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THE 2007 FINANCIAL REPORT

For The Salvation Army Australia
Southern Territory Social Fund

FOR THE YEAR ENDED
30 JUNE 2007



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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 111 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 board meeting of Trustees who authorise these assets to be so used. The Territorial Finance Council and Territorial Property Board make the decisions of The Salvation Army in relation to finance and property matters.

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 boards is determined by the Territorial Commander or Chief Secretary, with certain board memberships required to be endorsed by International Headquarters. Board 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 11 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 2007 and the number of meetings attended by each member were:

Member	Number of Meetings Eligible to Attend	Number of Meetings Attended
Commissioner I B Lang	4	4
Commissioner H C Lang	4	2
Commissioner J M Knaggs	43	35
Commissioner C R Knaggs	43	37
Lieutenant-Colonel J L Jeffrey	47	41
Lieutenant-Colonel J A Jeffrey	40	33
Lieutenant-Colonel B H Hood	47	42
Lieutenant-Colonel E J Hood	47	42
Lieutenant-Colonel L S Spiller	45	28
Major R A Finger	47	35
Major J R Vale	47	33
Mr D S Perry	47	40
Mr G F Stowe	47	40

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 Board

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

The Board 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 Board

The General Management Board (GMB) 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 GMB is the Secretary for Business Administration, and membership includes the Chief Financial Officer and five other senior staff members from territorial headquarters. The GMB meets weekly, and all minutes of the GMB 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 Board

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

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 boards and councils, 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 meets at least four times each 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 up to six members, two of whom are recruited from outside The Salvation Army and drawn from relevant professional and commercial sectors of the community, who are responsible for working closely with the Trustees and to make recommendations to the Trustees on investment management.

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

Human Resources 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 programs particularly the values of human dignity and compassion.

Our programs are consistent with the Australian/New Zealand Standard for Risk Management: AS/NZS 4360. The Salvation Army has a suite of risk management manuals encompassing business continuity management, occupational health & safety, and workers compensation. The risk management manuals detail clearly the roles and responsibilities of leadership, managers and employees in relation to risk management.

Human resource and risk management professionals are in place throughout the territory and support divisions and departments in achieving good governance and compliance.

Risk management implementation plans have been developed to ensure the effective implementation of both the risk management policy and procedure manuals, training programs and the computer based management tool, the Risk Register. Risk management implementation plans will be reported on periodically by divisions and departments to ensure progress targets are met. Risk management programs will be subject to audits in order to ensure risk management compliance requirements are achieved. The Risk Register will also include the monitoring of compliance using a set of standard practices and requirements from the relevant department, the reporting of any exceptions and assessments of the adequacy 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 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 Employee Code of Conduct 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 stated standards, mission and values of The Salvation Army.

The code of conduct 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 made available to employees as part of the induction process.

The territorial leadership and cabinet are responsible and accountable for providing the code of conduct, ensuring that it is consistent with the mission and values of The Salvation Army, and for periodically reviewing the effectiveness of the code, so that it continues to benefit employees and the organisation.

Human Resources Manual

This manual provides information on the ways The Salvation Army enables and facilitates more effective people 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 further information including tools and forms, where available.

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 has also commenced three year capital planning, 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 consolidated social work and general work.

The Salvation Army Australia Southern Territory Social Fund

TRUSTEES' REPORT

FOR THE YEAR ENDED 30 JUNE 2007

The last financial year has seen some significant steps taken towards the future delivery of services within The Salvation Army Australia Southern Territory, and the overall commitment to best practice standards and excellence in the areas of corporate governance and responsibility.

Work commenced during the year on the redevelopment of the Linsell Lodge aged care facility in South Australia, which will provide a new, modern 90 bed hostel for provision of aged care services. Progress on this work is currently on schedule, and the new facility is due to be completed in March 2008. The purchase of the new site for the James Barker House aged care facility was finalised this year, and subsequent planning approvals will now enable work to be commenced on this site in early 2008.

Other capital projects to be commenced and/or completed during the year include the Karinya emergency accommodation units and childcare redevelopment in Ballarat, and the new McCombe House emergency accommodation development in Hobart. In addition, significant new projects due to be commenced in the next year include the Upton Road crisis accommodation centre redevelopment in Melbourne, the Graceville Women's Centre redevelopment in Perth, and the Northside Mission Outreach centre in Corio.

