

MHA CARE GROUP
REPORT AND ACCOUNTS

31 March 2003

Charity Registered No. 1083994
Company Registered No. 4038631
Registered Social Landlord No. LH4300

BAKER TILLY
Chartered Accountants
Birmingham



MHA CARE GROUP

ACCOUNTS

31 March 2003

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MHA CARE GROUP
OFFICERS AND ADVISORS

31 March 2003

Patrons

The Rt Hon The Lord Archer of Sandwell QC (President)
His Grace The Duke of Devonshire KG MC PC
Baroness Kathleen Richardson of Calow, OBE
Pam Rhodes
Jack J L Jones CH, MBE
Baroness Emma Nicholson of Winterbourne MEP

BOARD

Chair	Born	Terms of office	Committee memberships
Brian Coldwell	1932	July 2002	MHA Care Group Board Succession Committee, Remuneration Committee, Audit Committee
Susan Howdle	1948	2000 – July 2002	
Other Board Members			
Don Brand	1946	2000 – Sept 2002	Development Committee, Remuneration Committee, MHA Care Group Board Succession Committee
Olwen Baker	1935	2000	
Anthea Cox	1965	Sept 2003	Pensions Advisory Committee Audit Committee, MHA Group Board Succession Committee
Rev David Deeks	1942	1999 – July 2003	
Stephen Duckworth	1939	July 2002	
Terry Gill	1945	2001	
Roy Higginson	1932	2000	Development Committee MHA Care Group Board Succession Committee Remuneration Committee
Shelagh Morgan	1953	2000	
Rev Peter Mortlock	1945	2000	
Trevor Peel	1951	Sept 2002	
Rowena Plant	1958	Sept 2002	Development Committee Development Committee
Noel Rajaratnam	1938	2000	
Graham Smith	1950	2001	
Tom White	1931	2000 – Sept 2002	

Corporate Management Team	Born	Joined	Position
Roger Davies	1959	1999	Chief Executive
Paul Milner	1964	2002	Business Support Director
Rachel Rees	1965	2002	Fundraising & Communications Director
Richard Nicholls	1953	1998	Human Resources Director
Jane Barker	1961	1999	Group Director (North)
Steve Reynolds	1951	1999	Group Director (South)
Rev Dr Keith Albans	1956	2001	Senior Chaplain
Kathleen Pitt	1955	1999 – Feb 2003	Regional Director (North & West)
John Jevons	1947	2000 – May 2003	Regional Director (South & West)

Company Secretary
Anna Marshall-Day

MHA CARE GROUP
OFFICERS AND ADVISORS

31 March 2003

REGISTERED OFFICE

MHA Care Group
Epworth House
Stuart Street
DERBY
DE1 2EQ

Tel: (01332) 296200
Fax: (01332) 296925
Email: enquiries@mha.org.uk
Website: www.mha.org.uk

CHARITY REGISTRATION NUMBER 1083994

REGISTERED SOCIAL LANDLORD NUMBER LH4300

**COMPANY REGISTERED IN ENGLAND
AND WALES NUMBER** 4038631

PROFESSIONAL ADVISORS

Solicitors

Devonshires
Salisbury House
London Wall
London
EC2M 5QY

Anthony Collins
St Phillips Gate
5 Waterloo Street
Birmingham
B2 5PG

Registered Auditor

Baker Tilly
City Plaza
Temple Row
Birmingham
B2 5AF

Bankers

HSBC
70 Pall Mall
London
SW1Y 5EZ

Investment advisors

Central Finance Board of the Methodist Church
4th Floor, Friendly House
52/58 Tabernacle Street
London
EC4A 4NJ

MHA CARE GROUP

BOARD OF DIRECTORS' REPORT

31 March 2003

Status of Group

MHA Care Group is a company limited by guarantee, a registered Charity and a Registered Social Landlord. It is governed by Memorandum and Articles of Association.

The objects of the Group as recorded in the Memorandum and Articles of Association are:

The Group's objects shall be for the relief of elderly people and other adults in need, particularly (but not limited to) those with mental illness or physical/learning disabilities by providing:

- i) care and support services; and/or
- ii) accommodation; and/or
- iii) any other provision (whether or not similar to the foregoing),

which may facilitate an improved quality of life in the United Kingdom or elsewhere.

Review of the business

The surplus of the Group for the year ended 31 March 2003 shown in the Income and Expenditure account is £2,485,000 (2002: £1,227,000).

