

for the Year Ended 30 June 2003

# Financial Report

for the Salvation Army Australia Southern Territory Social Fund



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### **The Salvation Army Australia Southern Territory:**

William Booth – Founder   John Larsson – General   Ross Kendrew – Territorial Commander

### **International Headquarters**

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### **Australia Southern Territory Headquarters**

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### **HEADQUARTERS**

South Australia Division – 39 Florence Street, Fullarton   Tasmania Division – 27 Pirie Street, New Town

Western Australia Division – 333 William Street, Northbridge   Eastern Victoria Division – 347-349 Mitcham Road, Mitcham

Melbourne Central Division – 69 Bourke Street, Melbourne   Northern Victoria Division – Bramble Street, Bendigo

Western Victoria Division – 209A Dana Street, Ballarat   Northern Territory Region – 49 Mitchell Street, Darwin

**The Salvation Army Australia Southern Territory Social Fund Trustees' Report**  
for the year ended 30 June 2003

This has been another year of significant growth for the Social Fund of The Salvation Army Australia Southern Territory. Total income increased by 5.4%, whilst total expenditure has increased by 12.2% compared with the year ended 30 June 2002.

Once again, we are extremely grateful to those many supporters of our work through the Red Shield Appeal, which, in these tough times, increased its fundraising income by 3%. Despite the increased income within the Red Shield Appeal, and an increase in funds provided through our Salvation Army Family Stores operation, the Social Fund still recorded a deficit after allocations of \$689,707 for the year ended 30 June 2003.

Every dollar raised by the Social Fund is vital for the extensive social work of The Salvation Army to continue at its current capacity. Government subsidies continue to form the largest component of our funding, and it is critical that current levels of government funding are maintained in order for our programmes to operate to serve the Australian public. In addition, we are continuing to review our costs to ensure that we efficiently utilise all funds received.

In February 2003, The Salvation Army Territorial Headquarters commenced using a new accounting and payroll system, after over 13 years on our previous systems. The rollout of these new systems has continued across all divisions and networks during 2003. Efficiencies from these new systems should ensure that we can cope with the continually experienced growth of our social work in years to come. Developmental work has also continued on the SAMIS (Salvation Army Management Information System) project, to be used to record statistics and data across our social networks.

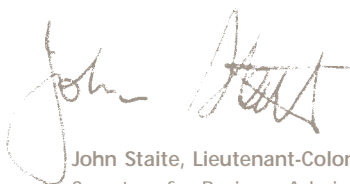
During the past financial year, a large portion of the Territory's investment funds were outsourced, after extensive evaluation by a sub-committee which included members of our Advisory Board. It is anticipated that these new investment arrangements will maximise the returns generated from funds held by The Salvation Army, and since the new arrangements commenced in October 2002, this has been evident, with our fund managers outperforming the majority of benchmark returns in the various asset categories.

The Salvation Army has undertaken a number of major capital schemes during the financial year, especially at some of our aged care centres in preparation for accreditation, including at Inala Senior Citizens' Residence in Blackburn, Melbourne and Seaforth Gardens Senior Citizens' Residence in Western Australia.

Signed in accordance with a resolution of the Trustees:



Ross Kendrew, Commissioner  
Territorial Commander  
TRUSTEE



John Staite, Lieutenant-Colonel  
Secretary for Business Administration  
TRUSTEE

Dated at Melbourne this 18th day of November 2003

**The Salvation Army Australia Southern Territory Social Fund**  
**Statement of Financial Performance**  
for the Year Ended 30 June 2003

|  | Note | 2003<br>\$'000   | 2002<br>\$'000   |
|--|------|------------------|------------------|
| Revenue from rendering of services             | 2    | 195,069          | 164,439          |
| Other revenues from ordinary activities        | 2    | 67,792           | 68,786           |
| Red Shield Appeal donations                    | 5    | 21,241           | 20,622           |
| <b>Total operating revenue</b>                 |      | <b>284,102</b>   | <b>253,847</b>   |
| Capital revenue:                               |      |                  |                  |
| Legacies                                       |      | 4,506            | 7,539            |
| Government grants                              |      | 365              | 70               |
| Transfer (to)/from General Fund                |      | (3,000)          | 7,561            |
| Other revenue                                  |      | 1,597            | 3,726            |
| <b>Total capital revenue</b>                   | 1(l) | <b>3,468</b>     | <b>18,896</b>    |
| <b>Total revenue</b>                           |      | <b>287,570</b>   | <b>272,743</b>   |
| Employee expenses                              |      | (157,401)        | (138,227)        |
| Depreciation expenses                          | 1(e) | (8,042)          | (8,518)          |
| Borrowing costs                                |      | (1,444)          | (2,016)          |
| Welfare/Jobseeker expenses                     |      | (18,729)         | (20,007)         |
| Building/Occupancy expenses                    |      | (41,209)         | (33,041)         |
| Motor Vehicle expenses                         |      | (3,615)          | (6,656)          |
| Contribution – General Fund                    | 1(k) | (11,294)         | (9,970)          |
| Carrying amount of assets disposed             |      | (2,527)          | (4,836)          |
| Amenities and supplies                         |      | (14,066)         | (14,406)         |
| Other expenses from ordinary activities        |      | (28,149)         | (17,623)         |
| <b>Total operating expenses</b>                |      | <b>(286,476)</b> | <b>(255,300)</b> |
| <b>Operating surplus before allocations</b>    | 14   | <b>1,094</b>     | <b>17,443</b>    |
| Allocations                                    | 3    | (1,784)          | (16,662)         |
| <b>Net surplus/(deficit) after allocations</b> |      | <b>(690)</b>     | <b>781</b>       |

The statement of financial performance is to be read in conjunction with the notes to the financial statements set out on pages 5 to 21.

