

## FINANCIAL REVIEW 2008/09

### *Introduction*

The accompanying condensed financial statements summarize the financial position of The Governing Council of The Salvation Army in Canada ("The Governing Council") as of March 31, 2009, and its revenues and expenses during the year then ended.

The Governing Council was incorporated by an Act of Parliament in 1909 for the purposes of administering the property, business, and other temporal affairs of The Salvation Army in Canada. The Salvation Army is a religious, charitable and not-for-profit organization, registered by Canada Revenue Agency for tax-deductible contributions.

The Salvation Army in Canada and Bermuda is comprised of 500 individual operating units, scattered throughout all 10 Canadian provinces, the Yukon, Nunavut, and the Northwest Territories, as well as in Bermuda. The Army's operations include corps (churches), community centres, hospitals, long-term care facilities, hospices, transitional housing, addictions and rehabilitation centres, and various other social programs. The Army is the largest non-governmental direct provider of social services in Canada.

These financial statements reflect the financial position and operations of the Territorial Headquarters, 11 Divisional Headquarters, National Recycling Operations, the College for Officer Training, William and Catherine Booth College, and Grace Communities Corporation. In addition, they include real estate and investment assets for all Salvation Army operations in Canada because The Governing Council is the legal owner of these assets and holds them in trust on behalf of operating units.

Separate financial statements are issued for each of the operating units in order to fulfill obligations for accountability to local communities, contributors and funding agencies. A project is currently underway to permit the publication of consolidated financial statements reflecting all operating units in the near future. In the meantime, the accompanying consolidated charts have been prepared from all operating budgets for the year 2008/09 to help provide an understanding of the overall size and scope of the Army's operations in Canada and Bermuda.

Copies of the complete financial statements from which these condensed statements have been derived are available on request from the Finance Department, 2 Overlea Boulevard, Toronto, Ontario M4H 1P4, or may be downloaded from our website at [www.SalvationArmy.ca](http://www.SalvationArmy.ca).

## *Financial highlights*

During, 2008/09, The Governing Council realized a deficit of \$37.6 million, compared to \$7.9 million in the prior year.

In total, revenues of \$227 million were realized during the year, a decrease of \$49 million from 2007/08. Of this revenue, \$110 million was in the form of donations and legacies, virtually the same amount as in the prior year. In addition to the amounts reflected in these financial statements, another \$38 million was raised directly by operating units, bringing the total public support to The Salvation Army in Canada and Bermuda to \$148 million during the past year.

The National Red Shield Appeal, the Army's primary fundraising campaign for its social service operations, declined slightly from \$42.2 million in 2007/08 to \$42.1 million in 2008/09. These funds are essential to the Army's provision of social services in communities all across Canada, many of which are experiencing financial challenges in these recessionary times.

Income from bequests totalled \$41.6 million, down from \$43.4 million in the prior year. The Army maintains effective systems to ensure that funds are used in accordance with the testator's wishes in all cases. Where funds are unrestricted, they are allocated to the territorial budget and used for territorial and divisional headquarters operations, as well as to make grants and allocations to operating units.

The second largest source of revenue, \$79.3 million, was from ancillary operations, most of which represents the sale of used textiles and other goods through the Army's thrift stores and recycling centres. After deducting costs of \$77.2 million, net profits of \$2.1 million were realized from ancillary operations.

The worldwide crisis in the financial markets dealt a significant blow to the Army's investments. A loss of \$19.6 million was realized, in comparison to gains of \$42.9 million in the prior year. In addition, unrealized gains of \$47.0 at March 31, 2008, were translated into unrealized losses of \$40.2 million by March 31, 2009. Fortunately, The Governing Council has implemented a spending policy for investment income, which results in budgetary allocations being based on long-term expected earnings, rather than actual income realized in a particular year. This approach lessens the impact of the natural volatility of capital markets on the annual operating budget. However, in spite of this, the Army's net financial position at March 31, 2009, was almost \$125 million less than at March 31, 2008, much of which directly relates to the downturn in capital markets. While the Army expects to recover much of these losses over the long-term, the Territorial Finance Council and Investment Advisory Committee are paying close attention to the Army's investment policies to ensure they continue to meet the Army's long-term needs for funds.

Investments are centralized in the General Investment Fund, which holds in trust the surplus operating funds, endowments, and long-term donor-restricted funds of all Salvation Army units. Interest is paid on constituent accounts based on prevailing market rates. Net profits from the Fund are used to offset costs of administration, as well as to make allocations to programs and services.

