



*The next morning he gave  
the innkeeper two silver  
coins and said, "Please  
take care of the man.  
If you spend more than  
this on him, I will pay you  
when I return."*

## Contents

Corporate Governance	1
Trustees' Report	7
Income Statement	8
Balance Sheet	9
Statement of Cash Flows	10
Statement of Changes in Capital Funds	11
Notes to the Financial Statements	12
Trustees' Declaration	32
Independent Audit Report	33

### The Salvation Army Australia Southern Territory

WILLIAM BOOTH – Founder  
SHAW CLIFTON – General  
JAMES M KNAGGS – Territorial Commander

International Headquarters  
101 Queen Victoria Street, London, EC4P 4EP

Australia Southern Territory Headquarters  
95–99 Railway Road, Blackburn 3130  
PO Box 479, Blackburn 3130  
Telephone (03) 8878 4500  
Fax (03) 8878 4603  
[www.salvationarmy.org.au](http://www.salvationarmy.org.au)

# The Salvation Army Australia Southern Territory Social Fund

## CORPORATE GOVERNANCE

The Salvation Army is cognisant of its corporate governance responsibilities, and endeavours to ensure sound principles of good governance are part of its organisational goals and objectives.

### The Salvation Army in Australia

The Salvation Army 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 exists in 113 countries around the world. The Salvation Army is raised up by God for the work of:

- Transforming lives
- Caring for people
- Making disciples
- Reforming society

This is manifested in the various expressions of Salvation Army work. The two key distinctions in Salvation Army operations are its General Work (this is The Salvation Army's church work) and its Social Work.

The Salvation Army has its international headquarters in London. At the head of the international Salvation Army is the General of The Salvation Army, who is elected at the High Council and is based in London.

The Salvation Army in Australia 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
- The Salvation Army (Northern Territory) Property Trust Ordinance 1976

The Territorial Commander acts as the representative of the General in The Salvation Army Australia Southern Territory. The Territorial Commander receives a Commission and acknowledges this by signing a bond under legal seal. This document is legally binding upon the parties concerned, and creates a legal relationship between the Territorial Commander and the General of The Salvation Army. From time to time, further particulars affecting that relationship may be set down in a power of attorney issued from the General to the Territorial Commander.

### The Salvation Army as Trustee

The Salvation Army acts as a trustee of the gifts, grants and contributions received from individuals and bodies (private and governmental). As a result, after meeting its legal obligations, its internal and international financial reports are prepared to meet the needs of donors, contributors, grantors and managements.

It is essential that The Salvation Army meets its obligations to each donor, etc, who specifies any particular use to which a gift is to be put, and it is a clearly stated principle that the Territorial Commander, on behalf of the General, has control of funds entrusted to him, and is authorised to expend them for the purpose for which they are obtained and no other. This standard of scrupulous stewardship is maintained through the structure of its accounting systems and records, and the manner of presentation of its accounts.

There are seven Trustees of the respective Property Trusts, who are required to ensure the use of the assets owned by the Trusts are properly released for the use of The Salvation Army. There is a meeting of Trustees who authorise these assets to be so used. The Territorial Finance Council and Territorial Property Council make the decisions of The Salvation Army in relation to finance and property matters.

# The Salvation Army Australia Southern Territory Social Fund

## CORPORATE GOVERNANCE

### Purposes of Council and Boards

The Finance Council and other boards, while not relieving the Territorial Commander or any other Salvation Army officer of personal responsibility for the success of the work of The Salvation Army, are established to:

- Give strength to decisions taken
- Guard against ill-considered action
- Provide information at first hand from people who are constantly in close personal touch with all aspects of the work; and
- Secure counsel and advice on all matters involving the expenditure of The Salvation Army's funds.

The membership of the various councils/boards is determined by the Territorial Commander or Chief Secretary, with certain memberships required to be endorsed by International Headquarters. Members are required to attend meetings regularly and to acquire a broad knowledge and understanding of The Salvation Army's operations and functions. They must be aware of, and conversant with, the statutory, regulatory and policy requirements affecting the operations of The Salvation Army.

### Territorial Finance Council

The Finance Council (TFC) is the territory's supreme policy- and decision-making body for the control and management of territorial financial and property resources. The TFC is responsible for approving:

- The territorial budget and any subsequent revisions
- Non-budgeted expenditures
- Capital spending
- The price at which property is bought and sold
- Grants to divisions and other centres
- Allowances of officers and employees
- Investment of funds
- Transfers to and from reserves and trust funds
- Furniture requisitions for leading officers
- Grants to officers
- Annual statements of accounts

The TFC also monitors the performance of the territorial budget, plans future financial strategy (including the raising of money), deals with serious matters arising out of audit reports, considers matters of a confidential nature, and supervises the work of expenditure boards. It meets on a weekly basis.

Membership of the TFC is currently 13 members, reviewed and approved annually by International Headquarters, one of whom must be the Financial Secretary. The Territorial Commander presides ex-officio. In the absence of the Territorial Commander, the Chief Secretary presides. No meeting can be held without one or the other present. Four members form a quorum.

The number of TFC meetings held during the year ended 30 June 2008 and the number of meetings attended by each member were:

Member	Number of Meetings Eligible to Attend	Number of Meetings Attended
Commissioner J M Knaggs	44	32
Commissioner C R Knaggs	44	31
Lieutenant-Colonel J L Jeffrey	20	15
Lieutenant-Colonel J A Jeffrey	20	12
Lieutenant-Colonel R A Finger	44	40
Lieutenant-Colonel A T Finger	24	22
Lieutenant-Colonel B H Hood	24	19
Lieutenant-Colonel E J Hood	24	20
Lieutenant-Colonel J L Knapp	20	18
Major J R Vale	44	38
Major F A Daniels	24	20
Major A K Daddow	20	19
Major N R Venables	18	10
Major G S Hart	18	15
Major C Bone	15	13
Major C I Faragher	2	-
Mr G F Stowe	44	39
Mr D S Perry	28	24
Mr D A Sinden	13	13

# The Salvation Army Australia Southern Territory Social Fund

## CORPORATE GOVERNANCE

### Territorial Policy Council

The Territorial Policy Council (TPC) is the policy-making body for the strategic and mission direction of The Salvation Army. The TPC tables its recommendations on policy matters to the TFC or other appropriate board for approval. It meets on a weekly basis.

Membership comprises the executive leadership of the territory, with the Territorial Commander presiding. In the absence of the Territorial Commander, the Chief Secretary presides. No meeting can be held without one or the other present.

### Territorial Property Council

The Property Council is the official body authorized to conduct property business, which meets each fortnight. It gives direction regarding property purchases, sales, construction, land acquisition, extensions, renovations, replacements, financing, etc and also recommends to the TFC any payment of accounts relating to property expenditure above the limit to which divisional/regional expenditure boards may approve.

The Council's authority must be obtained before alterations, renovations, purchase, sale or lease of property, or other expenditure may take place.

The Council is chaired by the Territorial Commander, and its membership comprises all seven Trustees of the Australia Southern Territory, and a further eight representatives from various territorial headquarters departments.

### General Management Council

The General Management Council (GMC) is responsible for monitoring, recommending and approving in a consistent and efficient manner all expenditure according to the approved budget in the following areas:

- Requisitions (including motor vehicles)
- Cash requirements for payment of accounts
- Officer health assistance scheme payments
- General business matters, including insurance claims

The chairperson of the GMC is the Secretary for Business Administration, and membership includes the Chief Financial Officer and eight other senior staff members from territorial headquarters. The GMC meets weekly, and all minutes of the GMC are tabled at the TFC for ratification.

Similar expenditure boards operate in each of the divisional headquarters within the territory, to monitor, recommend and approve all expenditure within the division in accordance with approved budgets, and within the authority levels prescribed and approved by the TPC.

