



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

Year ended March 31, 2013



Giving
Hope
Today

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

Addictions, Recovery 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

Community Churches

312 community churches

Community and Family Services

1, 350,000 persons assisted with food, clothing or practical assistance

4,042 children went to Salvation Army camps

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

Emergency Disaster Services

8,830 people helped when disaster struck

Hospice, Health and Long-Term Care

200 hospital beds provided

1,130 long-term care and supportive housing beds provided

40 hospice beds provided

Work in Developing Countries

156 projects in **40** countries

30 Salvation Army officers and lay personnel serving outside Canada

Personnel

792 active Salvation Army officers

922 retired Salvation Army officers

7,336 employees

1.4 million volunteer hours provided

Consolidated Financial Statements
of

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

Year ended March 31, 2013

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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.

Legal and Corporate Structure

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 members and directors, the Governing Council has only members. Members are appointed by the General of The Salvation Army, who is the international leader of its worldwide operations. 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 & 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.

In particular, members of the National Advisory Board in Canada and the Bermuda Advisory Board play a key role in ensuring that the Army is responsive to community needs and exercises appropriate accountability to its stakeholders, including members of the public who generously support its work with their contributions.

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, 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.

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, 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:

Asset Class	Target	Range	Actual
Cash	0	0-10%	4%
Fixed Income	40%	35-45%	35%
Canadian Equities	30%	25-32.5%	30%
Foreign Equities	30%	25-32.5%	31%
	100%	100%	100%

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.

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, as follows:

Compensation range	Number of employees
\$100,000 – \$119,999	16
\$120,000 – \$159,999	19
\$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 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 for 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 behavior 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 to use their investment wisely.

During the fiscal year ended March 31, 2013, supporters made donations to the Army totalling \$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.

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.

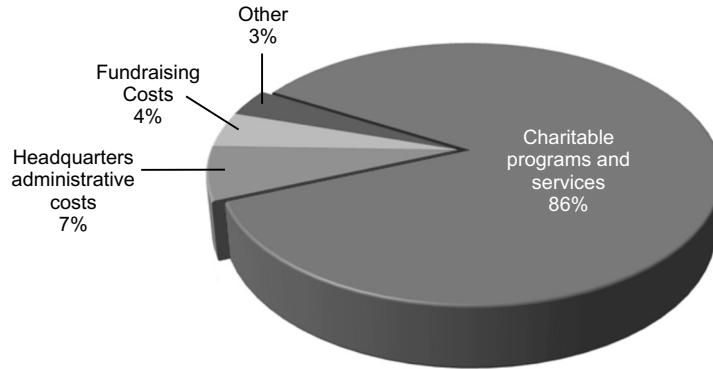
These financial statements reveal that in the year ended March 31, 2013, the Army's total administration costs incurred at its territorial and divisional headquarters amount to \$33.4 million, compared to \$33.1 million in the prior year, an increase of 0.9%. As a proportion of total funding sources (see Exhibit A), 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.

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 (see Exhibit A), these costs amount to 9.7% in the current year and 10.6% in the prior year.

How Each Dollar Received is Allocated



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

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

June 28, 2013

EXHIBIT A - FINANCIAL SUMMARY

(in thousands of dollars)

Fiscal Year Ending March 31	2013	2012
Donations	183,703	180,230
Government funding	213,596	210,476
Fees for service	79,324	80,781
Investment income	65,075	11,371
Thrift Stores – Net Profit ¹	13,743	12,900
Other	16,145	15,459
Funding Sources²	571,586	511,217
Charitable programs and services	428,349	423,064
Headquarters' Administrative costs	33,403	33,108
Fundraising costs	21,916	21,144
Other	17,394	8,566
Operating Expenses³	501,062	485,882
Funding Reserves⁴	621,158	566,220

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 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.



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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 sheets as at March 31, 2013, March 31, 2012 and April 1, 2011, the consolidated statements of operations, changes in fund balances and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.



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 March 31, 2013, March 31, 2012 and April 1, 2011 and for the years ended March 31, 2013 and March 31, 2012, 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 cash flows and assets and fund balances reported in the consolidated balance sheets.

