

# Financial Report

for the Year Ended 30 June 2005

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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## The Salvation Army Australia Southern Territory Social Fund Trustees' Report for the year ended 30 June 2005

The past year has included a number of developments and events that have had a significant impact on The Salvation Army Australia Southern Territory, in terms of both its operations during the year and its future. It has been a year with many challenges, as the organisation coped with the decision to divest much of its aged care services, and responded to the tragedy of the Tsunami disaster.

The Salvation Army remains committed to improving its services to the most marginalised people in Victoria, South Australia, Western Australia, Tasmania and the Northern Territory. Faced with the prospect of spending a very significant amount of money to upgrade the facilities, The Salvation Army decided in February 2004 to shift focus from providing mainstream aged care to the provision of residential aged care services for those who are most disadvantaged and marginalised. As a result, The Salvation Army announced in March 2005 that it had signed a procurement agreement with Retirement Care Australia (RCA) in relation to 14 of its 19 sites catering for aged care hostels and nursing homes, as well as retirement living units. Transfer of ownership of these centres took place on 1 July 2005. In addition, TriCare, a long-established aged care provider and retirement village operator acquired the Hayville retirement village in Box Hill, Melbourne on the same date.

The Salvation Army retains the following four remaining Aged Care centres – James Barker House (Victoria), Linsell Lodge (South Australia), Seaforth Gardens (Western Australia) and Barrington Lodge (Tasmania), and continues to provide Community Aged Care Packages and day care centres in some locations. In addition, The Salvation Army continues to provide Chaplaincy services to those aged care centres that have been divested. The net proceeds generated from the sale of the 15 aged care centres will contribute to maintaining and upgrading, where necessary, the four remaining aged care centres, delivering services to the aged who are economically marginalised and general services to the elderly.

The Red Shield Appeal raised net funds of \$19.6m, an increase of over \$2.2m on the previous year's appeal. This included \$1.5m raised for the Eyre Peninsula Bushfire Appeal. The Salvation Army incurred increased costs of over \$1m within the Appeal, due to the introduction of several initiatives designed to enhance its long-term ability to maintain income streams from its fundraising activities. These initiatives included the establishment of the Greater Melbourne and Gippsland Neighbourhood Office, and development of its corporate and mailing programs. It is expected that this 'investment' will reap rewards in future financial years. Once again, we are extremely grateful to those many supporters of our work through the Red Shield Appeal, particularly in a year in which the world was shaken by the tragic consequences of the Tsunami disaster in December 2004.

Funds provided through our Salvation Army Family Stores operations were \$2.5m below the 2003/04 contributions. This was, however, compensated by the very healthy return generated through our MLC investment portfolio for the year. In addition to the increased investment income recorded in the operating results, the Social Fund has an unrealised gain within its investment portfolio. Concerned with the deterioration in the working capital position of the Social Fund, and given the investment returns generated, the Trustees have deemed it appropriate to allocate part of these funds to improve the working capital position.

In the year ahead, The Salvation Army will be faced with continued pressures in maintaining and extending its level of services, at a time when costs for skilled labour and other resources are escalating, and demand for our services increases. Confronted with these challenges, the organisation will need to continue to look at maximising its return on financial resources, and in sourcing additional funding to support its ongoing mission.

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 18th day of October 2005

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

**for the year ended 30 June 2005**

	Note	2005 \$'000	2004 \$'000
Revenue from rendering of services	2	241,993	208,732
Other revenues from ordinary activities	2	84,171	82,887
Red Shield Appeal donations	5	24,904	21,611
<b>Total operating revenue</b>		<b>351,068</b>	<b>313,230</b>
Capital revenue:			
Legacies		5,312	5,063
Government grants		1,731	118
Other revenue		1,634	2,100
<b>Total capital revenue</b>	1(l)	<b>8,677</b>	<b>7,281</b>
<b>Total revenue</b>		<b>359,745</b>	<b>320,511</b>
Employee expenses		(187,534)	(169,737)
Depreciation expenses	1(e)	(5,884)	(6,397)
Borrowing costs		(899)	(2,931)
Welfare/Jobseeker expenses		(37,156)	(27,537)
Building/Occupancy expenses		(40,028)	(40,894)
Motor Vehicle expenses		(7,756)	(7,657)
Contribution – General Fund	1(k)	(12,489)	(12,296)
Carrying amount of assets disposed		(3,252)	(12,353)
Amenities and supplies		(15,986)	(15,204)
Other expenses from ordinary activities		(33,468)	(32,371)
<b>Total operating expenses</b>		<b>(344,452)</b>	<b>(327,377)</b>
Operating surplus/(deficit) before allocations	14	15,293	(6,866)
Allocations	3	(12,548)	2,041
<b>Net surplus/(deficit) after allocations</b>		<b>2,745</b>	<b>(4,825)</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 2005**

