

HOPE + DIGNITY



Giving
Hope
Today



The Governing Council of
The Salvation Army in Canada

AUDITED FINANCIAL STATEMENTS

For the year ended
March 31, 2010

**Over 1.6 million people were helped
by The Salvation Army in Canada
and Bermuda last year.**

Addictions, Recovery and Shelter

6,370 shelter, addictions, detox and mental health beds provided each night for vulnerable men, women and families

2,817 people completed addictions and rehabilitation programs

2.8 million meals served

Community Churches

313 community churches

Community and Family Services

1,095,000 persons assisted with food, clothing or practical assistance

4,800 children went to Salvation Army camps

18 daycare centres provide a total of **1,008** available spaces

Emergency Disaster Services

33,072 people helped when disaster struck

Hospice, Health and Long-Term Care

200 hospital beds provided

1,500 long-term care and supportive housing beds provided

40 hospice beds provided

Work in Developing Countries

112 projects in **32** countries

2,622 children sponsored

53 Salvation Army officers and lay personnel serving outside Canada

Personnel

860 active Salvation Army officers

927 retired Salvation Army officers

9,270 employees

1.1 million volunteer hours provided

CONTENTS

PAGE

Auditors' Report

*

Balance Sheet

1

Statement of Operations

3

Statement of Changes
in Fund Balances

4

Statement of Cash Flows

5

Notes to Financial Statements

6

Audited Financial Statements of

**THE GOVERNING COUNCIL OF
THE SALVATION ARMY IN CANADA**

Year ended March 31, 2010



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AUDITORS' REPORT

To The Governing Council of The Salvation Army in Canada

We have audited the balance sheet of The Governing Council of The Salvation Army in Canada ("The Salvation Army") as at March 31, 2010 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of The Salvation Army's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, The Salvation Army derives part of its revenue from the general public in the form of donations and legacies, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of revenue from these sources was limited to the amounts recorded in The Salvation Army's records and we were not able to determine whether any adjustments might be necessary to donations and legacies revenue, excess (deficiency) of revenue over expenses and allocations, fund balances and assets.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donations and legacies revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of The Salvation Army as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
June 11, 2010

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Balance Sheet
(In thousands of dollars)

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,740	\$ 29,325
Receivables, principally from Salvation Army entities	19,505	17,588
Other current assets	2,819	3,734
	<u>73,064</u>	<u>50,647</u>
Investments:		
Securities (note 5)	598,867	491,377
Loans receivable, principally from Salvation Army entities (note 7)	17,055	17,380
	<u>615,922</u>	<u>508,757</u>
Accrued pension asset (note 8)	8,473	6,389
Capital assets (note 9)	697,780	683,828
	<u>\$ 1,395,239</u>	<u>\$ 1,249,621</u>

	2010	2009
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Liabilities and Fund Balances

Current liabilities:

Accounts payable and accrued liabilities	\$ 28,503	\$ 39,617
Deferred revenue	5,126	9,715
	<u>33,629</u>	<u>49,332</u>

Long-term liabilities:

Post-retirement benefits (note 8)	32,786	30,677
Mortgages payable (note 10)	97,993	98,841
Derivative liability (note 6(b))	1,828	3,836
Restricted deposits held principally for Salvation Army entities	237,224	222,951
Deposits on life leases (note 11)	14,371	14,720
	<u>384,202</u>	<u>371,025</u>

Fund balances:

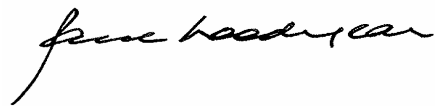
Operating	11,531	6,701
Net unrealized gains (losses) on securities (note 5(b))	45,663	(40,208)
Endowment (note 13(a))	72,499	66,048
Other Restricted (note 13(b))	280,594	243,852
Capital (note 9)	567,121	552,871
	<u>977,408</u>	<u>829,264</u>

Contingencies and commitments (notes 18 and 19)

	\$ 1,395,239	\$ 1,249,621
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See accompanying notes to financial statements.

Approved by The Governing Council:



Member



Member

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010			2009		
	Operating Fund	Endowment	Restricted Funds Other	Capital	Total	Total
Revenue:						
Donations and grants	\$ 6,137	\$ 21	\$ 75,516	\$ 4,189	\$ 85,863	\$ 68,165
Ancillary operations	78,470	-	-	-	78,470	76,501
Legacies	24,004	7,168	22,712	-	53,884	41,610
Capital contributions	-	-	-	29,297	29,297	22,394
Investment income (loss) (note 14)	23,091	2,591	-	-	25,682	(13,045)
Levies, assessments and supervision	26,119	-	-	-	26,119	26,734
Net gain on disposal of capital assets	-	-	-	7,929	7,929	3,841
Other	8,592	-	3,600	2,008	14,200	11,030
	166,413	9,780	101,828	43,423	321,444	237,230
Expenses and allocations:						
Allocations/grants to other						
Salvation Army entities:						
Canada and Bermuda	2,777	-	71,896	5,148	79,821	79,842
Overseas	250	-	6,453	-	6,703	7,718
Ancillary operations	73,966	-	-	-	73,966	77,192
Headquarters' operating costs	30,377	-	-	-	30,377	32,918
Fundraising, planned giving and public relations	7,062	-	11,763	-	18,825	20,073
Investment expenses	2,313	-	-	-	2,313	2,366
Interest paid on restricted deposits	2,048	-	-	-	2,048	5,746
Leadership development and training	5,054	-	-	-	5,054	5,513
Officers' benefit plans	13,441	-	-	-	13,441	13,675
Amortization	-	-	-	20,562	20,562	20,480
Other	5,108	-	375	578	6,061	9,321
	142,396	-	90,487	26,288	259,171	274,844
Excess (deficiency) of revenue over expenses and allocations	\$ 24,017	\$ 9,780	\$ 11,341	\$ 17,135	\$ 62,273	\$ (37,614)

See accompanying notes to financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Statement of Changes in Fund Balances (In thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010		2009				
	Operating Fund	Net unrealized gains (losses) on securities	Restricted Funds	Total			
			Endowment (note 13(a))	Other (note 13(b))			
				Capital (note 9)			
				Total			
Fund balances, beginning of year	\$ 6,701	\$ (40,208)	\$ 66,048	\$ 243,852	\$ 552,871	\$ 829,264	\$ 954,042
Excess (deficiency) of revenue over expenses and allocations	24,017	-	9,780	11,341	17,135	62,273	(37,614)
Realized gain on securities recognized during year	-	2,477	-	-	-	2,477	37,202
Net unrealized gain (loss) in current year on securities	-	83,394	-	-	-	83,394	(124,366)
Net interfund transfers (note 15)	(19,187)	-	(3,329)	25,401	(2,885)	-	-
Fund balances, end of year	\$ 11,531	\$ 45,663	\$ 72,499	\$ 280,594	\$ 567,121	\$ 977,408	\$ 829,264

See accompanying notes to financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Statement of Cash Flows (In thousands of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses and allocations	\$ 62,273	\$ (37,614)
Items not affecting cash (note 16(a))	14,846	67,715
Change in non-cash operating working capital (note 16(b))	(17,030)	11,259
Contributions to other post-retirement benefits	(3,247)	(3,878)
Contributions to defined benefit and supplemental pension plans	(6,895)	(4,739)
	49,947	32,743
Financing activities:		
Decrease (increase) in loans receivable	325	(970)
Decrease in mortgages payable	(523)	(725)
Increase in restricted deposits	14,273	10,564
Decrease in deposits on life leases	(349)	(402)
	13,726	8,467
Investing activities:		
Purchase of securities, net	(15,673)	(40,011)
Additions to capital assets	(38,696)	(34,283)
Proceeds on disposal of capital assets	12,111	8,966
	(42,258)	(65,328)
Increase (decrease) in cash and cash equivalents	21,415	(24,118)
Cash and cash equivalents, beginning of year	29,325	53,443
Cash and cash equivalents, end of year	\$ 50,740	\$ 29,325

See accompanying notes to financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2010

The Governing Council of The Salvation Army in Canada ("The Salvation Army" or the "Organization") is a religious, charitable and not-for-profit organization, incorporated by a special Act of Parliament and registered by Canada Revenue Agency for tax-deductible contributions.

The Salvation Army, as an international movement, is an evangelical branch of the Christian Church. Its message is based on the Bible; its ministry is motivated by love for God and the needs of humanity. Its mission is to preach the gospel of Jesus Christ, supply basic human needs, provide personal counselling, and undertake the spiritual and moral regeneration and physical rehabilitation of all persons in need who come within its sphere of influence regardless of race, creed, sex or age.

The Salvation Army is comprised of approximately 500 individual ministry units, scattered throughout all 10 Canadian provinces, the Yukon, Nunavut, and the Northwest Territories, as well as in Bermuda. Its territorial headquarters is located in Toronto, Ontario, and there are divisional headquarters in Vancouver, Edmonton, Winnipeg, London, Toronto, Montreal, Halifax, St. John's, and Hamilton, Bermuda.

The Salvation Army's operations in Canada and Bermuda (collectively the "Territory") include corps (churches), community centres, hospitals, long-term care facilities, hospices, transitional housing, shelters, addictions and rehabilitation centres, and various other social programs.

1. Basis of presentation:

These financial statements present, in accordance with Canadian generally accepted accounting principles, the assets, liabilities, revenue, expenses and cash flows of the Territorial Headquarters ("THQ"), the nine Divisional Headquarters ("DHQ"), National Recycling Operations ("NRO"), the colleges of The Salvation Army in Canada and Bermuda and Grace Communities Corporation ("GCC"). They include the real estate for all Salvation Army entities in the Territory because the Organization has legal title to it. Also included are funds held in trust for all Salvation Army entities in the Territory.

