

Financial Report

for the Year Ended 30 June 2004

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 Ivan B. Lang – Territorial Commander

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Northern Victoria Division – Bramble Street, Bendigo

Western Victoria Division – 102 Eureka 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 2004

This has been one of the most challenging years for some time that The Salvation Army Australia Southern Territory has experienced. In an environment of increasing needs, the Territory, even with the generous increase in support from the public, has not been able to cover the demands placed on it. As a result the Social Fund has recorded a deficit, after allocations, of \$4,825K, for the year ended 30 June 2004. To cover this deficit, the Social Fund has had to utilise over 50% of its working capital balance.

The Territory has actively pursued numerous activities across the organisation to improve efficiencies and establish cost control initiatives. Some of these include the extension of the Human Resource department to further support our operations, the introduction of a new Risk Management department to improve the general risk profile of the organisation, and procurement now coordinating purchasing and helping to take advantage of the organisation's scale and deliver savings.

Over recent years there has been considerable thought given to one of the most challenging services we provide – Aged Care. After significant deliberations, we have decided to refocus our service delivery in Aged Care to the most disadvantaged. A key outcome of this strategic decision is the sale of many of our sites across the Territory. It is hard to express how difficult this decision has been to make, and we understand this has caused some uncertainty to residents and their families, however it has proven to be an important decision to enable us to continue in this field of work into the future.

As mentioned above there is constant pressure and high levels of expectation on the Army to meet the needs of those requiring it most in our community. Over recent years, we have been able to maintain and even extend our services as a result of the generosity shown by the public, however, this year, even with the increased support we have not been able to keep pace with inflation. This outcome, does place pressure on the organisation to carefully consider further ways to make savings or prioritise the services and support it provides, especially given the significant reduction to the Social Fund's working capital balance.

Signed in accordance with a resolution of the Trustees:



Ivan B. Lang, Commissioner
Territorial Commander
TRUSTEE



John L. Jeffrey, Lieutenant-Colonel
Chief Secretary
TRUSTEE

Dated at Melbourne this 12th day of November 2004

**The Salvation Army Australia Southern Territory Social Fund
Statement of Financial Performance**

for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Revenue from rendering of services	2	208,732	195,069
Other revenues from ordinary activities	2	82,887	67,792
Red Shield Appeal donations	5	21,611	21,241
Total operating revenue		313,230	284,102
Capital revenue:			
Legacies		5,063	4,506
Government grants		118	365
Transfer (to)/from General Fund		–	(3,000)
Other revenue		2,100	1,597
Total capital revenue	1(l)	7,281	3,468
Total revenue		320,511	287,570
Employee expenses		(169,737)	(157,401)
Depreciation expenses	1(e)	(6,397)	(8,042)
Borrowing costs		(2,931)	(1,444)
Welfare/Jobseeker expenses		(27,537)	(18,729)
Building/Occupancy expenses		(40,894)	(41,209)
Motor Vehicle expenses		(7,657)	(3,615)
Contribution – General Fund	1(k)	(12,296)	(11,294)
Carrying amount of assets disposed		(12,353)	(2,527)
Amenities and supplies		(15,204)	(14,066)
Other expenses from ordinary activities		(32,371)	(28,149)
Total operating expenses		(327,377)	(286,476)
Operating surplus/(deficit) before allocations	14	(6,866)	1,094
Allocations	3	2,041	(1,784)
Net surplus/(deficit) after allocations		(4,825)	(690)

The statement of financial performance is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

