

Consolidated Financial Statements of The Governing Council of The Salvation Army in Canada



Year ended March 31, 2014



Giving
Hope
Today

Over 1.8 million people were helped by The Salvation Army in Canada and Bermuda last year.

Addictions, Recovery and Shelter

- 5,724** shelter, addictions, detox and mental health beds provided each night for vulnerable men, women and families.
- 591** people completed addictions and rehabilitation programs.
- 2.8 million** free meals served.

Community Churches

- 313** community churches.

Community and Family Services

- 1, 375,000** persons assisted with food, clothing or practical assistance.
- 4,380** children went to Salvation Army camps.
- 16** daycare centres provide a total of **816** available spaces.
- 104,000** meals served in school breakfast programs.
- 3,847** people with developmental disabilities supported.
- 11,256** people were referred for employment.
- 145,200** people were helped with court work including a pro-bono lawyer program.
- 188,800** people were helped in night patrol, rescue and suicide prevention.
- 188,600** vulnerable youth were helped in 45 community youth programs.
- 126** feeding centres provided **2.8 million** free meals and **522,000** subsidized meals served.
- 154,133** people were visited in hospitals, nursing homes, prisons, day care centres and other facilities.

Emergency Disaster Services

- 14,168** people helped when disaster struck.

Hospice, Health and Long-Term Care

- 119** hospital beds provided.
- 1,002** long-term care and supportive housing beds provided.
- 40** hospice beds provided.

Work in Developing Countries

- 172** projects in **38** countries.
- 27** Salvation Army officers and lay personnel serving outside Canada.

Personnel

- 766** active Salvation Army officers.
- 912** retired Salvation Army officers.
- 8,315** employees.
- 1.4 million** volunteer hours, provided by **165,680** total volunteers.

Consolidated Financial Statements
of

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

Year ended March 31, 2014

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Management Commentary

About The Salvation Army

The Salvation Army (“the Army”) exists to share the love of Jesus Christ, meet human needs and be a transforming influence in the communities of our world.

As an international organization, the Army is at work in 126 countries. In Canada, the Army began its work in 1882 and has grown to become the largest non-governmental direct provider of social services in the country. In Bermuda, the Army has been at work since 1896.

The Army gives hope and support to vulnerable people every day in 400 communities across Canada and Bermuda. Salvation Army staff and volunteers offer practical assistance for children and families, often tending to the basic necessities of life, provide shelter for homeless people and rehabilitation for people who have lost control of their lives to an addiction. When you give to the Army, you are investing in the future of marginalized and overlooked people in your community.

The Salvation Army is also a branch of the Christian church, with over 300 corps or congregations in Canada and Bermuda. The Army is diligent in stewardship of donations so that funds solicited in its public appeals are used to fund community and social services programs and activities, rather than corps and congregational ministries unless the donor designates otherwise.

Legal and Corporate Structure

The Salvation Army has its international headquarters located in London, England. Leading the international Salvation Army is the General, who is elected by a High Council comprised of senior Salvation Army leaders from around the world.

The Governing Council of The Salvation Army in Canada (“Governing Council”) was incorporated by an Act of Parliament in 1909. Unlike conventional not-for-profit corporations that have both members and directors, the Governing Council has only members, who are appointed by the General. All members of the corporation are commissioned Salvation Army officers or employees of The Salvation Army who hold senior leadership roles.

Most of the Army’s operations in Canada are established as unincorporated entities of the Governing Council. Other corporations controlled by the Governing Council include The Salvation Army Corporation of Bermuda, The Salvation Army William and Catherine Booth University College, The Salvation Army Golden West Centennial Lodge and The Salvation Army Grace Communities Corporation.

Supplementing the oversight of Army operations provided by the corporate bodies are various other boards and committees, comprised of officers and employees, as well as volunteers who provide an independent voice to assist the Army. These boards and committees exist at the national, regional and local community levels across Canada and in Bermuda.

Charitable Status

The Salvation Army is a religious, charitable and not-for-profit organization, registered by the Canada Revenue Agency for tax-deductible contributions. The Army’s territorial headquarters in Toronto, Ontario is the main charity and all other Salvation Army entities are registered as associated charities of territorial headquarters. In Bermuda, the Army is also recognized as a charitable organization.

About the Financial Statements

These financial statements present the assets, liabilities, fund balances, revenues and expenses of the Governing Council and all of the entities it controls. All separate incorporated entities are consolidated into these financial statements because they meet the definition of controlled entities for financial reporting purposes under Canadian accounting standards.

In addition to these consolidated statements, many of the controlled entities produce separate financial statements for presentation to local stakeholders, including government agencies, donors, members, and others.

Financial Highlights for the Year Ended March 31, 2014

Overall, operations were stable in the current year, and the results achieved are similar to those of the prior year, with the exception of the change in investment income. During the year, the Army realized an excess of revenue over expenses of \$115 million, compared with \$59 million in the prior year. Charitable donations increased slightly from \$183.7 million last year to \$185.3 million. The increase is attributed to generous donations received from the public to support Alberta flood relief efforts.

During the year, a change in accounting standards for employee future benefits was implemented which significantly impacted the liabilities and operating fund balances from previously issued financial statements. Under the new standard, actuarial gains and losses and past service costs are not deferred and amortized over future periods. The full actuarial liability net of assets is now recorded in the balance sheet, the annual benefit cost is recorded in the consolidated statement of operations and the change in unamortized gains and losses is recognized in the statement of changes in fund balances. The impact of the change from the prior year issued statements included the elimination of the accrued pension asset of \$20.3 million, an increase in the employee future benefits from \$45.3 million to \$142.7 million, operating fund balance decline from a surplus of \$113.6 million to a deficit of \$4.0 million and a decrease of \$5.2 million in other expenses reported in the statement of operations.

The operating fund, which represents the general operations of all Salvation Army units in Canada and Bermuda, reflects a surplus of \$60.4 million, compared with a surplus of \$13.9 million in the prior year. This increase is directly related to the improved investment income this year. Total operating expenses increased by only 2.2%, in line with general inflationary pressures.

As of March 31, 2014, the Army's total assets were \$1.64 billion, compared to \$1.52 billion in the prior year. The current ratio (current assets / current liabilities) of 0.78 should not be interpreted as meaning the Army will have difficulty meeting its short-term obligations, as short-term investments maturing in less than 1 year and totaling \$29.9 million have been classified with securities. When included with current assets, the current ratio becomes 1.12.