### Melbourne Advisory Board

The role of the Melbourne Advisory Board is to advise and assist the Territorial Commander and the appointed Trustees in the administration of their responsibilities. Expertise and practical support is provided in four key areas:

- Strategic planning
- Business administration, including the raising of funds as well as the efficient administration of resources
- Programme development, including discernment of demographic trends and analysis of Federal and State Government policy
- Human resources management

The Melbourne Advisory Board operates under the leadership of an appointed Chairperson recruited from the business community. Membership includes a minimum of five Trustees, a minimum of seven community members in addition to the Chairperson, The Salvation Army Public Relations Secretary and The Salvation Army Victoria State Council Chairperson. Meetings are held no less than four times per calendar year.

### Territorial Audit Council

The Audit Council meets, on average, every two months and considers internal audit reports and associated responses to internal audit reports. The Council consists of Salvation Army Officers and senior staff appointed annually by the Chief Secretary. The chairman of the Council is always the Secretary for Business Administration. Three members constitute a quorum and no proxies are permitted.

# The Salvation Army Australia Southern Territory Social Fund

## CORPORATE GOVERNANCE

### Independent Advice

In order to assist the trustees and management of The Salvation Army to fulfil their responsibilities, a number of advisory committees to provide independent, professional advice in relation to various aspects of the operations and functions of The Salvation Army have been established.

The TFC, other councils and boards, management and senior staff, have access to appropriate external professional advice on legal, investment and taxation services. The Salvation Army engages various legal firms on a State basis, with several firms being used in Victoria based on the nature of legal advice being sought. An external funds manager has been engaged to provide investment management services. The Salvation Army engages an independent taxation consultant to provide specific advice on a range of taxation matters, including assistance in preparation of annual fringe benefit taxation returns. From time to time, The Salvation Army also receives advice and other services on a pro-bono basis from various firms and individuals.

### Audit Committee

The Audit Committee was established in April 2006. The Committee assists The Salvation Army executive in fulfilling its governance responsibilities, and is responsible for the oversight of:

- Financial performance and the financial reporting process including the annual financial statements
- The scope of work, performance and independence of internal audit
- Providing advice to management in relation to the engagement of the external auditor
- The scope of work, performance and independence of the external auditor
- The operation and implementation of the risk management framework
- Matters of accountability and internal control affecting the operations of The Salvation Army
- The effectiveness of management information systems and other systems of internal control
- The acceptability of and correct accounting treatment for and disclosure of significant transactions that are not part of The Salvation Army's normal course of business
- The sign off of accounting policies
- The Salvation Army's process for monitoring compliance with laws and regulations and its own Code of Conduct and Code of Financial Practice

In performing its duties, the Committee maintains effective working relationships with the TFC, territorial leadership, relevant heads of departments, and the internal and external auditors.

Membership of the Committee comprises four members recruited from outside The Salvation Army and the Secretary for Business Administration. The Territorial Commander and Chief Secretary are ex-officio members. The Chief Financial Officer attends meetings of the Committee, but is not a member of the Committee. The period of service will be three years with an option to extend for up to a further three years, at the discretion of the Territorial Commander. The chairperson is selected and appointed by the Territorial Commander. The Committee currently meets eight times during the year.

### Investment Committee

The Investment Committee provides independent and unbiased advice to the territorial leadership on matters relating to the management of investment assets for the territory. The Committee is comprised of the seven Trustees and two senior finance department staff members, plus two external advisors who are drawn from relevant professional and commercial sectors of the community, and are responsible for working closely with the Trustees and making recommendations to the Trustees on investment management. The Territorial Commander appoints one of the external advisors as chairperson of the Committee.

The Investment Committee's responsibilities include:

- Provision of independent and unbiased information
- Assistance in the development of investment policy and guidelines
- Monitoring compliance with investment policy and guidelines
- Assistance in the development of strategic asset allocation targets
- Assistance in the development of performance measurement standards
- Monitoring and evaluation of investment manager performance on an ongoing basis

The Committee currently meets on a quarterly basis during the year.

# The Salvation Army Australia Southern Territory Social Fund

## CORPORATE GOVERNANCE

### Human Resource and Risk Management

In recognising its legal responsibilities and other obligations, The Salvation Army places a high priority on human resources and risk management requirements in all aspects of its operations. Our values provide significant anchor points for our risk management programmes, particularly the values of human dignity and compassion.

Our programmes are consistent with the Australian/New Zealand Standard for Risk Management: AS/NZS 4360. We anticipate that The Salvation Army will be able to comply with the proposed new international standard when it is introduced. The Salvation Army has a Risk Management Policy and Procedure Manual encompassing Business Continuity Management, Occupational Health & Safety, and Workers Compensation. The Risk Management Manual details clearly the roles and responsibilities of leadership, managers and employees, and the requirements for contractors and visitors in relation to risk management.

Human Resources and Risk Management professionals are in place throughout the territory, and support divisions and departments in achieving good governance and compliance.

The Salvation Army risk management electronic system – ARK (Army Risk Knowhow) has been developed with relevant training programmes. ARK is to be piloted in November 2008 and implementation commenced throughout the territory in February 2009. Risk management programmes will be subject to audits, in order to ensure risk management compliance requirements are achieved. ARK will also include identification of 'at risk' areas in order to prioritise prevention strategies, the monitoring of compliance using a set of standard practices and requirements, the reporting of any exceptions and assessments of the effectiveness of the implementation of The Salvation Army policy and procedure.

### Policies and Codes of Conduct

The following is an overview of The Salvation Army's key policies and codes of conduct that apply to Salvation Army officers and employees throughout the Australia Southern Territory.

#### Orders and Regulations

Orders and regulations are documents published by the International Headquarters of The Salvation Army, which outline the principles and procedures specific to various types of activity undertaken in The Salvation Army. They apply to all Salvation Army officers throughout the world, irrespective of rank, appointment or territory.

These orders and regulations aim at the prevention of misunderstanding, and are intended to ensure that the decisions arrived at, and the work undertaken, are in harmony with the interests, principles and aims of The Salvation Army as a whole.

It was never envisaged that The Salvation Army would be governed solely by orders and regulations, for a living army engaged in resolute defence and aggressive warfare has sometimes to make expedient decisions on the spot related to the circumstances of the time. Nevertheless, in general, guidelines are necessary, which are based on Christian principles and the best methods discovered from experience. Every officer, cadet and candidate for officership may learn from these.

Even the subjects covered by the order and regulations will not deal with every possible contingency. Principles, however, are paramount, and serve as a proven guide in every situation which demands an officer's personal judgement.

#### Official Minutes

The Salvation Army publishes a variety of policies by way of its Official Minutes. These are statements of policy covering operational, financial, administrative and organisational issues affecting the organisation.

The international headquarters of The Salvation Army issues Official Minutes to all territories and commands throughout the world, on matters of policy and procedure supporting the mission and values of The Salvation Army.

The Salvation Army Australia Southern Territory issues its own Official Minutes, on the authority of the Chief Secretary, to address policy and procedural matters relating to a wide range of activities and situations that confront the territory. These policy statements are periodically reviewed and updated, to ensure that they remain relevant to the current needs of the territory, including its officers, employees and members.

#### Manual of Accounting Policies and Procedures

The international headquarters of The Salvation Army provides a manual of accounting policies and procedures for all its territories and commands throughout the world, which outlines its international accountancy policies and standards.

While the basic principles of accountancy are recognised in the various countries where The Salvation Army is at work, there is not the same uniformity in the acceptance of professional standards of accountancy practice between traditions, and

# The Salvation Army Australia Southern Territory Social Fund

## CORPORATE GOVERNANCE

between the blocks of countries that have accepted those various traditions. These disparities are particularly evident when considering the accounts of charitable bodies.

This manual does not supersede orders and regulations. It supplements them, drawing attention to references which have a bearing on various aspects of accounting policies and procedures, and giving guidance on the practical application of the various directives. It includes the introduction of a simplification of the layout of the balance sheets and the income and expenditure accounts, which is seen to be applicable to the circumstances of all territories, whatever their size and the variety of the expressions of service encompassed by them. Whilst recognising the individual professional standards that may apply in individual countries, it provides a framework for accounting within The Salvation Army that can be consistently applied across all territories and commands.

