As the largest non-governmental direct provider of social services in Canada, The Salvation Army is driven by our desire to extend compassion and generosity to anyone who needs it.

At SalvationArmy.ca/annualreview, you will find stories that reflect the extent of our impact on communities and families. Stories such as Tanya, a single mom of twins who is finding ways to cope with the responsibilities she has to bear on her own, and Kathleen, a survivor of the Alberta floods who continues to rebuild.

This year, demand for our services has remained strong and statistics reflect this in the number of people seeking our assistance. While helping people with immediate needs is important, we also support people in addressing underlying issues that have created the crisis.

The Salvation Army believes that financial accountability and transparency are essential to our success. Our financial statements demonstrate the care we show in utilizing the gifts donors entrust to us. We ensure the maximum possible return on investment, which enables us to provide the best possible programs and services to the people we serve.

Thank you for your support. You have proven once again that Canadians care for each other. The Salvation Army is grateful that you have chosen to be part of our family.
Dear friends:

For more than 130 years, The Salvation Army has had the privilege of serving vulnerable people in communities across Canada. Last year, we helped over 1.8 million people.

The Salvation Army not only provides the necessities of life such as food, clothing and shelter, but our programs address needs such as language barriers, loneliness, unemployment and family challenges. Our services continually adapt to meet emerging needs.

The Salvation Army is driven by our desire to extend compassion and generosity to anyone who needs it. We help one person at a time, believing that each person is infinitely valuable and equally worthy.

Our continued success stems from the dedication and support of our donors and volunteers. As a result of your generosity, people are reclaiming dignity, healing and wellness.

Thank you for being part of our circles of support.

May God bless you,

Brian Peddle
Commissioner
Territorial Commander

Dear friends:

In May 2013, a report released by The Salvation Army revealed that many Canadian families continue to struggle to make ends meet, despite a rebounding economy.

The Army’s social and community service programs focus on nurturing the capacities, skills and strengths of individuals with the hope of leading them to a path of independence.

The Salvation Army is doing what it has done for more than 130 years, providing care and assistance to as many people as possible, even as the demand for our services continues to increase.

The Salvation Army’s National Advisory Board is comprised of 13 members who support the Army with strategic guidance on its national operations and services. As Chair, I offer my thanks to you for investing your time and resources with The Salvation Army.

Together we can work to ensure that vulnerable groups are not stigmatized by their circumstances and that everyone has access to adequate resources, services and opportunities.

Sincerely,

Andrew B. Lennox
Senior Vice President
Scotiabank

Chair
The Salvation Army National Advisory Board
FACTS AND FIGURES

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

Addictions, Rehabilitation and Shelter
- 6,035 shelter, addictions, detox and mental health beds provided each night for vulnerable men, women and families
- 1,700 people completed addictions and rehabilitation programs
- 2.6 million free meals served

Emergency Disaster Services
- 8,830 people helped when disaster struck

Work in Developing Countries
- 156 projects in 40 countries
- 30 Salvation Army officers and lay personnel serving outside Canada

Community Churches
- 312 community churches

Personnel
- 792 active Salvation Army officers
- 922 retired Salvation Army officers
- 7,336 employees
- 1.4 million volunteer hours provided

Community and Family Services
- 1,350,000 million persons given food, clothing or practical assistance
- 4,042 children went to Salvation Army camps
- 18 daycare centres provided a total of 1,008 available spaces
- 93,000 meals served at school breakfast programs
- 400,000 subsidized meals provided at feeding centres
- 18,200 people were referred for employment
- 225,000 people were helped in night patrol, rescue and suicide prevention
- 124,000 people were helped with court work including a pro-bono lawyer program
- 225,000 vulnerable youth were helped in 73 community youth programs
- 181,200 people were visited in hospitals, nursing homes, prisons, day care centres and other facilities
- 125,000 hampers and/or food vouchers given at Christmas
- 285,000 toys given to children

Community and Family Services
- 312 community churches

How Each Dollar Received is Allocated
- Charitable programs and services 86%
- Headquarters’ administrative costs 7%
- Fundraising costs 4%
- Other 3%
FINANCIAL 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 direct provider of social services in the country next to government. 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.