The Salvation Army Australia Southern Territory Social Fund  
Statement of Financial Position

as at 30 June 2003

|   | Note  | 2003<br>\$'000 | 2002<br>\$'000 |
|---|-------|----------------|----------------|
| <b>Current Assets</b>                         |       |                |                |
| Cash  | 6     | 8,295          | 3,453          |
| Receivables                                   | 7     | 11,291         | 28,098         |
| Other financial assets                        | 8     | 22,795         | 142,909        |
| Inventories                                   | 9     | 1,890          | 1,335          |
| <b>Total Current Assets</b>                   |       | <b>44,271</b>  | <b>175,795</b> |
| <b>Non-current Assets</b>                     |       |                |                |
| Property, plant and equipment                 | 10    | 206,801        | 195,599        |
| Other financial assets                        | 8     | 125,827        | 27,230         |
| <b>Total Non-current Assets</b>               |       | <b>332,628</b> | <b>222,829</b> |
| <b>Total Assets</b>                           |       | <b>376,899</b> | <b>398,624</b> |
| <b>Current Liabilities</b>                    |       |                |                |
| Interest-bearing liabilities                  | 12    | 700            | –              |
| Payables                                      | 11    | 30,862         | 56,097         |
| Provisions                                    | 13    | 12,484         | 11,085         |
| <b>Total Current Liabilities</b>              |       | <b>44,046</b>  | <b>67,182</b>  |
| <b>Non-current Liabilities</b>                |       |                |                |
| Interest-bearing liabilities                  | 12    | 5,762          | 7,160          |
| Provisions                                    | 13    | 2,986          | 1,945          |
| Interest free loans – resident funded housing | 17    | 65,138         | 64,752         |
| Special purpose funds                         | 18    | 1,293          | 1,006          |
| <b>Total Non-current Liabilities</b>          |       | <b>75,179</b>  | <b>74,863</b>  |
| <b>Total Liabilities</b>                      |       | <b>119,225</b> | <b>142,045</b> |
| <b>Net Assets</b>                             |       | <b>257,674</b> | <b>256,579</b> |
| <b>Capital Funds</b>                          |       |                |                |
| Working capital fund                          | 14(a) | 9,126          | 9,816          |
| Property contributions fund                   | 14(a) | 160,843        | 154,529        |
| Reserves                                      | 14(a) | 62,158         | 65,721         |
| Trusts and special purpose funds              | 14(a) | 11,066         | 10,037         |
| Legacies                                      | 14(a) | 14,481         | 16,476         |
| <b>Total Capital Funds</b>                    |       | <b>257,674</b> | <b>256,579</b> |

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 5 to 21.

**The Salvation Army Australia Southern Territory Social Fund**  
**Statement of Cash Flows**  
for the Year Ended 30 June 2003

|   | Note   | 2003<br>\$'000  | 2002<br>\$'000 |
|---|--------|-----------------|----------------|
| <b>Cash Flows from Operating Activities</b>                     |        |                 |                |
| Cash receipts in the course of operations                       |        | 284,151         | 229,778        |
| Cash payments in the course of operations                       |        | (297,968)       | (234,227)      |
| <b>Net cash used in operating activities</b>                    | 21(ii) | <b>(13,817)</b> | <b>(4,449)</b> |
| <b>Cash Flows from Investing Activities</b>                     |        |                 |                |
| Investment revenue received                                     |        | 11,707          | 11,208         |
| Proceeds from sale of investments                               |        | 86,275          | 94,331         |
| Payments for investments  |        | (64,757)        | (113,691)      |
| Capital revenue received  |        | 3,468           | 18,896         |
| Payments for property, plant and equipment                      |        | (21,772)        | (14,929)       |
| Proceeds from sale of property, plant and equipment             |        | 3,647           | 6,099          |
| <b>Net cash provided by investing activities</b>                |        | <b>18,568</b>   | <b>1,914</b>   |
| <b>Cash Flows from Financing Activities</b>                     |        |                 |                |
| Interest paid   |        | (1,444)         | (2,016)        |
| Repayment of borrowings   |        | (748)           | (750)          |
| Proceeds from residents' interest free loans and fixed deposits |        | 12,647          | 14,498         |
| Repayment of residents' interest free loans and fixed deposits  |        | (10,364)        | (8,468)        |
| Loans to external entities                                      |        | -               | 8              |
| <b>Net cash provided by financing activities</b>                |        | <b>91</b>       | <b>3,272</b>   |
| Net increase in cash held                                       |        | 4,842           | 737            |
| Cash at the beginning of the financial year                     |        | 3,453           | 2,716          |
| <b>Cash at the end of the financial year</b>                    | 21(i)  | <b>8,295</b>    | <b>3,453</b>   |

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 5 to 21.

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The Salvation Army – an international movement – is an evangelical branch of the universal Christian Church.

Its message is based on the Bible and its ministry motivated by love for God.

This mission is both spiritual and practical, encompassing the preaching of the gospel of Jesus Christ and alleviating human suffering and distress without discrimination.

The Salvation Army has been operating in Australia since 1880. For the business purposes of its Australia Southern Territory it is incorporated by the following Acts and Ordinances of Parliament:

- The Salvation Army (Victoria) Property Trust Act 1930;
- The Salvation Army (South Australia) Property Trust Act 1931;
- The Salvation Army (Western Australia) Property Trust Act 1931;
- The Salvation Army (Tasmania) Property Trust Act 1930; and
- The Salvation Army (Northern Territory) Property Trust Ordinance 1976.

This general purpose financial report of the Social Fund has been prepared in accordance with Accounting Standards and Urgent Issues Group Consensus Views. The financial report has been prepared on the basis of historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Except where stated, accounting policies have been consistently applied.

#### (b) Annual Appeals

The Salvation Army Red Shield Appeal is an annual appeal conducted each year. The amount raised and corresponding fundraising expenses are reflected in the financial report in the same year as the appeal.

#### (c) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Revenue from government grants for rendering services and funding for the Employment Plus Job Network is recognised in the period in which the services are provided, having regard to the stage of completion of the contracts.

Trading revenue from the sale of goods is recognised when control of goods passes to the customer.

Resident contributions and patients' fees are recognised when the service is provided.

Revenue from legacies and donations is recognised when the Social Fund gains control of the contribution. All allocations of bequests are approved by the Territorial Finance Council in accordance with the expressed terms of the Testator.

Interest revenue is recognised as it accrues. Dividends are recognised when they are received.

Proceeds of non-current asset sales are included as revenue when control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset and gross proceeds.

#### (d) Property

Freehold properties are stated at cost, or if donated, at appraised value at date of gift. Capital gifts are shown as revenue and an allocation is made to the property contributions fund.

Upon disposal of freehold properties the cost is transferred to a capital property reserve together with sales proceeds to determine the profit or loss on the sale of the property. In addition, the funding contribution or grant in the property contributions fund relating to the disposal is transferred to the same reserve, to provide funding for future property acquisitions. Independent valuations are obtained as to the market value of any property before it is sold.