Separate financial statements are prepared for all Salvation Army operations, including corps and community churches, institutions, hospitals and GCC.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

1. Basis of presentation (continued):

(a) Operating Fund:

The purpose of the Operating Fund is to record the day-to-day operations of THQ, DHQ, NRO, colleges and GCC, including the receipt and use of donations and legacies with no external restrictions.

(b) Restricted Funds:

(i) Endowment Fund:

The purpose of the Endowment Fund is to record the accumulation of externally restricted endowment contributions and unrestricted amounts internally designated as endowments.

External restrictions refer to any conditions or specific uses that have been requested or required by the donor(s) in making a gift to The Salvation Army. Internal restrictions refer to those funds which management has earmarked for specific purposes, where the donors have not placed any restrictions on their use.

(ii) Other Restricted Funds:

The Other Restricted Funds record the receipt and use of funds for the National Red Shield Appeal campaigns, the World Services Appeal campaigns, donations and legacies with external restrictions other than endowments and transactions impacting internally restricted reserves. Funds raised through the National Red Shield Appeal campaigns are used to support the social and community services work of The Salvation Army in Canada and Bermuda. Funds raised through the World Services Appeal campaign are used to support the work of The Salvation Army internationally.

(iii) Capital Fund:

The purpose of the Capital Fund is to record the real estate for all Salvation Army entities in the Territory.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

2. Significant accounting policies:

(a) Cash and cash equivalents:

The Salvation Army considers deposits in banks, certificates of deposit and other short-term investments with original maturities of 90 days or less at the date of acquisition as cash and cash equivalents.

(b) Inventories:

Inventories are valued at the lower of cost and net realizable value. Inventories are included on the balance sheet as other current assets. Donated inventory is not reflected in these financial statements.

(c) Securities:

Securities are classified as available-for-sale and stated at fair value. The change in the difference between the fair value and cost of securities at the beginning and end of each year is reflected in the statement of changes in fund balances. Equities and fixed income securities are valued at year-end quoted market prices. Transaction costs that are directly attributable to the acquisition of securities are not considered significant and are expensed when paid. Investment purchases and sales transactions are accounted for on the settlement date.

(d) Financial instruments other than securities:

The Organization designates its cash and cash equivalents as held-for-trading, which is measured at fair value. Receivables and loans receivable, principally from Salvation Army entities, are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, restricted deposits held principally for Salvation Army entities and mortgages payable are classified as other financial liabilities, which are measured at amortized cost.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

2. Significant accounting policies (continued):

The Organization uses interest rate swaps to manage fluctuations in interest rates on long-term mortgages. The interest rate swaps are used for risk management purposes only and do not meet the criteria for hedge accounting, as specified by The Canadian Institute of Chartered Accountants ("CICA"). Variations in the fair value are marked to market on a current basis, with the resulting gains or losses recorded in the statement of operations. The Salvation Army's policy is not to utilize derivative financial instruments for investment purposes.

The Organization has adopted the CICA's Handbook Section 3861, Financial Instruments - Disclosure and Presentation. In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation, the Organization has elected not to adopt these standards in its financial statements.

(e) Capital assets:

Land is carried at cost or fair market value, if donated, at the date of acquisition and is not amortized.

Buildings are stated at cost, less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives of 40 years.

Furniture and equipment with cost exceeding \$5 is stated at cost, less accumulated amortization. Amortization is computed on a straight-line basis over their respective lives ranging from three to 10 years.

During construction of buildings, interest is paid monthly on contributions in excess of costs accumulated or charged on costs in excess of contributions based on the average balance of the project account. Interest paid is recognized as contributions to the project upon capitalization, and interest charged is capitalized as a cost of the project. Interest rates are set monthly by The Salvation Army based on prevailing rates available in the market.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

2. Significant accounting policies (continued):

(f) Contributions of materials and services:

Contributions of materials and services are not recognized in these financial statements. Revenue from the disposition of contributions of materials and services is recognized as revenue at the point of sale.

(g) Revenue recognition:

The Salvation Army follows the restricted fund method of accounting for restricted contributions and endowments. Restricted contributions and endowments are recognized as revenue of the appropriate restricted fund.

Contributions and grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Revenue from legacies and donations are recorded when received.

Investment income, which is recorded on the accrual basis, includes interest income, dividends and capital gains (losses) on the sale of securities.

Revenue from ancillary operations includes rental of facilities, sales of used clothing and other donated goods by the NRO, sales of materials and publications. Sales revenue is recognized as revenue at the point of sale.