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

The Army’s principal legal entity is The Governing Council of The Salvation Army in Canada, a non-profit corporation established by federal statute. It is the corporate trustee body set up to hold assets and perform contracting for The Salvation Army in Canada. 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, 2013

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 $54 million, compared with $4.4 million in the prior year. The key factor contributing to the increase was higher investment income. Charitable donations increased slightly from $180.2 million last year to $183.7 million. The increase is attributed to a rise in legacy income which fluctuates from year to year.
The operating fund, which represents the general operations of all Salvation Army units in Canada and Bermuda, reflects a surplus of $8.7 million, compared with a deficit of $39.3 million in the prior year. This increase is also directly related to the improved investment income this year. Total operating expenses increased by only 3%, in line with general inflationary pressures. Last year the deficit was offset by transfers from reserves, whereas in the current year a modest amount has been transferred from the operating fund to reserves for future operations.

As of March 31, 2013, the Army’s total assets were $1.54 billion, compared to $1.49 billion in the prior year. The current ratio (current assets/current liabilities) of 0.91 should not be interpreted as meaning the Army will have difficulty meeting its short-term obligations; as short-term investments maturing in less than one year and totaling $35.6 million have been classified with securities. When included with current assets, the current ratio becomes 1.38.

Operating fund balances stood at $113.6 million, compared to $110.8 million in the prior year, or on average, about $237,000 per unit. 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, 2013, approximately 57% of units have achieved the target reserve level compared to 40% in the prior year. Efforts are underway to build reserves in the remaining units within the next four years.

### Charity Analysis

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative costs as % of revenues</td>
<td>5.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Fundraising costs as % of donations</td>
<td>11.9%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Program cost coverage</td>
<td>145%</td>
<td>133.8%</td>
</tr>
</tbody>
</table>

### Summary from Audited Financial Statements (in Thousands of Dollars)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
<td>183,703</td>
<td>180,230</td>
</tr>
<tr>
<td>Government funding</td>
<td>213,596</td>
<td>210,476</td>
</tr>
<tr>
<td>Fees for service</td>
<td>79,324</td>
<td>80,781</td>
</tr>
<tr>
<td>Investment income</td>
<td>65,075</td>
<td>20,377</td>
</tr>
<tr>
<td>Thrift Stores – net profit</td>
<td>13,743</td>
<td>13,325</td>
</tr>
<tr>
<td>Other</td>
<td>16,145</td>
<td>15,459</td>
</tr>
<tr>
<td>Funding Sources</td>
<td>571,586</td>
<td>520,648</td>
</tr>
<tr>
<td>Charitable programs and services</td>
<td>428,349</td>
<td>423,064</td>
</tr>
<tr>
<td>Headquarters’ administrative costs</td>
<td>33,403</td>
<td>33,108</td>
</tr>
<tr>
<td>Fundraising costs</td>
<td>21,916</td>
<td>21,144</td>
</tr>
<tr>
<td>Other</td>
<td>17,394</td>
<td>8,566</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>501,062</td>
<td>485,682</td>
</tr>
<tr>
<td>Funding reserves</td>
<td>621,158</td>
<td>566,220</td>
</tr>
</tbody>
</table>

1. This is the net operating profits from Thrift Stores, as the profit generated is used to fund programs.
2. Excludes gain on disposal of capital assets as this is not a funding source for charitable programs or operations.
3. Excludes amortization, as this is not an operating cost.
4. Balance is comprised of the net unrealized gains, operating and other restricted fund balances. The Endowment and Invested in Capital fund balances are excluded as they are not available for allocation to programs or operations.
5. Funding reserves cover program costs 1.35 times.
Financial Commentary continued...

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 2012 for the five most senior commissioned officers of The Salvation Army in Canada ranged from $33,121 to $44,501, with an average of $37,920.

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 2012, there were 44 non-officer employees whose total employment income for tax purposes was above $100,000. In 2012, the 44 non-officer staff whose salaries were over $100,000 were in the range $100,608 to $259,720 with an average of $136,747.

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 202,000 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.