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

as at 30 June 2004

	Note	2004 \$'000	2003 \$'000
Current Assets			
Cash	6	4,361	8,295
Receivables	7	10,511	11,291
Other financial assets	8	22,941	22,795
Inventories	9	1,697	1,890
Total Current Assets		39,510	44,271
Non-current Assets			
Property, plant and equipment	10	203,304	206,801
Other financial assets	8	129,871	125,827
Total Non-current Assets		333,175	332,628
Total Assets		372,685	376,899
Current Liabilities			
Interest-bearing liabilities	12	700	700
Payables	11	30,141	30,862
Provisions	13	13,414	12,484
Total Current Liabilities		44,255	44,046
Non-current Liabilities			
Interest-bearing liabilities	12	5,067	5,762
Provisions	13	2,349	2,986
Interest free loans – resident funded housing	17	68,716	65,138
Special purpose funds	18	1,493	1,293
Total Non-current Liabilities		77,625	75,179
Total Liabilities		121,880	119,225
Net Assets		250,805	257,674
Capital funds			
Working capital fund	14(a)	4,301	9,126
Property contributions fund	14(a)	166,845	160,843
Reserves	14(a)	56,177	62,158
Trusts and special purpose funds	14(a)	12,058	11,066
Legacies	14(a)	11,424	14,481
Total Capital Funds		250,805	257,674

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

**The Salvation Army Australia Southern Territory Social Fund
Statement of Cash Flows**

for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Cash Flows from Operating Activities			
Cash receipts in the course of operations		271,830	284,151
Cash payments in the course of operations		(288,789)	(297,968)
Net cash used in operating activities	21(ii)	(16,959)	(13,817)
Cash Flows from Investing Activities			
Investment revenue received		10,380	11,707
Proceeds from sale of investments		–	86,275
Payments for investments		(4,190)	(64,757)
Capital revenue received		7,281	3,468
Payments for property, plant and equipment		(15,256)	(21,772)
Proceeds from sale of property, plant and equipment		13,012	3,647
Net cash provided by investing activities		11,227	18,568
Cash Flows from Financing Activities			
Interest paid		(2,931)	(1,444)
Repayment of borrowings		(745)	(748)
Proceeds from residents' interest free loans and fixed deposits		17,965	12,647
Repayment of residents' interest free loans and fixed deposits		(12,491)	(10,364)
Net cash provided by financing activities		1,798	91
Net increase/(decrease) in cash held		(3,934)	4,842
Cash at the beginning of the financial year		8,295	3,453
Cash at the end of the financial year	21(i)	4,361	8,295

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 5 to 23.

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

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 service agreements.

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

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.

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

(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. For further details regarding the Officer Retirement Fund refer to Note 19(c).

	Note	2004 \$'000	2003 \$'000
2. REVENUE FROM ORDINARY ACTIVITIES			
Rendering of services revenue from operating activities:			
Government grants		107,753	102,982
Fee for service – government funding		67,028	59,699
Resident contributions and patient fees		33,951	32,388
		<u>208,732</u>	<u>195,069</u>
Other revenue:			
Trading revenue		52,103	48,892
Donations received – other than from the Red Shield Appeal		2,112	1,373
Investment revenue		10,381	9,710
Proceeds from sale of fixed assets		13,012	3,647
Other		5,279	4,170
		<u>82,887</u>	<u>67,792</u>
Total revenue from ordinary activities		<u>291,619</u>	<u>262,861</u>

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

	Note	2004 \$'000	2003 \$'000
3. ALLOCATIONS			
Allocations have been made to/(from) the following capital funds:			
Property contributions fund	14	(2,131)	(1,986)
Reserves	14	(3,978)	(47)
Trusts and special purpose funds	14	1,004	1,152
Legacies	14	3,064	2,665
		<u>(2,041)</u>	<u>1,784</u>
4. AUDITORS' REMUNERATION			
Audit services:			
Auditors of the Fund KPMG Australia		<u>538</u>	<u>489</u>
Other services:			
Auditors of the Fund KPMG Australia		<u>15</u>	<u>-</u>
5. RED SHIELD APPEAL DONATIONS			
Donations			
Victoria		12,804	13,069
South Australia		3,020	3,058
Western Australia		4,386	3,771
Tasmania		1,045	1,092
Northern Territory		356	251
		<u>21,611</u>	<u>21,241</u>
Less: Expenses		<u>(4,154)</u>	<u>(3,264)</u>
Net Revenue Available For Distribution		<u>17,457</u>	<u>17,977</u>
Distribution			
Social programme deficits:			
Employment, education and training		295	140
Children and young people at risk		1,080	1,171
Addictions and substance abuse		2,152	1,458
Aged care and disability support		767	904
Individual and family support		6,002	6,834
Homelessness and domestic violence		2,883	3,345
Chaplaincy		1,882	1,420
Administration and research		-	311
		<u>15,061</u>	<u>15,583</u>
Social services and community programmes total		<u>15,061</u>	<u>15,583</u>
Donor designated gifts for social services and community programmes		<u>2,396</u>	<u>2,394</u>
Total Distribution		<u>17,457</u>	<u>17,977</u>