Management Support Assessment and other levies received from corps, community churches and institutions are recognized as revenue earned to offset the cost of certain national programs and administration. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

2. Significant accounting policies (continued):

(h) Retirement benefits:

(i) Officers' retirement benefits:

The Salvation Army maintains a non-contributory defined benefit pension plan for officers. All officers are eligible for enrolment in the plan following completion of two years' service. Officers of The Salvation Army are individuals who have relinquished secular employment in response to a spiritual calling, so as to devote all their time and energies to the service of God and the people and who, having successfully completed the required period of training, are commissioned as officers and ordained as ministers of the gospel of Jesus Christ. The Salvation Army also provides other post-retirement benefits to eligible officers. Other post-retirement benefits include supplementary allowances, medical and dental benefits. The Salvation Army uses actuarial reports prepared by independent actuaries for funding and accounting purposes.

The Salvation Army accrues its obligations under benefit plans and the related costs, net of plan assets. The following policies have been adopted:

- (a) the cost of pensions and the other post-retirement benefits earned by officers are actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of officers and expected health care costs;
- (b) for purposes of calculating the expected return on plan assets, those assets are valued at fair value;
- (c) the discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments;
- (d) for pension and other post-retirement benefits, the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and fair value of plan assets is amortized over the average remaining service life of active officers. The average remaining service period of the active officers is 13.5 years; and

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

2. Significant accounting policies (continued):

(e) upon adoption of the current accounting standard, a transitional asset was calculated, which is amortized over the average remaining service period of active officers expected to receive benefits under the benefit plan, which was 15 years at the time of adoption.

(ii) Employees' retirement benefits:

The Salvation Army makes regular contributions to a group Registered Retirement Savings Plan, administered by a third party, on behalf of each eligible employee. All permanent full-time and part-time employees are eligible for enrolment in the plan following completion of three months of continuous service.

(i) Translation of foreign currencies:

Assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at exchange rates prevailing at the year-end date. Revenue and expenses and allocations have been translated using exchange rates prevailing on the transaction date. Gains and losses arising from these translation policies are included in the statement of operations.

(j) GCC life leases:

(i) Guaranteed:

Life leases for which the resident is guaranteed a refund of 90% of the purchase price on vacating the unit are accounted for as life lease proceeds - guaranteed when the resident takes possession of the unit, except for the non-guaranteed 10%, which is recognized as revenue. Prior to possession, cash deposits and instalments paid are recorded as deposits on life leases.

(ii) Non-guaranteed:

Life leases for which the resident is not guaranteed any portion of their purchase price on vacating the unit are recognized as sales of the unit when the resident takes possession. Prior to possession, cash deposits and instalments paid are recorded as deposits on life leases.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

2. Significant accounting policies (continued):

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses and allocations during the year. Actual results could differ from those estimates.

3. Changes in accounting policies:

(a) Amendments to accounting standards that apply to not-for-profit organizations:

Effective April 1, 2009, the Organization adopted the CICA amendments to Section 4400, Financial Statement Presentation by Not-for-Profit Organizations, of the CICA Handbook. Amongst other items, these amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flows. Adoption of these recommendations had no significant impact on the financial statements for the year ended March 31, 2010.

(b) Amendments to Section 1000, Financial Statement Concepts ("Section 1000"):

Effective April 1, 2009, the Organization adopted the CICA amendments to Section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. Adoption of these recommendations had no effect on the financial statements for the year ended March 31, 2010.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

4. Credit facilities:

The Salvation Army has Canadian dollar demand, revolving operating facilities (lines of credit) with two Canadian banks for up to \$7,000 (2009 - \$7,000). The facilities are to cover Canadian and U.S. dollar overdrafts, as well as standby letters of credit. In addition, The Salvation Army has a demand, revolving capital project facility of up to \$4,000 (2009 - \$4,000) with a Canadian bank to cover a certain percentage of the cost of construction or provide bridge financing on specified real estate and capital improvement projects. These lines of credit bear interest at the prime rate. At year end, The Salvation Army had not drawn on these lines of credit, other than to issue standby letters of credit in the amount of \$639 (note 19(a)).

5. Securities:

(a) An analysis of the carrying value of securities is as follows:

	Remaining term to maturity					2010	2009
	Within 3 months	Within 3 to 12 months	Within 1 to 5 years	Over 5 years	No specific maturity	Fair value	Fair value
Available-for-sale securities:							
Cash and cash equivalents	\$ 5,214	\$ -	\$ -	\$ -	\$ -	\$ 5,214	\$ 11,080
Pooled funds - fixed income ⁽¹⁾ :							
Domestic	-	-	-	-	122,583	122,583	113,758
Foreign	-	-	-	-	627	627	753
Pooled funds - equities	-	-	-	-	24,951	24,951	15,629
Fixed income:							
Domestic	885	640	32,351	74,397	200	108,473	92,884
Foreign	-	-	342	25	330	697	1,663
Equities ⁽¹⁾ :							
Domestic	-	-	-	-	172,366	172,366	136,312
Foreign	-	-	-	-	163,956	163,956	119,298
	\$ 6,099	\$ 640	\$ 32,693	\$ 74,422	\$ 485,013	\$ 598,867	\$ 491,377
Weighted average effective interest rate	3.77%	2.78%	4.55%	5.59%			

