

THE SALVATION ARMY, HONG KONG AND
MACAU COMMAND
SOCIAL FUND

Report and Financial Statements
For the year ended 31st March, 2009

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
SOCIAL FUND

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2009

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INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF THE SALVATION ARMY, HONG KONG AND MACAU COMMAND SOCIAL FUND

We have audited the financial statements of the Social Fund (the "Fund") of The Salvation Army, Hong Kong and Macau Command (the "Army") set out on pages 3 to 21, which comprise the balance sheet as at 31st March, 2009, the income and expenditure account, the statement of changes in total funds and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Finance Council members' responsibility for the financial statements

The Finance Council members are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are 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 these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the fund's preparation and true and fair presentation of the financial statements 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 fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF
THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
SOCIAL FUND

- continued

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31st March, 2009 and of the deficit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20th August, 2009

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
SOCIAL FUND

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST MARCH, 2009

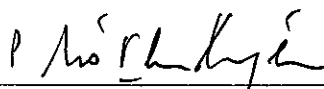
	<u>NOTES</u>	<u>2009</u> HK\$	<u>2008</u> HK\$ (Restated)
INCOME			
Government grants and subventions	7	273,903,969	255,903,842
Donations			
- The Hong Kong Jockey Club Charities Trust		6,406,276	1,212,000
- The Community Chest of Hong Kong	8	2,518,362	1,991,400
- Others		10,636,795	11,149,745
Dues and fees		33,399,921	40,940,926
Other income		45,380,207	41,334,656
		<u>372,245,530</u>	<u>352,532,569</u>
EXPENDITURE			
Staff costs	9	(271,672,024)	(244,294,917)
Depreciation		(5,548,487)	(3,107,961)
Operating lease rentals - land and buildings		(14,036,609)	(14,449,508)
Auditors' remuneration		(743,772)	(464,782)
Programs, administration and others		(80,644,215)	(76,342,386)
		<u>(372,645,107)</u>	<u>(338,659,554)</u>
(Deficit) surplus for the year, also representing total recognised income and expense for the year		<u>(399,577)</u>	<u>13,873,015</u>
Transferred from (to):			
- Lump Sum Grant Reserve Fund		(142,558)	(4,411,708)
- Provident Fund Reserve		(3,839,310)	(3,263,427)
- Designated funds		(1,595,518)	(5,368,535)
- Accumulated fund		5,976,963	(829,345)
		<u>399,577</u>	<u>(13,873,015)</u>

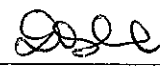
THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
SOCIAL FUND

BALANCE SHEET
AS AT 31ST MARCH, 2009

	<u>NOTES</u>	<u>2009</u> HK\$	<u>2008</u> HK\$
Non-current assets			
Property, plant and equipment	14	11,445,130	11,216,147
Current assets			
Accounts receivable, deposits and prepayments		5,582,333	4,701,139
Amount due from Social Welfare Department on Lotteries Fund		1,606,803	2,280,362
Amount due from General Fund	15	26,891,721	28,179,992
Bank balances and cash		111,775,223	105,659,590
		<u>145,856,080</u>	<u>140,821,083</u>
Current liabilities			
Accounts payable and accrued charges		5,652,529	6,886,526
Amount due to Social Welfare Department	16	6,911,068	5,043,549
Amount due to Property Fund	15	290,806	495,762
Amount due to Trade Fund	15	1,365	2,309
Amount due to Education Fund	15	761,350	3,804,116
Provision for unutilised annual leave		11,227,885	9,761,897
		<u>24,845,003</u>	<u>25,994,159</u>
Net current assets		<u>121,011,077</u>	<u>114,826,924</u>
Non-current liabilities			
Deferred income on Grants	17	4,587,403	600,458
Provision for long service payments		4,758,038	1,932,270
		<u>9,345,441</u>	<u>2,532,728</u>
Net assets		<u>123,110,766</u>	<u>123,510,343</u>
Represented by:			
Lump Sum Grant Reserve Fund		70,126,975	69,984,417
Provident Fund Reserve		20,507,946	16,668,636
Designated funds	18	36,415,043	34,819,525
Accumulated fund		(3,939,198)	2,037,765
Total funds		<u>123,110,766</u>	<u>123,510,343</u>

The financial statements on pages 3 to 21 were approved by and authorised for issue by the Finance Council on 20th August, 2009.