Agreement was reached on the relocation of The Salvation Army Australia Southern Territory's headquarters to new leased premises in Blackburn, after being located in Mont Albert for the last 13 years. This move will see the eventual relocation of all headquarters administrative services on to the one site, achieving greater efficiencies in the property costs of these services. The Salvation Army is also committed to a 'green' policy in relation to the operations of this building, and will be looking to provide an environmentally effective and efficient workplace for its staff and visitors.

The Salvation Army has undertaken significant developments in the area of risk management, including comprehensive training programs for its managers and staff, detailed manuals and guidelines, and commencement of a project for the establishment of a risk register for the territory. This register is due for completion and activation by December 2007. Another important systems project that has been started is the real estate management system, which will provide a sophisticated database for management of property needs, including projects, maintenance, leases and insurance. This is due for completion in the first half of 2008.

The Red Shield Appeal achieved a record result for the territory, with just over \$33m raised in the financial year. This is the result of the organisation's significant enhancements to its fundraising programs, and the ongoing dedication and effort of its staff and volunteers in raising funds. The Appeal result assists The Salvation Army in its desire to remain at the forefront of social service provision, and to continue to be innovative and effective in the delivery of its various programs. As always, we are extremely grateful to those many supporters of our work through the Red Shield Appeal throughout the year.

The Salvation Army Salvos Stores operations also saw an improved contribution to the social program work of the organisation in the last year. Whilst there are some continuing challenges going forward into 2007/08, with a number of organisational issues to be addressed, the expectation is that Salvos Stores will continue to provide an important contribution to the overall funding of service provision in the Australia Southern Territory.

For the fourth consecutive year, the investments of The Salvation Army achieved very healthy returns through our MLC investment portfolio. With the start of the 2007/08 financial year seeing a certain amount of volatility in the investment markets, however, we remain cautious about the immediate impact on investment returns.

Finally, The Salvation Army has been gearing up over the last six months for Connections 07, which will be a major event to be held in Melbourne in November 2007. A number of national and global experts will speak, and participate in discussions and debate on current challenges and opportunities for the future direction of Australian society. One of the highlights will be the attendance at this event of the international leader of The Salvation Army, General Shaw Clifton. Connections 07 will be a weekend of events where Salvationists, employees, friends and the wider community will come together to connect, and have the opportunity to share with the wider community The Salvation Army's vision for our place in the world.

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 16th day of October 2007

The Salvation Army Australia Southern Territory Social Fund

INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2007

	Note	2007 \$'000	2006 \$'000
Revenue from rendering of services	2	149,714	156,634
Other revenues from ordinary activities	2	70,833	93,605
Financing Income		22,081	19,326
Red Shield Appeal donations	5	33,378	26,583
Total operating revenue		276,006	296,148
Capital revenue:			
Legacies		3,905	4,830
Government grants		7,180	18
Other revenue		3,014	49
Total capital revenue		14,099	4,897
Total revenue		290,105	301,045
Employee expenses		(142,713)	(137,958)
Depreciation expenses		(3,733)	(3,815)
Computer expenses		(2,212)	(3,866)
Financing expenses		(456)	(1,352)
Welfare/Jobseeker expenses		(22,121)	(28,378)
Building/Occupancy expenses		(35,653)	(35,245)
Motor Vehicle expenses		(8,678)	(8,329)
Contribution – General Fund		(16,631)	(15,417)
Net gain – Officer Retirement Fund		–	4,244
Rollover accommodation bond expenses	1(f)(i)	(959)	(3,577)
Sale of aged care centre expenses		–	(10,288)
Loss on sale of assets		–	(2,109)
Amenities and supplies		(8,583)	(9,017)
Other expenses from ordinary activities		(26,082)	(27,384)
Total operating expenses		(267,821)	(282,491)
Operating surplus before allocations	15	22,284	18,554
Allocations	3	(18,400)	(5,815)
Net surplus after allocations		3,884	12,739