The carrying amounts of all non-current assets are reviewed annually to ensure that none are carried in excess of their recoverable amount.

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

### (e) Depreciation

Assets are depreciated from the date of acquisition or, in respect of constructed assets, from the time an asset is completed and ready for use.

The depreciation rates used for each class of asset are as follows:

|  |       |
|--|-------|
| Buildings                                      | 2%    |
| Plant and Equipment (excluding motor vehicles) | 33.3% |
| Motor Vehicles/Trucks                          | 20%   |

The depreciation rates are consistent with the prior year.

### (f) Inventories

Stocks of foodstuffs and consumable stores held at various centres are expensed. Trading stock on hand is valued at the lower of cost and net realisable value. No allocation of overheads has been included in the valuation.

### (g) Investments

The majority of the investments of the Social Fund were outsourced during the financial year. Investments are carried at the lower of cost and recoverable amount. Permanent diminutions in the value of any investment below cost are charged to the statement of financial performance as they occur.

### (h) Rounding Off

All amounts in the financial report have been rounded to the nearest thousand dollars except where otherwise indicated.

### (i) Trade and Sundry Debtors

The collectibility of trade and sundry debtors is assessed at year end and specific provision is made for any doubtful accounts.

### (j) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

### (k) Contribution to General Fund

The General Fund records all territorial and divisional headquarters' costs. These headquarters oversee the social infrastructure of The Salvation Army. An "arms length contribution" is charged by the General Fund to the Social Fund for services provided.

### (l) Capital Revenue Available for Allocation

The Salvation Army Australia Southern Territory has adopted a policy of separately disclosing revenue received other than from the Red Shield Appeal which is designated for capital purposes rather than operating activities. This designation is determined either directly by the donor or by the trustees of The Salvation Army Australia Southern Territory. This revenue is fully allocated to reserves and special purpose funds to be used to provide and maintain the various service programmes of The Salvation Army Australia Southern Territory.

During the year ended 30 June 2002, capital contributions of \$7,561,000 on social centre motor vehicles were transferred from the General Fund to the Social Fund. The trustees reassessed the position of the motor vehicle fleet during the year ended 30 June 2003, and determined that \$3,000,000 of the funds transferred in the year ended 30 June 2002 came from board designated reserves within the General Fund. Accordingly, these funds were returned to the General Fund, to be allocated to the General Fund's working capital balance during the year ended 30 June 2003.

**(m) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST excluded.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(n) Operating Leases**

Payments made under operating leases are expensed on a straight line basis over the term of the lease.

**(o) Comparatives**

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

**(p) Employee Benefits**

*Wages, salaries and annual leave*

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Social Fund expects to pay as at reporting date including on-costs.

*Long service leave*

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

*Superannuation plan*

The Social Fund contributes to several defined contribution superannuation plans, and an Officer Retirement Fund. Contributions are recognised as an expense as they are made.

**(q) Changes in accounting policies**

The Social Fund adopted revised AASB 1028 "Employee Benefits" and AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from 1 July 2002. The financial impact from the adoption of these revised/new standards is not significant.

The Salvation Army Australia Southern Territory Social Fund  
Notes to the Financial Statements

|   | Note | 2003<br>\$'000 | 2002<br>\$'000 |
|---|------|----------------|----------------|
| <b>2. REVENUE FROM ORDINARY ACTIVITIES</b>                        |      |                |                |
| Rendering of services revenue from operating activities:          |      |                |                |
| Government grants   |      | 102,982        | 85,794         |
| Fee for service – government funding                              |      | 59,699         | 48,319         |
| Resident contributions and patient fees                           |      | 32,388         | 30,326         |
|   |      | <u>195,069</u> | <u>164,439</u> |
| Other revenue:  |      |                |                |
| Trading revenue   |      | 48,892         | 43,269         |
| Donations received – other than from the Red Shield Appeal        |      | 1,373          | 933            |
| Investment revenue  |      | 9,710          | 12,803         |
| Proceeds from sale of fixed assets                                |      | 3,647          | 6,099          |
| Other   |      | 4,170          | 5,682          |
|   |      | <u>67,792</u>  | <u>68,786</u>  |
| Total revenue from ordinary activities                            |      | <u>262,861</u> | <u>233,225</u> |
| <b>3. ALLOCATIONS</b>   |      |                |                |
| Allocations have been made to/(from) the following capital funds: |      |                |                |
| funds excluding working Property contributions fund               | 14   | (1,986)        | 1,334          |
| Reserves  | 14   | (47)           | 7,522          |
| Trusts and special purpose funds                                  | 14   | 1,152          | 757            |
| Legacies  | 14   | 2,665          | 7,049          |
|   |      | <u>1,784</u>   | <u>16,662</u>  |
| <b>4. AUDITORS' REMUNERATION</b>                                  |      |                |                |
| Audit services:   |      |                |                |
| Auditors of the Fund KPMG Australia                               |      | <u>489</u>     | <u>380</u>     |
| Other services:   |      |                |                |
| Auditors of the Fund KPMG Australia                               |      | <u>-</u>       | <u>-</u>       |

The Salvation Army Australia Southern Territory Social Fund  
Notes to the Financial Statements

|   | 2003<br>\$'000 | 2002<br>\$'000 |
|---|----------------|----------------|
| <b>5. RED SHIELD APPEAL DONATIONS</b>                               |                |                |
| <b>Donations</b>  |                |                |
| Victoria  | 13,069         | 12,754         |
| South Australia   | 3,058          | 3,035          |
| Western Australia   | 3,771          | 3,601          |
| Tasmania  | 1,092          | 952            |
| Northern Territory  | 251            | 280            |
|   | 21,241         | 20,622         |
| Less: Expenses  | (3,264)        | (3,608)        |
| <b>Net Revenue available for Distribution</b>                       | 17,977         | 17,014         |
| <b>Distribution</b>   |                |                |
| Social programme deficits:  |                |                |
| Employment, education and training                                  | 140            | 111            |
| Children and young people at risk                                   | 1,171          | 672            |
| Addictions and substance abuse                                      | 1,458          | 1,105          |
| Aged care and disability support                                    | 904            | 505            |
| Individual and family support:                                      |                |                |
| Social centre deficits  | 5,916          | 5,394          |
| Christmas cheer   | 918            | 897            |
| Homelessness and domestic violence                                  | 3,345          | 2,957          |
| Chaplaincy  | 1,420          | 1,185          |
| Social fund departments:  |                |                |
| Emergency services  | -              | 404            |
| Social programme  | -              | 207            |
| Red Shield Defence Services   | -              | 543            |
| Family tracing services   | -              | 93             |
| Administration and research   | 311            | 420            |
|   | 15,583         | 14,493         |
| Social services and community programmes total                      |                |                |
| Social Programme Information Management Project                     | -              | 975            |
| Donor designated gifts for social services and community programmes | 2,394          | 1,546          |
| <b>Total Distribution</b>   | 17,977         | 17,014         |
| <b>6. CASH</b>  |                |                |
| Cash on hand  | 38             | 938            |
| Cash in transit   | 124            | 2,515          |
| Cash at bank  | 8,133          | -              |
|   | 8,295          | 3,453          |