Lieut.-Colonel Samuel Pho
Officer Commanding


Ms. Deirdre Ashe
Financial Administrator

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
SOCIAL FUND

STATEMENT OF CHANGES IN TOTAL FUNDS
FOR THE YEAR ENDED 31ST MARCH, 2009

	Lump Sum Grant <u>Reserve Fund</u> HK\$	Provident Fund <u>Reserve</u> HK\$	Designated funds HK\$ (note 18)	Accumulated fund HK\$	<u>Total</u> HK\$
At 1st April, 2007	65,572,709	13,405,209	29,450,990	1,208,420	109,637,328
Transfer from income and expenditure account	<u>4,411,708</u>	<u>3,263,427</u>	<u>5,368,535</u>	<u>829,345</u>	<u>13,873,015</u>
At 31st March, 2008	69,984,417	16,668,636	34,819,525	2,037,765	123,510,343
Transfer from (to) income and expenditure account	<u>142,558</u>	<u>3,839,310</u>	<u>1,595,518</u>	<u>(5,976,963)</u>	<u>(399,577)</u>
At 31st March, 2009	<u><u>70,126,975</u></u>	<u><u>20,507,946</u></u>	<u><u>36,415,043</u></u>	<u><u>(3,939,198)</u></u>	<u><u>123,110,766</u></u>

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
SOCIAL FUND

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST MARCH, 2009

	<u>2009</u> HK\$	<u>2008</u> HK\$
Operating activities		
(Deficit) surplus for the year	(399,577)	13,873,015
Interest income (included in other income)	(1,812,943)	(3,016,935)
Depreciation	5,548,487	3,107,961
Increase in provision (write-back) for long service payments	2,825,768	(150,980)
Increase in provision for of unutilised annual leave	1,465,988	288,950
Operating cashflows before working capital changes	<u>7,627,723</u>	<u>14,102,011</u>
Increase in net amounts due to Social Welfare Department	2,541,078	2,459,070
Increase in accounts receivable, deposits and prepayments	(881,194)	(1,492,572)
Increase in net amounts due from inter-funds	(1,960,395)	(4,749,204)
(Decrease) increase in accounts payable and accrued charges	(1,233,997)	1,906,201
Increase (decrease) in deferred income on Grants	3,986,945	(45,388)
Net cash generated from operating activities	<u>10,080,160</u>	<u>12,180,118</u>
Investing activities		
Purchase of property, plant and equipment	(5,777,470)	(6,108,356)
Interest received	1,812,943	3,016,935
Net cash used in investing activities	<u>(3,964,527)</u>	<u>(3,091,421)</u>
Increase in cash and cash equivalents	6,115,633	9,088,697
Cash and cash equivalents at beginning of the year	<u>105,659,590</u>	<u>96,570,893</u>
Cash and cash equivalents at end of the year, representing bank balances and cash	<u><u>111,775,223</u></u>	<u><u>105,659,590</u></u>

**THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
SOCIAL FUND**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2009**

1. GENERAL

The Salvation Army is an international religious and charitable movement organised and operated on a military pattern. The Salvation Army, Hong Kong and Macau Command (the "Army") is responsible for all administrative matters of the Salvation Army in Hong Kong and Macau.

The Army operates a number of community centres, homes for the physically and mentally handicapped, elderly homes and homes for orphaned and underprivileged children. These services, which are provided in Hong Kong, are mostly financed by government subventions, and are administrated and reported collectively as the Social Fund.

The Army also operates Property Fund, Trade Fund, General Fund and Education Fund. These funds are reported separately in their own financial statements and are not dealt with in the financial statements of the Social Fund.

Moreover, the Army also operates The Salvation Army Corps (the "Corps"), which are established for religious purposes and their major activities include organising religious meetings and fellowship. The activities of the Corps are not included in the financial statements.

In Hong Kong, the work of the Army is assisted by an Advisory Board and supporting committees whose members are drawn from the private, commercial and government sectors. Both the Advisory Board and the supporting committees conduct regular meetings to discuss matters of administration and progress of social work programs. Members of the Advisory Board and the supporting committees are not remunerated for their services.