The Group Balance Sheet shows fixed assets of £87.8m paid for with the assistance of £17.9m in capital grants from the Housing Corporation and Local Authorities, and £5m in charitable grants from Methodist Homes for the Aged.

The average number of days between receipt and payment of purchase invoices is 27 (2002: 21).

Methodist Home for the Aged

We increased the number of **residential places** available by 212 during the year. This was achieved by acquiring purpose built nursing homes at Brockworth, Gloucester (55), Hartcliffe, Bristol (66) and Aughton, Ormskirk (50) as well as building an extra 41 residential places at our existing homes.

During the year a new home was built in the grounds of our home at Wallington. The old home at Wallington was the very first home from which the pioneering work of the organisation started in 1943. It is quite appropriate in our diamond jubilee year that we are able to replace it with a purpose built home and also develop the site to meet the needs of the elderly by demolishing the old home and providing retirement flats for sale.

The total number of residential places available is 1,785 at 47 locations. After the year end we acquired a home in Penarth with 45 residential places in April and we have built a home at Ripley to create 45 residential places which was completed in August 2003. Land was acquired at Swindon in anticipation of future development.

On 1 April 2002, Methodist Homes Housing Association a fellow subsidiary within MHA Care Group successfully took over the management of all flats in our **sheltered housing** schemes, 183 in total. This enabled Methodist Homes for the Aged to concentrate on its core focus of care rather than housing management and still retain income and ownership of its sheltered housing stock.

During the year work commenced on two further schemes of **retirement housing**. In the grounds of the home at Lincoln we are building 16 retirement flats for sale and on a former church site in Pimlico, London we are building 11 retirement flats for sale. This continued our work which we started last year in Penarth. Opportunities for further schemes are being considered at other locations.

MHA CARE GROUP

BOARD OF DIRECTORS' REPORT

31 March 2003

Methodist Home for the Aged (continued)

Our **Live at Home** schemes continue to involve more service users than our residential and housing schemes combined and we estimate that up to 4,500 older people use our services each week from 52 locations. These schemes offer one-to-one befriending services, a range of social activities and each scheme provides services to meet the specific needs of its local community. Totally reliant on the help and support of volunteers, these community-based services are designed to support older people in their own homes. Growth in these existing service areas will be self-financing in line with our strategic plan, thus enabling our charitable resources to be used for improving our existing services, the development of new services and campaigning on behalf of older people.

We are developing **health and social care** services to provide commissioned services offering day care, night care, domestic support and crisis intervention services concentrating on dementia care and helping older people to stay at home and out of hospital during periods of sickness and ill-health.

The Statement of Financial Activities shows total incoming resources of £36.5m, a 16% increase on the previous financial year. Incoming resources from services to elderly people have grown by 19%, reflecting continued expansion as detailed in the Review of Activities.

Charitable income for the year was £5.2m. Methodist Homes for the Aged is very grateful to all those who have so generously supported the work. This continued support enables Methodist Homes for the Aged to plan further developments to existing services and to plan new initiatives to provide services to a wider group of older people including those requiring financial support.

The greater part of charitable income has been used to meet the capital costs of carrying out Methodist Homes for the Aged charitable objectives by providing new accommodation and improvements to existing buildings. Capital expenditure is shown in the Balance Sheet and related notes.

The net movement of funds of £2.1m is added to the total balances brought forward of £60m.

Methodist Homes Housing Association

At 31 March 2003 the Housing Association owned or managed 27 sheltered housing schemes consisting of 724 flats. The Association provides a range of quality accommodation for rent to enable older people to retain their privacy and independence in their own flat or bungalow, reassured by access to a variety of support services and emergency help if required.

On 1 April 2002 the Housing Association took over the management of the sheltered housing stock of Methodist Homes for the Aged consisting of 183 flats. This enabled the Housing Association to expand its core focus of managing an expanded housing stock without transferring ownership or income from Methodist Homes for the Aged. The contracts of employment of the staff employed by Methodist Homes for the Aged were transferred to the Housing Association at the same time.

Work commenced during the year at the site in Kirklees, Huddersfield constructing 45 flats in partnership with Kirklees Council and Kirklees Black Elders. The scheme's cost of £3.6m will be partly financed by Housing Corporation grant of £2.7m.