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 2007

	Note	2007 \$'000	2006 \$'000
CURRENT ASSETS			
Cash	6	3,229	2,963
Receivables	7	25,402	7,917
Other financial assets	8	26,411	39,234
Inventories	9	470	577
TOTAL CURRENT ASSETS		55,512	50,691
NON-CURRENT ASSETS			
Receivables	7	23,424	20,113
Property, plant and equipment	10	133,837	120,948
Other financial assets	8	170,017	174,708
TOTAL NON-CURRENT ASSETS		327,278	315,769
TOTAL ASSETS		382,790	366,460
CURRENT LIABILITIES			
Payables	11	26,572	33,415
Interest-bearing liabilities	12	700	700
Defined benefit obligation – Officer Retirement Fund	27	–	5,685
Employee benefits	13	12,556	12,061
Provisions	14	2,000	1,500
TOTAL CURRENT LIABILITIES		41,828	53,361
NON-CURRENT LIABILITIES			
Payables	11	18,918	18,159
Interest-bearing liabilities	12	2,981	3,677
Employee benefits	13	1,482	1,652
Provisions	14	8,000	5,000
Interest free loans	18	2,141	1,735
Special purpose funds	19	147	137
TOTAL NON-CURRENT LIABILITIES		33,669	30,360
TOTAL LIABILITIES		75,497	83,721
NET ASSETS		307,293	282,739
CAPITAL FUNDS			
Working capital fund	15(a)	4,449	565
Property contributions fund	15(a)	155,696	113,954
Reserves	15(a)	121,502	142,416
Trusts and special purpose funds	15(a)	7,745	4,695
Legacies	15(a)	17,901	21,109
TOTAL CAPITAL FUNDS		307,293	282,739

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 2007

	Note	2007 \$'000	2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations		249,638	244,585
Cash payments in the course of operations		(286,982)	(277,587)
Net cash used in operating activities	22(ii)	(37,344)	(33,002)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment revenue received		20,064	19,327
Payments for investments		–	(23,082)
Receipts from investments		19,786	–
Capital revenue received		14,099	4,897
Payments for property, plant and equipment		(17,910)	(9,873)
Net proceeds from sale of aged care business		–	19,133
Proceeds from sale of property, plant and equipment		2,240	21,670
Net cash used by investing activities		38,279	32,072
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(456)	(1,352)
Repayment of borrowings		(700)	(700)
Proceeds from borrowings		4	70
Proceeds from residents' interest free loans and fixed deposits		798	436
Repayment of residents' interest free loans and fixed deposits		(315)	–
Net cash provided by financing activities		(669)	(1,546)
Net increase/(decrease) in cash held		266	(2,476)
Cash at the beginning of the financial year		2,963	5,439
Cash at the end of the financial year	22(i)	3,229	2,963

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 YEAR ENDED 30 JUNE 2007

(\$'000)	Working Capital Fund	Property Contrib'n Fund	Reserves	Trusts and Special Purpose Funds	Legacies	Total
At 1 July 2005	(12,174)	171,553	59,761	14,035	13,703	246,878
Operating Surplus before allocations	18,554	–	–	–	–	18,554
	6,380	171,553	59,761	14,035	13,703	265,432
Allocations to/(from) other capital funds	(5,815)	(57,599)	65,348	(9,340)	7,406	–
	565	113,954	125,109	4,695	21,109	265,432
Increase in fair market reserve	–	–	17,307	–	–	17,307
At 30 June 2006	565	113,954	142,416	4,695	21,109	282,739
At 1 July 2006	565	113,954	142,416	4,695	21,109	282,739
Operating Surplus before allocations	22,284	–	–	–	–	22,284
	22,849	113,954	142,416	4,695	21,109	305,023
Allocations to/(from) other capital funds	(18,400)	41,742	(23,184)	3,050	(3,208)	–
	4,449	155,696	119,232	7,745	17,901	305,023
Increase in fair market reserve	–	–	2,270	–	–	2,270
At 30 June 2007	4,449	155,696	121,502	7,745	17,901	307,293

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 16 October 2007.

(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. The financial report also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars.

Issued standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the Social Fund in this financial report:

- AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 139 Financial Instruments: Recognition and Measurement and AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards, AASB 117 Leases, AASB 118 Revenue, AASB 120 Accounting for Government Grants and Disclosure of Government Assistance, AASB 127 Consolidated and Separate Financial Statement, AASB 131 Interest in Joint Ventures, and AASB 139 Financial Instruments: Recognition and Measurement. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 Service Concession Arrangements.
- AASB 2007-2 Amendments to Australian Accounting Standards also amends references to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

The Social Fund plans to adopt AASB 7, AASB 2005-10 and AASB 2007-2 in the 2008 financial year.