Daily operation of the Army is guided by a Finance Council whose members are the officers or staff of the Army. The Finance Council is in turn supported by a range of expenditure boards, including the Social Expenditure Board. Some of the Finance Council members and Social Expenditure Board members receive accommodation and use of motor vehicles of the Army as part of their officership in accordance with the established Salvation Army guidelines. No additional remuneration is received by these officers for acting in their capacity as board members.

The financial statements of the Social Fund of the Army (the "Fund") is presented in Hong Kong dollars which is also the functional currency of the Fund.

The registered address of the Army is 11 Wing Sing Lane, Yaumatei, Kowloon.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Fund has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Fund's financial year beginning on 1st April, 2009. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared. Accordingly, no prior period adjustment has been required.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 12	Service concession arrangements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The Fund has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 1 (Revised)	Presentation of financial statements ³
HKAS 23 (Revised)	Borrowing costs ³
HKAS 27 (Revised)	Consolidated and separate financial statements ⁴
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ³
HKAS 39 (Amendment)	Eligible hedged items ⁴
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate ³
HKFRS 2 (Amendment)	Vesting conditions and cancellations ³
HKFRS 2 (Amendment)	Group cash-settled share-base payment transactions ⁵
HKFRS 3 (Revised)	Business combinations ⁴
HKFRS 7 (Amendment)	Improving disclosures about financial instruments ³
HKFRS 8	Operating segments ³
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives ⁶
HK(IFRIC) - INT 13	Customer loyalty programmes ⁷
HK(IFRIC) - INT 15	Agreements for the construction of real estate ³
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation ⁸
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ⁴
HK(IFRIC) - INT 18	Transfers of assets from customers ⁹

¹ Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.

² Effective for annual periods beginning on or after 1st January, 2009, 1st July, 2009 and 1st January, 2010, as appropriate.

³ Effective for annual periods beginning on or after 1st January, 2009.

⁴ Effective for annual periods beginning on or after 1st July, 2009.

⁵ Effective for annual periods beginning on or after 1st January, 2010.

⁶ Effective for annual periods ending on or after 30th June, 2009.

⁷ Effective for annual periods beginning on or after 1st July, 2008.

⁸ Effective for annual periods beginning on or after 1st October, 2008.

⁹ Effective for transfers on or after 1st July, 2009.

The management of the Fund anticipate that the application of above new or revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Fund.

**THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
SOCIAL FUND**

3. SUMMARY OF THE RECLASSIFICATION OF INCOME AND EXPENDITURE ACCOUNT

	<u>2009</u> HK\$	<u>2008</u> HK\$
Other income		
Air conditioning income	1,019,467	883,849
Program income	14,125,818	13,120,526
Project program income	5,193,751	5,799,184
Other income	25,041,171	21,531,097
	<u>45,380,207</u>	<u>41,334,656</u>
Programs, administration and others		
Cost of goods sold	(1,968,511)	(2,438,869)
Supplies purchases for resale	(3,143,434)	(2,837,248)
Other expenses	(75,532,270)	(71,066,269)
	<u>(80,644,215)</u>	<u>(76,342,386)</u>

Air conditioning income, program income and project program income of HK\$1,019,467 (2008: HK\$883,849), HK\$14,125,818 (2008: HK\$13,120,526) and HK\$5,193,751 (2008: HK\$5,799,184) which were previously included in Programs, administration and others have been reclassified to Other income. Cost of goods sold and supplies purchases for resale of HK\$1,968,511 (2008: HK\$2,438,869) and HK\$3,143,434 (2008: HK\$2,837,248) which were previously included in Other income have been reclassified to Programs, administration and others. Air conditioning income represented the income for providing air conditioning to the hostels. Program income represented program fee income received from participants generated from different programs in the services centres. Project program income represented reimbursement of expenses for specific projects received from different charities or organisations. Cost of goods sold represented cost of goods sold and services rendered at the pool-side restaurant, in the Shatin family store and in the Shatin Park Kiosk. Supplies purchases for resale represented the cost for miscellaneous goods sold in various centers and elderly home for residents and members. The Finance Council members of the Salvation Army, Hong Kong and Macau Command consider that the reclassifications reflect more appropriately the presentation of the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with HKFRSs issued by the HKICPA.