We are pleased to report that the Housing Association has successfully bid for, and has been granted, an allocation from the Housing Corporation funding for the 2003/04 Approved Development Programme. The proposed developments are to build two extra care sheltered schemes:

- in Moortown, Leeds to provide 65 flats costing £6.2m with a grant allocation of £4.6m. Additional fundraising is also proposed to generate further facilities for the scheme.
- In Wolverhampton to provide 40 flats costing £3.3m with a grant allocation of £3m.

MHA CARE GROUP
BOARD OF DIRECTORS' REPORT

31 March 2003

Methodist Homes Housing Association (continued)

Following the inspection in February 2003, the Audit Commission reported in April 2003 that the Association was providing a satisfactory service to its tenants. Tenants interviewed expressed a high degree of satisfaction with the Association, the homes it provides and its staff.

The surplus for the year ended 31 March 2003 shown in the Income and Expenditure account is £279,000 (2002 £343,000). Rent losses due to voids fell to 1.1% of rent (2002 1.4%) but an increase in operating costs per unit more than off-set this improvement. The Balance Sheet shows fixed assets of £28.2m paid for with the assistance of £17.9m in capital grants from the Housing Corporation and Local Authorities and £5m in charitable grants from Methodist Homes for the Aged.

Changes in fixed assets

Details of fixed assets are shown in Note 8 and are recorded under the historical cost convention.

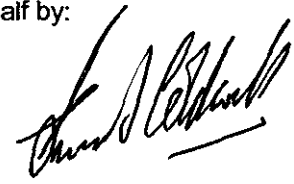
The group incurred capital expenditure of £9.816m (2002 £5.352m) on new homes and improvements. The expenditure was financed by grants of £0.539m (2002 £nil) received from the Housing Corporation, loans of £4.5m (2002 £nil) and the balance from the Group's own resources.

Auditors

At the Annual General Meeting in September 2002 Baker Tilly were appointed as auditors to the Group. A resolution to re-appoint Baker Tilly will be proposed at the 2003 Annual General Meeting.

The report of the Board was approved on 10 September 2003 and signed on its behalf by:

Epworth House
Stuart Street
DERBY
DE1 2EQ


BRIAN COLDWELL
Chair

10 September 2003

MHA CARE GROUP

STATEMENT ON CORPORATE GOVERNANCE

31 March 2003

Board Structure

The Board consists of 12 Board Members, 4 of whom are Church appointments, 4 of whom are representatives of the group's subsidiary Boards, and 4 of whom are Independent nominations.

The Church appointees are formally appointed by the Conference of the Methodist Church. The representatives of the Group's subsidiary Boards are appointed by the subsidiary Boards. The independent nominees are appointed by the Board at its annual general meeting. Unless co-opted, members of the Board must already be shareholders of the Association. Members of the public become shareholders at the discretion of the Board. The recruitment of new board members is through a process of advertisement, application and interview.

Board members may serve for a maximum period of 6 years, subject to re-election during that period.

Members who served on the Board during the year are shown in the list of officers on page 1.

Board elements

The Group is governed by the Board, which is elected in accordance with the Articles of Association and meets at least twice every year.

The Board has established the following committees:

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

CODE OF GOVERNANCE: In January 2000, the National Housing Federation (NHF) adopted a revised Code of Governance for the guidance of NHF members, so that they could continue to follow the highest standards of governance, accountability and probity, while responding to an environment of change and risk.

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

- As an organisation concerned with older people, the Association does not consider it appropriate to apply an age limit for Board members.

MHA CARE GROUP

STATEMENT OF THE BOARD'S RESPONSIBILITIES

31 March 2003

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 Group will be unable to continue in operation.

We are also responsible for:

- keeping proper accounting records;
- 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 of the Housing Corporation circular R2-25/01 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.
- **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 2003 and until 10 September 2003. 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 and Subsidiaries

We have audited the financial statements of MHA Care Group and subsidiaries for the year ended 31 March 2003 which comprises the Consolidated Income and Expenditure Account, the Consolidated Statement of Recognised Surpluses and Deficits the Consolidated Balance Sheet, the Parent Balance Sheet, the Consolidated Cash Flow Statement and the related notes.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 are set out in the Statement of the Board's Responsibilities on page 7.

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, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000. 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 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. 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.

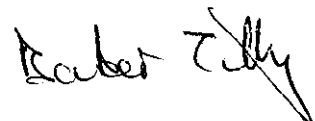
Basis of opinion

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 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 of the state of affairs of the Company and the Group as at 31 March 2003 and of the surplus of the Company and 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 2000.