The Salvation Army Australia Southern Territory Social Fund  
Notes to the Financial Statements

|  | 2003<br>\$'000 | 2002<br>\$'000 |
|--|----------------|----------------|
| <b>7. RECEIVABLES</b>  |                |                |
| <b>Current</b>   |                |                |
| Prepayments  | 241            | 242            |
| Sundry debtors   | 10,941         | 14,385         |
| Amounts receivable from other Salvation Army entities  | 109            | 13,471         |
|  | 11,291         | 28,098         |
| <b>8. OTHER FINANCIAL ASSETS</b>   |                |                |
| <b>Current</b>   |                |                |
| Commonwealth and semi-government inscribed stock   | -              | 30             |
| Debentures   | -              | 52,866         |
| Shares   | -              | 48,321         |
| Short term deposits  | 22,795         | 41,692         |
|  | 22,795         | 142,909        |
| <b>Non-current</b>   |                |                |
| Unlisted units in managed investment funds   | 120,048        | -              |
| Commonwealth and semi-government inscribed stock   | -              | 17             |
| Debentures   | -              | 9,123          |
| Long term deposits   | 5,779          | 18,090         |
|  | 125,827        | 27,230         |
| The redemption value of unlisted units in managed investment funds as at 30 June 2003 was \$121,670,000. |                |                |
| <b>9. INVENTORIES</b>  |                |                |
| Raw materials and stores   | 263            | 418            |
| Work in progress   | 50             | 56             |
| Finished goods   | 1,577          | 861            |
|  | 1,890          | 1,335          |

The Salvation Army Australia Southern Territory Social Fund  
Notes to the Financial Statements

|  | Note | 2003<br>\$'000 | 2002<br>\$'000 |
|--|------|----------------|----------------|
| <b>10. PROPERTY, PLANT AND EQUIPMENT</b>           |      |                |                |
| <b>Freehold Land and Buildings</b>                 |      |                |                |
| Freehold land at cost                              |      | 18,982         | 16,933         |
| Buildings at cost                                  |      | 191,396        | 185,915        |
| Accumulated depreciation                           |      | (39,514)       | (35,763)       |
|  |      | <u>151,882</u> | <u>150,152</u> |
| Buildings at cost – Hayville Village               |      | 17,671         | 17,084         |
| Accumulated depreciation                           |      | (3,976)        | (3,713)        |
|  |      | <u>13,695</u>  | <u>13,371</u>  |
| Total Freehold Land and Buildings                  |      | <u>184,559</u> | <u>180,456</u> |
| <b>Leasehold Property</b>                          |      |                |                |
| At cost  |      | 949            | 330            |
| Accumulated depreciation                           |      | (222)          | (104)          |
| Total Leasehold Land and Buildings                 |      | <u>727</u>     | <u>226</u>     |
| <b>Building Schemes in Progress – at cost</b>      |      | <u>6,613</u>   | <u>2,853</u>   |
| <b>Motor Vehicles</b>                              |      |                |                |
| At cost  |      | 16,665         | 15,566         |
| Accumulated depreciation                           |      | (7,151)        | (8,609)        |
| Total Motor Vehicles                               |      | <u>9,514</u>   | <u>6,957</u>   |
| <b>Plant and Equipment</b>                         |      |                |                |
| At cost  |      | 7,606          | 6,716          |
| Accumulated depreciation                           |      | (2,218)        | (1,609)        |
| Total Plant and Equipment                          |      | <u>5,388</u>   | <u>5,107</u>   |
| Total Property, Plant and Equipment Net Book Value |      | <u>206,801</u> | <u>195,599</u> |

Social Fund freehold land and buildings of \$184,559,000 (2002: \$180,456,000) are funded through the Property Contributions Fund (excluding building schemes in progress funding) of \$154,450,000 as at 30 June 2003 (2002: \$148,936,000).

The Salvation Army Australia Southern Territory Social Fund  
Notes to the Financial Statements

|  | Note | 2003<br>\$'000 | 2002<br>\$'000 |
|--|------|----------------|----------------|
| <b>10. PROPERTY, PLANT AND EQUIPMENT (continued)</b>   |      |                |                |
| The remaining balance is funded from the following sources:  |      |                |                |
| Bank loans   | 12   | 6,462          | 7,160          |
| Unsecured loans  | 17   | 50             | 100            |
| Resident funded loans (Hayville and Hollywood Villages)  | 17   | 16,048         | 16,332         |
|  |      | <u>22,560</u>  | <u>23,592</u>  |
| Social Fund freehold properties – unfunded   |      | <u>7,549</u>   | <u>7,928</u>   |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: |      |                |                |
| <b>Freehold Land and Buildings</b>   |      |                |                |
| Carrying amount at beginning of year   |      | 180,456        | 157,236        |
| Additions  |      | 8,530          | 29,226         |
| Disposals  |      | (377)          | (2,360)        |
| Depreciation   |      | (4,050)        | (3,646)        |
| Carrying amount at end of year   |      | <u>184,559</u> | <u>180,456</u> |
| <b>Leasehold Property</b>  |      |                |                |
| Carrying amount at beginning of year   |      | 226            | 248            |
| Additions  |      | 618            | 45             |
| Depreciation   |      | (117)          | (67)           |
| Carrying amount at end of year   |      | <u>727</u>     | <u>226</u>     |
| <b>Building Schemes in Progress – Cost</b>   |      |                |                |
| Carrying amount at beginning of year   |      | 2,853          | 20,436         |
| Additions  |      | 12,322         | 11,268         |
| Transfers to Freehold Land and Buildings/Leasehold Property  |      | (8,562)        | (28,851)       |
| Carrying amount at end of year   |      | <u>6,613</u>   | <u>2,853</u>   |
| <b>Motor Vehicles</b>  |      |                |                |
| Carrying amount at beginning of year   |      | 6,957          | 10,241         |
| Additions  |      | 5,148          | 458            |
| Disposals  |      | (159)          | (1,736)        |
| Depreciation   |      | (2,432)        | (2,006)        |
| Carrying amount at end of year   |      | <u>9,514</u>   | <u>6,957</u>   |
| <b>Plant and Equipment</b>   |      |                |                |
| Carrying amount at beginning of year   |      | 5,106          | 5,071          |
| Additions  |      | 3,716          | 2,834          |
| Disposals  |      | (1,991)        | –              |
| Depreciation on Plant and Equipment  |      | (1,443)        | (2,799)        |
| Carrying amount at end of year   |      | <u>5,388</u>   | <u>5,106</u>   |