Operating fund balances at year end totaled \$17.7 million (negative \$4.0 million last year), representing operating fund balances of \$115.0 million from operating units offset by a negative fund balance of \$97.3 million for re-measurement and other items related to employee future benefits. The Army has set a policy of expecting each unit to maintain an operating reserve sufficient to fund at least three months' expenses. As of March 31, 2014, 60% of units have achieved the target reserve level compared to 57% in the prior year. Efforts are underway to build reserves in the remaining units within the next three years.

Investments

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

Allocations from investment income are based on a spending policy tied to long-term average rates of return, which helps mitigate volatility in the capital markets. In the year ended March 31, 2014, the Fund earned \$118.4 million, incurred expenses of \$3.6 million and paid interest on constituent accounts of \$7.8 million, for a net income of \$107.0 million. In accordance with the spending policy, \$12.9 million was allocated to the operations of territorial and divisional headquarters, meaning funds have been transferred to the reserve to be used to fund future operations.

The Fund is managed by external investment managers in accordance with statements of investment beliefs and policy, which establish 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, as well as companies who are known to disregard environmental concerns. An investment advisory committee assists the Army by regularly reviewing both the investment policy, as well as individual manager’s performance compared to market benchmarks. Copies of the statements of investment policy and beliefs are available on the Army’s website, www.SalvationArmy.ca.

Investments performed very well in the current year experiencing a one year return of 15.8%, which was 2.6% above the benchmark.

The target, operating ranges and actual asset mix of the Fund as at March 31, 2014 was as follows:

Asset Class	Target	Range	Actual
Cash	0	0-10%	3%
Fixed Income	20%	15-45%	36%
Canadian Equities	30%	25-35%	30%
Foreign Equities	30%	25-35%	30%
Real Estate	10%	0-10%	1%
Infrastructure	10%	0-10%	0%
	100%	100%	100%

In August 2013, approval was received to further diversify the investment portfolio by investing in the real estate and infrastructure markets. The transition to these markets will be phased in over the next couple of years, which is the reason funds have remained invested in the fixed income markets. As a result, the allocation to fixed income, formerly targeted at 40%, will be gradually drawn down to fund the new asset classes.

Banking services are provided by Bank of Nova Scotia, Canadian Imperial Bank of Commerce and Royal Bank of Canada. Custodial and trust services are provided by CIBC Mellon. Investment management services are provided by BlackRock Asset Management Canada Limited, Fiera Capital Corporation, Sprucegrove Investment Management Limited, CIBC Asset Management, Baillie Gifford Overseas Limited, Phillips, Hager and North Investment Management Ltd., QV Investors, and Bentall Kennedy.

Staff 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 2013 for the five most senior commissioned officers of The Salvation Army in Canada, ranged from \$32,552 to \$40,102, with an average of \$36,883.

The size and scope of the Army's operations creates a level of complexity that requires the hiring of highly skilled professional and technical staff to supplement the skill sets found in its commissioned officer ranks. While these salaries are typically less than comparable positions in the for-profit sector, there is increased competition for professional staff, and as a result, compensation for executives in the sector has increased in recent years.

In 2013, there were 56 non-officer employees whose total employment income for tax purposes was above \$100,000, as follows:

Compensation range	Number of employees
\$100,000 – \$119,999	33
\$120,000 – \$159,999	14
\$160,000 – \$199,999	7
\$200,000 – \$249,999	1
\$250,000 – \$299,999	1

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 Army is managing this tension well.

Volunteers

In addition to paid staff, The Salvation Army's operations are aided by some 165,000 volunteers who give dedicated and exemplary service to their communities by helping deliver programs and services through Salvation Army facilities. Whether serving as board members, specialist advisors, food hamper packers, greeters, chaplains, or in a host of other roles, these volunteers are the army behind the Army. The contributions of these volunteers are invaluable to the success of The Salvation Army's program and service delivery.

Risk

A Risk Committee is in place with responsibility to monitor the direction and trend of all major types of risks relative to mission strategy and market conditions. It also reviews emerging risks to the Army and monitors activities to appropriately mitigate those risks.

Internal Controls

The Salvation Army has a strong internal control environment to protect the Army's assets and ensure accuracy in financial reporting.

The Territorial Finance Council has overall responsibility for internal controls, with assistance provided by the Internal Audit Advisory Committee as it relates to the oversight of the internal audit function and plan.

Both a code of conduct and a whistleblower policy are in place. The former sets out expectations for behaviour by all staff and volunteers, while the latter provides a mechanism for making anonymous complaints when violations of the code and other key policies are observed.

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. Donations solicited from the public at large, which includes funds from individuals, foundations, corporations and all levels of government, are used for our community and social service programs. Corps and congregations are financed by donations from Salvationists and other funds.

Ethical Fundraising and Financial Accountability Code

The Army places accountability at the core of its relationships with its donors and members of the public. The Army has formally subscribed to Imagine Canada's Ethical Fundraising and Financial Accountability Code. In doing so, the Army undertakes to adhere to the standards set out in the Code in its treatment of donors and the public, its fundraising practices and its financial transparency, and to be accountable for doing so.

To review the Code, please visit our website at www.SalvationArmy.ca/fundraisingethics.

Fundraising Methods and Outcomes

For more than 130 years, faithful donors have helped The Salvation Army carry on its tradition of caring for vulnerable men, women and children in Canada, Bermuda and around the world. The Salvation Army is deeply grateful for their generosity and for the trust they have shown to use their investment wisely.

During the fiscal year ended March 31, 2014, supporters made donations to The Army totalling \$185.3 million, compared to \$183.7 million the previous year. Fundraising costs for the same period were \$22.0 million, compared to \$21.9 million last year. As a proportion of charitable donations, these costs represented 11.9%, which is identical to the prior year. This compares favourably with the upper limit of 35% set by the Canada Revenue Agency.

At the same time, it should be recognized that this measure has some limitations. First, no donations of materials or services are included in these financial statements, even though costs are incurred in obtaining these donations. Second, as the name implies, some of the activity these costs represent relates to general marketing and communications functions, rather than fundraising activities. Given our holistic approach, it is not possible at present to provide any further breakdown.