BAKER TILLY
Registered Auditor
Chartered Accountants

Birmingham
10 September 2003

MHA CARE GROUP
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 March 2003

	Note	2003 £'000	2002 £'000
Turnover	2	37,622	32,784
Less: Operating costs	2	(35,663)	(31,655)
		<hr/>	<hr/>
Operating surplus		1,959	1,129
Surplus/(deficit) on disposal of property assets		200	(266)
Investment income		499	536
Interest payable and similar charges	7	(173)	(172)
		<hr/>	<hr/>
Surplus for the year before transfer of funds		2,485	1,227
Transfer of funds		-	59,216
		<hr/>	<hr/>
Surplus recognised for the year	16	2,485	60,443
		<hr/>	<hr/>

MHA CARE GROUP

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED SURPLUSES
AND DEFICITS**

For the year ended 31 March 2003

	2003 £'000	2002 £'000
Surplus for the year	2,485	1,227
(Decrease)/increase in market value of investments	(89)	20
	<hr/>	<hr/>
Total recognised surpluses for the year	2,396	1,247
	<hr/>	<hr/>

MHA CARE GROUP
COMPANY BALANCE SHEET

31 March 2003

	Notes	2003 £'000	£'000	2002 £'000	£'000
Current assets					
Debtors	10	17		47	
Cash at bank		576		416	
		<u>593</u>		<u>463</u>	
Current liabilities					
Creditors: amounts falling due within one year	12	(521)		(441)	
Net current assets			72		22
Total assets less current liabilities			<u>72</u>		<u>22</u>
Capital and reserves					
Revenue reserves	15		72		22

The financial statements on pages 9 to 29 were approved by the Board on 10 September 2003 and signed on its behalf by

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

MHA CARE GROUP
CONSOLIDATED BALANCE SHEET

31 March 2003

		Group 2003		Group 2002	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets					
Housing properties:					
Gross cost	8	82,688		74,507	
Less: Social Housing Grants	8	(17,877)		(17,358)	
Other Grants	8	(4,969)		(4,969)	
Depreciation	8	(2,223)		(1,041)	
		<u>57,619</u>		<u>51,139</u>	
Other	8	5,077		4,646	
			<u>62,696</u>		<u>55,785</u>
Investment - Properties	9		395		395
			<u>63,091</u>		<u>56,180</u>
Current assets					
Retirement housing stock		1,363		541	
Debtors	10	1,130		1,026	
Investments	11	2,919		4,597	
Cash at bank		7,937		6,136	
Current liabilities		<u>13,349</u>		<u>12,300</u>	
Creditors: amounts falling due within one year	12	(3,453)		(2,316)	
Net current assets			9,896		9,984
Total assets less current liabilities			<u>72,987</u>		<u>66,164</u>
Creditors: amounts falling due after more than one year	13		6,130		1,635
Capital and reserves					
Endowment reserve	16	736		661	
Revaluation reserve	16	77		234	
Restricted reserve	16	13,236		13,461	
Revenue reserves	16	52,808		50,173	
			<u>66,857</u>		<u>64,529</u>
			<u>72,987</u>		<u>66,164</u>

The financial statements on pages 9 to 29 were approved by the Board on 10 September 2003 and signed on its behalf by

..... (Board Member)

..... (Board Member)

..... (Secretary)

MHA CARE GROUP

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000	2002 £'000
Net cash inflow from operating activities	20(a)		4,993	2,528
Returns on investments and servicing of finance				
Investment income		499	535	
Interest paid		(230)	(153)	
			269	382
Capital expenditure				
Payments to acquire and construct housing properties		(9,219)	(5,237)	
Purchase of other fixed assets		(129)	(85)	
Social Housing and other grants received		539	-	
Receipts on disposal of housing properties		180	125	
Receipts from sale of investment properties		-	344	
			(8,629)	(4,853)
Net cash flow before management of liquid resources and financing			(3,367)	(1,943)
Management of liquid resources				
Payments to acquire investments		(517)	-	
Proceeds from sale of investments		1,197	-	
			680	-
Financing				
Increase in loans		4,500		
Loans repaid		(12)		
			4,488	(21)
Increase/(decrease) in cash	20(c)		1,801	(1,964)

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

1 Principal accounting policies

Introduction and accounting basis

The financial statements of the Group are prepared under the historical cost accounting rules in accordance with the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000, applicable financial reporting standards and the Statement of Recommended Practice (SORP): Accounting by Registered Social Landlords.