The initial application of AASB, AASB 2005-10 and AASB 2007-2 is not expected to have an impact on the financial results of the Social Fund as the standard and the amendment are concerned only with disclosures.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: accommodation bond rollovers receivable and payable, and financial instruments classified as 'available-for-sale'.

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied across all operations comprising the Social Fund.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(r).

The accounting policies have been applied across all operations comprising the Social Fund.

(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.

(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 which 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.

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

(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, revalues 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.

(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.

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

(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 dependant 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(h)) 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.

(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.

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

(l) Other payables

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

(m) Revenue

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(p) and 25 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 program 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 program 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 program 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 20 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.

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

	Note	2007 \$'000	2006 \$'000
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2. Revenue from Ordinary Activities

Revenue from rendering of services:

Government grants		83,675	77,769
Fee for service – Government Funding		56,675	69,897
Resident contributions and patient fees		9,364	8,968
		149,714	156,634

Other revenue from ordinary activities:

Trading revenue		60,390	59,076
Donations received – other than from the Red Shield Appeal		3,550	1,861
Profit on sale of assets		951	–
Sale of Aged Care businesses (excluding land and buildings)		–	29,121
Other		5,942	3,547
		70,833	93,605
Total revenue from ordinary activities		220,547	250,239

3. Allocations

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

Property contributions fund	15(a)	2,589	(2,257)
Reserves	15(a)	10,071	3,227
Trusts and special purpose funds	15(a)	3,582	336
Legacies	15(a)	2,158	4,509
		18,400	5,815

4. Auditors' Remuneration

Audit services:

Auditors of the Trust

KPMG Australia

Audit of the Social Fund		419	497
Audit of the Aged Care Completion Statement		–	50
		419	547

Other services:

Auditors of the Trust

KPMG Australia

Audit		–	9
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The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

	2007 \$'000	2006 \$'000
5. Red Shield Appeal Donations		
Donations		
Victoria	21,682	16,054
South Australia	3,749	3,487
Western Australia	5,919	5,167
Tasmania	1,668	1,519
Northern Territory	360	356
	33,378	26,583
Less: Expenses	(6,670)	(5,798)
Net Revenue Available For Distribution	26,708	20,785
Distribution		
Social programme deficits:		
Employment, education and training	419	168
Children and young people at risk	1,675	1,415
Addictions and substance abuse	2,466	2,324
Aged care and disability support	40	351
Individual and family support	7,225	7,145
Homelessness and domestic violence	4,005	3,472
Chaplaincy	2,705	2,329
	18,535	17,204
Social services and community programmes total	18,535	17,204
Capital Appeal	267	257
Emergency Appeals (including drought relief) – a)	2,610	566
One-off special donation – b)	2,658	–
Donor designated gifts for social services and community programmes	2,638	2,758
Total Distribution	26,708	20,785

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

- a) The Salvation Army launched a drought relief appeal during 2006/7. These relief efforts will continue beyond 30 June 2007, so the unexpended portion of funds donated for this purpose are recorded within special purpose funds and trusts at 30 June 2007.
- b) The Salvation Army received a significant one-off donation during 2006/7. The trustees decided that these funds would be set aside for specific purposes as they determine, and during 2006/7, a significant portion was allocated as a contribution towards drought relief efforts (in addition to external funds raised). The unutilised balance of this one-off donation is recorded within reserves at 30 June 2007.

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

	Note	2007 \$'000	2006 \$'000
6. Cash			
Cash on hand		85	76
Cash in transit		639	191
Cash at bank		2,505	2,696
	22(i)	3,229	2,963

7. Receivables

Current

Prepayments		2,565	346
Sundry debtors		22,837	7,571
		25,402	7,917

Non-current

Deferred Consideration		2,860	2,860
Accommodation Bond Rollovers		20,564	17,110
Other		–	143
		23,424	20,113

8. Other Financial Assets

Current

Short term deposits		26,411	39,234
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Non-current

Unlisted units in managed investment funds		170,017	165,465
Long term deposits		–	9,243
		196,428	213,942

9. Inventories

Raw materials and stores		126	140
Work in progress		25	40
Finished goods		380	611
Less provision for stock obsolescence		(61)	(214)
		470	577