Revenue recognition

Income from donations are recognised when cash is received.

Program income, dues and fees represent charges made by the social service units for their services provided to individuals and are recognised as income when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Income from government grants and subventions are recognised in accordance with the Fund's accounting policies for government grants and subventions set out below.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Government grant and subventions

A government grant and subventions is recognised, when there is a reasonable assurance that the Fund will comply with the conditions attaching with it and that the grant will be received.

Grants and subventions from government, other than Lump Sum Grant from Social Welfare Department as set out below, which are earmarked for specific purposes, are initially recognised as deferred income or in the fund accounts classified as liabilities and then they are recognised in the income and expenditure account over the period necessary to match with the related costs which they are intended to compensate.

Deferred income on government grants

Funds under deferred income on grants are established from government grants and are earmarked for specific purposes. Any unspent amounts are not required to be refunded to the Government. The revenue recognition policy is set out in policy above.

Furniture and equipment replenishment and minor works block grant reserve ("Block Grant Reserve")

Furniture and Equipment Replenishment and Minor Works Block Grant Reserve included in deferred income on Grants represents grants for replenishment of furniture and equipment and minor works relating to the provision of subvented welfare services.

This Block Grant Reserve is represented by the unspent Block Grant, which according to Chapter 4.4.2 of the "Lotteries Fund Manual", must be kept in a separate interest bearing account.

Lotteries Fund Grant

The Lotteries Fund Grant represent grants for purchases of recreational equipment, furniture and fittings, minor repair and maintenance work and other improvement projects in relation to the provision of subvented welfare services. The revenue recognition policy is set out in policy relating to Government grant. The interest income generated from this Lotteries Fund Grant account is recognised in the Lotteries Fund Grant accounts directly as it may be utilised as part of the grant.

The Lotteries Fund is represented by the unspent Lotteries Fund Grant, which according to Rules 4.39 of the "Guide to Social Welfare Subventions", must be kept in a separate interest bearing account and requires to be refunded to the Social Welfare Department.

Lump Sum Grant Reserve Fund

Lump Sum Grant was implemented by the Social Welfare Department for the Fund to cover certain approved expenditures including staff costs, provident fund contributions and other operating expenditure. The Lump Sum Grant is recognised as income upon receipt. The net surplus of the grant for the year, including the interest income generated from the surplus of Lump Sum Grant, is transferred from the income and expenditure account to the "Lump Sum Grant Reserve Fund".

The Lump Sum Grant Reserve Fund is represented by the unspent Lump Sum Grant, which according to Rule 2.33 of the "Social Welfare Services Lump Sum Grant Manual", must be kept in a separate interest bearing account.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Designated funds

Designated funds are funds set aside by the Fund for designated purposes. The income and expenditure relating to these funds are directly dealt with in the income and expenditure account. Any net surpluses or deficits relating to these funds are transferred from the income and expenditure account to these funds.

Community service reserve

The fund is represented by the leftovers from closed accounts of community services and funds available for non-subsented services or pilot projects.

Library fund

The fund is represented by funds available for the purchase of books at libraries.

Resource centres

The funds is represented by the funds available for the purchase of educational equipment and the upkeep of these resource centres.

Singleton hostel

The fund is represented by the funds available for the operation and maintenance of the Sunrise House in order to provide quality living condition to the Bed Space Apartment lodgers.

Sponsorship schemes

The fund is represented by the funds available for financing various sponsorship schemes not covered by government subventions.

Staff training fund

The fund is represented by the funds available for staff training and education purposes.

Other restricted donations

The balance represents various general donations and set aside by the Fund for specific purposes which are principally for purchase of equipment for the elderly homes and the organisation of festivals and other programs for the elderly, and financing various summer activities organised by the Fund.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any identified impairment loss at the balance sheet date.