Investment properties are accounted for in accordance with SSAP 19, "Accounting for Investment Properties", which provides that these should not be subject to periodic depreciation charges (unless held on lease), but should be shown at open market value. This is contrary to the Companies Act 1985 which states that, subject to any provision for depreciation or diminution in value, fixed assets are normally to be stated at purchase price or production cost. 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 business but as investments, the disposal of which would not materially affect any manufacturing or trading operations of the enterprise. 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.

Details of the current value and historical cost information for investment properties are given in Note 9.

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. Surplus 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 of which control passes.

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 is included in income when the group is certain of receipt.

Operating costs

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

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2003
(continued)**

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.

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 and other grants.

The cost of housing property 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 housing scheme.

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

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.

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.

Social Housing Grants

Where housing developments have been financed wholly or partly by Social Housing or other grants, the cost of these developments has been reduced by the amounts 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.

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.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2003
(continued)**

Investments

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

Retirement housing

Retirement housing for sale is treated as stock and is 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.

Revaluation reserve

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

Restricted reserve: Rent Surplus Fund retention

The Group transfers sums to a major repairs reserve equal to the amount required by the statutory Rent Surplus Fund calculation in respect of properties developed prior to the arrangements introduced by the Housing Act 1988. Sums are withdrawn from this reserve to the extent that major repairs expenditure in respect of these properties is not funded by grants.

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, which significantly restricts the recovery of VAT on expenditure.

Pensions: Defined benefit scheme

Contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working life with the company. The regular cost is attributed to the individual years using the projected unit method. Variations in cost which are identified as a result of actuarial valuations are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Pensions: Defined contribution scheme

Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

2 Turnover, operating surplus and surplus before taxation

	Group 2003				Group 2002			
	Turnover	Cost of sales	Operating costs	Surplus / (deficit)	Turnover	Cost of sales	Operating costs	Surplus
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income and expenditure from lettings								
Housing accommodation	3,085	-	2,488	597	3,139	-	2,455	684
Care Homes accommodation	28,190	-	28,939	(749)	23,559	-	24,298	(739)
Live at Home	1,065	-	1,881	(816)	917	-	1,817	(900)
	<u>32,340</u>	<u>-</u>	<u>33,308</u>	<u>(968)</u>	<u>27,615</u>	<u>-</u>	<u>28,570</u>	<u>(955)</u>
Other income and expenditure								
Other	5,282	-	2,355	2,927	5,169	-	3,085	2,084
	<u>37,622</u>	<u>-</u>	<u>35,663</u>	<u>1,959</u>	<u>32,784</u>	<u>-</u>	<u>31,655</u>	<u>1,129</u>
Operating Surplus								
Sale of fixed assets	180	-	98	82	125	657	-	(532)
Sale of investment properties	-	-	-	-	344	175	-	169
Retirement housing	685	567	-	118	437	340	-	97
	<u>38,487</u>	<u>567</u>	<u>35,761</u>	<u>2,159</u>	<u>33,690</u>	<u>1,172</u>	<u>31,655</u>	<u>863</u>
Interest receivable				499				536
Interest payable				(173)				(172)
Surplus before transfer for the year				<u>2,485</u>				<u>1,227</u>
Average assured tenancy rent (including service charges eligible For Housing benefit) per week:				£74.52				£75.23
Percentage increase				(0.9)%				2.5%

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

3 Income and expenditure from lettings

Income from lettings
Rents receivable net of identifiable service charges
Service charges receivable
- Eligible for Housing Benefit
- Not eligible for Housing Benefit

Gross rents receivable
Less: rents losses from voids

Net rents receivable

Revenue grants from local authorities and other agencies

Total income from lettings

Expenditure from letting activities

Services
Management
Routine maintenance
Rent losses from bad debts
Abortive development costs
Depreciation