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

	Note	2004 \$'000	2003 \$'000
6. CASH			
Cash on hand		62	38
Cash in transit		134	124
Cash at bank		4,165	8,133
		<u>4,361</u>	<u>8,295</u>
7. RECEIVABLES			
Current			
Prepayments		265	241
Sundry debtors		10,246	10,941
Amounts receivable from other Salvation Army entities		–	109
		<u>10,511</u>	<u>11,291</u>
8. OTHER FINANCIAL ASSETS			
Current			
Short term deposits		22,941	22,795
		<u>22,941</u>	<u>22,795</u>
Non-current			
Unlisted units in managed investment funds		129,871	120,048
Long term deposits		–	5,779
		<u>129,871</u>	<u>125,827</u>
The redemption value of unlisted units in managed investment funds as at 30 June 2004 was \$135,081,000 (2003: \$121,670,000).			
9. INVENTORIES			
Raw materials and stores		209	263
Work in progress		57	50
Finished goods		1,431	1,577
		<u>1,697</u>	<u>1,890</u>

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

	Note	2004 \$'000	2003 \$'000
10. PROPERTY, PLANT AND EQUIPMENT			
Freehold Land and Buildings			
Freehold land at cost		19,527	18,982
Buildings at cost		200,215	191,396
Accumulated depreciation		(42,825)	(39,514)
		<u>157,390</u>	<u>151,882</u>
Buildings at cost – Hayville Village		19,545	17,671
Accumulated depreciation		(4,351)	(3,976)
		<u>15,194</u>	<u>13,695</u>
Total Freehold Land and Buildings		<u>192,111</u>	<u>184,559</u>
Leasehold Property			
At cost		949	949
Accumulated depreciation		(380)	(222)
Total Leasehold Land and Buildings		<u>569</u>	<u>727</u>
Building Schemes in Progress – at cost		<u>5,811</u>	<u>6,613</u>
Motor Vehicles			
At cost		2,290	16,665
Accumulated depreciation		(1,100)	(7,151)
Total Motor Vehicles		<u>1,190</u>	<u>9,514</u>
Plant and Equipment			
At cost		5,809	7,606
Accumulated depreciation		(2,186)	(2,218)
Total Plant and Equipment		<u>3,623</u>	<u>5,388</u>
Total Property, Plant and Equipment Net Book Value		<u>203,304</u>	<u>206,801</u>

Social Fund freehold land and buildings of \$192,111,000 (2003: \$184,559,000) are funded through the Property Contributions Fund (excluding building schemes in progress funding) of \$161,306,000 as at 30 June 2004 (2003: \$154,450,000).