### **Code of Conduct**

The Code provides a basis for all employees to maintain a working environment that is productive, positive, enjoyable, safe and free from harassment and discrimination. It also assists managers to induct employees into the organisation and address any circumstances that may arise, which conflict with the required standards, mission and values of The Salvation Army.

The Code outlines standards of personal and professional conduct, which are in keeping with both organisational and community expectations of employees working for The Salvation Army. It provides guidelines for the appropriate behaviour of all employees, and is provided to employees as part of their induction process.

The Code is consistent with the mission and values of The Salvation Army, and will be periodically reviewed so that it continues to benefit employees and the organisation.

### **Human Resources Manual**

The Human Resources Manual provides information on the ways The Salvation Army enables and facilitates more effective people and organisation practices to support the Australia Southern Territory 's mission, values and strategic activities. It documents principles and policies and their rationale, which together with any external legislative requirements, provide the framework for managing our human resources in this large and diverse organisation. It also provides access to tools and forms to enable managers and other employees to action human resource management requirements.

## **Business Processes**

### **Planning and Control**

The Salvation Army produces annual plans and detailed budgets for its operations across the territory, which are approved by the TFC and monitored on a monthly basis. The Salvation Army maintains a three-year capital planning programme, which covers capital expenditure requirements and the provision of funds to meet those requirements.

### **Performance Monitoring**

The TFC and senior management monitor the performance of The Salvation Army on a monthly basis, measuring financial performance against budget. In particular social programme areas, such as aged care and Employment Plus, performance outcome is measured against specific indicators and benchmarks. The TFC is furnished with monthly financial summary reports that highlight, by exception, those areas requiring closer attention. The TFC is also provided with more detailed quarterly financial reports for its social and general work.

# The Salvation Army Australia Southern Territory Social Fund

## TRUSTEES' REPORT

FOR THE YEAR ENDED 30 JUNE 2008

Without doubt, the last financial year has been both exhilarating in relation to the operations of The Salvation Army Australia Southern Territory and concerning as far as the wider economy goes. Whilst many significant changes and developments have taken place in terms of new facilities and programmes, as with the rest of the community, we have been confronted with the realities of the world economic downturn, and have recognised the need to act with due diligence and determination to ensure that our resources are well managed and sustained in the future.

The new Linsell Lodge aged care facility in South Australia opened in May 2008, which now provides a modern, 90-bed hostel for the provision of aged care services in Adelaide. The next major aged care capital project to be commenced is the new James Barker House aged care facility in Footscray (due for completion in early 2010). Also, a proposal to build an extension of the Barrington aged care facility in Hobart is being considered, to accommodate a further 17 beds, and this is likely to commence in 2009.

Our territorial headquarters relocated from its previous location in Mont Albert to new leased premises in Blackburn, in Melbourne's eastern suburbs in March 2008. This was a significant step forward for The Salvation Army, as it provided a modern, environmentally friendly workplace for over 200 headquarters staff. Stage 2 of the development of this headquarters, which is expected to be completed in early 2009, will see the relocation of the remaining departments currently annexed in Box Hill, thereby bringing all of the territorial headquarters administration into one location.

Among other capital projects currently in progress, the Northside Mission Outreach centre in Corio is due for completion before the end of 2008. In addition, several other projects are currently in the pipeline, to be commenced during the next twelve months. The St Kilda Crisis Accommodation centre redevelopment in Upton Road, Windsor and the refurbishment of 69 Bourke Street, Melbourne, are two such projects that are being supported by major capital appeals. Other major projects to be commenced include the development of a new Kardinia Network site in Geelong to co-locate many of the Network's programmes; the redevelopment of the Graceville Women's Centre in Perth; and the redevelopment of the Ingle Farm corps and social programme site in Adelaide.

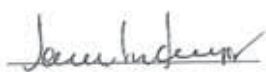
The Salvation Army is due to implement its new risk register system in October 2008, and will pilot this system in November 2008, followed by the rollout of the system across the territory commencing in February 2009. This will be a major step in the implementation of the territory's risk management strategy. The territory is also undertaking several other major information technology system projects, including a new real estate management system, care management and rostering systems for aged care, a document management system and a new human resources information system.

Having experienced the upside of four years of double-digit returns on investments through our MLC managed portfolio, the last financial year saw the impact of the global economic crisis on the value of those investments. Whilst achieving sound distributions from the portfolio in 2007/08, the loss in market value resulted in the significant diminishment of the reserve for unrealised gains in financial assets. The next twelve months will prove to be a challenging period for The Salvation Army, as it grapples with the ongoing turmoil in the financial markets, whilst looking to improve its operational results, and strengthen its asset base.

On a more positive note, the success of last year's Red Shield Appeal in the face of the economic downturn was gratifying. The \$34.1Mn raised was a record amount for the Australia Southern Territory. This has been achieved through the dedicated work of our public relations and fundraising staff, and the thousands of volunteers who assist The Salvation Army each year in its fundraising efforts. Once again, The Salvation Army will continue to invest funds in the development and enhancement of its various fundraising programmes and initiatives, to ensure that it can provide the necessary funding to maintain its extensive social programme services.

We take this opportunity to thank our staff and volunteers, and our many benefactors and supporters, for their continued loyalty and support of The Salvation Army, in the achievement of its mission and provision of its services to the wider community.

Signed in accordance with a resolution of the Trustees:



James M Knaggs, Commissioner  
Territorial Commander  
TRUSTEE



Gregory F Stowe  
Chief Financial Officer  
TRUSTEE

Dated at Melbourne this 28th day of October 2008

# The Salvation Army Australia Southern Territory Social Fund

## INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
Revenue from rendering of services	2	151,257	149,714
Other revenues from ordinary activities	2	80,739	70,833
Financing Income		18,852	24,038
Red Shield Appeal donations	5	34,133	33,378
<b>Total operating revenue</b>		<b>284,981</b>	<b>277,963</b>
Capital revenue:			
Legacies		6,525	3,905
Government grants		962	7,180
Other revenue		576	3,014
<b>Total capital revenue</b>		<b>8,063</b>	<b>14,099</b>
<b>Total revenue</b>		<b>293,044</b>	<b>292,062</b>
Employee expenses		(145,660)	(142,713)
Depreciation expenses		(4,448)	(3,733)
Computer expenses		(2,120)	(2,212)
Financing expenses		(242)	(456)
Impairment expense	1(i), 22	(3,665)	-
Welfare/Jobseeker expenses		(22,388)	(22,121)
Building/Occupancy expenses		(37,194)	(35,653)
Motor Vehicle expenses		(8,901)	(8,678)
Contribution – General Fund	1(f)	(17,465)	(16,631)
Rollover accommodation bond expenses	1(f)(i)	83	(959)
Amenities and supplies		(8,908)	(8,583)
Other expenses from ordinary activities		(20,124)	(26,082)
<b>Total operating expenses</b>		<b>(271,032)</b>	<b>(267,821)</b>
<b>Operating surplus before allocations</b>	15	<b>22,012</b>	<b>24,241</b>
Allocations	3	(22,665)	(20,357)
<b>Net surplus/(deficit) after allocations</b>		<b>(653)</b>	<b>3,884</b>