The Salvation Army Australia Southern Territory Social Fund  
Notes to the Financial Statements

|  | Note  | 2003<br>\$'000 | 2002<br>\$'000 |
|--|-------|----------------|----------------|
| <b>11. PAYABLES</b>                                |       |                |                |
| Sundry creditors and accruals                      |       | 27,168         | 22,135         |
| Prepaid fee for service – government funding       |       | 3,694          | 12,899         |
| Deposits invested by other Salvation Army entities |       | –              | 21,063         |
|  |       | <u>30,862</u>  | <u>56,097</u>  |
| <b>12. INTEREST-BEARING LIABILITIES</b>            |       |                |                |
| <b>Current</b>                                     |       |                |                |
| Bank loans – secured                               |       | <u>700</u>     | <u>–</u>       |
| <b>Non-current</b>                                 |       |                |                |
| Bank loans – secured                               |       | <u>5,762</u>   | <u>7,160</u>   |
| <b>13. PROVISIONS</b>                              |       |                |                |
| <b>Current</b>                                     |       |                |                |
| Employee entitlements                              |       | <u>12,484</u>  | <u>11,085</u>  |
| <b>Non-current</b>                                 |       |                |                |
| Employee entitlements                              |       | <u>2,986</u>   | <u>1,945</u>   |
| <b>14. CAPITAL FUNDS</b>                           |       |                |                |
| <b>(a) Movements in Capital Funds</b>              |       |                |                |
| <b>Property Contributions Fund</b>                 |       |                |                |
| Opening Balance                                    |       | 154,529        | 147,777        |
| Net Transfers                                      |       | 8,300          | 5,418          |
| Allocations from/(to) working capital fund         | 3     | <u>(1,986)</u> | <u>1,334</u>   |
| Closing balance                                    | 14(b) | <u>160,843</u> | <u>154,529</u> |
| <b>Reserves</b>                                    |       |                |                |
| Opening Balance                                    |       | 65,721         | 60,846         |
| Net Transfers                                      |       | (3,516)        | (2,647)        |
| Allocations from working capital fund              | 3     | <u>(47)</u>    | <u>7,522</u>   |
| Closing balance                                    | 14(c) | <u>62,158</u>  | <u>65,721</u>  |
| <b>Trusts and Special Purpose Funds</b>            |       |                |                |
| Opening Balance                                    |       | 10,037         | 9,353          |
| Net Transfers                                      |       | (123)          | (73)           |
| Allocations from working capital fund              | 3     | <u>1,152</u>   | <u>757</u>     |
| Closing balance                                    | 14(d) | <u>11,066</u>  | <u>10,037</u>  |

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

|  | Note | 2003<br>\$'000 | 2002<br>\$'000 |
|--|------|----------------|----------------|
| <b>14. CAPITAL FUNDS (continued)</b>   |      |                |                |
| <b>(a) Movements in Capital Funds (continued)</b>  |      |                |                |
| <b>Legacies</b>  |      |                |                |
| Opening Balance  |      | 16,476         | 12,125         |
| Net Transfers  |      | (4,660)        | (2,698)        |
| Allocations from working capital fund  | 3    | 2,665          | 7,049          |
| Closing balance  |      | 14,481         | 16,476         |
| <b>Working Capital Fund</b>  |      |                |                |
| Opening Balance  |      | 9,816          | 9,035          |
| Operating surplus before allocations   |      | 1,094          | 17,443         |
| Allocations (to) other capital funds   | 3    | (1,784)        | (16,662)       |
| Closing balance  |      | 9,126          | 9,816          |
| <b>(b) Property Contributions Fund</b>   |      |                |                |
| Under International Salvation Army accounting policies and procedures, all contributions, grants, donations and other revenue which will finance property projects must be specifically accounted for in the books of The Salvation Army Australia Southern Territory. Upon completion of each project, the respective contributions are transferred to the Property Contributions Fund. |      |                |                |
| This balance represents the commitments that were fulfilled in acquiring the land and buildings shown as assets held by The Salvation Army Australia Southern Territory. These contributions remain in the balance sheet to meet the ongoing commitment to depreciate the properties, thus relieving the working capital fund of this charge.  |      |                |                |
| <b>(c) Reserve Balances</b>  |      |                |                |
| <b>Board Designated Funds</b>  |      |                |                |
| Property development   |      | 13,996         | 17,973         |
| Training   |      | 9,021          | 2,350          |
| Social programme enhancement and development   |      | 2,835          | 3,183          |
| Building and general deposits  |      | -              | 1,916          |
| Capital asset contribution   |      | 9,160          | 12,375         |
| Planned maintenance  |      | 5,159          | 4,023          |
| Asset replacement  |      | 2,348          | 3,197          |
| Aged care reserves   |      | 2,004          | 6,637          |
| Hayville management fund/reserve   |      | 3,487          | 3,403          |
| Capital projects funding   |      | 2,965          | -              |
| Employment and training  |      | 10,227         | 10,178         |
| Other  |      | 956            | 486            |
|  |      | 62,158         | 65,721         |

These balances are amounts set aside by the Territorial Finance Council from surplus unrestricted funds to meet realistic, planned or anticipated needs for The Salvation Army Australia Southern Territory, thereby relieving the working capital fund from the future cost of these needs. Some reserve/trust balances were reassessed during the financial year and were reclassified from one category to another. An explanation of the purpose of each reserve is provided on the next page.