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, 2013, March 31, 2012 and April 1, 2011, and its consolidated results of operations and its consolidated cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants, Licensed Public Accountants

June 26, 2013
Toronto, Canada

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Balance Sheets
(In thousands of dollars)


March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012	April 1, 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 34,847	\$ 46,109	\$ 45,935
Receivables and other current assets	33,304	25,881	24,034
	68,151	71,990	69,969
Securities (note 4)	743,782	682,847	678,003
Capital assets (note 6)	700,383	701,925	710,034
Accrued pension asset (note 7(a))	20,305	22,948	21,768
Other assets (note 8(a))	5,472	5,539	5,305
	\$ 1,538,093	\$ 1,485,249	\$ 1,485,079
Liabilities and Fund Balances			
Current liabilities:			
Accounts payable and accrued liabilities (note 9)	\$ 50,003	\$ 45,608	\$ 47,476
Deferred revenue	16,162	16,765	16,086
Current portion of loans and mortgages payable (note 10)	9,029	7,159	11,838
	75,194	69,532	75,400
Long-term liabilities:			
Other post-retirement benefits (note 7(a))	45,328	40,626	37,061
Loans and mortgages payable (note 10)	118,904	127,608	128,032
Deposits on life leases (note 11)	13,262	13,558	13,884
Other liabilities (notes 7(b) and 8(b))	17,968	20,802	22,319
	195,462	202,594	201,296
Fund balances:			
Operating (note 12(a))	113,628	110,788	100,223
Endowment (note 12(b))	70,154	71,577	72,278
Other Restricted (note 12(c))	507,530	455,432	461,086
Capital	576,125	575,326	574,796
	1,267,437	1,213,123	1,208,383
Contingencies and commitments (notes 16 and 17)			
	\$ 1,538,093	\$ 1,485,249	\$ 1,485,079

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 Statements of Operations
(In thousands of dollars)

Years ended March 31, 2013 and 2012

	2013			2012		
	Operating Fund	Restricted Funds Endowment	Capital	Operating Fund	Restricted Funds Endowment	Capital
Revenue:						
Charitable donations	\$ 109,168	\$ 79	\$ 1,069	\$ 183,703	\$ 51	\$ 300
Government funding	211,638	426	1,532	213,596	438	3,961
Fees for service	79,324	—	—	79,324	—	—
Investment (note 13)	64,121	964	—	65,075	1,594	—
Thrift stores	128,218	—	—	128,218	—	—
Gain on disposal of capital assets	—	—	10,984	10,984	—	—
Other	14,041	1,011	1,093	16,145	1,498	5,171
	606,510	79	14,678	697,045	51	9,746
Expenses (note 20):						
Charitable programs and services:						
Additions, corrections and residential	163,441	—	—	163,441	—	—
Health care	121,672	—	—	121,672	—	—
Community and family services	58,678	—	—	58,678	—	—
Congregational ministries	48,548	—	—	48,548	—	—
Children and youth	15,265	—	—	15,265	—	—
Educational	5,781	—	—	5,781	—	—
Overseas development	—	—	—	—	—	—
and missions	285	—	—	286	—	—
Other programs and services	9,740	—	—	9,740	—	—
	423,410	4,939	—	428,349	4,081	—
Thrift stores	114,475	—	—	114,475	—	—
Headquarters' operating	33,403	—	—	33,403	—	—
Public relations and development (note 19)	9,784	12,132	—	21,916	12,028	—
Amortization	—	—	27,419	27,419	—	26,099
Other	16,714	—	680	17,394	—	539
	597,786	17,071	28,099	642,956	16,109	26,638
Excess (deficiency) of revenue over expenses	\$ 8,724	\$ 79	\$ (13,421)	\$ 54,089	\$ 60,512	\$ (16,892)
						\$ 4,407

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

2013	Operating Fund (note 12(a))	Restricted Funds			Total
		Endowment (note 12(b))	Other (note 12(c))	Capital	
Fund balances, beginning of year	\$ 110,788	\$ 71,577	\$ 455,432	\$ 575,326	\$ 1,213,123
Excess (deficiency) of revenue over expenses	8,724	79	58,707	(13,421)	54,089
Cumulative translation adjustment	225	–	–	–	225
Net interfund transfers (note 14)	(6,109)	(1,502)	(6,609)	14,220	–
Fund balances, end of year	\$ 113,628	\$ 70,154	\$ 507,530	\$ 576,125	\$ 1,267,437