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 12 to 31

# The Salvation Army Australia Southern Territory Social Fund

## BALANCE SHEET

AS AT 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
<b>CURRENT ASSETS</b>			
Cash	6	6,279	3,229
Receivables	7	17,973	25,402
Other financial assets	8	33,720	26,890
Inventories	9	684	470
<b>TOTAL CURRENT ASSETS</b>		<b>58,656</b>	<b>55,991</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	7	27,905	23,424
Property, plant and equipment	10	162,126	133,837
Other financial assets	8	136,168	169,538
<b>TOTAL NON-CURRENT ASSETS</b>		<b>326,199</b>	<b>326,799</b>
<b>TOTAL ASSETS</b>		<b>384,855</b>	<b>382,790</b>
<b>CURRENT LIABILITIES</b>			
Payables	11	28,280	26,572
Interest-bearing liabilities	12	–	700
Employee benefits	13	13,391	12,556
Provisions	14	1,998	2,000
<b>TOTAL CURRENT LIABILITIES</b>		<b>43,669</b>	<b>41,828</b>
<b>NON-CURRENT LIABILITIES</b>			
Payables	11	19,427	18,918
Interest-bearing liabilities	12	–	2,981
Employee benefits	13	1,848	1,482
Provisions	14	6,059	8,000
Interest free loans	17	2,672	2,141
Special purpose funds	18	149	147
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>30,155</b>	<b>33,669</b>
<b>TOTAL LIABILITIES</b>		<b>73,824</b>	<b>75,497</b>
<b>NET ASSETS</b>		<b>311,031</b>	<b>307,293</b>
<b>CAPITAL FUNDS</b>			
Working capital fund	15(a)	3,796	4,449
Property contributions fund	15(a)	171,933	155,696
Reserves	15(a)	105,111	121,502
Trusts and special purpose funds	15(a)	8,542	7,745
Legacies	15(a)	21,649	17,901
<b>TOTAL CAPITAL FUNDS</b>		<b>311,031</b>	<b>307,293</b>

The balance sheet is to be read in conjunction with the notes to the financial statements set out on 12 to 31

# The Salvation Army Australia Southern Territory Social Fund

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts in the course of operations		259,325	249,638
Cash payments in the course of operations		(261,284)	(286,982)
<b>Net cash used in operating activities</b>	21(ii)	<b>(1,959)</b>	<b>(37,344)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment revenue received		24,016	20,064
Receipts from redemption of investments		11,430	19,786
Payments for investments		(6,831)	-
Capital revenue received		8,063	14,099
Payments for property, plant and equipment		(34,945)	(17,910)
Proceeds from sale of property, plant and equipment		6,575	2,240
<b>Net cash used by investing activities</b>		<b>8,308</b>	<b>38,279</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interest paid		(242)	(456)
Repayment of borrowings		(3,681)	(700)
Proceeds from borrowings		0	4
Proceeds from residents' interest free loans		1,118	798
Repayment of residents' interest free loans		(494)	(315)
<b>Net cash provided by financing activities</b>		<b>(3,299)</b>	<b>(669)</b>
Net increase/(decrease) in cash held		3,050	266
Cash at the beginning of the financial year		3,229	2,963
<b>Cash at the end of the financial year</b>	21(i)	<b>6,279</b>	<b>3,229</b>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 12 to 31

# The Salvation Army Australia Southern Territory Social Fund

## STATEMENT OF CHANGES IN CAPITAL FUNDS

FOR THE YEAR ENDED 30 JUNE 2008

	Working Capital Fund	Property Contrib'n Fund	Reserves	Trusts and Special Purpose Funds	Legacies	Total
At 1 July 2006	565	113,954	142,416	4,695	21,109	282,739
Operating Surplus before allocations	24,241	–	–	–	–	24,241
	24,806	113,954	142,416	4,695	21,109	306,980
Allocations to/(from) other capital funds	(20,357)	41,742	(21,227)	3,050	(3,208)	–
	4,449	155,696	121,189	7,745	17,901	306,980
Increase (decrease) in fair market reserve	–	–	313	–	–	313
At 30 June 2007	4,449	155,696	121,502	7,745	17,901	307,293
At 1 July 2007	4,449	155,696	121,502	7,745	17,901	307,293
Operating Surplus before allocations	22,012	22,012				
	26,461	155,696	121,502	7,745	17,901	329,305
Allocations to/(from) other capital funds	(22,665)	16,237	1,882	797	3,748	–
	3,796	171,933	123,384	8,542	21,649	329,305
Increase (decrease) in fair market reserve	(18,273)	(18,273)				
At 30 June 2008	3,796	171,933	105,111	8,542	21,649	311,031

The statement of changes in capital funds is to be read in conjunction with the notes to the financial statements set out on pages 12 to 31.

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Statement of Significant Accounting Policies

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.

The Social Fund aggregates the results of all social centres, Salvos Stores and a 50% share of the Employment Plus Programme.

The financial report was authorised for issue by the trustees on 28 October 2008.

#### (a) Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB'). International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP.

#### (b) Basis of preparation

The financial report is presented in Australian dollars.

#### New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those that may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report.

Revised AASB 101 Presentation of Financial Statements introduces a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Social Fund's 30 June 2010 financial statements. The Social Fund has not yet determined the potential effect of the revised standard on the Fund's disclosures.

#### (c) 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.

#### (d) Property, plant and equipment

##### (i) Owned assets

Items of property, plant and equipment are stated at cost, or if donated, at appraised value at date of gift, less accumulated depreciation (note (d)(ii)) and impairment losses. Capital gifts are shown as revenue and an allocation is made to the property contributions fund.

Property that is being constructed for future use is classified as 'building schemes in progress' and stated at cost until construction is complete, at which time it is reclassified as 'freehold buildings' or 'leasehold property'.

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 Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### (ii) Depreciation

With the exception of freehold land, depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation commences from the date of acquisition or, in respect of constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives in the current and comparative periods are as follows:

- Buildings 50 years
- Plant and Equipment (excluding motor vehicles) 3 years
- Motor Vehicles / Trucks 5 years
- Leasehold Improvements Term of the lease

The residual value, the useful life and the depreciation method applied to an asset are reassessed annually.

### (iii) Capital Contribution Property Reserve

Under International Salvation Army accounting policies and procedures, funds that have been utilised to finance the acquisition of freehold properties must be transferred to the capital contribution – property reserve. These contributions are transferred to meet building depreciation costs, thus relieving the impact on the working capital fund.

### (e) Investments

The Salvation Army classified its investments in the following categories: financial assets at fair value through profit and loss, receivables, held-to-maturity and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, 're-evaluates' this designation at each reporting date.

#### (i) Financial assets at fair value

Financial assets at fair value through profit and loss are the investments held by managed portfolio, which are acquired principally for the purpose of selling in the short term with the intention of making a positive return.

#### (ii) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the organisation provides goods or services directly to a debtor with no intention of selling the receivables. They are included in current assets, except for those with settlements greater than 12 months after the balance sheet date, which are classified as non-current assets. Receivables are included in receivables in the balance sheet (note 7).

#### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the organisation's management has the positive intention and ability to hold to maturity. These investments normally have a maturity of more than three months but less than 12 months from the date of acquisition.

#### (iv) Available-for-sale financial assets

Available-for-sale financial assets comprise principally the managed investment portfolio. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Receivables are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise. Gains or losses arising from changes in the fair value of the "available-for-sale" investments are recognised in equity.

When investments classified as available-for-sale from the long term managed investment portfolio are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment portfolio.

The Salvation Army assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of investment portfolio classified as available-for-sale, a significant or prolonged decline in the fair value of an investment portfolio below its cost is considered in determining whether the investment is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

The fair value of available for sale assets is determined by reference to the redemption price at the reporting date.

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### (f) Accommodation Bond

#### (i) Rollovers

Prior to 1 August 2002, the practice of the Social Fund was to 'rollover' an independent living unit (ILU) resident's ingoing contribution when that resident moved from an ILU into low care/hostel accommodation on the same site. As part of the sale of various aged care centres on 1 July 2005, the Social Fund retained responsibility, under certain conditions, to fund part/all of any future accommodation bonds charged to ILU residents who had resided at such centres prior to 1 August 2002, when they moved into low care/hostel accommodation on the same site. The majority of any funds released under this 'rollover' policy will be repaid to the Social Fund when the residents vacate the aged care centre.