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

	Note	2004 \$'000	2003 \$'000
10. PROPERTY, PLANT AND EQUIPMENT (continued)			
The remaining balance is funded from the following sources:			
Bank loans	12	5,767	6,462
Unsecured loans	17	83	50
Resident funded loans (Hayville and Hollywood Villages)	17	15,304	16,048
		<u>21,154</u>	<u>22,560</u>
Social Fund freehold properties – unfunded		<u>9,651</u>	<u>7,549</u>
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:			
Freehold Land and Buildings			
Carrying amount at beginning of year		184,559	180,456
Additions		15,150	8,530
Disposals		(3,461)	(377)
Depreciation		(4,137)	(4,050)
Carrying amount at end of year		<u>192,111</u>	<u>184,559</u>
Leasehold Property			
Carrying amount at beginning of year		727	226
Additions		–	618
Depreciation		(158)	(117)
Carrying amount at end of year		<u>569</u>	<u>727</u>
Building Schemes in Progress – Cost			
Carrying amount at beginning of year		6,613	2,853
Additions		13,439	12,322
Transfers to Freehold Land and Buildings/Leasehold Property		(14,241)	(8,562)
Carrying amount at end of year		<u>5,811</u>	<u>6,613</u>
Motor Vehicles			
Carrying amount at beginning of year		9,514	6,957
Additions		60	5,148
Disposals		(8,021)	(159)
Depreciation		(363)	(2,432)
Carrying amount at end of year		<u>1,190</u>	<u>9,514</u>
Plant and Equipment			
Carrying amount at beginning of year		5,388	5,106
Additions		846	3,716
Disposals		(872)	(1,991)
Depreciation on Plant and Equipment		(1,739)	(1,443)
Carrying amount at end of year		<u>3,623</u>	<u>5,388</u>

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

	Note	2004 \$'000	2003 \$'000
11. PAYABLES			
Sundry creditors and accruals		25,625	27,168
Prepaid fee for service – government funding		3,033	3,694
Amounts payable to other Salvation Army entities		1,483	–
		<u>30,141</u>	<u>30,862</u>
12. INTEREST-BEARING LIABILITIES			
Current			
Bank loans – secured		<u>700</u>	<u>700</u>
Non-current			
Bank loans – secured		<u>5,067</u>	<u>5,762</u>
13. PROVISIONS			
Current			
Employee entitlements		<u>13,414</u>	<u>12,484</u>
Non-current			
Employee entitlements		<u>2,349</u>	<u>2,986</u>
14. CAPITAL FUNDS			
(a) Movements in Capital Funds			
Property Contributions Fund			
Opening Balance		160,843	154,529
Net Transfers		8,133	8,300
Allocations from/(to) working capital fund	3	<u>(2,131)</u>	<u>(1,986)</u>
Closing balance	14(b)	<u>166,845</u>	<u>160,843</u>
Reserves			
Opening Balance		62,158	65,721
Net Transfers		(2,003)	(3,516)
Allocations from working capital fund	3	<u>(3,978)</u>	<u>(47)</u>
Closing balance	14(c)	<u>56,177</u>	<u>62,158</u>
Trusts And Special Purpose Funds			
Opening Balance		11,066	10,037
Net Transfers		(12)	(123)
Allocations from working capital fund	3	<u>1,004</u>	<u>1,152</u>
Closing balance	14(d)	<u>12,058</u>	<u>11,066</u>

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

	Note	2004 \$'000	2003 \$'000
14. CAPITAL FUNDS (continued)			
(a) Movements in Capital Funds (continued)			
Legacies			
Opening Balance		14,481	16,476
Net Transfers		(6,121)	(4,660)
Allocations from working capital fund	3	3,064	2,665
Closing balance		11,424	14,481
Working Capital Fund			
Opening Balance		9,126	9,816
Operating surplus before allocations		(6,866)	1,094
Allocations (to) other capital funds	3	2,041	(1,784)
Closing balance		4,301	9,126
(b) Property Contributions Fund			
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.			
(c) Reserve Balances			
		2004 \$'000	2003 \$'000
Board Designated Funds			
Property development		11,105	13,996
Training		8,990	9,021
Social programme enhancement and development		4,511	2,835
Capital asset contribution		2,115	9,160
Planned maintenance		5,874	5,159
Asset replacement		8,383	2,348
Aged care reserves		(4,377)	2,004
Hayville management fund/reserve		2,852	3,487
Capital projects funding		1,215	2,965
Employment and training		12,808	10,227
Other		2,701	956
		56,177	62,158

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

14. CAPITAL FUNDS (continued)

(c) Reserve Balances (continued)

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 below.

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.