The Army is committed to protecting the privacy of its donors, customers, clients, volunteers, employees, and members, and is always concerned with treating personal information carefully and with appropriate confidentiality. Personal information is not used or disclosed for purposes other than those for which it was collected, except with consent or as required by law. This information is retained only as long as necessary and The Army does not trade, rent or sell any personal information to third parties.

The Army will accept unrestricted gifts, as well as gifts restricted for specific programs and purposes, provided that such gifts are not inconsistent with its stated mission, purposes, and priorities. Gifts may be restricted to specific Salvation Army programs/purposes or communities throughout Canada and around the world where the Army has established operations. After a gift has been accepted, if circumstances should at any time make it, in the view of The Army acting reasonably, impractical to apply the gift to the designated purpose, it may re-designate the purpose of the gift using its best efforts to adhere as closely as possible to the original intent of the gift. Where possible, The Army will seek input from the donor before the re-designation is made.

Except as directed by the donor, the Army uses funds raised in public appeals for its community and social services programs and activities, rather than for its corps and congregational ministries. The Salvation Army is managing its fundraising costs in a reasonable manner, in order to provide the best programs and services that deliver transformative outcomes for the people we serve. For details of how the funds are used, please visit www.SalvationArmy.ca.

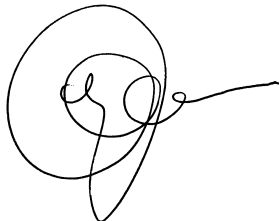
Management Responsibility for Financial Reporting

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 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.



Lee Graves, *Lieut.-Colonel*
Territorial Secretary for Business Administration
and Treasurer of The Governing Council



Mr. R. Paul Goodyear, *MBA, FCPA, FCMA*
Territorial Financial Secretary
and Secretary of The Governing Council

June 25, 2014



KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To The Governing Council of
The Salvation Army in Canada

We have audited the accompanying consolidated financial statements of The Governing Council of The Salvation Army in Canada, which comprise the consolidated balance sheet as at March 31, 2014, the consolidated statements of operations, changes in fund balances and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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Basis for Qualified Opinion

In common with many charitable organizations, The Governing Council of The Salvation Army in Canada derives revenue from charitable donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of The Governing Council of The Salvation Army in Canada. Therefore, we were not able to determine whether, as at and for the years ended March 31, 2014 and March 31, 2013, any adjustments might be necessary to charitable donations and excess (deficiency) of revenue over expenses reported in the consolidated statements of operations, excess (deficiency) of revenue over expenses reported in the consolidated statements of changes in fund balances and excess of revenue over expenses reported in the consolidated statements of cash flows and assets and fund balances reported in the consolidated balance sheets. This caused us to qualify our opinion on the consolidated financial statements as at and for the year ended March 31, 2013.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Governing Council of The Salvation Army in Canada as at March 31, 2014, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 25, 2014
Toronto, Canada

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THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

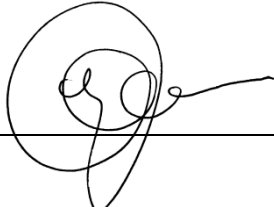
Consolidated Balance Sheet
(In thousands of dollars)

March 31, 2014, with comparative information for 2013


	2014	2013
		(Restated - note 3)
Assets		
Current assets:		
Cash and cash equivalents	\$ 39,357	\$ 34,507
Receivables and other current assets	28,698	33,304
	<u>68,055</u>	<u>67,811</u>
Securities (note 5)	864,061	744,122
Capital assets (note 7)	699,888	700,383
Other assets (note 8(a))	5,134	5,472
	<u>\$ 1,637,138</u>	<u>\$ 1,517,788</u>
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 57,581	\$ 50,003
Deferred revenue	15,861	16,162
Current portion of loans and mortgages payable (note 9)	14,040	9,029
	<u>87,482</u>	<u>75,194</u>
Long-term liabilities:		
Employee future benefits (note 10(a))	141,475	142,673
Loans and mortgages payable (note 9)	111,318	118,904
Deposits on life leases (note 11)	12,891	13,262
Other liabilities (notes 8(b) and 10(b))	14,257	17,968
	<u>279,941</u>	<u>292,807</u>
Fund balances:		
Operating (note 12(a))	17,683	(4,022)
Endowment (note 12(b))	66,476	70,154
Other Restricted (note 12(c))	603,375	507,530
Capital	582,181	576,125
	<u>1,269,715</u>	<u>1,149,787</u>
Contingencies and commitments (notes 18 and 19)		
	<u>\$ 1,637,138</u>	<u>\$ 1,517,788</u>

See accompanying notes to consolidated financial statements.

On behalf of The Governing Council:



 Member



 Member

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Operations
(In thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

	2014			2013			
	Operating Fund	Restricted Funds Endowment Other	Capital	Operating Fund (Restated - note 3)	Restricted Funds Endowment Other	Capital	2013 Total (Restated - note 3)
Revenue:							
Charitable donations	\$ 105,777	\$ 818	\$ 315	\$ 109,168	\$ 79	\$ 1,069	\$ 183,703
Government funding	217,632	609	3,749	211,638	426	1,532	213,596
Fees for service	76,578	—	—	79,324	—	—	79,324
Investment (note 13)	117,341	1,087	—	118,428	954	—	65,075
Thrift stores	134,431	—	—	128,218	—	—	128,218
Gain on disposal of capital assets	—	—	12,644	—	—	10,984	10,984
Other	14,117	1,050	799	13,574	1,011	1,093	15,678
	665,876	818	17,507	606,043	79	14,678	696,578
Expenses (note 14):							
Charitable programs and services:							
Additions, corrections and residential	165,795	—	—	163,411	—	—	163,411
Health care	115,886	—	—	121,671	—	—	121,671
Community and family services	63,257	—	—	58,551	—	—	58,551
Congregational ministries	49,586	—	—	48,265	—	—	48,265
Children and youth	14,979	—	—	15,265	—	—	15,265
Educational	6,189	—	—	5,781	—	—	5,781
Overseas development	—	—	—	—	—	—	—
and missions	274	5,904	—	285	4,939	—	5,224
Other programs and services	10,571	—	—	9,740	—	—	9,740
	426,537	5,904	—	422,969	4,939	—	427,908
Thrift stores	120,357	—	—	114,450	—	—	114,450
Headquarters' operating	34,025	—	—	33,402	—	—	33,402
Public relations and development	—	—	—	—	—	—	—
(note 15)	11,084	10,965	—	9,784	12,132	—	21,916
Amortization	—	—	28,047	—	—	27,419	27,419
Other	13,453	—	30	11,561	—	680	12,241
	605,456	16,869	28,077	592,166	17,071	28,099	637,336
Excess (deficiency) of revenue over expenses	\$ 60,420	\$ 818	\$ (10,570)	\$ 13,877	\$ 79	\$ (13,421)	\$ 59,242