An assessment was made at balance date by the Social Fund as to the present value of estimated future payments under this rollover policy, and estimated receivables representing funds to be returned to the Social Fund, when the residents vacate the aged care centre, with any adjustment recorded through the Income Statement.

#### (ii) Refundable/Amortisable Accommodation Bonds

Many residents of aged care centres pay a refundable and amortisable accommodation bond to The Salvation Army. The refundable portion is in the form of an interest free loan repayable in full, whilst the amortisable amount is recognised as revenue and then transferred from accumulated surplus to reserves and held for aged care centre capital projects.

The return of accommodation bond is solely dependent upon the resident. The Salvation Army does not have an unconditional right to defer settlement of the liability and therefore it has been accounted for as a current liability.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. No allocation of overheads has been included in the valuation.

Stocks of foodstuffs and consumable stores held at various social centres are expensed.

Inventory is assessed on a regular basis, and slow moving or damaged items are provided for within a provision for stock obsolescence.

### (h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and cash in transit balances.

### (i) Impairment

The carrying amounts of the Social Fund's assets, other than inventories (see accounting policy 1(g)) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

#### Calculation of recoverable amount

The recoverable amount of the Social Fund's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred.

### (j) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are assessed by comparing costs with the amortised cost. The Social Fund does not believe there is a material difference between these two values, so interest-bearing borrowings have been recorded at cost at balance sheet date.

### (k) Employee benefits

#### (i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

#### (ii) Wages, salaries, annual leave and non-monetary benefits

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

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### (iii) Long-term service benefits

The Social Fund's net obligation in respect of long-term service benefits, other than the Officer Retirement Fund, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

### (l) Other payables

Payables are stated at cost, being non-interest bearing, and are normally settled within 30 days.

### (m) Revenues

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. The Territorial Finance Council in accordance with the expressed terms of the Testator approves all allocations of bequests.

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

Any profit on the sale of a non-current asset is recorded as revenue when control of the asset passes to the buyer. The profit is calculated as the difference between the carrying amount of the asset, and net proceeds received from the buyer.

### (n) Expenses

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Borrowing costs are expensed as incurred and included in financing expenses.

### (o) Provisions

A provision is recognised in the balance sheet when the Social Fund has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (p) Goods and services tax

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 balance sheet.

Cash flows are included in the statement of cash flows on a net 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.

### (q) Accounting estimates and judgements

Management discussed with the Territorial Finance Council and the Audit Committee the development, selection and disclosure of the Social Fund's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Key sources of estimation uncertainty

Notes 1(o) and 23 contain information about the provision for compensation claims.

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### **(r) 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.

### **(s) Capital Revenue available for allocation**

The Salvation Army Australia Southern Territory has adopted a policy of separately disclosing revenue received 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.

### **(t) Employment Plus**

The Salvation Army Australia Southern Territory in conjunction with The Salvation Army Australia Eastern Territory has been jointly involved in the management of the national Salvation Army Employment Plus programme since 1 May 1998. This project commenced when The Salvation Army in Australia won a tender from the Federal Government to provide employment services to long term unemployed persons. This project is considered to be part of the overall aims of The Salvation Army and is not considered separate from these aims in any way. This programme is not considered to be a stand-alone operation. It is consistent with the aims of The Salvation Army to assist the long term unemployed. The proportionate interests in the assets, liabilities, income and expenses of the Employment Plus joint programme activity have been incorporated in the financial statements.

### **(u) Leases**

The Salvation Army leases some shops and office facilities. The provisions of these leases are such that substantially all the risks and benefits of ownership of the property are retained by the lessors and accordingly, in the financial statements, they are classified as operating leases.

Payments made under operating leases are expensed on a straight-line basis over the term of the lease. Refer note 19 for details of non-cancellable operating lease commitments.

### **(v) Comparatives**

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

### **(w) Rounding**

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

### **(x) Change of Accounting Policy**

'Available-for-sale' financial assets have been managed by MLC Implemented Consulting (MLC) since October 2002, and have previously been treated as one investment in the financial statements. Therefore, realised gains/(losses) have previously only been recognised when funds have been withdrawn from MLC.

The Salvation Army has now opted to treat these 'available-for-sale' assets as six holdings, on the basis that they hold units in six different MLC trusts. Rebalancing occurs when MLC reallocates units between the different trusts, based upon defined criteria, to maintain the agreed allocation between equity and debt investment products. The Salvation Army has opted to change its accounting policy for rebalancing, such that it will reflect a realised gain or loss upon disposal of units in those trusts when a rebalancing occurs. The net gain or loss in each financial reporting period will be transferred to the investment fluctuation reserve.

This change in accounting policy has resulted in a realised gain reflected in the accounts of the Social Fund from rebalancing for the year ended 30 June 2008 of \$1,410,850, and a realised gain of \$1,956,684 for the year ended 30 June 2007. In addition, the effects of rebalancing for the years 2002-2006 have resulted in a debit to the fair market reserve, and a corresponding credit to the investment fluctuation reserve, of \$6,823,996.

**The Salvation Army Australia** Southern Territory Social Fund  
**NOTES TO THE FINANCIAL STATEMENTS**

	Note	2008 \$'000	2007 \$'000
<b>2. Revenue from Ordinary Activities</b>			
Revenue from rendering of services:			
Government grants		86,612	83,675
Fee for service – Government Funding		55,879	56,675
Resident contributions and patient fees		8,766	9,364
		<b>151,257</b>	<b>149,714</b>
Other revenue from ordinary activities:			
Trading revenue		66,352	60,390
Donations received – other than from the Red Shield Appeal		2,950	3,550
Profit on sale of property, plant and equipment		4,367	951
Other		7,070	5,942
		<b>80,739</b>	<b>70,833</b>
Total revenue from ordinary activities		<b>231,996</b>	<b>220,547</b>

**3. Allocations**

Allocations have been made to/(from) the following capital funds, excluding working capital:

Property contributions fund	15(a)	(2,664)	2,589
Reserves	15(a)	17,306	12,028
Trusts and special purpose funds	15(a)	1,964	3,582
Legacies	15(a)	6,056	2,158
		<b>22,665</b>	<b>20,357</b>

**4. Auditors' Remuneration**

**Audit services:**

Auditors of the Trust

*KPMG Australia*

Audit of the Social Fund

435

419

**Other services:**

Auditors of the Trust

*KPMG Australia*

Audit

–

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# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

	2008 \$'000	2007 \$'000
<b>5. Red Shield Appeal Donations</b>		
<b>Donations</b>		
Victoria	20,508	21,682
South Australia	4,205	3,749
Western Australia	7,077	5,919
Tasmania	1,990	1,668
Northern Territory	353	360
	<b>34,133</b>	<b>33,378</b>
Less: Expenses	(7,118)	(6,670)
Net Revenue Available For Distribution	<b>27,015</b>	<b>26,708</b>
<b>Distribution</b>		
Social programme deficits:		
Employment, education and training	420	419
Children and young people at risk	1,808	1,675
Addictions and substance abuse	3,055	2,466
Aged care and disability support	255	40
Individual and family support	9,459	7,225
Homelessness and domestic violence	4,099	4,005
Chaplaincy	2,847	2,705
<b>Social services and community programmes total</b>	<b>21,943</b>	<b>18,535</b>
Capital Appeal	887	267
Emergency Appeals (including drought relief) <sup>a</sup>	282	2,610
One-off special donation <sup>b</sup>	500	2,658
Donor designated gifts for social services and community programmes	3,403	2,638
<b>Total Distribution</b>	<b>27,015</b>	<b>26,708</b>

The Salvation Army provided additional funds towards individual and family support services from non Red Shield funds.

<sup>a</sup> The Salvation Army launched a drought relief appeal during 2006/07. These relief efforts will continue beyond 30 June 2008 so the unexpended portion of funds donated for this purpose are recorded within special purpose funds and trusts at 30 June 2008.