⁽¹⁾Pooled funds - fixed income and equities have no stated term and, as a result, have been classified in the "No specific maturity" column.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

5. Securities (continued):

(b) An analysis of net unrealized gains (losses) on available-for-sale securities is as follows:

	2010			2009		
	Cost	Net unrealized gains (losses)	Fair value	Cost	Net unrealized gains (losses)	Fair value
Cash and cash equivalents	\$ 5,214	\$ -	\$ 5,214	\$ 11,080	\$ -	\$ 11,080
Pooled funds - fixed income	123,262	(52)	123,210	116,877	(2,366)	114,511
Pooled funds - equities	20,987	3,964	24,951	20,973	(5,344)	15,629
Fixed income	106,359	2,811	109,170	95,047	(500)	94,547
Equities	297,382	38,940	336,322	287,608	(31,998)	255,610
	\$ 553,204	\$ 45,663	\$ 598,867	\$ 531,585	\$ (40,208)	\$ 491,377

6. Financial instruments:

(a) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of The Salvation Army and the associated operating environment. Investments are primarily exposed to interest rate, market and foreign currency risks. The Organization has formal policies and procedures that establish target asset mix. The Organization's policies also require diversification of investments within categories, and set limits on exposure to individual investments.

(b) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by the Organization. This risk is managed by staggering the terms of the securities held, and ensuring diversification of the holdings such that no single security, other than Government of Canada or provincial bonds, represents more than 5% of the fixed income component of the portfolio.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

6. Financial instruments (continued):

The Salvation Army is exposed to interest rate risk on the financing of eight (2009 - six) of its properties. The Salvation Army has entered into interest rate swaps with major Canadian banks to exchange the variable interest payments on all its variable rate mortgages for fixed interest rates, ranging from 4.62% to 6.27%. As of March 31, 2010, the swaps had a notional amount totalling \$28,709 (2009 - \$23,647) that reduces on a basis consistent with the principal value of the underlying debt. The swaps mature on dates from November 30, 2010 to November 1, 2023. The fair value of the interest rate swaps at March 31, 2010 is a loss of \$1,828 (2009 - \$3,836). By effectively converting the interest rates from variable to fixed, The Salvation Army has eliminated the volatility, consistent with its interest rate risk management objectives.

(c) Market risk:

Market risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose the Organization to a risk of loss. The Organization mitigates this risk through controls to monitor and limit concentration levels.

(d) Foreign currency risk:

As of March 31, 2010, 28% (2009 - 25%) of the investments are invested in non-Canadian equities. Foreign currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on the Organization's foreign securities. The Organization does not hedge its foreign currency risk on these investments. The philosophy of the Organization, and its global investment management service provider, is that since the portfolio is managed such as individual securities are held for the long term, and investments are held in multiple currencies, any foreign exchange risk should be minimized in the long term without the need for a hedging strategy to be implemented.

Within the fixed income component of the portfolio, the Organization's statement of investment policies and procedures allows investment managers to hold a limited amount of non-Canadian bonds and when they do so, to employ forward contracts to eliminate any related foreign currency risk.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

7. Loans receivable:

The Salvation Army provides loans to Salvation Army entities to assist in the funding of capital projects and, in some circumstances, for operating purposes.

At March 31, 2010, interest-bearing loans receivable, principally from Salvation Army entities, were \$12,100 (2009 - \$12,543). Interest bearing loans from external parties total \$370 (2009 - \$383). These loans bear interest from 1.00% to 8.75% (2009 - 3.00% to 8.75%) and are to be repaid by fixed amounts over various terms.

Net non-interest bearing loans receivable primarily from Salvation Army entities total \$1,346 (2009 - \$1,215).

A charitable remainder trust is an arrangement by which property or money is donated to a charity, but the donor continues to use the property and/or receive income from it while living. Charitable remainder trusts amounted to \$3,239 (2009 - \$3,239).

8. Retirement benefits:

(a) Officers' retirement benefits:

	2010			2009		
	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans
Accrued benefit obligation	\$ 144,961	\$ 18,050	\$ 57,036	\$ 114,083	\$ 15,073	\$ (34,027)
Fair value of plan assets	140,350	-	-	116,423	-	-
Funded status - plan surplus (deficit)	(4,611)	(18,050)	(57,036)	2,340	(15,073)	(34,027)
Unamortized net actuarial loss	31,940	4,905	24,250	25,375	1,128	3,350
Unamortized net transitional asset	(5,711)	-	-	(7,381)	-	-
Accrued benefit asset (liability)	\$ 21,618	\$ (13,145)	\$ (32,786)	\$ 20,334	\$ (13,945)	\$ (30,677)

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

8. Retirement benefits (continued):

The following table summarizes the allocation of plan assets of the defined benefit pension plan by major asset category:

	Allocation of plan assets	
	2010	2009
Cash	1%	–
Short-term notes and treasury bills	–	1%
Canadian equities	29%	26%
Canadian bonds and debentures	19%	21%
Canadian pooled funds	23%	25%
Foreign equities	28%	27%
	100%	100%

The allocation is measured as of the measurement date of March 31 of each year.