The cost of leasehold improvements is depreciated over the period of five years or, where shorter, the remaining terms of the leases using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment after taking into account of their estimated residual values, using the straight line method at the following rates per annum:

Furniture, fixtures and equipment	25%
Computer equipment	33%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Fund reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Fund becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets

The Fund's financial assets comprise loans and receivables, which include bank balances and cash.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, deposits and prepayments, amount due from Social Welfare Department on Lotteries Fund and amount due from General Fund) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Bank balances and cash

Bank balances and cash comprise cash at bank and cash at hand and are subject to insignificant risk of change in value.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the expenditure account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Impairment of financial assets - continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Subsequent recoveries of amounts previously written off are credited to income immediately.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed and is credited to income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including accounts payable and accrued charges, amount due to Social Welfare Department, amount due to Property Fund, amount due to Trade Fund and amount due to Education Fund are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Fund has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in total funds is recognised in income and expenditure.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income and expenditure account.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

Long service payments

Certain of the Fund's employees have completed the required number of years of service to the Fund in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Fund is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Fund to the balance sheet date.

Pension obligations

The Fund operates defined contribution retirement schemes under the Occupational Retirement Schemes Ordinance ("ORSO scheme") and a mandatory provident fund scheme ("MPF scheme") in Hong Kong, the assets of which are held in separate trustee-administered funds. The Schemes are funded by payments from employees and by the Fund. The Fund's contributions to the Schemes are based on a fixed percentage of the employees' relevant salaries or income.

The Fund's contributions to both Schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the Schemes prior to vesting fully in the contributions.

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION
UNCERTAINTY

In the process of applying the Fund's accounting policies which are described in note 4, the Finance Council had made all reasonable judgements and no specific judgements had significant effect on the amounts recognised in the financial statements.

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
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6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	<u>2009</u> HK\$	<u>2008</u> HK\$
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>145,128,729</u>	<u>140,174,334</u>
Financial liabilities		
Amortised cost	<u>9,686,622</u>	<u>11,432,534</u>

b. Financial risk management objectives and policies

The Fund's major financial instruments include accounts receivable, deposits and prepayments, amount due from/to Social Welfare Department, amount due from/to inter-funds, bank balances and cash, accounts payables and accrued charges and deferred income on Grants. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include liquidity risk. The policies on how to mitigate the risk is set out below. The management manages and monitors the exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Fund's exposure to the risk mentioned above or the manner in which it manages and measures the risk.

Liquidity risk management

In the management of the liquidity risk, the Fund monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Fund's operations and mitigate the effects of fluctuations in cash flows.

The following table shows the details of the Fund's contractual maturity of the financial instruments.

	Weighted average effective interest rate %	Repayable on demand HK\$	1 - 3 months HK\$	Total undiscounted cash flows HK\$	Carrying amount HK\$
<u>2009</u>					
Non-derivative financial liabilities					
Accounts and other payable	N/A	-	(1,722,033)	(1,722,033)	(1,722,033)
Amount due to Social Welfare Department	N/A	(6,911,068)	-	(6,911,068)	(6,911,068)
Amount due to Property Fund	N/A	(290,806)	-	(290,806)	(290,806)
Amount due to Trade Fund	N/A	(1,365)	-	(1,365)	(1,365)
Amount due to Education Fund	N/A	(761,350)	-	(761,350)	(761,350)
		<u>(7,964,589)</u>	<u>(1,722,033)</u>	<u>(9,686,622)</u>	<u>(9,686,622)</u>
<u>2008</u>					
Non-derivative financial liabilities					
Accounts and other payable	N/A	-	(2,086,799)	(2,086,799)	(2,086,799)
Amount due to Social Welfare Department	N/A	(5,043,548)	-	(5,043,548)	(5,043,548)
Amount due to Property Fund	N/A	(495,762)	-	(495,762)	(495,762)
Amount due to Trade Fund	N/A	(2,309)	-	(2,309)	(2,309)
Amount due to Education Fund	N/A	(3,804,116)	-	(3,804,116)	(3,804,116)
		<u>(9,345,735)</u>	<u>(2,086,799)</u>	<u>(11,432,534)</u>	<u>(11,432,534)</u>

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6. FINANCIAL INSTRUMENTS - continued

c. Fair value of the financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The management of the Fund consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values at the respective balance sheet dates.