Total expenditure on lettings

Operating (deficit)/surplus on letting activities

	Sheltered housing £'000	Supported housing £'000	Residential care homes £'000	Live at Home £'000	2003 Total £'000	2002 Total £'000
Income from lettings						
Rents receivable net of identifiable service charges	1,824	115	-	-	1,939	1,981
Service charges receivable						
- Eligible for Housing Benefit	1,049	97	29,736	-	30,882	25,966
- Not eligible for Housing Benefit	55	8	-	1,065	1,128	1,023
Gross rents receivable	2,928	220	29,736	1,065	33,949	28,970
Less: rents losses from voids	(62)	(1)	(1,776)	-	(1,839)	(1,574)
Net rents receivable	2,866	219	27,960	1,065	32,110	27,396
Revenue grants from local authorities and other agencies	-	-	230	-	230	219
Total income from lettings	2,866	219	28,190	1,065	32,340	27,615
Expenditure from letting activities						
Services	1,129	136	23,486	1,608	26,359	22,100
Management	626	29	2,987	273	3,915	3,111
Routine maintenance	332	14	1,372	-	1,718	2,122
Rent losses from bad debts	-	-	13	-	13	29
Abortive development costs	41	-	-	-	41	60
Depreciation	152	29	1,081	-	1,262	1,148
Total expenditure on lettings	2,280	208	28,939	1,881	33,308	28,570
Operating (deficit)/surplus on letting activities	586	11	(749)	(816)	(968)	(955)

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

4	Staff costs	2003	2002
		Number	Number
	Average monthly number employed including the Chief Executive (Full-time equivalent)		
	Residential homes	1,370	1,277
	Sheltered housing	46	45
	Live at Home	68	51
	Office staff	100	104
		<hr/>	<hr/>
		1,584	1,477
		<hr/>	<hr/>
	 Group staff costs including directors' emoluments	 £'000	 £'000
	Wages and salaries	21,526	19,177
	Social security costs	1,062	957
	Other pension costs	1,059	952
		<hr/>	<hr/>
		23,647	21,086
		<hr/>	<hr/>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2003
(continued)**

5 Directors' emoluments

The directors of the company under housing association legislation comprise the Board members and the Chief Executive.

	2003 £'000	2002 £'000
Directors' emoluments		
Including pension contributions and benefits in kind	93	90
Highest paid director		
Excluding pension contributions (Chief Executive)	86	42

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:

	Number	Number
Nil	15	15
Between £30,001 and £40,000 (Chief Executive November 2001 – March 2002)	-	1
Between £40,001 and £50,000 (Chief Executive April – September 2001)	-	1
Between £80,001 and £90,000	1	-
	£'000	£'000
The directors were reimbursed expenses not chargeable to United Kingdom Income Tax amounting to:	10	9

The 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 Association make any contribution to an individual pension.

6 Operating surplus

	2003 £'000	2002 £'000
Stated after charging:		
Housing properties depreciation	1,187	1,068
Depreciation on other tangible fixed assets	202	250
Auditors' remuneration in the capacity as auditors (including VAT)	26	26
Revaluation deficit on investments	902	280

7 Interest payable and similar charges

On loans repayable wholly or partly in more than 5 years	173	172
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MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

8 Group tangible fixed assets

Housing properties	Residential Care Homes	Housing Properties held for letting	Housing Properties under development	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2002	44,155	30,243	109	74,507
Additions	8,321	563	932	9,816
Disposals	(95)	(24)	-	(119)
Transfer to apartments for resale	(1,008)	-	-	(1,008)
Other transfers	(498)	(10)	-	(508)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	50,875	30,772	1,041	82,688
	<hr/>	<hr/>	<hr/>	<hr/>
Social Housing & other Grants				
At 1 April 2002	-	22,327	-	22,327
Additions	-	-	539	539
Disposals	-	(20)	-	(20)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	-	22,307	539	22,846
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 April 2002	877	164	-	1,041
Charge for year	1,001	182	-	1,183
Disposals	-	(1)	-	(1)
Other transfers	(148)	148	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	1,730	493	-	2,223
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2003	49,145	7,972	502	57,619
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2002	43,278	7,752	109	51,139
	<hr/>	<hr/>	<hr/>	<hr/>

Additions to housing properties under development including capitalised interest of £Nil (2002 £Nil) and development administration of £53,000 (2002 £53,000).

