in the Statement of Recognised Surpluses & Deficits	(6,009)	1,867
Balance sheet impact	31 March 2009 £'000	31 March 2008 £'000
Present value of funded obligations	(30,526)	(28,806)
Fair value of scheme assets	21,201	24,530
Deficit in scheme at 31 March	(9,325)	(4,276)

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 19. Pensions and Similar Obligations (continued)

Changes in the present value of the defined benefit obligation	31 March 2009 £'000	31 March 2008 £'000
Opening defined benefit obligation	28,806	30,585
Service cost	774	1,024
Interest cost	1,915	1,671
Contributions by employees	653	462
Actuarial losses	(624)	(4,193)
Net benefits paid including expenses	(998)	(743)
	<hr/>	<hr/>
Closing defined benefit obligation	30,526	28,806
	<hr/>	<hr/>
Changes in the fair value of plan assets	31 March 2009 £'000	31 March 2008 £'000
Opening fair value of plan assets	24,530	23,825
Expected return	1,712	1,667
Actuarial losses	(6,633)	(2,326)
Contributions by employer	1,937	1,645
Contributions by employees	653	462
Net benefits paid including expenses	(998)	(743)
	<hr/>	<hr/>
Closing fair value of plan assets	21,201	24,530
	<hr/>	<hr/>
Actual return on plan assets	(4,921)	(659)
	<hr/>	<hr/>

# MHA CARE GROUP

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 19. Pensions and Similar Obligations (continued)

History of experience gains and losses	31 March 2009 £'000	31 March 2008 £'000	31 March 2007 £'000	31 March 2006 £'000	31 March 2005 £'000
Defined benefit obligation	(30,256)	(28,806)	(30,585)	(30,023)	(23,941)
Scheme assets	21,201	24,530	23,825	21,992	17,391
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Deficit	(9,325)	(4,276)	(6,760)	(8,031)	(6,550)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Experience gains and losses on scheme liabilities:					
- Amount	105	(1,707)	123	111	(368)
Actual return less expected return on scheme assets					
- Amount	(6,663)	(2,326)	(109)	2,561	615

(ii) Career Average Revalued Earnings ("CARE") defined benefit scheme, administered by the Pensions Trust which provides guaranteed benefits on earnings revalued by inflation. The Association currently contributes 10% to the scheme. This is not accounted for in accordance with FRS 17 because, in the opinion of the Board, it is not considered significant to the financial statements of the group and is therefore accounted for as a defined contribution scheme

(iii) The Growth Plan is a multi employer scheme, which is administered by The Pensions Trust. Contributions paid into the Growth Plan up to and including September 2001 were converted into defined amounts of pension payable from Normal Retirement Data. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Growth Plan or by purchase of an annuity.

The most recent valuation for which information is available was in September 2008 which valued the scheme's assets at £742m. At this date the scheme had a total membership of 41,137. The valuation revealed a shortfall of assets compared with the value of liabilities of some £29m (equivalent to a past service funding level of 96%). The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The financial assumptions underlying the valuation at 30 September 2008 were as follows:

% p.a.

- Investment return pre retirement	7.6
- Investment return post retirement	5.6
- Bonuses on accrued benefits	0.0
- Rate of price inflation	3.2

It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers, accordingly, due to the nature of the scheme, the accounting charge for the period under FRS 17 represents the employer's contribution payable. The charge to MHA for the year covered 6 (2008 7) employees. The contribution rate of MHA for the year ended 31 March 2008 was 9.5% and for the employees at rates varying between 4.5% and 6.0% depending on their age.