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014, with comparative information for 2013

2014	Operating Fund (note 12(a))	Restricted Funds			Total
		Endowment (note 12(b))	Other (note 12(c))	Capital	
Fund balances, beginning of year	\$ (4,022)	\$ 70,154	\$ 507,530	\$ 576,125	\$ 1,149,787
Excess (deficiency) of revenue over expenses	60,420	818	64,244	(10,570)	114,912
Cumulative translation adjustment	1,078	–	–	–	1,078
Re-measurement and other items (note 10(a))	3,938	–	–	–	3,938
Net interfund transfers (note 16)	(43,731)	(4,496)	31,601	16,626	–
Fund balances, end of year	\$ 17,683	\$ 66,476	\$ 603,375	\$ 582,181	\$ 1,269,715

2013	Operating Fund (Restated - notes 3 and 12(a))	Restricted Funds			Total (Restated - note 3)
		Endowment (note 12(b))	Other (note 12(c))	Capital	
Fund balances, beginning of year	\$ 4,255	\$ 71,577	\$ 455,432	\$ 575,326	\$ 1,106,590
Excess (deficiency) of revenue over expenses	13,877	79	58,707	(13,421)	59,242
Cumulative translation adjustment	225	–	–	–	225
Re-measurement and other items (note 10(a))	(16,270)	–	–	–	(16,270)
Net interfund transfers (note 16)	(6,109)	(1,502)	(6,609)	14,220	–
Fund balances, end of year	\$ (4,022)	\$ 70,154	\$ 507,530	\$ 576,125	\$ 1,149,787

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

	2014	2013 (Restated - note 3)
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 114,912	\$ 59,242
Items not affecting cash (note 17(a))	(67,909)	(14,909)
Change in non-cash operating working capital (note 17(b))	11,883	(3,631)
Contributions to other post-retirement benefits	(4,102)	(3,973)
Contributions to defined benefit and supplementary retirement pension plans	(5,194)	(5,344)
	<u>49,590</u>	<u>31,385</u>
Financing activities:		
Decrease in other assets	338	67
Repayment of loans and mortgages	(7,113)	(7,325)
Increase in loans and mortgages	4,538	491
Decrease in other liabilities	(3,742)	(3,102)
Decrease in deposits on life leases	(371)	(296)
	<u>(6,350)</u>	<u>(10,165)</u>
Investing activities:		
Purchase of securities, net	(24,560)	(18,154)
Additions to capital assets	(32,663)	(29,733)
Proceeds on disposal of capital assets	17,755	14,840
	<u>(39,468)</u>	<u>(33,047)</u>
Change in cumulative translation adjustment (note 12(a))	1,078	225
Increase (decrease) in cash and cash equivalents	4,850	(11,602)
Cash and cash equivalents, beginning of year	34,507	46,109
Cash and cash equivalents, end of year	<u>\$ 39,357</u>	<u>\$ 34,507</u>

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended March 31, 2014

The Governing Council of The Salvation Army in Canada ("The Governing Council"), a corporation established by a Special Act of Parliament, is the primary legal entity through which The Salvation Army conducts its operations in Canada. The Governing Council is a religious, charitable and not-for-profit organization, registered by Canada Revenue Agency for tax-deductible contributions, with the territorial headquarters ("THQ") in Toronto as the main charity, and every other Salvation Army operation registered as an associated charity of THQ.

The Salvation Army, an international movement, is an evangelical part of the universal Christian Church. Its message is based on the Bible. Its ministry is motivated by love for God. Its mission is to share the love of Jesus Christ, meet human needs and be a transforming influence in the communities of the world.

The Salvation Army in Canada and Bermuda (the "Organization" or the "Army") comprises almost 500 ministry units, scattered throughout the 10 Canadian provinces and three territories, as well as in Bermuda.

The Army's operations include corps (churches), community centres, long-term care facilities, hospices and hospitals, transitional housing and shelters, addiction and rehabilitation centres, thrift stores and other social programs.

1. Basis of presentation:

These consolidated financial statements present, in accordance with Canadian accounting standards for not-for-profit organizations, the assets, liabilities, revenue, expenses and cash flows of The Governing Council and its controlled entities.

(a) Operating Fund:

The purpose of the Operating Fund is to record the administrative and operating activities of the Organization. This includes the operations of all divisional headquarters ("DHQ"), National Recycling Operations ("NRO"), colleges, Grace Communities Corporation ("GCC") and all programs operated at ministry units.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

1. Basis of presentation (continued):

(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 donors in making a gift to the 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 World Services Appeal campaigns, the receipt of funds for the National Red Shield Appeal campaigns and the donations and legacies with external restrictions other than endowments and transactions impacting internally restricted reserves. Funds raised through the World Services Appeal campaigns are used to support the work of the Army internationally. Funds raised through the National Red Shield Appeal campaigns are used to support the social and community services work of the Organization.

(iii) Capital Fund:

The purpose of the Capital Fund is to record all capital transactions, related debt and the net investment of the Organization in such assets.

2. Significant accounting policies:

(a) Cash and cash equivalents:

The Organization 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

2. Significant accounting policies (continued):

(b) Inventories:

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

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Organization has elected to carry all securities at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Organization determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Organization expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(d) Interest rate hedging:

The Organization uses interest rate swaps to manage fluctuations in interest rates on long-term mortgages. The Organization uses the accrual basis of accounting for hedges. Gains or losses realized on the settlement of the hedging item are deferred until the settlement of the hedged item.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

2. Significant accounting policies (continued):

At the inception of the hedging relationship, the Organization designates that hedge accounting will be applied. The Organization formally documents the hedging relationship between the hedging instruments and hedged items. At the inception of the hedge and throughout its term, the terms of the hedging item and hedged item are the same.