Housing properties comprise:

	2003 £'000	2002 £'000
Freehold	52,085	46,162
Long leasehold	5,534	4,977
	<hr/>	<hr/>
	57,619	51,139
	<hr/>	<hr/>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

8 Group tangible fixed assets (continued)

Other	Freehold offices £'000	Furniture equipment & vehicles £'000	Total £'000
Cost			
At 1 April 2002	1,458	3,438	4,896
Additions	-	129	129
Other transfers	508	-	508
	<hr/>	<hr/>	<hr/>
At 31 March 2003	1,966	3,567	5,533
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 April 2002	43	207	250
Charge for the year	44	162	206
	<hr/>	<hr/>	<hr/>
At 31 March 2003	87	369	456
	<hr/>	<hr/>	<hr/>
Net book value			
31 March 2003	1,879	3,198	5,077
	<hr/>	<hr/>	<hr/>
31 March 2002	1,415	3,231	4,646
	<hr/>	<hr/>	<hr/>

9 Investment properties

	2003 Group £'000	2002 Group £'000
Freehold land and buildings – UK		
Value at 31 March 2002	395	-
Transfer from Methodist Homes for The Aged (Trust)	-	519
Adjustment arising on revaluation	-	51
Disposals	-	(175)
	<hr/>	<hr/>
Value at 31 March 2003	395	395
	<hr/>	<hr/>

Investment Properties were valued at 31 March 2002 by Pinders Professional & Consultancy Services Limited, Chartered Surveyors, on the basis of open market value. The directors are of the opinion that there has been no change to the valuation of the investment properties as at 31 March 2003.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

10 Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Arrears of services and rent	725	694	-	-
Other debtors	405	332	17	10
Amounts due from subsidiary undertakings	-	-	-	37
	<u>1,130</u>	<u>1,026</u>	<u>17</u>	<u>47</u>

11 Investments

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Methodist Church Central Finance Board:				
Managed Equity Fund	2,080	3,843	-	-
Managed Fixed Interest Fund	839	754	-	-
	<u>2,919</u>	<u>4,597</u>	<u>-</u>	<u>-</u>

12 Creditors: amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade creditors	1,672	986	154	281
Prepayments of rent and service charges	395	385	-	-
Taxation and social security	321	198	58	55
Accruals and deferred income	640	409	-	9
Housing loans – interest	13	76	-	-
Housing loans – principal	5	6	-	-
Amounts due to subsidiary undertakings	-	-	162	-
Other creditors	407	256	147	96
	<u>3,453</u>	<u>2,316</u>	<u>521</u>	<u>441</u>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 March 2003
(continued)**

13 Creditors: amounts falling due after more than one year

Loans from the Housing Corporation, Local Authorities, Banks and Building Societies are secured by specific charges on the Group's housing properties and are repayable at varying rates of interest in instalments due as follows:

	2003	Group	2002
	£'000		£'000
Between two and five years	366		44
In five years or more	5,764		1,591
	<hr/>		<hr/>
	6,130		1,635
	<hr/>		<hr/>

14 Share capital

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

15 Revenue reserve

	Company
	£'000
1 April 2002	22
Surplus for the year	50
	<hr/>
31 March 2003	72
	<hr/>

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

16 Group reserves

	Endowment Reserve	Restricted Reserves		Revaluation Reserve	Revenue Reserve	Total
	HD Clarke Memorial Fund £'000	Charitable Funds £'000	Reinvestment Fund £'000	RSF £'000	Income and Expenditure Account £'000	£'000
1 April 2002	661	13,055	406	234	50,173	64,529
Surplus for the year	75	(280)	-	-	2,690	2,485
Deficit on revaluation of assets	-	-	-	(89)	-	(89)
Deficit on disposal of revalued current asset investments	-	-	-	(68)	-	(68)
Contribution to RSF Reinvestment fund	-	-	55	-	(55)	-
31 March 2003	736	12,775	461	77	52,808	66,857

RSF Reinvestment Fund (for major repairs to properties)

The reserve represents that part of surplus rental income less expenditure to date which the Group is required to hold in a Rent Surplus Fund for properties developed prior to the Housing Act 1988. The surplus rental income, calculated in a manner determined under Section 55 of the Housing Act 1988, amounted to £61,000 (2002: £59,000) of which 90% is provided for in accordance with this Act.

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

	Group	
	2003 £'000	2002 £'000
17 Capital commitments		
Expenditure contracted, less certified	7,720	6,119
Expenditure authorised by the Board, but not contracted	40,486	17,090
	<hr/>	<hr/>
	48,206	23,209
	<hr/>	<hr/>

18 Contingent liabilities

At 31 March 2003 and 31 March 2002 there were no known contingent liabilities.