<sup>b</sup> The Salvation Army received a significant one-off donation during 2007/8. The trustees decided that these funds would be set aside for specific purposes as they determine, and the unutilised balance of this one-off donation is recorded within reserves at 30 June 2008.

	2008 \$'000	2007 \$'000
	Note	
<b>6. Cash</b>		
Cash on hand	140	85
Cash in transit	193	639
Cash at bank	5,946	2,505
	<b>21(i)</b>	<b>3,229</b>

**The Salvation Army Australia** Southern Territory Social Fund  
**NOTES TO THE FINANCIAL STATEMENTS**

	2008 \$'000	2007 \$'000
<b>7. Receivables</b>		
<b>Current</b>		
Prepayments	1,012	2,565
Sundry debtors	16,961	22,837
	17,973	25,402
<b>Non-current</b>		
Deferred Consideration	3,432	2,860
Accommodation Bond Rollovers	24,473	20,564
	27,905	23,424
<b>8. Other Financial Assets</b>		
<b>Current</b>		
Short term deposits	33,720	26,890
<b>Non-current</b>		
Unlisted units in managed investment funds	136,168	169,538
	169,888	196,428
<b>9. Inventories</b>		
Raw materials and stores	228	126
Work in progress	19	25
Finished goods	497	380
Less provision for stock obsolescence	(60)	(61)
	684	470
<b>10. Property, Plant and Equipment</b>		
<b>Freehold Land and Buildings</b>		
Freehold land at cost	25,650	22,266
Buildings at cost	135,302	129,212
Accumulated depreciation	(30,613)	(28,866)
	104,689	100,346
<b>Total Freehold Land and Buildings</b>	<b>130,339</b>	<b>122,612</b>
<b>Leasehold Property</b>		
At cost	8,665	2,025
Accumulated depreciation	(1,019)	(571)
<b>Total Leasehold Land and Buildings</b>	<b>7,646</b>	<b>1,454</b>
<b>Building Schemes in Progress – at cost</b>	<b>16,779</b>	<b>7,066</b>

**The Salvation Army Australia** Southern Territory Social Fund  
**NOTES TO THE FINANCIAL STATEMENTS**

	2008	2007
	\$'000	\$'000

**10. Property, Plant and Equipment** *(continued)*

**Motor Vehicles**

At cost	3,418	2,821
Accumulated depreciation	(2,487)	(2,202)
<b>Total Motor Vehicles</b>	<b>931</b>	<b>619</b>

**Plant and Equipment**

At cost	8,799	3,621
Accumulated depreciation	(2,368)	(1,535)
<b>Total Plant and Equipment</b>	<b>6,431</b>	<b>2,086</b>
<b>Total Property, Plant and Equipment Net Book Value</b>	<b>162,126</b>	<b>133,837</b>

Social Fund land and buildings of \$137,985,000 (2007: \$124,066,000) are funded through the Property Contributions Fund (excluding building schemes in progress funding) of \$137,507,000 as at 30 June 2008 (2007: \$123,735,000). The remaining balance is funded from the following sources:

	Note	2008	2007
		\$'000	\$'000
Unsecured loans	17	95	162
Social Fund freehold properties – unfunded		383	169

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	2008	2007
	\$'000	\$'000

**Freehold Land and Buildings**

Carrying amount at beginning of year	122,612	115,869
Additions (including transfers)	12,525	10,502
Disposals	(2,168)	(1,193)
Depreciation	(2,630)	(2,566)
<b>Carrying amount at end of year</b>	<b>130,339</b>	<b>122,612</b>

**Leasehold Property**

Carrying amount at beginning of year	1,454	895
Additions (including transfers)	6,640	726
Depreciation	(448)	(167)
<b>Carrying amount at end of year</b>	<b>7,646</b>	<b>1,454</b>

**Building Schemes in Progress – Cost**

Carrying amount at beginning of year	7,066	2,358
Additions	30,346	15,311
Transfers to Freehold Land and Buildings/Leasehold Property	(20,633)	(10,603)
<b>Carrying amount at end of year</b>	<b>16,779</b>	<b>7,066</b>

**The Salvation Army Australia** Southern Territory Social Fund  
**NOTES TO THE FINANCIAL STATEMENTS**

	Note	2008 \$'000	2007 \$'000
<b>10. Property, Plant and Equipment</b> <i>(continued)</i>			
<b>Motor Vehicles</b>			
Carrying amount at beginning of year		619	741
Additions		641	324
Disposals		–	–
Depreciation		(329)	(446)
Carrying amount at end of year		931	619
<b>Plant and Equipment</b>			
Carrying amount at beginning of year		2,086	1,085
Additions		5,426	1,650
Disposals		(40)	(95)
Depreciation		(1,041)	(554)
Carrying amount at end of year		6,431	2,086
<b>11. Payables</b>			
<b>Current</b>			
Sundry creditors and accruals		18,672	15,496
Prepaid fee for service – government funding		6,360	7,667
Accommodation bond rollovers	1(f)	3,248	3,409
		28,280	26,572
<b>Non-current</b>			
Accommodation bond rollovers	1(f)	19,427	18,918
<b>12. Interest-bearing Liabilities</b>			
<b>Current</b>			
Bank loans – secured		–	700
<b>Non-current</b>			
Bank loans – secured		–	2,981
<b>13. Employee Benefits</b>			
<b>Current</b>			
Employee entitlements		13,391	12,556
<b>Non-current</b>			
Employee entitlements		1,848	1,482

**The Salvation Army Australia** Southern Territory Social Fund  
**NOTES TO THE FINANCIAL STATEMENTS**

	Note	2008 \$'000	2007 \$'000
<b>14. Provisions</b>			
<b>Current</b>			
Compensation claims		1,998	2,000
<b>Non-current</b>			
Compensation claims		6,059	8,000
<b>15. Capital Funds</b>			
<b>(a) Movements in Capital Funds</b>			
<b>Property Contributions Fund</b>			
Opening Balance		155,696	113,954
Net Transfers		18,901	39,153
Allocations from/(to) working capital fund	3	(2,664)	2,589
Closing balance		171,933	155,696
<b>Reserves</b>			
Opening Balance		121,502	142,416
Net Transfers		(15,424)	(33,255)
Increase/(decrease) in Fair Market Reserve – financial assets		(18,273)	313
Allocations from/(to) working capital fund	3	17,306	12,028
Closing balance	15(c)	105,111	121,502
<b>Trusts and Special Purpose Funds</b>			
Opening Balance		7,745	4,695
Net Transfers		(1,167)	(532)
Allocations from working capital fund	3	1,964	3,582
Closing balance	15(d)	8,542	7,745
<b>Legacies</b>			
Opening Balance		17,901	21,109
Net Transfers		(2,308)	(5,366)
Allocations from working capital fund	3	6,056	2,158
Closing balance		21,649	17,901
<b>Working Capital Fund</b>			
Opening Balance		4,449	565
Operating surplus before allocations		22,012	24,241
Allocations from/(to) other capital funds	3	(22,665)	(20,357)
Closing balance		3,796	4,449

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Capital Funds *(continued)*

#### (b) Property Contributions Fund

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 'fund' the depreciation on these properties, thus relieving the working capital fund of this charge.

#### (c) Reserve Balances

##### Board Designated Funds

	2008 \$'000	2007 \$'000
Property development	8,867	7,226
Training	8,910	8,963
Social programme enhancement and development	18,130	11,626
Capital asset contribution	4,400	1,983
Planned maintenance	5,859	5,707
Asset replacement	7,014	7,174
Aged care reserves	27,951	41,059
Capital projects funding	4,604	1,717
Employment and training	12,964	14,175
Fair Market Investment Reserve	(7,476)	10,797
Investment Fluctuation Reserve	11,546	8,781
Other	2,342	2,294
	<b>105,111</b>	<b>121,502</b>

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, as well as unused quota funding available at the reporting date by division for future social programme development, within their social centres.