Hedge accounting is used only when the notional amount of the swap matches the principal amount of the hedged item, the fair value of the swap at the inception is nil, the fixed rate is the same throughout the swap, the variable rate is based on the same index and includes the same or no adjustment, the debt instrument cannot be settled before maturity, and the swap matures within two weeks of the maturity date of the debt.

(e) Capital assets:

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

Land improvements, buildings and vehicles are stated at cost, less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives of 15 years, 40 years and 5 years, respectively.

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 3 to 10 years.

(f) Contributions of materials and services:

Contributions of materials and services are not recognized in these consolidated 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 Organization 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.

Charitable donations include legacies which are recorded when received.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

2. Significant accounting policies (continued):

Government funding and fees for service are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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

Thrift stores revenue includes sales of used clothing and other donated goods to NRO, and ministry unit-operated thrift stores. Sales revenue is recognized as revenue at the point of sale.

(h) Employee future benefits:

(i) Officers' retirement benefits:

The Organization maintains a non-contributory defined benefit pension plan for officers. All officers are eligible for enrolment in the plan at the date of commissioning. Officers of the Organization 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 Organization also provides other post-retirement benefits to eligible officers. Other post-retirement benefits include supplementary allowances and medical and dental benefits. The Organization uses actuarial reports prepared by independent actuaries for funding purposes.

The Organization 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 prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of officers and expected health care costs;

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

2. Significant accounting policies (continued):

- (b) the measurement date of the plan assets, which are recorded at fair value, and accrued benefit obligation coincides with the Organization's fiscal year;
 - (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) actuarial gains (losses) on plan assets arising from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period are immediately recognized in the consolidated statement of changes in fund balances. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from the changes in the actuarial assumptions used to determine the accrued benefit obligation are immediately recognized in the consolidated statement of changes in fund balances; and
 - (e) past service costs arising from plan amendments are recognized immediately in the consolidated statement of changes in fund balances.
- (ii) Employees' retirement benefits:
- The 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

2. Significant accounting policies (continued):

(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.

Exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation are recognized in the Operating Fund balances on the consolidated balance sheet.

(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 Consolidated Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

2. Significant accounting policies (continued):

(k) Allocation of expenses:

The Organization classifies expenses on the consolidated statement of operations by function. The Organization allocates costs by identifying an appropriate basis of allocating and applying it on a consistent basis. When required, the Organization allocates certain expenses on the following basis:

- (i) Salaries and benefits are allocated based on the estimated hours worked within each function;
- (ii) Occupancy costs are allocated based on the space occupied by each function; and
- (iii) Administrative costs are allocated based on the estimated usage of each function.

(l) Use of estimates:

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, accrued liabilities, assets and obligations related to employee future benefits and allocation of expenses. Actual results could differ from those estimates.

3. Change in accounting policy:

Effective April 1, 2013, the Organization adopted new Chartered Professional Accountants of Canada ("CPA Canada") Handbook - Accounting Part III Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations which incorporates Section 3462, Employee Future Benefits in Part II.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

3. Change in accounting policy (continued):

Under the new standard, the actuarial gains and losses and past service costs are no longer deferred and amortized over future periods. The full actuarial liability net of assets is recorded in the consolidated balance sheet, the annual benefit cost is recorded in the consolidated statement of operations and the change in unamortized gains and losses is recognized in the consolidated statement of changes in fund balances. In addition, interest cost and expected rate of return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate used to calculate the net defined benefit obligation.

For defined benefit plans for which an actuarial valuation for funding purposes exists, an accounting policy choice between using the funding valuation or an accounting valuation is available. The Organization has elected to use the valuation prepared for funding purposes.

The Organization implemented the new standard retrospectively. The impact is as follows:

Consolidated balance sheet:

March 31, 2013	As previously presented	Restatements	As restated
Accrued pension asset	\$ 20,305	\$ (20,305)	\$ –
Employee future benefits	45,328	97,345	142,673
Operating fund balances	113,628	(117,650)	(4,022)

Consolidated statement of operations:

March 31, 2013	As previously presented	Restatements	As restated
Other expenses	\$ 17,394	\$ (5,153)	\$ 12,241

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

3. Change in accounting policy (continued):

Consolidated statement of changes in fund balances:

March 31, 2013	As previously presented	Restatements	As restated
Operating fund balance, beginning of year	\$ 110,788	\$ (106,533)	\$ 4,255

4. Credit facilities:

The Organization has Canadian dollar demand, revolving operating facilities (lines of credit) with two Canadian banks for up to \$7,000 (2013 - \$7,000). The facilities are to cover Canadian and U.S. dollar overdrafts, as well as standby letters of credit. These lines of credit bear interest at the prime rate. At year end, the Organization had not drawn on these lines of credit, other than to issue standby letters of credit in the amount of \$176 (2013 - \$272) (note 19(a)).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

5. Securities:

An analysis of the carrying value of securities is as follows:

2014	Remaining term to maturity				No specific maturity	Total
	Within 3 months	Within 3 to 12 months	Within 1 to 5 years	Over 5 years		
Cash and cash equivalents	\$ 28,813	\$ –	\$ –	\$ –	\$ –	\$ 28,813
Fixed income:						
Domestic	428	618	40,000	79,085	200	120,331
Foreign	–	–	1,176	1,336	1,020	3,532
Pooled funds:						
Fixed income:						
Domestic	–	–	–	–	180,466	180,466
Foreign	–	–	–	–	3,557	3,557
Equities	–	–	–	–	70,770	70,770
Equities:						
Domestic	–	–	–	–	191,463	191,463
Foreign	–	–	–	–	257,547	257,547
Real estate	–	–	–	–	7,582	7,582
	\$ 29,241	\$ 618	\$ 41,176	\$ 80,421	\$ 712,605	\$ 864,061

Weighted average effective interest rate on fixed income securities	6.17%	5.23%	2.95%	5.26%
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2013	Remaining term to maturity				No specific maturity	Total
	Within 3 months	Within 3 to 12 months	Within 1 to 5 years	Over 5 years		
Cash and cash equivalents	\$ 31,869	\$ –	\$ –	\$ –	\$ –	\$ 31,869
Fixed income:						
Domestic	1,822	2,290	31,000	76,583	200	111,895
Foreign	–	–	2,695	931	789	4,415
Pooled funds:						
Fixed income:						
Domestic	–	–	–	–	142,766	142,766
Foreign	–	–	–	–	2,859	2,859
Equities	–	–	–	–	59,232	59,232
Equities:						
Domestic	–	–	–	–	162,690	162,690
Foreign	–	–	–	–	228,396	228,396
	\$ 33,691	\$ 2,290	\$ 33,695	\$ 77,514	\$ 596,932	\$ 744,122