7. GOVERNMENT GRANTS AND SUBVENTIONS

	<u>2009</u> HK\$	<u>2008</u> HK\$
Social Welfare Department subventions:		
- Lump Sum Grant and Special One-off Grant	233,602,055	221,287,791
- Central items, rent and rates, and other subvention	30,577,899	24,146,908
- Lotteries Fund Block Grant	2,594,799	2,197,679
- Lotteries Fund Grant	3,097,214	6,131,526
- Lotteries One-Off subsidy	2,311,839	-
- Subsidy on the deficit of prior years	58,773	510,085
Leisure and Culture Service Department Subventions	1,661,390	1,629,853
	<u>273,903,969</u>	<u>255,903,842</u>

8. DONATIONS FROM THE COMMUNITY CHEST

	<u>2009</u> HK\$	<u>2008</u> HK\$
Donations for Baseline Allocation		
Total received during the year	2,661,015	2,534,300
Allocation during the year		
North Point Creche and Pak Tin Creche	(136,200)	(136,200)
Non-subsented Central Administration	(406,700)	(406,700)
	<u>2,118,115</u>	<u>1,991,400</u>
Donations for Capital Project Fund	400,247	-
Donations received	<u>2,518,362</u>	<u>1,991,400</u>

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9. STAFF COSTS (INCLUDING FINANCE COUNCIL MEMBERS' EMOLUMENTS)

	<u>2009</u> HK\$	<u>2008</u> HK\$
Wages and salaries	248,676,402	227,185,517
Provision (write-back) for long service payments	2,825,768	(150,980)
Provision for unutilised annual leave	1,465,988	288,950
Pension costs - ORSO Scheme	11,191,635	10,612,456
Pension costs - MPF Scheme	7,512,231	6,358,974
	<u>271,672,024</u>	<u>244,294,917</u>

10. FINANCE COUNCIL MEMBERS' EMOLUMENTS

	<u>2009</u> HK\$	<u>2008</u> HK\$
Fees	-	-
Wages and salaries	1,240,911	923,034
Pension cost - ORSO Scheme	166,896	26,168
Pension costs - MPF Scheme	5,338	37,429
	<u>1,413,145</u>	<u>986,631</u>

11. THE COMMUNITY CHEST CAPITAL PROJECT FUND

	<u>2009</u> HK\$	<u>2008</u> HK\$
Donations received (included in donations from the Community Chest) (note 8)	400,247	-
Expenses incurred	(400,247)	-
	<u>-</u>	<u>-</u>

12. THE COMMUNITY CHEST TIME-LIMITED PROJECT

	<u>2009</u> HK\$	<u>2008</u> HK\$
Donations received	-	-
Expenses incurred	(355,315)	-
	<u>(355,315)</u>	<u>-</u>

13. TAXATION

The Fund is exempted under Section 88 of the Hong Kong Inland Revenue Ordinance from any tax by reason of the Army being a charitable institution of a public character.

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14. PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold improvement</u> HK\$	<u>Furniture, fixtures and equipment</u> HK\$	<u>Computer equipment</u> HK\$	<u>Total</u> HK\$
COST				
At 1st April, 2007	7,191,046	3,876,659	1,126,137	12,193,842
Additions	3,709,153	1,787,204	611,999	6,108,356
At 31st March, 2008	10,900,199	5,663,863	1,738,136	18,302,198
Additions	3,638,713	1,794,635	344,122	5,777,470
At 31st March, 2009	14,538,912	7,458,498	2,082,258	24,079,668
ACCUMULATED DEPRECIATION				
At 1st April, 2007	2,969,479	686,577	322,033	3,978,089
Charge for the year	1,564,873	1,102,812	440,277	3,107,962
At 31st March, 2008	4,534,352	1,789,389	762,310	7,086,051
Charge for the year	3,444,005	1,538,935	565,547	5,548,487
At 31st March, 2009	7,978,357	3,328,324	1,327,857	12,634,538
CARRYING VALUES				
At 31st March, 2009	6,560,555	4,130,174	754,401	11,445,130
At 31st March, 2008	6,365,847	3,874,474	975,826	11,216,147

15. AMOUNTS DUE FROM/TO INTER-FUNDS

Amounts represented the balances due from/to General Fund, Property Fund, Trade Fund and Education Fund of the Army.

These amounts due are interest free, unsecured and with no fixed terms of repayment.