19 Pensions and similar obligations

The Group operates three pension schemes, two defined benefit schemes and one 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 Financial Reporting Standard 17, Retirement Benefits ("FRS17"), are as follows:

	2003 % pa	2002 % pa
Inflation	2.50	2.50
Rate of increase in salaries	4.50	4.50
Rate of increase for pensions in payment	2.50*	2.50*
Rate of increase for deferred pensions	2.50*	2.50*
Discount rate	5.40	5.90

* 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 2003
(continued)

19 Pensions and similar obligations (continued)

The assets in the scheme and the expected rate of return were:

	2003		2002	
	Fair Value £'000	Expected Return %	Fair Value £'000	Expected Return %
Equities	8,317	9.10	10,444	7.90
Government bonds	3,192	4.50	2,742	5.30
Cash	492	3.75	665	4.00
Total	12,001	7.66	13,851	7.20
Present value of scheme liabilities	(20,044)		(17,633)	
Deficit in the scheme	(8,043)		(3,782)	
FRS 17 funding level	60%		79%	

The last formal valuation of the scheme was performed as at 30 September 2001 by a professionally qualified actuary. A valuation is due to be made as at 30 September 2004.

The Group has contributed at the rate of 23.3% of pensionable salaries over the accounting period, including member's contributions of 6.4%. The actuary has confirmed that the existing contribution level can continue given the deficit which is forecast to be removed within 13 years.

- (ii) A 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.
- (iii) A defined contribution scheme, administered by The Pensions Trust, which provides benefits based on the return earned by the investment. The Group contributes between 6% and 10% to the scheme.

The contribution by the Group to all pension schemes during the year amounted to £1,009,000 (2002: £902,000).

20 Notes to the cash flow statement

	2003 £'000	2002 £'000
a) Reconciliation of operating surplus to operating cash flows		
Operating surplus	1,959	1,129
Profit from sale of retirement housing stock	118	97
Depreciation	1,389	1,318
Revaluation adjustment	775	280
Decrease in retirement housing stock	186	(541)
Increase in debtors	(104)	(128)
Increase in creditors	604	373
Loss on disposal of current asset investments	66	-
Net cash inflow from operating activities	4,993	2,528

MHA CARE GROUP

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

20 Notes to the cash flow statement (continued)

	2003 £'000	2002 £'000
b) Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash	1,801	(1,964)
Cash inflow from liquid resources	(680)	-
Cash inflow from increase in debt	(4,500)	-
Cash outflow from loan financing	12	21
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(3,367)	(1,943)
Loan indexation	(6)	(18)
Decrease in market value of current asset investment	(998)	(311)
Net funds transferred from Methodist Homes for the Aged	-	11,590
	<hr/>	<hr/>
Movement in net debt	(4,371)	9,318
Net debt at 1 April 2002	9,092	(226)
	<hr/>	<hr/>
Net debt at 31 March 2003	<u>4,721</u>	<u>9,092</u>

c) Analysis of net changes in debt

	31 March 2002 £'000	Cash flow £'000	Other changes £'000	31 March 2003 £'000
Cash at bank and in hand	6,136	1,801	-	7,937
Debt due within one year				
Housing loans – principal	(6)	12	(11)	(5)
Debt due after more than one year				
Housing loans – principal	(1,635)	-	5	(1,630)
Bank loan	-	(4,500)	-	(4,500)
Current asset investments	4,597	(680)	(998)	2,919
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>9,092</u>	<u>(3,367)</u>	<u>(1,004)</u>	<u>4,721</u>

MHA CARE GROUP
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003
(continued)

21 Group structure

MHA Care Group has the following subsidiary undertakings:

Methodist Homes Housing Association

Incorporation: Industrial and Provident Societies Act 1965
Registered Number LH2343

Principal activity: Charitable provision and management of social housing

Methodist Homes for the Aged

Incorporation: Charity Registered Number 1083995

Principal activity: Charitable provision and management of residential care homes.

Redcroft Residential Home

Incorporation: Charity Registration Number 251276

Principal activity: Charitable provision and management of a residential care home

This charity has not been consolidated on the grounds that the net assets and level of activities are not material to the Group.

Methodist Homes (Second) Housing Association Limited

Incorporation: Industrial and Provident Societies Act 1965
Registered Number

Principal activity: Charitable provision and management of social housing.

This charity has not been consolidated on the grounds that the net assets and level of activities are not material to the Group