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

	2007 \$'000	2006 \$'000
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10. Property, Plant and Equipment

Freehold Land and Buildings

Freehold land at cost	22,266	16,626
Buildings at cost	129,212	125,730
Accumulated depreciation	(28,866)	(26,487)
	100,346	99,243
Total Freehold Land and Buildings	122,612	115,869

Leasehold Property

At cost	2,025	1,300
Accumulated depreciation	(571)	(405)
Total Leasehold Land and Buildings	1,454	895
Building Schemes in Progress – at cost	7,066	2,358

Motor Vehicles

At cost	2,821	2,562
Accumulated depreciation	(2,202)	(1,821)
Total Motor Vehicles	619	741

Plant and Equipment

At cost	3,621	4,737
Accumulated depreciation	(1,535)	(3,652)
Total Plant and Equipment	2,086	1,085
Total Property, Plant and Equipment Net Book Value	133,837	120,948

Social Fund land and buildings of \$124,066,000 (2006: \$116,764,000) are funded through the Property Contributions Fund (excluding building schemes in progress funding) of \$123,735,000 as at 30 June 2007 (2006: \$109,114,000). The remaining balance is funded from the following sources:

	Note	2007 \$'000	2006 \$'000
Bank loans		–	4,377
Unsecured loans	18	162	162
		162	4,539
Social Fund freehold properties – unfunded		169	2,216

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

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

Whilst the Social Fund had bank loan liabilities of \$3,681,000 at 30 June 2007, unlike in previous years, these funds are not being used to fund property purchases made previously by the Social Fund for Salvos Stores. Since 30 June 2007, this bank loan liability has been repaid to Westpac in full. In 2007, the Social Fund internally funded these Salvos Store properties from capital reserves, rather than external loan financing.

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

	2007 \$'000	2006 \$'000
Freehold Land and Buildings		
Carrying amount at beginning of year	115,869	201,954
Additions (including transfers)	10,502	8,597
Disposals	(1,193)	(92,118)
Depreciation	(2,566)	(2,564)
Carrying amount at end of year	122,612	115,869
Leasehold Property		
Carrying amount at beginning of year	895	459
Additions (including transfers)	726	1,074
Disposals	–	(549)
Depreciation	(167)	(89)
Carrying amount at end of year	1,454	895
Building Schemes in Progress – Cost		
Carrying amount at beginning of year	2,358	3,827
Additions	15,311	8,124
Transfers to Freehold Land and Buildings/Leasehold Property	(10,603)	(9,593)
Carrying amount at end of year	7,066	2,358
Motor Vehicles		
Carrying amount at beginning of year	741	946
Additions	324	212
Disposals	–	(2)
Depreciation	(446)	(415)
Carrying amount at end of year	619	741
Plant and Equipment		
Carrying amount at beginning of year	1,085	3,101
Additions	1,650	1,458
Disposals	(95)	(2,727)
Depreciation	(554)	(747)
Carrying amount at end of year	2,086	1,085

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

	Note	2007 \$'000	2006 \$'000
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11. Payables

Current

Sundry creditors and accruals		15,496	25,214
Prepaid fee for service – government funding		7,667	2,824
Amounts payable to other Salvation Army entities		–	2,849
Accommodation bond rollovers	1(f)	3,409	2,528
		26,572	33,415

Non-current

Accommodation bond rollovers	1(f)	18,918	18,159
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12. Interest-Bearing Liabilities

Current

Bank loans – secured		700	700
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Non-current

Bank loans – secured		2,981	3,677
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13. Employee Benefits

Current

Employee entitlements		12,556	12,061
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Non-current

Employee entitlements		1,482	1,652
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14. Provisions

Current

Compensation claims		2,000	1,500
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Non-current

Compensation claims		8,000	5,000
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The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