##### 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.

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Capital Funds *(continued)*

#### 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

This balance includes funds set aside for warranty issues resulting from the sale of 15 aged care centres on 1 July 2005, forthcoming major property developments at aged care centres retained by The Salvation Army; and a perpetual reserve, from which its interest will be used to assist with funding the ongoing operational costs within our remaining aged care centres.

#### Capital Projects Funding

This balance represents funds set aside by the Territorial Finance Council to cover various project costs 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.

#### Fair Market Investment Reserve

This balance represents the unrealised gain or loss on unlisted units held in managed investment funds as at 30 June 2008. (see Note 1(e))

#### Investment Fluctuation Reserve

This balance represents realised gains on unlisted units held in managed investment funds, set aside to offset any unrealised losses that may eventuate upon future disposals of such units (refer Note 1(x)). It also includes funds set aside to offset losses realised after 30 June 2008, upon disposal of some units within the portfolio (refer Note 22 – impairment losses).

#### Other

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

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

	2008	2007
	\$'000	\$'000
Restricted Funds		
Special purpose trusts	2,116	1,969
Emergency Appeals	1,316	2,247
General deposits	3,988	2,550
Building deposits	1,122	979
	8,542	7,745

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.

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Capital Funds *(continued)*

#### 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.

#### Emergency Appeals

The Salvation Army has received funds from donors for specific emergency appeals, mainly for drought relief. These relief efforts will continue well beyond 30 June 2008 so this balance represents the unexpended portion of funds donated for this purpose.

#### 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.

### 16. 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

### 17. Interest Free Loans

	2008 \$'000	2007 \$'000
Entry contributions/Accommodation Bonds – amortisable	232	203
Entry contributions/Accommodation Bonds – refundable	2,345	1,776
Other	95	162
	<b>2,672</b>	<b>2,141</b>

#### (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.

### 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 portions 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 exact financial commitment required of Territorial Headquarters for these projects. However, the maximum values are:

	2008 \$'000	2007 \$'000
Cost to complete property schemes in progress	30,227	43,531
Property schemes approved but not commenced		
As at 30 June 2008	651	95
	<b>30,878</b>	<b>43,626</b>

#### (b) Operating Lease Commitments

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

	2008 \$'000	2007 \$'000
Not later than one year	23,404	19,286
Later than one year but not later than five years	25,358	27,239
Later than five years	11	1,017
	<b>48,773</b>	<b>47,542</b>

The Social Fund leases a number of properties under operating leases. The leases typically run for a period of 3 to 5 years and usually include an option to renew the lease after that period. Lease payments are increased at the end of the lease period to reflect market rentals.

### 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) Key Management Personnel Disclosures

The Trustees of The Salvation Army are deemed to be the key management personnel of the Social Fund.

The names of the Trustees who held office during the year ended 30 June 2008 were:

Commissioner James M. Knaggs	Major John Vale
Lieutenant-Colonel John L. Jeffrey	Major Allan Daddow
Lieutenant-Colonel Brian Hood	Major Frank Daniels
Lieutenant-Colonel Raymond Finger	Mr Gregory Stowe
Lieutenant-Colonel Jocelyn Knapp	Mr David Perry

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 20. Related Party Disclosures *(continued)*

#### Trustees' Remuneration

The Trustees are officers or staff of The Salvation Army Australia Southern Territory, and receive remuneration in accordance with established Salvation Army guidelines as below. In addition, 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.

	2008 \$'000	2007 \$'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	394	292

### 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	2008 \$'000	2007 \$'000
Cash	6	6,279	3,229

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

Total operating/capital surplus before allocations	22,012	24,241
Add/(less) items classified as investing/financing activities:		
Interest paid	242	456
Investment income received	(24,016)	(22,021)
Capital revenue received	(8,063)	(14,099)
Net (profit)/loss from sale of property, plant and equipment	(4,367)	(951)
Accommodation bond rollover expense	(83)	(959)
Add/(less) non-cash items:		
Impairment expense	3,665	-
Depreciation	4,448	3,732
Amortisation of entry contributions	(92)	(76)
Net cash provided in operating activities before change in assets and liabilities	(6,254)	(9,677)
Change in assets and liabilities during the financial year:		
Decrease/(increase) in inventories	(213)	107
Decrease/(increase) in receivables	3,033	(17,342)
(Decrease)/increase in payables	2,217	(14,257)
(Decrease)/increase in employee entitlements	1,201	325
(Decrease)/increase in provisions	-	3,500
(Decrease)/increase in other liabilities	(1,943)	-
<b>Net Cash provided in Operating Activities</b>	<b>(1,959)</b>	<b>(37,344)</b>

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Additional Financial Instruments Disclosure

#### Financial risk management

##### Overview

The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Fund's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout this financial report.

The Trustees of the Fund have overall responsibility for the establishment and oversight of risk management. The Trustees have established the Investment Committee, which is responsible for developing and monitoring investment policies. The committee reports to the Territorial Finance Council on its activities, and meets on a quarterly basis.

Risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

##### Credit risk

Credit risk is the risk of financial loss to the Fund if a debtor or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's receivables from debtors and other financial assets.

##### Trade and other receivables

The Fund's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Fund's receivables primarily consist of government funding provided from Commonwealth and State Governments and investment income from financial institutions.

Losses have occurred infrequently. An allowance for impairment is recognised when it is expected that any receivables are not collectible.

The Fund does not require any collateral in respect of trade and other receivables.

##### Other financial assets

The Fund limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have very high credit ratings. Management does not expect any counterparty to fail to meet its obligations.

##### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due.

Senior finance staff review forecasted cash flows of the Fund and determine the level of funding that will be required to meet expected expenditure as it falls due.

The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

Typically the Fund ensures that it has sufficient cash on demand to meet expected operational expenses as they come due.

##### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Fund's income and expenses or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return.

##### Currency risk

Currency risk is the risk that changes in exchange rates affects the Fund's income and expenses, or the value of its holdings of certain financial assets. The Fund holds 'available-for-sale' assets, which include units in overseas equities, some of which are 'unhedged'. These units are managed by MLC Implemented Consulting, on behalf of The Salvation Army.

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Additional Financial Instruments Disclosure *(continued)*

#### Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

Interest rate risk arises from interest-bearing financial assets of the Fund.

#### Other market price risks

Equity price risk arises from available for sale investments held by the Fund in the form of investments in listed equities held within the managed investment funds units. The portfolio of investments is managed by external portfolio managers, who buy and sell equities based on their analysis of returns. The asset position and returns are reported to the Investment Committee on a quarterly basis. At this meeting, the Investment Committee members monitor the effective returns.

#### Financial instruments

The carrying amount of the Fund's financial assets represents the maximum credit exposure. The Fund's maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2008 \$'000	2007 \$'000
Cash	6,279	3,229
Receivables	45,878	48,826
Other financial assets	169,888	196,428
	222,045	248,483

#### Impairment losses

At 30 June 2008, the Fund has reviewed its financial assets for impairment. On 29 July 2008, the Fund sold a portion of its unlisted units held in managed investment funds, which resulted in a loss of \$5,019,490 due to decreases in equity prices. At 30 June 2008, \$3,665,059 of this loss had been recognised as an expense. Accordingly, the trustees have recognized this loss as an impairment at 30 June 2008 and recorded this amount as an expense. The remaining loss of \$1,354,431 relating to the period 1-29 July 2008 will be recorded as in 2009. However, the trustees have set funds of \$1,354,431 aside to the Investment Fluctuation Reserve at 30 June 2008 to cover this loss.

The trustees advise that the Fund has recorded significant investment income returns in the previous financial years, and since the inception of the portfolio of unlisted units in October 2002, it has recorded an annual return of 9.4% (net of fees) to 30 June 2008, prior to the impairment loss.

Upon redemption of these units, the trustees have invested these funds in a 4-year term deposit with a major financial institution, earning a return of 8.30%.