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/deficits generated by the aged care centres. It is territorial policy that only net surpluses generated by aged care centres be set aside for future capital redevelopment within aged care. Due to substantial operating deficits incurred over the past number of years within our aged care centres, this reserve is in deficit at the 30 June 2004.

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.

Capital Projects Funding

This balance represents funds set aside by the Territorial Finance Council to cover project costs for SAMIS (Salvation Army Management Information System).

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

14. CAPITAL FUNDS (continued)

(c) Reserve Balances (continued)

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

	2004 \$'000	2003 \$'000
Board Designated Funds		
Capital – Hollywood resident funded housing	1,871	1,653
Capital – Hayville resident funded housing	5,306	4,413
Restricted Funds		
Special purpose trusts	1,617	1,608
General deposits	1,491	2,262
Building deposits	1,457	1,105
Other	316	25
	<u>12,058</u>	<u>11,066</u>

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.

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.

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.

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

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

	2004 \$'000	2003 \$'000
Entry contributions/Accommodation Bonds – amortisable	4,232	4,009
Entry contributions/Accommodation Bonds – refundable	49,097	45,031
Resident funded housing loans	15,304	16,048
Other	83	50
	<u>68,716</u>	<u>65,138</u>

(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.

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

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.

	2004 \$'000	2003 \$'000
Cost to complete property schemes in progress	11,429	11,823
Property schemes approved but not commenced as at 30 June 2004	2,073	3,031
	<u>13,502</u>	<u>14,854</u>

(b) Operating Lease Commitments

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

	2004 \$'000	2003 \$'000
Not later than one year	12,407	13,591
Later than one year but not later than five years	16,077	28,574
Later than five years	602	1,284
	<u>29,086</u>	<u>43,449</u>

(c) Officer Retirement Fund

The Salvation Army contributes to the Officer Retirement Fund, which covers Salvation Army officers, who perform duties across various Funds operated by The Salvation Army.

Based upon an actuarial assessment performed at 30 June 2004, the Officer Retirement Fund has net assets at market value, including the present value of levies, of \$43,521,864, compared with the present value of liabilities, including future allowances, of \$55,923,048, leaving a deficit of \$12,401,184. The Social Fund does not have a legal obligation to fund its portion of this deficit.

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 2004 were:

Commissioner Ivan B. Lang	Commissioner Ross Kendrew
Lieutenant-Colonel John Staite	Lieutenant-Colonel John L. Jeffrey
Lieutenant-Colonel Ian Smith	Major Craig Campbell
Lieutenant-Colonel Ian Hamilton	Major John Vale
Mr David Perry	

Lieutenant-Colonel Ian Hamilton became a Trustee on 7 January 2004, in the place of Major Craig Campbell.

Commissioner Ivan Lang became a trustee on 1 March 2004, in the place of Commissioner Ross Kendrew.

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

20. RELATED PARTY DISCLOSURES (continued)

(b) Trustees (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 2004 a retiring officer also received benefits from The Salvation Army Officer Retirement Fund. Staff Trustees receive the use of a motor vehicle at no cost as part of their employment contract.

	2004 \$'000	2003 \$'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	227	164

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	2004 \$'000	2003 \$'000
Cash	6	4,361	8,295
		4,361	8,295

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

Total operating/capital surplus before allocations	(6,866)	1,094	
Add/(less) items classified as investing/financing activities:			
Interest paid	2,931	1,444	
Investment income received	(10,380)	(11,707)	
Capital revenue received	(7,281)	(3,468)	
Net profit from sale of property, plant and equipment	(659)	(1,120)	
Add/(less) non-cash items:			
Depreciation	6,397	8,042	
Amounts set aside to provisions	6,914	4,670	
Amortisation of entry contributions	(1,580)	(1,530)	
Amortisation of Hayville resident loans	(266)	(316)	
Net cash used in operating activities before change in assets and liabilities	(10,790)	(2,891)	
Change in assets and liabilities during the financial year:			
Decrease/(increase) in inventories	193	(555)	
Decrease/(increase) in receivables	780	16,807	
Decrease/(increase) in payables	(721)	(25,235)	
(Decrease)/increase in provisions	(6,621)	(2,230)	
(Decrease)/increase in other liabilities	200	287	
Net Cash used in Operating Activities		(16,959)	(13,817)

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

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

(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 \$5,767,000 resulting in an unutilised facility of \$4,233,000.