	Note	2005 \$'000	2004 \$'000
<b>Current Assets</b>			
Cash	6	5,439	4,361
Receivables	7	14,996	10,511
Other financial assets	8	36,066	22,941
Inventories	9	1,200	1,697
<b>Total Current Assets</b>		<b>57,701</b>	<b>39,510</b>
<b>Non-current Assets</b>			
Property, plant and equipment	10	210,288	203,304
Other financial assets	8	137,487	129,871
<b>Total Non-current Assets</b>		<b>347,775</b>	<b>333,175</b>
<b>Total Assets</b>		<b>405,476</b>	<b>372,685</b>
<b>Current Liabilities</b>			
Interest-bearing liabilities	12	700	700
Payables	11	41,984	30,141
Provisions	13	14,888	13,414
<b>Total Current Liabilities</b>		<b>57,572</b>	<b>44,255</b>
<b>Non-current Liabilities</b>			
Interest-bearing liabilities	12	4,373	5,067
Provisions	13	3,007	2,349
Interest free loans – resident funded housing	17	74,113	68,716
Special purpose funds	18	313	1,493
<b>Total Non-current Liabilities</b>		<b>81,806</b>	<b>77,625</b>
<b>Total Liabilities</b>		<b>139,378</b>	<b>121,880</b>
<b>Net Assets</b>		<b>266,098</b>	<b>250,805</b>
<b>Capital Funds</b>			
Working capital fund	14(a)	7,046	4,301
Property contributions fund	14(a)	171,553	166,845
Reserves	14(a)	59,761	56,177
Trusts and special purpose funds	14(a)	14,035	12,058
Legacies	14(a)	13,703	11,424
<b>Total Capital Funds</b>		<b>266,098</b>	<b>250,805</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 2005**

	Note	2005 \$'000	2004 \$'000
<b>Cash Flows from Operating Activities</b>			
Cash receipts in the course of operations		342,088	271,830
Cash payments in the course of operations		(340,901)	(288,789)
<b>Net cash used in operating activities</b>	21(ii)	<u>1,187</u>	<u>(16,959)</u>
<b>Cash Flows from Investing Activities</b>			
Investment revenue received		18,480	10,380
Payments for investments		(20,741)	(4,190)
Capital revenue received		8,677	7,281
Payments for property, plant and equipment		(16,120)	(15,256)
Proceeds from sale of property, plant and equipment		3,873	13,012
<b>Net cash used by investing activities</b>		<u>(5,831)</u>	<u>11,227</u>
<b>Cash Flows from Financing Activities</b>			
Interest paid		(899)	(2,931)
Repayment of borrowings		(777)	(745)
Proceeds from borrowings		100	-
Proceeds from residents' interest free loans and fixed deposits		21,858	17,965
Repayment of residents' interest free loans and fixed deposits		(14,560)	(12,491)
<b>Net cash provided by financing activities</b>		<u>5,722</u>	<u>1,798</u>
Net increase/(decrease) in cash held		1,078	(3,934)
Cash at the beginning of the financial year		4,361	8,295
<b>Cash at the end of the financial year</b>	21(i)	<u>5,439</u>	<u>4,361</u>

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.

# 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. The amount raised and corresponding fundraising expenses are reflected in the financial report in the same year as the appeal. In addition, the Territorial Public Relations department oversees our wills and bequests works, and overseas appeals, which in 2004/2005 included South East Asia Tsunami 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.

Inventory is assessed on a regular basis and slow moving/damaged items are provided for.