## MHA CARE GROUP

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

#### 19. Pensions and Similar Obligations (continued)

##### iv) Social Housing Pension Scheme (SHPS)

MHA participates as a contributing member of an industry-wide multi employer Social Housing Pension Scheme which is administered by the Pensions Trust. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The most recent valuation for which information is available was in September 2008 which valued the scheme's assets at £1,527m. At this date the scheme had a total membership of 47,877. The valuation revealed a shortfall of assets compared with the value of liabilities of some £663m (equivalent to a past service funding level of 70%). The assumptions which have the most significant effect on the results of the valuation are those relating to the investment return pre and post retirement and the rates of increase in salaries and pensions.

The financial assumptions underlying the valuation at 30 September 2008 were as follows:

	% p.a.
- Investment return pre-retirement	7.8
- Investment return post-retirement (pensioners)	5.6
- Investment return post-retirement (non pensioners)	6.2
- Pensionable earnings growth	4.7
- Rate of pension increase – post 88 GMP	2.8
- Rate of pension increase – excess over GMP	3.0
- Rate of price inflation	3.2

It is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers, accordingly, due to the nature of the scheme, the accounting charge for the period under FRS 17 represents the employer's contribution payable.

The charge to MHA for the year covered 37 (2008 41) employees. The contribution rate of MHA for the year ended 31 March 2009 was 12.4% and for the employees at rates varying between 5.0% and 7.0% depending on their age. This scheme has been closed to new entrants.

- v) The contribution by the Group to all pension schemes during the year including a lump sum payment of £500,000 (2008 £500,000) amounted to £2,089,000 (2008 £1,836,000).

**MHA CARE GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2009**

**20. Notes to the Cash Flow Statement**

**a) Reconciliation of operating surplus to operating cash flows**

	2009 £'000	2008 £'000
Operating surplus	15,194	15,714
Depreciation	3,671	3,243
Amortisation of negative goodwill	(20)	-
Pension contributions paid in the year	(1,937)	(1,645)
Pension contributions charged in the year	774	1,024
Increase in retirement housing stock	(2,346)	(2,928)
Decrease in debtors	389	49
Increase in creditors	715	628
	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>	<b>16,440</b>	<b>16,085</b>
	<hr/> <hr/>	<hr/> <hr/>

Movements in debtors and creditors which relate to capital and interest transactions are excluded from the movements in debtors and creditors shown.

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

	2009 £'000	2008 £'000
Increase in cash	5,672	3,603
Cash inflow from liquid resources	-	366
Net cash inflow from (increase)/decrease in debt	(7,809)	16
	<hr/>	<hr/>
<b>Change in net debt resulting from cash flows</b>	<b>(1,417)</b>	<b>3,985</b>
Loan indexation	(11)	(11)
Decrease in market value of current asset investment	(625)	(210)
Loans transferred from Auchlochan Trust	(17,666)	-
	<hr/>	<hr/>
<b>Movement in net (debt)/funds</b>	<b>(19,719)</b>	<b>3,764</b>
Net debt at 1 April	(17,623)	(21,387)
	<hr/>	<hr/>
<b>Net debt at 31 March</b>	<b>(37,342)</b>	<b>(17,623)</b>
	<hr/> <hr/>	<hr/> <hr/>

**MHA CARE GROUP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2009**

**20. Notes to the Cash Flow Statement (continued)**

**c) Analysis of changes in net debt**

	<b>1 April 2008 £'000</b>	<b>Cash flow £'000</b>	<b>Transfer of Funds £'000</b>	<b>Other changes £'000</b>	<b>31 March 2009 £'000)</b>
Cash at bank and in hand	11,478	5,672	-	-	17,150
Debt due within one year					
Housing loans – principal	(4)	4	-	(4)	(4)
Bank loans – principal	(384)	141	-	(1,435)	(1,678)
Debt due after more than one year					
Housing loans – principal	(145)	-	-	(1)	(146)
Bank loan	(32,479)	(7,234)	(17,666)	1,429	(55,950)
Current asset investments	3,911	-	-	(625)	3,286
	<u>(17,623)</u>	<u>(1,417)</u>	<u>(17,666)</u>	<u>(636)</u>	<u>(37,342)</u>