### 14. CAPITAL FUNDS (continued)

#### (c) Reserve Balances (continued)

##### *Property Development*

This balance represents funds set aside for future property development within the Social Fund.

It also represents the net proceeds on sold properties, which are set aside until allocated to new capital schemes. In most cases, the net proceeds on a particular sold property are utilised as part funding for a specific new capital scheme. However, in some cases, excess property is sold and the net proceeds are available more generally for a number of capital schemes, or other purposes as determined by the Territorial Finance Council. It also includes a specific allocation for property development purposes in relation to retired officers quarters.

##### *Training*

This balance represents funds set aside to be used towards the cost of officer and employee training, and to further enhance future service provision and delivery.

##### *Social Programme Enhancement and Development*

This balance represents funds retained by specific social centres to be utilised, in conjunction with the funding bodies supporting these programmes, for the enhancement and development of these programmes.

##### *Building and General Deposits*

This balance represented funds held on behalf of specific social centres, set aside by the Territorial Finance Council for specific purposes until used.

##### *Capital Asset Contribution*

This balance represents funds utilised to purchase capital assets (excluding land and buildings). These funds will be used to offset the future expensing of such assets through depreciation charges in subsequent financial periods.

##### *Planned Maintenance*

This balance represents funds set aside for the future maintenance and repair of property assets held by the Social Fund of The Salvation Army Australia Southern Territory.

##### *Asset Replacement*

This balance represents funds set aside for the future replacement of various fixed assets, including computers, across various social centres and territorial headquarters social departments.

##### *Aged Care Reserves*

When a resident enters an aged care centre and pays a refundable and amortisable entry contribution (or accommodation bond), The Salvation Army is entitled to retain a portion of the amortisable balance over time. If a resident remains for five years, then the full amortisable balance will remain with The Salvation Army.

As the amortisable balances reduce, the amortised amount is transferred to that particular centre's development works reserve, and is available to meet any costs incurred in maintaining the units within that centre, especially when there is a change in occupancy and some renovations are required.

This balance also includes cash surpluses generated by the aged care centres. It is territorial policy that such funds be set aside for future capital redevelopment within aged care. In the coming years, substantial capital will be required to increase the standard of our aged care facilities, especially in the light of accreditation.

##### *Hayville Management Fund/Reserve*

This reserve mainly results from the amortised portion on resident funded loans at Hayville Village. When a resident moves into Hayville Village, he/she effectively purchases the unit at its market value. Then, 2.5% of the loan can be transferred to this reserve each year, for a maximum period of 15 years. This reserve is effectively a sinking fund which will be used to cover major capital costs of redeveloping Hayville Village, for which The Salvation Army will be liable in the future.

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

### 14. CAPITAL FUNDS (continued)

#### (c) Reserve Balances (continued)

##### *Capital Projects Funding*

This balance represents funds set aside by the Territorial Finance Council from legacies and other reserves, to cover project costs for the new accounting and payroll systems implemented by the Salvation Army during the financial year and SAMIS (Salvation Army Management Information System).

##### *Employment and Training*

This balance represents funds set aside for future initiatives across the territory, including the servicing of existing Employment Plus clients during the remainder of the current Job Network contract period and beyond.

##### *Other*

This is the balance of a number of minor reserves which have been set aside at the direction of the Territorial Finance Council.

#### (d) Trust and Special Purpose Fund Balances

|   | 2003<br>\$'000 | 2002<br>\$'000 |
|---|----------------|----------------|
| <b>Board Designated Funds</b>               |                |                |
| Disaster relief                             | –              | 123            |
| Capital – Hollywood resident funded housing | 1,653          | 1,464          |
| Capital – Hayville resident funded housing  | 4,413          | 3,616          |
| <b>Restricted Funds</b>                     |                |                |
| Special purpose trusts                      | 1,608          | 1,669          |
| General deposits                            | 2,262          | 2,064          |
| Building deposits                           | 1,105          | 1,096          |
| Other                                       | 25             | 5              |
|   | 11,066         | 10,037         |

The Salvation Army is called upon to utilise large amounts of specified donations and other restricted revenue, which must be accounted for meticulously in accordance with the donor's wishes. It is therefore common for large balances to be unavoidably carried forward from one year to another, until such time as the funds can be used for the specific purposes for which they have been given.

On this basis, the trusts and special purpose fund balances are not actually revenue available to The Salvation Army Australia Southern Territory until they are expended on the purpose specified by the donors. There can be no change of purpose of any amount donated without reference to the person or organisation which set the conditions. An explanation of the purpose of each special purpose reserve is provided below.

##### *Disaster Relief*

This balance represented the amount of specified funds set aside for the provision of emergency relief in disaster situations, such as bushfires, floods or other incidents.

##### *Resident Funded Housing Sinking Funds*

It is recognised that The Salvation Army holds significant loan balances in relation to residents occupying units at both Hayville Village and Hollywood Village (Centennial Close). While The Salvation Army has no requirement to pay interest to residents for such funds, it is territorial policy to credit interest funds generated to a sinking fund for each centre, as The Salvation Army recognises that significant capital funds will be required in future years to redevelop such units.

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

### 14. CAPITAL FUNDS (continued)

#### (c) Reserve Balances (continued)

##### *Special Purpose Trusts*

The Salvation Army holds a number of balances, where the donor has stipulated that the capital be invested, and interest generated on such capital funds be used in a particular way. This reserve identifies the balance of such capital funds.

##### *Building and General Deposits*

This balance represents funds held on behalf of specific social centres, set aside for specific purposes until used. For example, if a centre receives a specified donation from the Red Shield Appeal, but has not utilised the funds at the end of the year, then the funds are carried forward to the next year as part of this reserve.

### 15. INCOME TAX

The Salvation Army is exempt from income tax. Donations of two dollars (\$2) or more given to the following funds attract income tax deductibility:

- (i) The Salvation Army Social Fund
- (ii) The Salvation Army Red Shield Appeal

### 16. SECURED BORROWINGS

Bank facilities are supported by a letter of charge and undertaking over certain freehold land and buildings.