	Note	2007 \$'000	2006 \$'000
15. Capital Funds			
(a) Movements in Capital Funds			
Property Contributions Fund			
Opening Balance		113,954	171,553
Net Transfers		39,153	(55,342)
Allocations from/(to) working capital fund	3	2,589	(2,257)
Closing balance		155,696	113,954
Reserves			
Opening Balance		142,416	59,761
Net Transfers		(33,255)	62,121
Increase in Fair Market Reserve – financial assets		2,270	17,307
Allocations from/(to) working capital fund	3	10,071	3,227
Closing balance	15(c)	121,502	142,416
Trusts And Special Purpose Funds			
Opening Balance		4,695	14,035
Net Transfers		(532)	(9,676)
Allocations from working capital fund	3	3,582	336
Closing balance	15(d)	7,745	4,695
Legacies			
Opening Balance		21,109	13,703
Net Transfers		(5,366)	2,897
Allocations from working capital fund	3	2,158	4,509
Closing balance		17,901	21,109
Working Capital Fund			
Opening Balance		565	(12,174)
Operating surplus before allocations		22,284	18,554
Allocations from/(to) other capital funds	3	(18,400)	(5,815)
Closing balance		4,449	565

(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.

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

	2007 \$'000	2006 \$'000
15. Capital Funds <i>(continued)</i>		
(c) Reserve Balances		
Board Designated Funds		
Property development	7,226	20,296
Training	8,963	8,982
Social programme enhancement and development	11,626	9,962
Capital asset contribution	1,983	1,367
Planned maintenance	5,707	4,751
Asset replacement	7,174	8,182
Aged care reserves	41,059	53,921
Capital projects funding	1,717	579
Employment and training	14,175	15,116
Unrealised gains on financial assets	19,578	17,308
Other	2,294	1,952
	121,502	142,416

These balances are amounts set aside by the Territorial Finance Council to meet realistic, planned or anticipated needs for The Salvation Army Australia Southern Territory, thereby relieving the working capital fund from the future cost of these needs. An explanation of the purpose of each reserve is provided below.

Property Development

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

It also represents the net proceeds on sold properties, which are set aside until allocated to new capital schemes.

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

Training

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

Social Programme Enhancement and Development

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

Capital Asset Contribution

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

Planned Maintenance

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

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

15. Capital Funds *(continued)*

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.

Unrealised Gains on Financial Assets

This balance represents the unrealised gain on unlisted units held in managed investment funds as at 30 June 2007. (see Note 1(e))

Other

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

(d) Trust and Special Purpose Fund Balances

	2007 \$'000	2006 \$'000
Restricted Funds		
Special purpose trusts	1,969	1,856
Emergency Appeals	2,247	19
General deposits	2,550	2,089
Building deposits	979	731
	7,745	4,695

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.

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.

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

15. Capital Funds *(continued)*

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 2007, 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. Secured Borrowings

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

18. Interest Free Loans – Resident Funded Housing

	2007	2006
	\$'000	\$'000
Entry contributions/Accommodation Bonds – amortisable	203	167
Entry contributions/Accommodation Bonds – refundable	1,776	1,406
Other	162	162
	2,141	1,735

(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.

19. 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

20. 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 financial commitment required of Territorial Headquarters for these projects save as disclosed below.

	2007 \$'000	2006 \$'000
Cost to complete property schemes in progress	43,531	19,634
Property schemes approved but not commenced As at 30 June 2007	95	70
	43,626	19,704

(b) Operating Lease Commitments

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

	2007 \$'000	2006 \$'000
Not later than one year	19,286	10,435
Later than one year but not later than five years	27,239	16,998
Later than five years	1,017	675
	47,542	28,108

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.

21. 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 2007 were:

Commissioner James M. Knaggs
Commissioner Ivan B. Lang
Lieutenant-Colonel John L. Jeffrey
Lieutenant-Colonel Brian Hood
Major Raymond Finger
Major John Vale
Mr Gregory Stowe
Mr David Perry

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

21. Related Party Disclosures *(continued)*

Trustees' Remuneration

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

	2007 \$'000	2006 \$'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	292	244

22. 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	2007 \$'000	2006 \$'000
Cash	6	3,229	2,963

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

Total operating/capital surplus before allocations	22,284	18,554
Add/(less) items classified as investing/financing activities:		
Interest paid	456	1,352
Investment income received	(20,064)	(19,327)
Capital revenue received	(14,099)	(4,897)
Net (profit)/loss from sale of property, plant and equipment	(951)	2,109
Sale of aged care business	–	(19,133)
Accommodation bond rollover expense	(959)	–
Add/(less) non-cash items:		
Depreciation	3,732	3,815
Amortisation of entry contributions	(76)	(71)
Net cash provided in operating activities before change in assets and liabilities	(9,677)	(17,598)
Change in assets and liabilities during the financial year:		
Decrease/(increase) in inventories	107	623
Decrease/(increase) in receivables	(17,342)	(13,033)
(Decrease)/increase in payables	(14,257)	(5,138)
(Decrease)/increase in employee entitlements	325	(4,182)
(Decrease)/increase in provisions	3,500	6,500
(Decrease)/increase in other liabilities	–	(174)
Net Cash provided in Operating Activities	(37,344)	(33,002)