16. AMOUNT DUE TO SOCIAL WELFARE DEPARTMENT

	<u>2009</u> HK\$	<u>2008</u> HK\$
Social Welfare Subvention	1,058,905	1,084,897
Lump Sum Grant on central items, rent and rates	4,357,693	1,646,912
Lotteries Fund Grant	1,494,470	2,311,740
	<u>6,911,068</u>	<u>5,043,549</u>

The amounts are interest free, unsecured and repayable on demand.

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17. DEFERRED INCOME ON GRANTS

	At <u>1st April</u> HK\$	Receipts for <u>the year</u> HK\$	Credited to the income and expenditure <u>account</u> HK\$ (Note)	At <u>31st March</u> HK\$
<u>2009</u>				
Block Grant Reserve	600,458	2,291,295	(2,594,799)	296,954
One-off Subsidy	-	6,602,288	(2,311,839)	4,290,449
	<u>600,458</u>	<u>8,893,583</u>	<u>(4,906,638)</u>	<u>4,587,403</u>
<u>2008</u>				
Block Grant Reserve	645,846	2,152,291	(2,197,679)	600,458
One-off Subsidy	-	-	-	-
	<u>645,846</u>	<u>2,152,291</u>	<u>(2,197,679)</u>	<u>600,458</u>

Note:

Movement of the Furniture & Equipment Replenishment and Minor Works Block Grant Reserve is as follows:

	<u>2009</u> HK\$	<u>2008</u> HK\$
At 1st April	600,458	645,846
Block Grant received during the year	2,277,000	2,137,000
Interest income	14,295	15,291
	<u>2,891,753</u>	<u>2,798,137</u>
Expenditure during the year		
Minor works projects	1,051,778	837,575
Furniture and equipment expenses	1,048,435	871,102
Vehicle overhauling	494,586	489,002
	<u>2,594,799</u>	<u>2,197,679</u>
At 31st March	<u>296,954</u>	<u>600,458</u>

Movement of One-off Subsidy is as follows:

	<u>2009</u> HK\$	<u>2008</u> HK\$
At 1st April	-	-
One-off Subsidy received	6,602,288	-
	<u>6,602,288</u>	<u>-</u>
Expenditure during the year		
One-off HRM initiatives	2,186,988	-
Staff training programme	124,851	-
	<u>2,311,839</u>	<u>-</u>
At 31st March	<u>4,290,449</u>	<u>-</u>

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
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18. DESIGNATED FUNDS

	Community Service Reserve HK\$	Library Fund HK\$	Resource Centres HK\$	Singleton Hostel HK\$	Sponsorship Schemes HK\$	Staff Training Fund HK\$	Other Restricted Donations HK\$	Total HK\$
At 1st April, 2007	6,181,035	7,902	7,962,117	146,769	41,817	170,272	14,941,078	29,450,990
Inter Fund Transfer	(2,169,763)	-	-	-	-	-	2,169,763	-
Transfer from income and expenditure account	-	-	1,171,822	227,221	-	-	3,969,492	5,368,535
At 31st March, 2008	4,011,272	7,902	9,133,939	373,990	41,817	170,272	21,080,333	34,819,525
Inter Fund Transfer	-	-	(942,056)	-	-	-	942,056	-
Transfer from (to) income and expenditure account	(17,139)	-	(220,420)	550,317	-	-	1,282,760	1,595,518
At 31st March, 2009	3,994,133	7,902	7,971,463	924,307	41,817	170,272	23,305,149	36,415,043

19. OPERATING LEASE COMMITMENT

As at the balance sheet date, the Fund had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2009 HK\$	2008 HK\$
Within one year	9,540,823	9,792,048
In the second to fifth years inclusive	211,375	9,129,863
	<u>9,752,198</u>	<u>18,921,911</u>

20. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the financial statements, during the year, the Social Fund had the following inter-fund transactions with other funds of the Army:

	Note	2009 HK\$	2008 HK\$
Purchase of supplies from Trade Fund		23,029	25,965
Payment of management fees and property maintenance expenses to Property Fund	a	<u>746,286</u>	<u>695,148</u>

Note:

- (a) During the year, certain centers of the Social Fund occupied rent-free premises that were administered by Property Fund for the Army. Management fees and property maintenance expenses were paid to Property Fund by the Social Fund.