### 17. INTEREST FREE LOANS – RESIDENT FUNDED HOUSING

|   | 2003<br>\$'000 | 2002<br>\$'000 |
|---|----------------|----------------|
| Entry contributions/Accommodation Bonds – amortisable | 4,009          | 4,383          |
| Entry contributions/Accommodation Bonds – refundable  | 45,031         | 43,937         |
| Resident funded housing loans                         | 16,048         | 16,332         |
| Other   | 50             | 100            |
|   | 65,138         | 64,752         |

#### (a) Entry Contributions/Accommodation Bonds

These balances are repayable to residents of aged care centres upon their vacating of the centres. When taking up residence at aged care centres, government legislation allows for residents to pay a refundable and an amortisable entry contribution to The Salvation Army.

The refundable portion is in the form of an interest-free loan repayable in full, while the amortisable portion is amortised over five years. The amortisation amount is transferred to reserves held for aged care redevelopments.

#### (b) Resident Funded Housing Loans

These funds represent interest-free loans made by residents at Hayville Village (Victoria) and Hollywood Village (Western Australia) upon taking up residence in units at these centres. They are repayable upon the residents vacating these units.

### 18. SPECIAL PURPOSE FUNDS – NON-CURRENT LIABILITY

This amount relates to trust funds held by The Salvation Army on behalf of residents of various social centres.

## 19. COMMITMENTS

### (a) Capital Commitments

The Salvation Army Australia Southern Territory is constantly engaged in planned and ongoing construction projects requiring the commitment of significant funds.

Certain of these funds will be provided by Territorial Headquarters and other funds will be received from other sources. Due to the uncertainties necessarily surrounding funding from sources other than Territorial Headquarters, it is not possible, at any point in time, to quantify the financial commitment required of Territorial Headquarters for these projects save as disclosed below.

|  | 2003<br>\$'000 | 2002<br>\$'000 |
|--|----------------|----------------|
| Cost to complete property schemes in progress                  | 11,823         | 12,945         |
| Property schemes approved but not commenced as at 30 June 2003 | 3,031          | 2,146          |
|  | 14,854         | 15,091         |

### (b) Operating Lease Commitments

Future operating lease rentals for properties not provided in the financial statements and payable:

|   |        |        |
|---|--------|--------|
| Not later than one year                           | 13,591 | 7,110  |
| Later than one year but not later than five years | 28,574 | 9,713  |
| Later than five years                             | 1,284  | 754    |
|   | 43,449 | 17,577 |

## 20. RELATED PARTY DISCLOSURES

### (a) General

The Salvation Army Australia Southern Territory is part of the International Salvation Army and follows operational guidelines issued by the International Headquarters of The Salvation Army in London, United Kingdom. Transactions are conducted on a normal commercial basis.

### (b) Trustees

The names of the Trustees who held office during the year ended 30 June 2003 were:

|                                 |                                    |
|---------------------------------|------------------------------------|
| Commissioner Ross Kendrew       | Colonel Leslie Strong              |
| Lieutenant-Colonel John Staite  | Lieutenant-Colonel Peter Callander |
| Lieutenant-Colonel John Jeffrey | Lieutenant-Colonel Ian Smith       |
| Major Craig Campbell            | Major John Vale                    |
| Mr David Perry                  |                                    |

Major Craig Campbell became a Trustee on 1 July 2002, in the place of Lieutenant-Colonel Garth McKenzie.

Lieutenant-Colonel Ian Smith became a Trustee on 13 January 2003, in the place of Lieutenant-Colonel Peter Callander.

Major John Vale became a Trustee on 1 March 2003, in the place of Colonel Leslie Strong.

**The Salvation Army Australia Southern Territory Social Fund**  
**Notes to the Financial Statements**

**20. RELATED PARTY DISCLOSURES (continued)**

*Trustees' Remuneration*

The Trustees are officers or staff of The Salvation Army Australia Southern Territory, and receive remuneration in accordance with established Salvation Army guidelines. Officer Trustees also receive accommodation and use of a motor vehicle at no cost as part of their officership in accordance with established Salvation Army guidelines. No additional remuneration is received by these officers for acting in their capacity as Trustees of the Social Fund. In the year ended 30 June 2002 a retiring officer also received benefits from The Salvation Army Retirement Fund. Staff Trustees receive the use of a motor vehicle at no cost as part of their employment contract.

|  | 2003<br>\$'000 | 2002<br>\$'000 |
|--|----------------|----------------|
| Total income paid or payable, or otherwise made available to all Trustees of the Social Fund from the Social Fund or any related party | 164            | 329            |

**21. NOTES TO THE STATEMENT OF CASH FLOWS**

**(i) Reconciliation of Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and at bank, cash in transit and cash held at social centres net of outstanding bank overdrafts. Cash at the end of financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

|      | Note | 2003<br>\$'000 | 2002<br>\$'000 |
|------|------|----------------|----------------|
| Cash | 6    | 8,295          | 3,453          |
|      |      | 8,295          | 3,453          |

**(ii) Reconciliation of Total Surplus to Net Cash used in Operating Activities**

|   |          |          |
|---|----------|----------|
| Total operating/capital surplus before allocations                            | 1,094    | 17,443   |
| Add/(less) items classified as investing/financing activities:                |          |          |
| Interest paid   | 1,444    | 2,016    |
| Investment income received  | (11,707) | (11,208) |
| Capital revenue received  | (3,468)  | (18,896) |
| Net profit from sale of property, plant and equipment                         | (1,120)  | (792)    |
| Add/(less) non-cash items:  |          |          |
| Depreciation  | 8,042    | 8,518    |
| Amounts set aside to provisions   | 4,670    | 2,303    |
| Amortisation of entry contributions   | (1,530)  | (1,699)  |
| Amortisation of Hayville resident loans                                       | (316)    | (357)    |
| Net cash used in operating activities before change in assets and liabilities | (2,891)  | (2,672)  |

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

### 21. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

#### (ii) Reconciliation of Total Surplus to Net Cash used in Operating Activities (continued)

Change in assets and liabilities during the financial year:

|  |          |         |
|--|----------|---------|
| Decrease/(increase) in inventories       | (555)    | (944)   |
| Decrease/(increase) in receivables       | 16,807   | (4,233) |
| Decrease/(increase) in payables          | (25,235) | 3,490   |
| (Decrease)/increase in provisions        | (2,230)  | (208)   |
| (Decrease)/increase in other liabilities | 287      | 118     |

|                                       |          |         |
|---------------------------------------|----------|---------|
| Net Cash used in Operating Activities | (13,817) | (4,449) |
|---------------------------------------|----------|---------|

#### (iii) Financing Facilities

The Salvation Army (Victoria) Property Trust – Social Fund has access to a term loan facility (tranche) of \$10,000,000 for the purposes of property acquisition and development for The Salvation Army Family Stores. At balance date, facilities used were \$6,462,000 resulting in an unutilised facility of \$3,538,000.