### (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.

### (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.

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

### (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	2005 \$'000	2004 \$'000
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>			
Revenue from rendering of services:			
Government grants		112,329	107,753
Fee for service – government funding		92,388	67,028
Resident contributions and patient fees		37,276	33,951
		<u>241,993</u>	<u>208,732</u>
Other revenue from ordinary activities:			
Trading revenue		54,896	52,103
Donations received – other than from the Red Shield Appeal		2,376	2,112
Investment revenue		18,480	10,381
Proceeds from sale of fixed assets		3,873	13,012
Other		4,546	5,279
		<u>84,171</u>	<u>82,887</u>
Total revenue from ordinary activities		<u>326,164</u>	<u>291,619</u>

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

	Note	2005 \$'000	2004 \$'000
<b>3. ALLOCATIONS</b>			
Allocations have been made to/(from) the following capital funds:			
Property contributions fund	14	(1,653)	(2,131)
Reserves	14	6,683	(3,978)
Trusts and special purpose funds	14	2,897	1,004
Legacies	14	4,621	3,064
		<u>12,548</u>	<u>(2,041)</u>
<b>4. AUDITORS' REMUNERATION</b>			
Audit services:			
Auditors of the Fund KPMG Australia		<u>534</u>	<u>538</u>
Other services:			
Auditors of the Fund KPMG Australia		<u>58</u>	<u>15</u>
<b>5. RED SHIELD APPEAL DONATIONS</b>			
<b>Donations</b>			
Victoria		13,981	12,804
South Australia (Includes Eyre Peninsula Bushfire Appeal)		4,627	3,020
Western Australia		4,400	4,386
Tasmania		1,535	1,045
Northern Territory		361	356
		<u>24,904</u>	<u>21,611</u>
Less: Expenses		<u>(5,279)</u>	<u>(4,154)</u>
<b>Net Revenue Available For Distribution</b>		<u>19,625</u>	<u>17,457</u>
<b>Distribution</b>			
Social programme deficits:			
Employment, education and training		134	295
Children and young people at risk		1,340	1,080
Addictions and substance abuse		3,058	2,152
Aged care and disability support		751	767
Individual and family support		4,142	6,002
Homelessness and domestic violence		3,928	2,883
Chaplaincy		2,153	1,882
		<u>15,506</u>	<u>15,061</u>
Social services and community programmes total		15,506	15,061
Donor designated gifts for social services and community programmes (Includes Eyre Peninsula Bushfire Appeal)		<u>4,119</u>	<u>2,396</u>
Total Distribution		<u>19,625</u>	<u>17,457</u>

The Salvation Army provides substantial additional funding to cover social programme deficits allocated to individual and family support, from other non Red Shield Appeal sources.

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

	Note	2005 \$'000	2004 \$'000
<b>6. CASH</b>			
Cash on hand		72	62
Cash in transit		178	134
Cash at bank		5,189	4,165
	21(i)	<u>5,439</u>	<u>4,361</u>
<b>7. RECEIVABLES</b>			
<b>Current</b>			
Prepayments		232	265
Sundry debtors		14,764	10,246
		<u>14,996</u>	<u>10,511</u>
<b>8. OTHER FINANCIAL ASSETS</b>			
<b>Current</b>			
Short term deposits		36,066	22,941
		<u>36,066</u>	<u>22,941</u>
<b>Non-current</b>			
Unlisted units in managed investment funds		137,487	129,871
		<u>137,487</u>	<u>129,871</u>
<p>The redemption value of unlisted units in managed investment funds as at 30 June 2005 was \$148,415,000 (2004: \$135,081,000).</p>			
<b>9. INVENTORIES</b>			
Raw materials and stores		310	209
Work in progress		82	57
Finished goods		1,108	1,431
Less provision for stock obsolescence		(300)	-
		<u>1,200</u>	<u>1,697</u>

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

	Note	2005 \$'000	2004 \$'000
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>			
<b>Freehold Land and Buildings</b>			
Freehold land at cost		21,189	19,527
Buildings at cost		209,944	200,215
Accumulated depreciation		(46,055)	(42,825)
		<u>163,889</u>	<u>157,390</u>
Buildings at cost – Hayville Village		21,532	19,545
Accumulated depreciation		(4,656)	(4,351)
		<u>16,876</u>	<u>15,194</u>
<b>Total Freehold Land and Buildings</b>		<u>201,954</u>	<u>192,111</u>
<b>Leasehold Property</b>			
At cost		775	949
Accumulated depreciation		(316)	(380)
Total Leasehold Land and Buildings		<u>459</u>	<u>569</u>
<b>Building Schemes in Progress – at cost</b>		<u>3,827</u>	<u>5,811</u>
<b>Motor Vehicles</b>			
At cost		2,730	2,290
Accumulated depreciation		(1,784)	(1,100)
Total Motor Vehicles		<u>946</u>	<u>1,190</u>
<b>Plant and Equipment</b>			
At cost		6,207	5,809
Accumulated depreciation		(3,105)	(2,186)
Total Plant and Equipment		<u>3,102</u>	<u>3,623</u>
<b>Total Property, Plant and Equipment Net Book Value</b>		<u>210,288</u>	<u>203,304</u>

Social Fund freehold land and buildings of \$201,954,000 (2004: \$192,111,000) are funded through the Property Contributions Fund (excluding building schemes in progress funding) of \$167,162,000 as at 30 June 2005 (2004: \$161,306,000).