In late 2012, the Army became aware of two significant cases of fraud involving executive directors of ministry units in Toronto and Ottawa. Criminal proceedings are underway in both cases at the date of this report. While the nature of these two cases was completely different, there was a common theme in that both involved a person in a management role. The Army has taken steps to tighten controls in the two ministry units concerned, as well as taken the opportunity to review processes and policies in place nationally to ensure that policies are not only robust, but also that there is full compliance across the organization.

Both a Code of Conduct and a Whistleblower Policy have been approved during the last year. 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 from the public at large, which includes money from individuals, foundations, corporations and all levels of government, are used for our community and social service programs.

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 that the Army will use their investment wisely.

During the fiscal year ended March 31, 2013, supporters made donations to the Army totaling $183.7 million, compared to $180.2 million the previous year. Fundraising costs for the same period were $21.9 million, compared to $21.1 million last year.
Financial Commentary continued...

Overall, 86 cents of all funding revenue received by The Salvation Army (i.e. including government funding, public donations, fees for service, investment income, and net profits from Thrift Store operations) is used directly in charitable activities. This substantially exceeds the Canada Revenue Agency guideline of 65% efficiency.

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.

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.

How Efficient is our Fundraising and Administration?

Much attention is focused today on the fundraising and administrative costs that charities incur, with the message carried in the media that the lower these costs are, the better the charity is at delivering its programs and services.

The Army agrees the more efficient an organization is, the lower its overall costs of fundraising and administration will be; and as a result, more funds will be available for charitable programs.

These financial statements reveal that in the year ended March 31, 2013, the Army’s total administration costs incurred at its territorial and divisional headquarters amount to $33.4 million, compared to $33.1 million in the prior year, an increase of 0.9%. As a proportion of total funding sources, headquarters operations represented 5.8% this year and 6.5% in the prior year.

Public relations and development costs increased 3.7% from the prior year. As a proportion of charitable donations, these costs represented 11.9%, compared with 11.7% in the prior year. This compares favourably with the upper limit of 35% set by the Canada Revenue Agency.

The Salvation Army believes this is the best measure to use at the present time to evaluate the efficiency of fundraising, recognizing that it does have 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.
Financial Commentary continued...

Combined, fundraising and administration costs equal $55.3 million, compared to $54.3 million in the prior year. As a proportion of total funding sources, these costs amount to 9.7% in the current year and 10.6% in the prior year.

The Salvation Army believes that it is managing its administrative and fundraising costs in a reasonable manner given the size and scope of the organization, and that it is ensuring the maximum possible return on that investment in order to provide the best possible programs and services that result in transformative outcomes for the people we serve.

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.

Neil Watt, Lt-Colonel
Territorial Secretary
for Business Administration
and Treasurer of The Governing Council

R. Paul Goodyear, MBA, CMA, FCMA
Territorial Financial Secretary
and Secretary of The Governing Council
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, 2013, the Fund earned $65.1 million, incurred expenses of $3.2 million and paid interest on constituent accounts of $7.2 million, for a net income of $54.7 million. In accordance with the spending policy, $11.8 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.

The target, operating ranges and actual asset mix of the Fund as at March 31, 2013 was as follows:

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Target</th>
<th>Range</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0</td>
<td>0–10%</td>
<td>4%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>40%</td>
<td>35–45%</td>
<td>35%</td>
</tr>
<tr>
<td>Canadian Equities</td>
<td>30%</td>
<td>25–32.5%</td>
<td>30%</td>
</tr>
<tr>
<td>Foreign Equities</td>
<td>30%</td>
<td>25–32.5%</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

As of March 31, 2013, all asset classes were within the targeted range.

Banking services are provided by Royal Bank of Canada, Bank of Nova Scotia and Canadian Imperial Bank of Commerce. 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. and QV Investors.

**Investment Advisory Committee**

Mr. William Chinery, *Chair*  
Mr. William J. Stafford, *Secretary*  
Mr. Kevin Fahey  
Mr. R. Paul Goodyear  
Ms. Janet Greenwood  
Mr. Roger Robineau  
Mr. Keith Walter  
Lt-Colonel Neil Watt