### 22. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

#### (a) Interest Rate Risk

The Social Fund's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities, as it relates to the Social Fund, is set out below.

|  | Floating | Fixed Interest<br>maturing in<br>less than<br>one year | Fixed Interest<br>maturing<br>in 1 to 5<br>years | Fixed Interest<br>maturing in<br>more than<br>5 years | Non Interest<br>bearing<br>(see note) | Total   |
|--|----------|--|--|---|---------------------------------------|---------|
|  | \$'000   | \$'000   | \$'000   | \$'000  | \$'000                                | \$'000  |
| <b>2003</b>                                      |          |  |  |   |                                       |         |
| <b>Financial Assets</b>                          |          |  |  |   |                                       |         |
| Cash   | 8,295    |  |  |   |                                       | 8,295   |
| Receivables                                      |          |  |  |   | 11,291                                | 11,291  |
| Other Financial Assets                           |          | 22,795   | 5,779  |   | 120,048                               | 148,622 |
| Weighted Average Interest Rate                   | 5.18%    | 4.43%  | 6.27%  |   |                                       |         |
| <b>Financial Liabilities</b>                     |          |  |  |   |                                       |         |
| Loans  | 6,462    |  |  |   |                                       | 6,462   |
| Payables   |          |  |  |   | 30,862                                | 30,862  |
| Interest Free Loans –<br>Resident Funded Housing |          |  |  |   | 65,138                                | 65,138  |
| Special Purpose Funds                            |          |  |  |   | 1,293                                 | 1,293   |
| Weighted Average Interest Rate                   | 6.50%    |  |  |   |                                       |         |

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

### 22. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

|  | Floating | Fixed Interest<br>maturing in<br>less than<br>one year | Fixed Interest<br>maturing<br>in 1 to 5<br>years | Fixed Interest<br>maturing in<br>more than<br>5 years | Non Interest<br>bearing<br>(see note) | Total   |
|--|----------|--|--|---|---------------------------------------|---------|
|  | \$'000   | \$'000   | \$'000   | \$'000  | \$'000                                | \$'000  |
| <b>2002</b>                                      |          |  |  |   |                                       |         |
| <b>Financial Assets</b>                          |          |  |  |   |                                       |         |
| Cash   | 3,453    |  |  |   |                                       | 3,453   |
| Receivables                                      |          |  |  |   | 28,098                                | 28,098  |
| Other Financial Assets                           | 22,622   | 85,661   | 13,535   |   | 48,321                                | 170,139 |
| Weighted Average Interest Rate                   | 5.50%    | 5.42%  | 6.40%  |   |                                       |         |
| <b>Financial Liabilities</b>                     |          |  |  |   |                                       |         |
| Loans  | 7,160    |  |  |   |                                       | 7,160   |
| Payables   |          |  |  |   | 56,097                                | 56,097  |
| Interest Free Loans –<br>Resident Funded Housing |          |  |  |   | 64,752                                | 64,752  |
| Special Purpose Funds                            |          |  |  |   | 1,006                                 | 1,006   |
| Weighted Average Interest Rate                   | 6.25%    |  |  |   |                                       |         |

Note: Non-interest bearing other financial assets relate to amounts invested within a managed investment fund on which the Social Fund receives quarterly distributions

#### (b) Market Risk

In addition to the effects of movements in interest rates, the Social Fund is exposed, particularly through its holdings within a managed investment fund, to market risks influencing investment valuations.

The fund manager operates within agreed risk parameters, to optimise the return and minimise the risk of invested funds. The fund managers regularly report to the trustees.

#### (c) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets, excluding investments, of the Social Fund which have been recognised in the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The Social Fund minimises concentrations of credit risk by undertaking transactions with reputable parties.

#### (d) Net Fair Value of Financial Assets and Liabilities

The Social Fund's financial assets and liabilities included in the statement of financial position are carried at amounts that approximate net market value. Included within non-current liabilities are interest free loans of \$65,138,000. The fair value of these liabilities will be different from the book value. However, as the period of the loans is not fixed, the difference between the fair value and the book value cannot be determined.

## The Salvation Army Australia Southern Territory Social Fund

### Trustees' Declaration

In the opinion of the Trustees of the Salvation Army Australia Southern Territory Social Fund:

- (i) The accompanying financial statements and notes set out on pages 2 to 21 are drawn up so as to present fairly the financial position of the Social Fund as at 30 June 2003 and the results of its operations and cash flows for the year then ended; and
- (ii) The operations of the Social Fund have been carried out in accordance with its Trusts Deeds poll during the year ended 30 June 2003; and
- (iii) The financial statements have been prepared in accordance with Accounting Standards and Urgent Issues Group Consensus Views in Australia.

Signed in accordance with a resolution of the Trustees:



Ross Kendrew, Commissioner  
Territorial Commander  
TRUSTEE



John Staite, Lieutenant-Colonel  
Secretary for Business Administration  
TRUSTEE

Dated at Melbourne this 18th day of November 2003

## Independent Audit Report

### to the Trustees of The Salvation Army Australia Southern Territory Social Fund

#### Scope

We have audited the financial report of The Salvation Army Australia Southern Territory Social Fund ("the Social Fund") for the financial year ended 30 June 2003, consisting of the statement of financial performance, statement of financial position, statement of cash flows and accompanying notes set out on pages 2 to 21. The Trustees of the Property Trusts comprising The Salvation Army Australia Southern Territory are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the Trustees of The Salvation Army Australia Southern Territory.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the Social Fund's financial position and its performance, as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

#### Audit Opinion

In our opinion, the financial report of The Salvation Army Australia Southern Territory Social Fund:

- (i) presents fairly the financial position of the Fund as at 30 June 2003 and its performance for the financial year ended on that date; and
- (ii) complies with Accounting Standards and other mandatory professional reporting requirements in Australia.



KPMG

Dated at Melbourne this 18th day of November 2003

## Australia Southern Territory

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The Salvation Army Australia Southern Territory