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

	Note	2005 \$'000	2004 \$'000
<b>10. PROPERTY, PLANT AND EQUIPMENT (continued)</b>			
The remaining balance is funded from the following sources:			
Bank loans	12	5,073	5,767
Unsecured loans	17	100	83
Resident funded loans (Hayville and Hollywood Villages)	17	17,540	15,304
		<u>22,713</u>	<u>21,154</u>
Social Fund freehold properties – unfunded		<u>12,079</u>	<u>9,651</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		192,111	184,559
Additions		17,455	15,150
Disposals		(3,147)	(3,461)
Depreciation		(4,465)	(4,137)
Carrying amount at end of year		<u>201,954</u>	<u>192,111</u>
<b>Leasehold Property</b>			
Carrying amount at beginning of year		569	727
Additions		107	–
Disposals		(104)	–
Depreciation		(113)	(158)
Carrying amount at end of year		<u>459</u>	<u>569</u>
<b>Building Schemes in Progress – Cost</b>			
Carrying amount at beginning of year		5,811	6,613
Additions		13,591	13,439
Transfers to Freehold Land and Buildings/Leasehold Property		(15,575)	(14,241)
Carrying amount at end of year		<u>3,827</u>	<u>5,811</u>
<b>Motor Vehicles</b>			
Carrying amount at beginning of year		1,190	9,514
Additions		138	60
Disposals		–	(8,021)
Depreciation		(382)	(363)
Carrying amount at end of year		<u>946</u>	<u>1,190</u>
<b>Plant and Equipment</b>			
Carrying amount at beginning of year		3,623	5,388
Additions		404	846
Disposals		(1)	(872)
Depreciation		(924)	(1,739)
Carrying amount at end of year		<u>3,102</u>	<u>3,623</u>

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

	Note	2005 \$'000	2004 \$'000
<b>11. PAYABLES</b>			
Sundry creditors and accruals		34,279	25,625
Prepaid fee for service – government funding		4,679	3,033
Amounts payable to other Salvation Army entities		3,026	1,483
		<u>41,984</u>	<u>30,141</u>
<b>12. INTEREST-BEARING LIABILITIES</b>			
<b>Current</b>			
Bank loans – secured		<u>700</u>	<u>700</u>
<b>Non-current</b>			
Bank loans – secured		<u>4,373</u>	<u>5,067</u>
<b>13. PROVISIONS</b>			
<b>Current</b>			
Employee entitlements		<u>14,888</u>	<u>13,414</u>
<b>Non-current</b>			
Employee entitlements		<u>3,007</u>	<u>2,349</u>
<b>14. CAPITAL FUNDS</b>			
<b>(a) Movements in Capital Funds</b>			
<b>Property Contributions Fund</b>			
Opening Balance		166,845	160,843
Net Transfers		6,361	8,133
Allocations from/(to) working capital fund	3	<u>(1,653)</u>	<u>(2,131)</u>
Closing balance	14(b)	<u>171,553</u>	<u>166,845</u>
<b>Reserves</b>			
Opening Balance		56,177	62,158
Net Transfers		(3,099)	(2,003)
Allocations from/(to) working capital fund	3	<u>6,683</u>	<u>(3,978)</u>
Closing balance	14(c)	<u>59,761</u>	<u>56,177</u>
<b>Trusts and Special Purpose Funds</b>			
Opening Balance		12,058	11,066
Net Transfers		(920)	(12)
Allocations from working capital fund	3	<u>2,897</u>	<u>1,004</u>
Closing balance	14(d)	<u>14,035</u>	<u>12,058</u>