Weighted average effective interest rate on fixed income securities	5.72%	2.55%	3.29%	5.59%
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THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

6. Financial risks:

(a) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the 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 Organization is exposed to interest rate risk on the financing of 13 (2013 - 12) of its properties. The Organization has entered into interest rate swaps with major Canadian banks to exchange the variable interest payments for fixed interest rates on all but one of its variable rate loans. Swap interest rates range from 2.45% to 6.27% (2013 - 2.45% to 6.27%). As of March 31, 2014, the swaps had a notional amount totalling \$64,821 (2013 - \$64,821) that reduces on a basis consistent with the repayment of principal of the underlying debt. The swaps mature on dates from February 24, 2016 to November 1, 2023. By effectively converting the interest rates from variable to fixed, the Army has eliminated the volatility, consistent with its interest rate risk management objectives. The one unhedged loan had a notional amount of \$4,538 as of March 31, 2014 and an interest rate of 2.02%, tied to the one-month Bankers' Acceptance CDOR rate. The Organization monitors interest rates and will enter into an interest rate swap on this loan if interest rate risk increases.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

6. Financial risks (continued):

(c) Market price risk:

Market price 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, 2014, 31% (2013 - 32%) of the investments are invested in non-Canadian equities, bonds and debentures. 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.

7. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land and land improvements	\$ 135,568	\$ 282	\$ 135,286	\$ 133,617
Buildings	839,437	327,223	512,214	526,106
Furniture and equipment	43,127	29,986	13,141	13,834
Vehicles	10,908	7,511	3,397	3,392
Construction in progress	35,850	-	35,850	23,434
	\$ 1,064,890	\$ 365,002	\$ 699,888	\$ 700,383

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

7. Capital assets (continued):

As at March 31, 2014, \$90 (2013 - \$83) of interest was capitalized to construction in progress.

As at March 31, 2014, the Organization had assets held for sale with a net book value of \$10,734 (2013 - \$4,270).

8. Other assets and liabilities:

(a) Other assets:

Included in other assets are charitable remainder trusts amounting to \$4,202 (2013 - \$4,202). A charitable remainder trust is an arrangement in 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.

(b) Other liabilities:

Other liabilities include gift annuities, which are planned giving arrangements, in the amount of \$10,421 (2013 - \$14,539).

9. Loans and mortgages payable:

Loans and mortgages payable, which are secured by either the investments or properties, bear interest at rates ranging from 0.00% to 9.63% (2013 - 0.00% to 9.63%) with an average interest rate of approximately 3.91% (2013 - 4.10%) and extend for terms of up to 29 years from March 31, 2014. Some of these mortgages are subsidized by governments so that the effective interest rate to the Organization is reduced. The repayment of the principal and interest on these mortgages is the responsibility of the local Army entities occupying the mortgaged properties.

Interest expense on loans and mortgages totals \$5,071 (2013 - \$5,778).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

9. Loans and mortgages payable (continued):

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

2015	\$ 14,040
2016	28,812
2017	12,409
2018	15,540
2019	11,937
Thereafter	42,620
	<u>125,358</u>
Less current portion	14,040
	<u>\$ 111,318</u>

10. Employee future benefits:

(a) Officers' retirement benefits:

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	Total employee future benefits
2014				
Accrued benefit obligation	\$ 190,772	\$ 22,348	\$ 105,852	\$ 318,972
Fair value of plan assets	177,497	-	-	177,497
Plan deficit	\$ (13,275)	\$ (22,348)	\$ (105,852)	\$ (141,475)

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	Total employee future benefits
2013				
Accrued benefit obligation	\$ 180,710	\$ 21,679	\$ 98,675	\$ 301,064
Fair value of plan assets	158,391	-	-	158,391
Plan deficit	\$ (22,319)	\$ (21,679)	\$ (98,675)	\$ (142,673)

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

10. Employee future benefits (continued):

Continuity of the employee future benefits liability is as follows:

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefits plan	2014	2013 (Restated - note 3)
Balance, beginning of year	\$ 22,320	\$ 21,679	\$ 98,674	\$ 142,673	\$ 124,211
Benefit expense	5,500	915	5,621	12,036	11,509
Employer contributions	(3,401)	(1,793)	(4,102)	(9,296)	(9,317)
Re-measurement and other items	(11,145)	1,547	5,660	(3,938)	16,270
Balance, end of year	\$ 13,274	\$ 22,348	\$ 105,853	\$ 141,475	\$ 142,673

The Organization's net benefit plan expenses are as follows:

2014	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	Total
Current service cost	\$ 4,495	\$ 81	\$ 1,591	\$ 6,167
Interest cost	1,005	834	4,030	5,869
	\$ 5,500	\$ 915	\$ 5,621	\$ 12,036

2013 (Restated - note 3)	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	Total
Current service cost	\$ 4,143	\$ 74	\$ 1,831	\$ 6,048
Interest cost	1,050	812	3,599	5,461
	\$ 5,193	\$ 886	\$ 5,430	\$ 11,509

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

10. Employee future benefits (continued):

The significant assumptions used are as follows:

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans
2014			
Accrued benefit obligation:			
Discount rate	4.3%	4.3%	4.4%
Rate of compensation increase	2.0%	2.0%	—
Benefit costs:			
Discount rate	4.3%	4.3%	4.4%
Expected long-term rate of return on plan assets	6.1%	—	—
Rate of compensation increase	2.0%	2.0%	—
2013			
Accrued benefit obligation:			
Discount rate	4.0%	4.0%	4.1%
Rate of compensation increase	2.0%	2.0%	—
Benefit costs:			
Discount rate	4.0%	4.0%	4.1%
Expected long-term rate of return on plan assets	5.9%	—	—
Rate of compensation increase	2.0%	2.0%	—

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

10. Employee future benefits (continued):

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

	2014	2013
Short-term notes and treasury bills	4%	3%
Canadian equities	24%	23%
Canadian bonds and debentures	14%	15%
Canadian pooled funds	27%	26%
Foreign equities	30%	32%
Foreign bonds and debentures	–	1%
Real estate	1%	–
	100%	100%

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

The assumed health care cost trend rates are as follows:

	2014	2013
-		
Initial health care cost trend rate for prescription drugs	7.4%	7.4%
Cost trend rate declines to	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2015	2015
Assumed increase in other benefit costs per annum	5.0%	5.0%

Additional expenses for officers' benefits, consisting of cash payments made by the Organization directly to beneficiaries for its unfunded other post-retirement benefit plans and other current benefits for the active officers, were \$2,596 (2013 - \$2,730).