The significant assumptions used are as follows:

	2010			2009		
	Defined benefit pension plan	Supplemental pension	Other post- retirement benefit plans	Defined benefit pension plan	Supplemental pension	Other post- retirement benefit plans
Accrued benefit obligation as of March 31:						
Discount rate	5.25%	5.25%	5.25%	6.00%	6.00%	6.00%
Rate of compensation increase	2.25%	2.25%	–	3.00%	3.00%	–
Benefit costs for years ended March 31:						
Discount rate	5.25%	5.25%	5.25%	8.00%	8.00%	8.00%
Expected long-term rate of return on plan assets	7.00%	7.00%	–	6.00%	6.00%	–
Rate of compensation increase	2.25%	2.25%	–	3.00%	3.00%	–

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

8. Retirement benefits (continued):

Assumed health care cost trend rates at March 31:

	2010	2009
Initial health care cost trend rate for prescription drugs	9.00%	9.00%
Cost trend rate declines to Year that the rate reaches the rate it is assumed to remain at	5.00%	5.00%
Assumed increase in other benefit costs per annum	2014	2011
	5.00%	5.00%

The Salvation Army's net benefit plan expenses (credits) are as follows:

	2010			2009		
	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans
Current service cost	\$ 2,387	\$ -	\$ 656	\$ 3,629	\$ -	\$ 1,043
Interest cost	9,019	1,135	3,505	8,691	1,139	3,505
Expected return on plan assets	(6,978)	-	-	(8,723)	-	-
Amortization of net transitional asset	(2,044)	-	-	(2,044)	-	-
Amortization of past service costs	376	-	-	376	-	-
Amortization of other items	916	-	1,195	901	-	2,211
	\$ 3,676	\$ 1,135	\$ 5,356	\$ 2,830	\$ 1,139	\$ 6,759

Additional expenses for officers' benefits, consisting of cash payments made by The Salvation Army directly to beneficiaries for its unfunded other post-retirement benefit plans and other current benefits for the active officers, were \$3,276 (2009 - \$2,946).

The Salvation Army measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the plans for funding purposes was as of March 31, 2009, and the next required valuation will be as of March 31, 2012.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

8. Retirement benefits (continued):

(b) Employees' retirement benefits:

The contributions paid and expensed by the Organization for the year amounted to \$2,656 (2009 - \$2,683). The assets of the plan are held separately from those of the Organization in an independently administered fund.

9. Capital assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 127,650	\$ -	\$ 127,650	\$ 125,800
Buildings	735,524	247,439	488,085	502,350
Furniture and equipment	16,413	12,123	4,290	6,099
Construction in progress	77,755	-	77,755	49,579
	\$ 957,342	\$ 259,562	\$ 697,780	\$ 683,828

It is the policy of The Salvation Army to expense individual items of furniture and equipment that are less than \$5. Furniture and equipment expensed during the year amounted to \$557 (2009 - \$1,610).

During the year, \$214 (2009 - \$216) of interest was capitalized to construction in progress.

The Capital Fund balance is comprised of:

	2010	2009
Current assets	\$ 114	\$ 7,743
Current liabilities	(6,920)	(11,953)
Long-term liabilities:		
Deposits on life leases	(14,371)	(14,720)
Derivative liability	(1,828)	(3,836)
Net assets invested in capital assets:		
Net book value of capital assets	697,780	683,828
Less mortgages payable	(107,654)	(108,191)
	590,126	575,637
	\$ 567,121	\$ 552,871

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

10. Mortgages payable:

Mortgages payable bear interest at rates ranging from 2.00% to 9.63% with an average interest rate of approximately 5.64% (2009 - 5.75%) and extend for terms of up to 33 years from March 31, 2010. Some of these mortgages are subsidized by governments so that the effective interest rate to The Salvation Army is reduced. The repayment of the principal and interest on these mortgages is the responsibility of the local Salvation Army entities occupying the mortgaged properties.

Included in this balance is a mortgage related to the Winnipeg Catherine Booth College that has a balance owing of \$328 (2009 - \$357).

The aggregate amount of principal repayments required in each of the next five years and thereafter is as follows:

2011	\$	9,661
2012		9,106
2013		3,480
2014		6,809
2015		9,538
Thereafter		69,060
		107,654
Less current portion		9,661
		\$ 97,993

The current portion of the mortgages payable balance is included in accounts payable and accrued liabilities.