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

	Note	2005 \$'000	2004 \$'000
<b>14. CAPITAL FUNDS (continued)</b>			
<b>(a) Movements in Capital Funds (continued)</b>			
<b>Legacies</b>			
Opening Balance		11,424	14,481
Net Transfers		(2,342)	(6,121)
Allocations from working capital fund	3	4,621	3,064
Closing balance		13,703	11,424
<b>Working Capital Fund</b>			
Opening Balance		4,301	9,126
Operating surplus before allocations		15,293	(6,866)
Allocations from/(to) other capital funds	3	(12,548)	2,041
Closing balance		7,046	4,301
<b>(b) Property Contributions Fund</b>			
Under International Salvation Army accounting policies and procedures, all contributions, grants, donations and other revenue that 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>			
		2005 \$'000	2004 \$'000
<b>Board Designated Funds</b>			
Property development		10,364	11,105
Training		8,990	8,990
Social programme enhancement and development		5,369	4,511
Capital asset contribution		2,024	2,115
Planned maintenance		6,494	5,874
Asset replacement		8,563	8,383
Aged care reserves		(6,674)	(1,525)
Capital projects funding		2,023	1,215
Employment and training		20,381	12,808
Other		2,227	2,701
		59,761	56,177

# 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 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. 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 2005.

##### *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) incurred up to 30 June 2005, and included within non-current assets.

##### *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.

# The Salvation Army Australia Southern Territory Social Fund

## Notes to the Financial Statements

### 14. CAPITAL FUNDS (continued)

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

	2005 \$'000	2004 \$'000
<b>Board Designated Funds</b>		
Capital – Hollywood resident funded housing	2,106	1,871
Capital – Hayville resident funded housing	6,895	5,306
<b>Restricted Funds</b>		
Special purpose trusts	1,755	1,617
General deposits	2,296	1,491
Building deposits	749	1,457
Other	234	316
	<u>14,035</u>	<u>12,058</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 that 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 is 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 following Salvation Army organisations are endorsed by the Australian Taxation office as Income Tax Exempt Charities:

The Salvation Army Australia Southern Territory General Work Institution  
The Salvation Army Australia Southern Territory Social Work Institution  
The Salvation Army (Victoria) Property Trust  
The Salvation Army (Tasmania) Property Trust  
The Salvation Army (South Australia) Property Trust  
The Salvation Army (Western Australia) Property Trust  
The Salvation Army (Northern Territory) Property Trust

Donations of two dollars (\$2) or more given to the following funds attract income tax deductibility:

- (i) The Salvation Army Australia Southern Territory Social Work Institution
- (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

	2005 \$'000	2004 \$'000
Entry contributions/Accommodation Bonds – amortisable	4,238	4,232
Entry contributions/Accommodation Bonds – refundable	52,235	49,097
Resident funded housing loans	17,540	15,304
Other	100	83
	74,113	68,716

#### (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.

	2005 \$'000	2004 \$'000
Cost to complete property schemes in progress	19,564	11,429
Property schemes approved but not commenced		
As at 30 June 2005	653	2,073
	<u>20,217</u>	<u>13,502</u>

#### (b) Operating Lease Commitments

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

	2005 \$'000	2004 \$'000
Not later than one year	17,922	12,407
Later than one year but not later than five years	11,944	16,077
Later than five years	912	602
	<u>30,778</u>	<u>29,086</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, including the Social Fund.

The latest actuarial assessment was performed at 30 June 2004, which indicated that the Officer Retirement Fund had 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 undefined 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 2005 were:

Commissioner Ivan B. Lang	Lieutenant-Colonel John L. Jeffrey
Lieutenant-Colonel Ian Smith	Lieutenant-Colonel Ian Hamilton
Lieutenant-Colonel Brian Hood	Lieutenant-Colonel John Staite
Major John Vale	Mr David Perry

Lieutenant-Colonel Brian Hood became a Trustee on 1 November 2004, in the place of Lieutenant-Colonel John Staite.

# 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. Staff Trustees receive the use of a motor vehicle at no cost as part of their employment contract.

	2005 \$'000	2004 \$'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	169	227

### 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	2005 \$'000	2004 \$'000
Cash	6	5,439	4,361

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

Total operating/capital surplus before allocations	15,293	(6,866)
Add/(less) items classified as investing/financing activities:		
Interest paid	899	2,931
Investment income received	(18,480)	(10,380)
Capital revenue received	(8,677)	(7,281)
Net profit from sale of property, plant and equipment	(621)	(659)
Add/(less) non-cash items:		
Depreciation	5,884	6,397
Amounts set aside to provisions	10,201	6,914
Amortisation of entry contributions	(1,656)	(1,580)
Amortisation of Hayville resident loans	(262)	(266)
Net cash provided in operating activities before change in assets and liabilities	2,581	(10,790)
Change in assets and liabilities during the financial year:		
Decrease/(increase) in inventories	197	193
Decrease/(increase) in receivables	(4,485)	780
(Decrease)/increase in payables	11,843	(721)
(Decrease)/increase in provisions	(7,769)	(6,621)
(Decrease)/increase in other liabilities	(1,180)	200
<b>Net Cash provided in Operating Activities</b>	<b>1,187</b>	<b>(16,959)</b>

# 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 sheet date, facilities used were \$5,073,000 resulting in an unutilised facility of \$4,927,000.