The Salvation Army Australia Southern Territory Social Fund

NOTES TO THE FINANCIAL STATEMENTS

(iii) Financing Facilities

The Salvation Army (Victoria) Property Trust – Social Fund has access to a term loan facility (tranche) of \$10,000,000. Previously, this facility had been for the purposes of property acquisition and development for Salvos Stores. At 30 June 2007, facilities used were \$3,681,000 resulting in an unutilised facility of \$6,319,000. This facility was repaid in full in August 2007.

23. Additional Financial Instruments Disclosure

(a) Interest Rate Risk

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

	Floating \$'000	Fixed Interest maturing in less than one year \$'000	Fixed Interest maturing in 1 to 5 years \$'000	Fixed Interest maturing in more than 5 years \$'000	Non Interest bearing \$'000	Total \$'000
2007						
Financial Assets						
Cash	17,742	–	–	–	–	17,742
Receivables	–	–	–	–	34,313	34,313
Other Financial Assets	170,017	26,411	–	–	–	196,428
Weighted Average Interest Rate	12.20%	5.85%				
Financial Liabilities						
Loans	3,681	–	–	–	–	3,681
Payables (incl actuarial deficit)	–	–	–	–	45,490	45,490
Interest Free Loans	–	–	–	–	2,141	2,141
Employee Benefits	–	–	–	–	14,038	14,038
Special Purpose Funds	–	–	–	–	147	147
Weighted Average Interest Rate	5.62%					
2006						
Financial Assets						
Cash	2,963	–	–	–	–	2,963
Receivables	–	–	–	–	28,030	28,030
Other Financial Assets	174,708	39,234	–	–	–	213,942
Weighted Average Interest Rate	13.00%	5.48%				
Financial Liabilities						
Loans	4,377	–	–	–	–	4,377
Payables (incl actuarial deficit)	–	–	–	–	57,259	57,259
Interest Free Loans	–	–	–	–	1,735	1,735
Employee Benefits	–	–	–	–	13,713	13,713
Special Purpose Funds	–	–	–	–	137	137
Weighted Average Interest Rate	5.62%					

23. Additional Financial Instruments Disclosure *(continued)*

(b) Market Risk

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

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

(c) Credit Risk Exposures

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

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

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

(d) Net Fair Value of Financial Assets and Liabilities

The Social Fund's financial assets and liabilities included in the balance sheet are carried at amounts that approximate net market value.

24. 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 2007, the maximum capital grant funding which would have been repayable to the Department of Health and Ageing was \$3,934,874.

At 30 June 2007, 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 1940's and 1980's, 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 \$10,000,000 recorded at 30 June 2007 (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 31 are drawn up so as to present fairly the financial position of the Social Fund as at 30 June 2007 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 2007; 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 16th day of October 2007

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

Scope

We have audited the financial report of The Salvation Army Australia Southern Territory Social Fund ("the Social Fund") for the financial year ended 30 June 2007, being a general purpose financial report consisting of the income statement, statement of changes in capital funds, balance sheet, statement of cash flows and accompanying notes set out on pages 8 to 32. The Trustees of the Property Trusts comprising The Salvation Army Australia Southern Territory are responsible for the financial report. The Trustees are also responsible for preparing the relevant reconciling information regarding the adjustments required under Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this financial report in order to express an opinion on it to the Trustees of The Salvation Army Australia Southern Territory.

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

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

Audit Opinion

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

- (i) presents fairly the financial position of the Social Fund as at 30 June 2007 and its performance for the financial year ended on that date; and
- (ii) complies with Australian Accounting Standards and other mandatory professional reporting requirements in Australia.



KPMG
Melbourne
16 October 2007

From day to day problems, to natural disasters...



we're all in this together

The Salvation Army Australia
Southern Territory

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

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