The Organization 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 for funding purposes of the pension plan and other post-retirement benefit plans was as of March 31, 2011 and March 31, 2012, respectively. The next required valuations will be as of March 31, 2014 and March 31, 2015, respectively.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

10. Employee future benefits (continued):

(b) Pre-retirement benefits:

Included in other liabilities is accrued pre-retirement benefits of \$3,339 (2013 - \$3,308), representing health and sick leave future payments for certain ministry units.

(c) Employees' retirement benefits:

The contributions paid and expensed by the Organization for the year amounted to \$11,360 (2013 - \$11,103). The assets of the employees' retirement benefits plan are held separately from those of the Organization in an independently administered fund.

(d) Multi-employer defined benefit plans:

Several ministry units are part of multi-employer defined benefit plans in which the costs are not allocated to individual units. During the year, contributions to these plans were \$3,250 (2013 - \$3,162) and are included in charitable programs and services.

11. Deposits on life leases:

	2014	2013
Balance, beginning of year	\$ 13,262	\$ 13,558
Amounts reclassified from deposits on life lease upon occupancy	1,247	1,063
Current year activity:		
Refunds	(1,494)	(1,252)
Amounts recognized as revenue	(124)	(107)
Balance, end of year	\$ 12,891	\$ 13,262

Under some life lease contracts signed to date, GCC has committed to the 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. However, 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 the opinion of management, it is unlikely that material amounts of such repayments will be required in the next year.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

12. Fund balances:

(a) Included in the Operating Fund is the cumulative translation adjustment arising from the self-sustaining translation of foreign operations of \$1,636 (2013 - \$558).

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

2014	Externally restricted	Internally restricted	Total
Ministry units	\$ 9,330	\$ 1,528	\$ 10,858
DHQ	8,184	3,693	11,877
THQ	19,050	24,691	43,741
	\$ 36,564	\$ 29,912	\$ 66,476

2013	Externally restricted	Internally restricted	Total
Ministry units	\$ 11,802	\$ 1,528	\$ 13,330
DHQ	8,175	4,061	12,236
THQ	18,369	26,219	44,588
	\$ 38,346	\$ 31,808	\$ 70,154

(c) The Other Restricted Funds' balance is restricted as follows:

2014	Externally restricted	Internally restricted	Total
Ministry units	\$ 4,583	\$ 92,148	\$ 96,731
DHQ	72,659	53,881	126,540
THQ	53,817	326,287	380,104
	\$ 131,059	\$ 472,316	\$ 603,375

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

12. Fund balances (continued):

2013	Externally restricted	Internally restricted	Total
Ministry units	\$ 6,024	\$ 83,936	\$ 89,960
DHQ	67,014	46,990	114,004
THQ	60,901	242,665	303,566
	\$ 133,939	\$ 373,591	\$ 507,530

13. Investment income:

	2014	2013
Interest	\$ 11,777	\$ 11,591
Dividends	11,272	10,363
Net realized gains on sale of securities	32,431	13,556
Change in net unrealized gains on securities	62,948	29,565
	\$ 118,428	\$ 65,075

14. Expenses by category:

The expenses comprise the following categories:

	2014	2013 (Restated - note 3)
Salaries and benefits	\$ 397,127	\$ 389,774
Occupancy	91,314	89,632
Amortization	28,047	27,419
Other program and general operating	133,914	130,511
	\$ 650,402	\$ 637,336

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

15. Fundraising remuneration:

Public relations and development expenses include remuneration paid to employees whose principal duties involve fundraising totalling \$2,639 (2013 - \$2,593).

16. Net interfund transfers:

2014	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 103,402	\$ –	\$ (103,402)	\$ –
Funding of capital purchases from operations and reserves	(8,034)	(2,468)	(22,451)	32,953
Transfers from internally restricted endowment to operations	1,536	(1,536)	–	–
Transfer funds to internally restricted reserves	(6,464)	(500)	6,964	–
Transfer of property sale proceeds	30	–	16,297	(16,327)
Transfers for future property repairs/maintenance	(4,212)	–	4,212	–
Net investment gain transferred to reserve for future operations	(111,266)	–	111,266	–
Unrestricted legacies transferred to reserve for future operations	(19,159)	–	19,159	–
Other	436	8	(444)	–
	\$ (43,731)	\$ (4,496)	\$ 31,601	\$ 16,626

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

16. Net interfund transfers (continued):

2013	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 92,912	\$ –	\$ (92,912)	\$ –
Funding of capital purchases from operations and reserves	(10,891)	–	(16,288)	27,179
Transfers from internally restricted endowment to operations	783	(1,618)	835	–
Transfer funds to internally restricted reserves	(3,522)	100	3,422	–
Transfer of property sale proceeds	143	–	12,816	(12,959)
Transfers for future property repairs/maintenance	(5,466)	–	5,466	–
Net investment gain transferred to reserve for future operations	(58,946)	–	58,946	–
Unrestricted legacies transferred to reserve for future operations	(21,399)	–	21,399	–
Other	277	16	(293)	–
	\$ (6,109)	\$ (1,502)	\$ (6,609)	\$ 14,220

17. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2014	2013 (Restated - note 3)
Gain on disposal of capital assets	\$ (12,644)	\$ (10,984)
Amortization	28,047	27,419
Increase in pre-retirement benefits	31	268
Other post-retirement benefits expense	5,621	5,430
Defined benefit and supplementary retirement pension plan expense	6,415	6,079
Net realized gains on sale of securities	(32,431)	(13,556)
Change in net unrealized gains on securities	(62,948)	(29,565)
	\$ (67,909)	\$ (14,909)