11. Deposits on life leases:

	2010	2009
Balance, beginning of year	\$ 14,720	\$ 15,122
Amounts reclassified from deposits on life lease upon occupancy	1,187	679
Less current portion:		
Refunds	(1,482)	(1,014)
Amounts recognized as revenue	(54)	(67)
Balance, end of year	\$ 14,371	\$ 14,720

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

11. Deposits on life leases (continued):

Under the guaranteed life lease contracts, GCC has committed to each life occupancy resident that upon termination of the resident's life lease, GCC will attempt to lease the unit and reimburse the resident from the proceeds. As a minimum, GCC has guaranteed that the resident will receive not less than 90% of the original amount of the life lease proceeds. While repayment of these life lease proceeds could be required at any time, in management's opinion, it is unlikely that material amounts of such repayments will be required in the next year.

12. Management of capital:

The Organization defines its capital as the amounts included in its fund balances. The Organization's objective when managing its capital is to safeguard the Organization's ability to continue as a going concern so that it can continue to provide the appropriate level of benefits and services to the public.

A portion of the Organization's capital is restricted in that the Organization is required to meet certain requirements in order to utilize its externally restricted funds, as described in note 1(b). The Organization sets the amount of internally restricted funds in proportion to risk, manages the net asset structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

13. Restricted Fund balances:

(a) The Endowment Fund balance is restricted as follows:

	2010			2009		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Corps and community churches	\$ 3,337	\$ 130	\$ 3,467	\$ 3,337	\$ 130	\$ 3,467
Institutions	7,058	1,398	8,456	6,742	1,398	8,140
Hospitals	1,382	–	1,382	1,382	–	1,382
DHQ	8,356	4,377	12,733	8,356	4,377	12,733
THQ ⁽¹⁾	18,334	28,127	46,461	11,326	29,000	40,326
	\$ 38,467	\$ 34,032	\$ 72,499	\$ 31,143	\$ 34,905	\$ 66,048

⁽¹⁾THQ includes NRO, Jackson's Point Conference Centre and the colleges.

(b) The Other Restricted Fund balances are restricted as follows:

	2010			2009		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Corps and community churches	\$ 188	\$ 8	\$ 196	\$ 325	\$ 5	\$ 330
Institutions	952	73	1,025	1,043	42	1,085
Hospitals	276	–	276	265	–	265
DHQ	58,959	30,670	89,629	55,908	23,080	78,988
THQ ⁽¹⁾	55,294	134,174	189,468	47,567	115,617	163,184
	\$ 115,669	\$ 164,925	\$ 280,594	\$ 105,108	\$ 138,744	\$ 243,852

⁽¹⁾THQ includes NRO, Jackson's Point Conference Centre and the colleges.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

14. Investment income (loss):

	2010	2009
Interest	\$ 8,888	\$ 8,461
Dividends	10,848	16,060
Net realized gains (losses) on sale of securities	5,946	(37,566)
	\$ 25,682	\$ (13,045)

15. Net interfund transfers:

	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 23,108	\$ (3,100)	\$ (20,008)	\$ -
Property-related transfers to Capital Fund from Salvation Army entities	(1,161)	-	(825)	1,986
Transfer from internally restricted endowment to reserve	-	(310)	310	-
Transfer of property sale proceeds	872	-	3,999	(4,871)
Funds transferred from reserves to fund property maintenance expenditures	1,051	-	(1,051)	-
Net investment gain transferred to reserve for future operations	(18,870)	-	18,870	-
Unrestricted legacies transferred to reserve for future operations	(24,000)	-	24,000	-
Other	(187)	81	106	-
	\$ (19,187)	\$ (3,329)	\$ 25,401	\$ (2,885)

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

16. Statement of cash flows:

(a) Items not affecting cash:

	2010	2009
Gain on disposal of capital assets	\$ (7,929)	\$ (3,841)
Amortization	20,562	20,480
Change in unrealized loss on derivative liability	(2,008)	2,782
Net realized gains (losses) on sale of securities	(5,946)	37,566
Other post-retirement benefits expense	5,356	6,759
Defined benefit and supplemental pension expense	4,811	3,969
	<u>\$ 14,846</u>	<u>\$ 67,715</u>

(b) Change in non-cash operating working capital:

	2010	2009
Receivables, principally from Salvation Army entities	\$ (1,917)	\$ 4,780
Other current assets	915	706
Accounts payable and accrued liabilities	(11,439)	4,767
Deferred revenue	(4,589)	1,006
	<u>\$ (17,030)</u>	<u>\$ 11,259</u>

17. Controlled entities:

The corps and community and social service centres are considered controlled entities but are not included in these financial statements as they are individually immaterial.

There are 321 corps and community churches and 147 community and social service centres. Summarized financial information has not been provided for these entities because it would not be practical or cost-effective to accumulate all the required information in the time available. Two hospitals are not consolidated as they are essentially controlled by their Boards of Directors and the provincial governments.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

18. Lease obligations:

The Salvation Army has lease commitments for premises of Salvation Army entities. These leases are funded by individual entities and expire on or before 2057. The lease payments are due as follows:

2011	\$ 15,280
2012	10,575
2013	8,236
2014	6,268
2015	4,119
Thereafter	3,321
	<hr/>
	\$ 47,799

The Salvation Army has agreed to indemnify the landlords against losses occurring on the leased premises.