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 \$'000	Fixed Interest maturing in less than one year \$'000	Fixed Interest maturing in 1 to 5 years \$'000	Fixed Interest maturing in more than 5 years \$'000	Non Interest bearing (see note) \$'000	Total \$'000
2004						
Financial Assets						
Cash	4,361	–	–	–	–	4,361
Receivables	–	–	–	–	10,511	10,511
Other Financial Assets	–	22,941	–	–	129,871	152,812
Weighted Average Interest Rate	5.97%	5.40%				
Financial Liabilities						
Loans	5,767	–	–	–	–	5,767
Payables	–	–	–	–	30,141	30,141
Interest Free Loans – Resident Funded Housing	–	–	–	–	68,716	68,716
Special Purpose Funds	–	–	–	–	1,493	1,493
Weighted Average Interest Rate	5.62%					
2003						
Financial Assets						
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%			
Financial Liabilities						
Loans	6,462	–	–	–	–	6,462
Payables	–	–	–	–	30,862	30,862
Interest Free Loans – Resident Funded Housing	–	–	–	–	65,138	65,138
Special Purpose Funds	–	–	–	–	1,293	1,293
Weighted Average Interest Rate	6.50%					

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

The Salvation Army Australia Southern Territory Social Fund

Notes to the Financial Statements

22. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

(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 excluding managed investment funds (refer Note 8), are carried at amounts that approximate net market value. Included within non-current liabilities are interest free loans of \$68,716,000. 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.

23. EVENTS SUBSEQUENT TO REPORTING DATE

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Social Fund must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the organisation's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Social Fund has not quantified the effects of the differences outlined below. Accordingly, there can be no assurance that the Fund's financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the organisation's financial reports in the future. The potential impacts on these differences relative to the Social Fund's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the organisation are as follows:

- Surpluses and deficits within the Officer Retirement Fund sponsored by the Social and General Funds of The Salvation Army, will be recognised in the statement of financial position and the statement of financial performance.
- Most financial assets must be carried at fair value. Any financial asset or liability, including interest free loans may be remeasured at fair value with the changes recognised as a profit or loss in the income statement.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

23. EVENTS SUBSEQUENT TO REPORTING DATE (continued)

The Salvation Army has established a working party, headed by the Chief Financial Officer, to achieve transition to IFRS reporting. The organisation's implementation project consists of three phases as described below:

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS.
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes.
- evaluation of the implications for staff, for example training requirements.
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The Social Fund considers the assessment and planning phase to be complete in most respects as at the date of this report.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements.
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS.
- developing revised IFRS disclosures.
- designing accounting and business processes to support IFRS reporting obligations.
- identifying and planning required changes to financial reporting and business source systems.
- developing training programs for staff.

The Social Fund has commenced its design phase, with work progressing in each of the areas described above. The design phase is expected to be completed during the upcoming financial year.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff, as deemed appropriate and necessary. It will enable the company to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

Except for certain training that has been given to operational staff, the Social Fund has not yet commenced the implementation phase. However, the Trustees expect this phase to be substantially complete by 30 June 2005.

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 23 are drawn up so as to present fairly the financial position of the Social Fund as at 30 June 2004 and the results of its operations and its 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 2004; 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:



Ivan B. Lang, Commissioner
Territorial Commander
TRUSTEE



John L. Jeffrey, Lieutenant-Colonel
Chief Secretary
TRUSTEE

Dated at Melbourne this 12th day of November 2004

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 2004, consisting of the statement of financial performance, statement of financial position, statement of cash flows and accompanying notes set out on pages 2 to 23. 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 2004 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 12th day of November 2004

The Salvation Army Australia Southern Territory Social Fund

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The Salvation Army Australia Southern Territory