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

17. Consolidated statement of cash flows (continued):

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

	2014	2013
Receivables and other current assets	\$ 4,606	\$ (7,423)
Accounts payable and accrued liabilities	7,578	4,395
Deferred revenue	(301)	(603)
	<u>\$ 11,883</u>	<u>\$ (3,631)</u>

18. Lease obligations:

The Organization has lease commitments for premises used in its operations. These leases expire on or before 2057. The lease payments are due as follows:

2015	\$ 15,933
2016	10,112
2017	7,476
2018	5,068
2019	2,851
Thereafter	5,111
	<u>\$ 46,551</u>

19. Contingencies and commitments:

(a) Letters of credit and letters of comfort:

The Organization enters into agreements in the normal course of operations that contain features which meet the definition of a guarantee, according to the CPA Canada Handbook. Various debt obligations (such as overdrafts and lines of credit) related to certain ministry units have been guaranteed by The Governing Council. No material loss is anticipated by reason of such agreements and guarantees.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

19. Contingencies and commitments (continued):

As of March 31, 2014, the Organization had issued letters of credit totalling \$176 (2013 - \$272). These are primarily irrevocable standby letters of credit issued in favour of municipalities and other entities requiring performance guarantees on projects undertaken by the Organization.

(b) Government funding for capital projects:

The Organization receives funding for certain capital projects from the federal and provincial governments various programs. This funding is considered a grant as long as the 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 Army had received \$17,078 (2013 - \$18,344) 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 consolidated financial statements related to this funding.

(c) Government capital contribution for a program:

In fiscal 2010, the Organization 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 Organization ceases to operate the program. The Organization intends to operate the program for the foreseeable future and meet all conditions set by the province for its operations; as a result, the transfer of property has been reflected in these consolidated financial statements as an increase in capital assets and by recognizing revenue in the form of capital contributions.

(d) Legal actions:

The Organization 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 Organization.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2014

19. Contingencies and commitments (continued):

(e) Indemnification of directors and officers:

The Organization 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 Army. The nature of the indemnity prevents the Army from reasonably estimating the maximum exposure. The Army has purchased directors' and officers' liability insurance with respect to this indemnification.

20. Comparative information:

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

Reasons Why You Should Support The Salvation Army

- 1.** The Salvation Army has a proven track record that goes back 130 years in Canada. It is now one of the world's largest providers of social services.
- 2.** The Salvation Army helps one person at a time, believing that each person is infinitely valuable and equally worthy.
- 3.** The Salvation Army is present in 400 communities across Canada and more than 125 countries around the world, offering services in 175 different languages. When disaster strikes, the Army is often already there living in the community and is able to provide immediate aid and relief in the most culturally relevant way. It also means the Army will still be there long after the immediate needs have been met.
- 4.** As an international Christian church that welcomes everyone, The Salvation Army's faith motivates its social programs. Donations from the public at large, which includes money from individuals, foundations, corporations and all levels of government, are used for community and social service programs.
- 5.** The Salvation Army works through a large quasi-military organizational model, that includes volunteers, committed members of The Salvation Army, its officers and staff. There is no organization that can more readily mobilize itself where and when the need is greatest.
- 6.** The Salvation Army has adopted Imagine Canada's Ethical Fundraising and Financial Accountability Code. In doing so, the Army undertakes to adhere to the standards set out in the Code in its treatment of donors and the public, its fundraising practices and financial transparency, and to be accountable for doing so.
- 7.** The Salvation Army is managing its administrative and fundraising costs in a reasonable manner given the size and scope of the organization, in order to provide the best programs and services that deliver transformative outcomes for the people we serve.
- 8.** All funds donated to The Salvation Army are used by The Salvation Army, or agencies of which it is a member.
- 9.** Social and community service programs focus on nurturing the capacities, skills and strengths of individuals rather than just giving them a hand out
- 10.** All social and community services are equally available without discrimination.

The Salvation Army in Canada and Bermuda

Territorial Headquarters:

2 Overlea Boulevard, Toronto, ON M4H 1P4

Divisional Headquarters:

Alberta and Northern Territories
(including: Yukon, NWT, and Nunavut)
9618 101A Avenue NW, Edmonton, AB T5H 0C7

Bermuda
76 Roberts Avenue, Devonshire HM 15, Bermuda

British Columbia
103 – 3833 Henning Drive, Burnaby, BC V5C 6N5

Maritime
(New Brunswick, Nova Scotia and Prince Edward Island)
330 Herring Cove Road, Halifax, NS B3R 1V4

Newfoundland and Labrador
21 Adams Avenue, St. John's, NL A1C 4Z1

Ontario Central-East
1645 Warden Avenue, Scarborough, ON M1R 5B3

Ontario Great Lakes
371 King Street, London, ON N6B 1S4

Prairie
(Manitoba, Saskatchewan and Northwest Ontario)
204 – 290 Vaughan Street, Winnipeg, MB R3B 2N8

Québec
625, Av du Président-Kennedy, Bureau 1700
Montréal, QC H3A 1K2

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Colonel Mark W. Tillsley, *Vice-Chair*
Lieut.-Colonel Lee Graves, *Treasurer*
Mr. R. Paul Goodyear, *Secretary*
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Lieut.-Colonel Lee Graves
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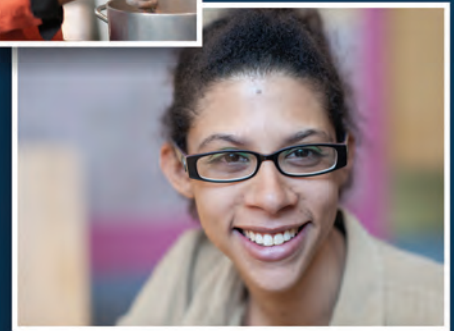
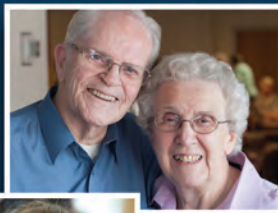
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The Salvation Army gives **hope** and **dignity** to **vulnerable people** today and everyday in over **400 communities** across Canada and more than **125 countries** around the world!



Giving
Hope
Today

The Salvation Army
Territorial Headquarters for Canada and Bermuda
2 Overlea Boulevard, Toronto, Ontario M4H 1P4
416-425-2111 | www.SalvationArmy.ca

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