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Additional Financial Instruments Disclosure *(continued)*

#### Liquidity risk

The following are the contractual maturities of the financial liabilities included estimated interest payments. Contractual amounts are expected payments that have not been discounted:

	Carrying amount \$	Contractual cash flows \$	0-6 months \$	6-12 months \$	More than 12 months \$
<b>2008</b>					
<b>Financial liabilities</b>					
Payables	47,707	47,707	28,280	-	19,427
Interest-free loans	2,672	2,672	-	-	2,672
	<b>50,379</b>	<b>50,379</b>	<b>28,280</b>	<b>-</b>	<b>22,099</b>

#### 2007

#### Financial liabilities

Payables	45,490	45,490	26,572	-	18,918
Interest-bearing liabilities	3,681	3,681	350	350	2,981
Interest-free loans	2,141	2,141	-	-	2,141
	<b>51,312</b>	<b>51,312</b>	<b>26,922</b>	<b>350</b>	<b>24,040</b>

#### Interest rate/market risk

##### Profile

At the reporting date, the carrying amounts of the Fund's interest-bearing financial instruments was:

	2008	2007
<b>Fixed rate instruments</b>		
<i>Financial assets</i>		
Short term deposits	33,720	26,890
<i>Financial liabilities</i>		
Commercial bill	0	3,681
<b>Floating rate instruments</b>		
<i>Financial assets</i>		
Cash and cash equivalents	5,946	2,505
Unlisted units in managed investment funds	136,168	169,538
	<b>142,114</b>	<b>172,043</b>

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Additional Financial Instruments Disclosure *(continued)*

#### Sensitivity analysis

The Fund's main investment is in unlisted units held in managed investment funds, managed by MLC Implemented Consulting on behalf of The Salvation Army. Units are held in six different trusts, and the Investment Committee determines the percentage allocated to each trust, with advice from MLC Implemented Consulting.

MLC's investment approach is designed to deliver superior long-term returns, and to do so with consistency. The portfolio is rebalanced when the actual asset allocation moves away from the strategic 'neutral' target exposure for each asset sector, by a predetermined margin (usually 2%).

The nature of each unit trust is as follows (with 'neutral' percentage allocations indicated in brackets):

- Australian shares (21%) – equity ownership of corporations predominantly listed on the Australian Stock Exchange.
- Global shares unhedged (13%) – equity ownership of corporations listed on any exchange globally, including emerging markets, but with exposure to exchange rate fluctuations.
- Global share hedged (13%) – equity ownership of corporations listed on any exchange globally, including emerging markets, but derivatives are used to 'hedge' currency risk, therefore providing a buffer against currency movements.
- Property securities (3%) – equity ownership of property-related corporations and trusts listed on any exchange globally.
- Short-term maturity diversified debt (30%) – investment in a wide range of different types of debt securities, including domestic nominal and inflation-linked securities, cash and short-term securities, global credit, global high-yield, global inflation-linked securities and emerging markets debt securities, with an average duration of 3 years.
- All-maturity diversified debt (20%) – investment in a wide range of different types of debt securities, including domestic nominal and inflation-linked securities, cash and short-term securities, global credit, global high-yield, global inflation-linked securities and emerging markets debt securities, with an average duration of 8-10 years.

At 30 June 2008, the following market value of the Fund's investment of units in each trust, and the impact of a 5% movement in the market value of each holding, was as follows:

2008 (\$'000)	Type	Mkt Value 6/08	+5% impact	-5% impact
Australian Shares	Equity	\$26,915	\$1,346	-\$1,346
Global Shares – unhedged	Equity	\$18,423	\$921	-\$921
Global Shares – hedged	Equity	\$16,617	\$831	-\$831
Property Securities	Equity	\$3,732	\$187	-\$187
Short-term maturity diversified debt	Debt	\$42,499	\$2,125	-\$2,125
All-maturity diversified debt	Debt	\$27,982	\$1,399	-\$1,399
		\$136,168	\$6,809	-\$6,809

It should be noted that the full impact amounts disclosed above resulting from a +/-5% movement in unit prices would not necessarily result in an immediate impact through the Income Statement, as these units are deemed to be 'available-for-sale' investments. Such amounts would only be recorded through the Income Statement if they were realised, either from unit disposals (including re-balancings), or if an impairment loss was recorded at year-end.

As outlined under 'impairment losses', the trustees sold a portion of its units in equity-type trusts on 29 July 2008, reducing the Fund's overall exposure to equity-type products from 50% to 37%, whilst increasing the Fund's overall exposure to debt-type products from 50% to 63%.

#### Fair values

##### Fair values versus carrying amounts

The carrying amounts of assets and liabilities shown in the balance sheet approximate their fair value.

# The Salvation Army Australia Southern Territory Social Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 23. CONTINGENT LIABILITIES

#### Sale of aged care centres on 1 July 2005

On 1 July 2005, The Salvation Army completed the sale of 14 of its 19 sites catering for aged care hostels and nursing homes, as well as retirement living units to Retirement Care Australia (RCA). In addition, TriCare acquired the Hayville retirement village in Box Hill, Melbourne. The business sale agreements included various warranties from The Salvation Army to the purchasers, whereby under certain circumstances, they may seek financial compensation from The Salvation Army.

In addition, at the time of divesting some of its aged care centres, the Department of Health and Ageing had provided The Salvation Army with capital grant funding towards the construction of Gilgunya Village, Weeroona Hostel, Inala Village Nursing Home, Edenfield Hostel, Warrina Hostel and Darwin Nursing Home. Under certain conditions, a portion of these capital grants may need to be repaid by The Salvation Army to the Department of Health and Ageing. The amount repayable to the Department of Health and Ageing reduces over time, with 2021 being the last expiration date for the capital grant funding provided for Gilgunya Village. As at 30 June 2008, the maximum capital grant funding which would have been repayable to the Department of Health and Ageing was \$3,497,207

At 30 June 2008, the trustees are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required. However, funds have been set aside to an 'aged care divestment warranty reserve' to cover contingencies.

#### Compensation claims

The Salvation Army has publicly expressed it is deeply regretful of any incident of abuse perpetrated by any of its staff that occurred between the 1940s and 1980s, towards children who had been in its care. This provision is to cover claims currently being processed, including costs for access to professional counselling services, pastoral care, medical expense reimbursements and legal costs.

In addition to the provision for compensation of \$8,057,000 recorded at 30 June 2008 (refer Note 14), there may be further claims lodged with The Salvation Army, which would need to be assessed. The Salvation Army is unable to quantify the estimated future costs of such claims.

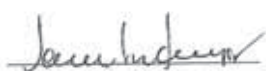
## The Salvation Army Australia Southern Territory Social Fund

### 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 8 to 34 are drawn up so as to present fairly the financial position of the Social Fund as at 30 June 2008 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 2008; and
- (iii) The financial statements have been prepared in accordance with Accounting Standards in Australia.

Signed in accordance with a resolution of the Trustees:



James M Knaggs, Commissioner  
Territorial Commander  
TRUSTEE



Gregory F Stowe  
Chief Financial Officer  
TRUSTEE

Dated at Melbourne this 28th day of October 2008

# INDEPENDENT AUDIT REPORT TO THE TRUSTEES OF The Salvation Army Australia Southern Territory Social Fund



We have audited the accompanying financial report of The Salvation Army Australia Southern Territory Social Fund, which comprises the balance sheet as at 30th June 2008, and the income statement, statement of changes in capital funds and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes, and the trustees declaration set out on pages 8 to 32.

## **Trustees' responsibility for the financial report**

The trustees of The Salvation Army Australia Southern Territory Social Fund are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the entity's financial position, and of its performance and cash flows.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Auditor's opinion**

In our opinion the financial report presents fairly, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the financial position of The Salvation Army Australia Southern Territory Social Fund as of 30th June 2008 and of its financial performance and its cash flows for the year then ended.

A handwritten signature in dark ink, appearing to read 'KPMG'.

KPMG  
Melbourne

28th October 2008