### 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
<b>2005</b>						
<b>Financial Assets</b>						
Cash	5,439	–	–	–	–	5,439
Receivables	–	–	–	–	14,996	14,996
Other Financial Assets	–	36,066	–	–	137,487	173,553
Weighted Average Interest Rate	12.79%	5.45%				
<b>Financial Liabilities</b>						
Loans	5,073	–	–	–	–	5,073
Payables	–	–	–	–	41,984	41,984
Interest Free Loans – Resident Funded Housing	–	–	–	–	74,113	74,113
Employee Benefits	–	–	–	–	17,895	17,895
Special Purpose Funds	–	–	–	–	313	313
Weighted Average Interest Rate	5.62%					
<b>2004</b>						
<b>Financial Assets</b>						
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%				
<b>Financial Liabilities</b>						
Loans	5,767	–	–	–	–	5,767
Payables	–	–	–	–	30,141	30,141
Interest Free Loans – Resident Funded Housing	–	–	–	–	68,716	68,716
Employee Benefits	–	–	–	–	15,763	15,763
Special Purpose Funds	–	–	–	–	1,493	1,493
Weighted Average Interest Rate	5.62%					

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 \$74,113,000. 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

On 1 July 2005, The Salvation Army disposed of 15 aged care centres, for a net purchase consideration of \$31,134,973, after assumption by the purchasers of accommodation bond and resident-funded housing loan liabilities of \$73,195,380. The financial effects of the above transaction have not been recognised in the financial statements at 30 June 2005.

### 24. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, The Salvation Army must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) 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) applicable for reporting periods ended 30 June 2005.

The Salvation Army established a team to assess the key areas that may have been impacted by the transition to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when The Salvation Army prepares its first fully compliant financial report for the year ended 30 June 2006.

The impact of transition to AIFRS are based on AIFRS standards expected to be in place when preparing the first complete AIFRS financial report for the year ended 30 June 2006.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- Changes in financial reporting requirements that are relevant to The Salvation Army's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;
- Additional guidance on the application of AIFRS in a particular industry or to a particular transaction; or
- Changes to The Salvation Army's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations.

**24. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS  
(continued)**

In particular, The Salvation Army has analysed the following standards with regard to the potential impact on the accounts. These impacts are best estimates and subject to change.

- Financial Assets (AASB 139) – Unlisted units in managed investment funds will need to be recorded at fair value, rather than cost as is currently the case. These units are deemed to be ‘available-for-sale’ financial assets. Any unrealised gain/losses will be recorded directly to the ‘fair market reserve’ within capital funds.

At 1 July 2004, the fair value of unlisted units in managed investment funds was \$135,081,000, compared with cost of \$129,871,000. This would have resulted in a ‘fair market reserve’ of \$5,210,000 at 1 July 2004.

At 30 June 2005, the fair value of unlisted units in managed investment funds was \$148,415,000, compared with cost of \$137,487,000. This would have resulted in a ‘fair market reserve’ of \$10,928,000.

- Officer Retirement Fund (AASB 119) – 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, including the Social Fund.

The Officer Retirement Fund meets the definition of a post employment long-term benefit and therefore must be recognized in the Income and Expenditure and Balance Sheet of The Salvation Army, on transition to AIFRS.

The latest actuarial assessment was performed at 30 June 2004, which indicated that the Officer Retirement Fund had 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.

A full actuarial assessment will be performed for inclusion in the financial report for the year ended 30 June 2006, including a determination as to what portion should be borne by the Social Fund. This deficit to 30 June 2006 will be adjusted directly against working capital.

## 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 2005 and the results of its operations and its cash flows for the year then ended;
- (ii) The operations of the Social Fund have been carried out in accordance with its Trusts Deeds poll during the year ended 30 June 2005; 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 18th day of October 2005

## 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 2005, consisting of the statement of financial performance, statement of financial position, statement of cash flows and accompanying notes set out on pages 2 to 22. 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 2005 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 October 2005

# The Salvation Army Australia Southern Territory Social Fund

## Directory

### AUSTRALIA SOUTHERN TERRITORY

#### Territorial Headquarters

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##### *Northern Victoria*

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The Salvation Army Australia Southern Territory