19. Contingencies and commitments:

(a) Letters of credit and letters of comfort:

The Salvation Army enters into agreements in the normal course of operations that contain features which meet the definition of a guarantee, according to the CICA Handbook. Various debt obligations (such as overdrafts and lines of credit) related to certain controlled organizations have been directly guaranteed by The Salvation Army under such agreements with third parties. The Salvation Army would be required to perform on these guarantees in the event of default by the guaranteed parties. No material loss is anticipated by reason of such agreements and guarantees.

In prior years, life lease loans were advanced by a Canadian bank in connection with the purchase of guaranteed life lease units. GCC and The Salvation Army guaranteed the life lease loans to a maximum of \$1,335 (2009 - \$1,335). At March 31, 2010, the remaining outstanding accumulated balance of the life lease loans is not significant to these financial statements and no future life lease loans will be advanced.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

19. Contingencies and commitments (continued):

As of March 31, 2010, The Salvation Army had issued letters of credit totalling \$639 (2009 - \$852). These are primarily irrevocable standby letters of credit issued in favour of municipalities and other entities requiring performance guarantees on projects undertaken by The Salvation Army.

(b) Government funding for capital projects:

The Salvation Army receives funding for certain capital projects from the federal and provincial governments' various programs. This funding is considered a grant as long as The Salvation Army continues to meet the terms of the agreements. In the case of default, the funding is repayable to the government. At year end, The Salvation Army had \$16,633 (2009 - \$15,662) of such funding. Management believes that it is currently in compliance with all such agreements and, accordingly, no amounts are recorded as a liability in these financial statements related to this funding.

(c) Government capital contribution for a program:

During the year, The Salvation Army acquired title to a property in Milton, Ontario from the Province of Ontario as part of an agreement to operate a program for young offenders. Under the agreement, the Province retains the right to reacquire the property, valued at \$4,440 at the time of acquisition; under certain conditions such as if The Salvation Army ceases to operate the program. The Salvation Army intends to operate the program for the foreseeable future and to meet all conditions set by the Province for its operations; as a result, the transfer of property has been reflected in these financial statements as an increase in capital assets and by recognizing revenue in the form of capital contributions.

(d) Legal actions:

The Salvation Army is party to legal actions arising in the ordinary course of operations. While it is not feasible to predict the outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the operations of The Salvation Army.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

19. Contingencies and commitments (continued):

(e) Environmental contamination:

The Salvation Army periodically assesses whether any of its properties have been environmentally contaminated. These assessments are not in response to any governmental or regulatory directives. Management records remediation expenses when the timing, extent and cost of corrective actions can be reasonably estimated.

(f) Indemnification of directors and officers:

The Salvation Army has indemnified its past, present and future directors, officers, trustees, employees and volunteers against expenses (including legal expenses), judgments and any amount actually or reasonably incurred by them in connection with any wrongful act in which the directors are sued as a result of their service, if they acted honestly and in good faith with a view of the best interests of The Salvation Army. The nature of the indemnity prevents The Salvation Army from reasonably estimating the maximum exposure. The Salvation Army has purchased directors' and officers' liability insurance with respect to this indemnification.

20. Fair values of financial assets and financial liabilities:

The carrying values of cash and cash equivalents, receivables, principally from Salvation Army entities, accounts payable and accrued liabilities and restricted deposits approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

The fair values of securities are disclosed in note 5.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

20. Fair values of financial assets and financial liabilities (continued):

The carrying amounts and the fair values of the loans receivable, principally from Salvation Army entities, and mortgages payable are as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Loans receivable, principally from Salvation Army entities	\$ 17,055	\$ 16,294	\$ 17,380	\$ 16,651
Financial liabilities:				
Current portion of mortgages payable	9,661	9,661	9,336	9,336
Long-term portion of mortgages payable	97,993	89,644	98,841	94,437

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

21. Haiti earthquake:

During the year, The Salvation Army collected funds to provide financial support for relief, rehabilitation and reconstruction projects in earthquake affected areas of Haiti. The Government of Canada, via the Canadian International Development Agency ("CIDA") created a Haiti Earthquake Relief Matching Fund to contribute the equivalent amount of aid as collected by The Salvation Army.

Between January 12, 2010 and February 12, 2010, The Salvation Army collected \$4,881 from individual Canadians, as declared in the letter of attestation to CIDA dated February 25, 2010.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2010

22. Fundraising, planned giving and public relations:

Fundraising, planned giving and public relations expenses include remuneration paid to employees whose principal duties involve fundraising totalling \$2,190 for the year ended March 31, 2010.

23. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

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Colonel Donald J. Copple, *Vice-Chair (to February 28, 2010)*
Colonel Floyd J. Tidd, *Vice-Chair (from March 1, 2010)*
Lieut.-Colonel Neil Watt, *Treasurer*
Mr. R. Paul Goodyear, *Secretary*
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