The General Investment Fund is managed by external investment managers in accordance with a statement of investment policy and procedures, which establishes quality constraints, as well as prohibiting investment in companies whose primary business is the manufacture, distribution or promotion of alcohol, tobacco, pornography, gaming, gaming facilities, or armaments. An investment advisory committee assists the Army by regularly reviewing both the investment policy, as well as individual manager's performance.

Levies and assessments represents fees charged to operating units to cover overall management and administrative costs at divisional and territorial headquarters, as well as costs of programs administered nationally, including insurance and officers benefits.

Capital contributions represent funds received for building projects, to either construct new facilities or renovate existing buildings. Contributions to these projects include capital reserves withdrawn from restricted deposits held on behalf of operating units, as well as grants from governments, and the results of capital fundraising campaigns.

Expenses were reduced from \$284 million in 2007/08 to \$264.6 million in 2008/09. The 2007/08 figures included a net loss on disposal of capital assets of \$30.9 million. The Army transferred ownership of its Grace General Hospital in Winnipeg to the regional health authority on April 1, 2008. Although title was held by the Army, government had contributed virtually all of the funds for capital expenditures over the years and, as a result, when the operations were transferred to the regional health authority, the assets were also transferred.

More detailed information concerning the statement of operations can be found in the complete financial statements, as noted above.

### *Executive compensation*

The compensation package for all commissioned officers of The Salvation Army includes housing accommodation, with furnishings and utilities provided by the Army, a leased vehicle or vehicle allowance, and a cash allowance based on years of service. The cost of compensation provided to senior officers is comparatively lower than that paid to executives in other similar organizations. The employment income for tax purposes reported in 2008 for the five most senior

officers of The Salvation Army in Canada, ranged from \$30,585 to \$42,101, with an average of \$36,196.

Non-officer executives are retained to provide professional expertise in specialized areas. While salaries are typically less than comparable positions in the for-profit sector, there is increased competition among large and complex not-for-profit organizations for professional staff, and as a result, compensation for executives in the sector has increased in recent years.

In 2008, there were 18 non-officer executives employed by The Salvation Army at its territorial and divisional headquarters whose total employment income for tax purposes was above \$100,000. Their income for tax purposes ranged from \$110,263 to \$226,618, with an average of \$143,318.

There is a tension between paying competitive salaries to attract the right people on the one hand, and ensuring that executive compensation does not reach unreasonable levels on the other. This tension is particularly acute in the not-for-profit sector where organizations and donors are both concerned about keeping administrative costs low so as to maximize funds available for direct service delivery. We believe that The Salvation Army is managing this tension well.

### ***Public accountability***

The Salvation Army recognizes its accountability for the financial resources placed at its disposal by its contributors for the furtherance of its mission to serve the most vulnerable in our society.

The Salvation Army's social conscience stems from its Christian values. While it is both a Christian denomination and a social service agency, and believes in a holistic ministry, the Army maintains separate financial structures for its social service programs and its community church operations. Where community churches receive funding from the National Red Shield Appeal, they are required to demonstrate that these funds have been used for social and community services, rather than congregational ministries.

### ***Management responsibility for financial reporting***

These financial statements are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations as established by the Accounting Standards Board of the Canadian Institute of Chartered Accountants.

The preparation of financial information is an integral part of the ongoing management of the Army. Management has established internal control systems to ensure that all financial details are objective and reliable, and that the organization's assets are safeguarded.


The Governing Council has overall responsibility for the financial statements, assisted by the Territorial Finance Council, which meets regularly with management as well as internal and external auditors to help ensure the adequacy of internal controls, and to review the financial statements and auditors' report.

The Governing Council appoints the auditors and approves the financial statements, based on a recommendation from the Territorial Finance Council.

The financial statements have been audited by external auditors KPMG LLP, Chartered Accountants. Their report outlines the scope of KPMG's examination as well as their opinion on the financial statements.

A handwritten signature in black ink, appearing to read "Neil Watt". The signature is stylized with a large initial "N" and a long horizontal stroke at the end.

Neil Watt, *Lt. Colonel*  
Territorial Secretary for Business Administration

A handwritten signature in black ink, appearing to read "R. Paul Goodyear". The signature is written in a cursive style with a long, sweeping tail.

R. Paul Goodyear, *CMA, FCMA*  
Territorial Financial Secretary