2012	Operating Fund (note 12(a))	Restricted Funds			Total
		Endowment (note 12(b))	Other (note 12(c))	Capital	
Fund balances, beginning of year	\$ 100,223	\$ 72,278	\$ 461,086	\$ 574,796	\$ 1,208,383
Excess (deficiency) of revenue over expenses	(39,264)	51	60,512	(16,892)	4,407
Cumulative translation adjustment	333	–	–	–	333
Net interfund transfers (note 14)	49,496	(752)	(66,166)	17,422	–
Fund balances, end of year	\$ 110,788	\$ 71,577	\$ 455,432	\$ 575,326	\$ 1,213,123

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statements of Cash Flows
(In thousands of dollars)

Years ended March 31, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 54,089	\$ 4,407
Items not affecting cash (note 15(a))	(9,755)	42,841
Change in non-cash operating working capital (note 15(b))	(3,631)	(3,036)
Contributions to other post-retirement benefits	(3,973)	(4,336)
Contributions to defined benefit and supplemental pension plans	(5,345)	(5,432)
	<u>31,385</u>	<u>34,444</u>
Financing activities:		
Decrease (increase) in other assets	67	(234)
Repayment of loans and mortgages	(7,325)	(6,420)
Increase in loans and mortgages	491	1,317
Decrease in other liabilities	(3,102)	(1,718)
Decrease in deposits on life leases	(296)	(326)
	<u>(10,165)</u>	<u>(7,381)</u>
Investing activities:		
Purchase of securities, net	(17,814)	(14,403)
Additions to capital assets	(29,733)	(24,448)
Proceeds on disposal of capital assets	14,840	11,629
	<u>(32,707)</u>	<u>(27,222)</u>
Change in cumulative translation adjustment (note 12(a))	225	333
Increase (decrease) in cash and cash equivalents	(11,262)	174
Cash and cash equivalents, beginning of year	46,109	45,935
Cash and cash equivalents, end of year	<u>\$ 34,847</u>	<u>\$ 46,109</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)

Years ended March 31, 2013 and 2012

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:

On April 1, 2012, the Organization adopted Canadian Accounting Standards for Not-For-Profit Organizations in Part III of The Canadian Institute of Chartered Accountants' ("CICA") Handbook ("Not-For-Profit Standards"). These are the first consolidated financial statements prepared in accordance with Not-For-Profit Standards.

In accordance with the transitional provisions in Not-For-Profit Standards, the Organization has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying Not-For-Profit Standards.

A summary of transitional adjustments recorded to fund balances and excess of revenue over expenses is provided in note 18.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

1. Basis of presentation (continued):

These consolidated financial statements present, in accordance with Not-For-Profit Standards 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.

(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, the donations and legacies with external restrictions other than endowments and transactions impacting internally restricted reserves. Funds raised through the World Services Appeal campaign are used to support the work of The Salvation Army internationally. Funds raised through the National Red Shield Appeal campaigns are used to support the social and community services work of the Organization.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

1. Basis of presentation (continued):

(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.

(b) Inventories:

Inventories are valued at the lower of cost and net realizable value. Inventories are included on the consolidated balance sheets 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

2. Significant accounting policies (continued):

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.

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 and the variable rate is based on the same index and includes the same or no adjustment and the debt instrument cannot be settled before maturity and the swap matures within two weeks of the maturity date of the debt.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

2. Significant accounting policies (continued):

(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.

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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

2. Significant accounting policies (continued):

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 and accounting purposes.

The Organization uses the deferral and amortization approach to account for its defined benefit plans. 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;
- (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;

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

2. Significant accounting policies (continued):

(d) actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. 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 changes in the actuarial assumptions used to determine the accrued benefit obligation. For pension and other post-retirement benefits, the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and fair value of plan assets is amortized over the average remaining service life of active officers. The average remaining service period of the active officers related to the pension plan is 9.7 years (2012 - 10.4 years) and 10.7 years (2012 - 13.8 years) for the other post-retirement benefits; and

(e) past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

(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.

(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 sheets.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

2. Significant accounting policies (continued):

(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.

(k) Allocation of expenses:

The Organization classifies expenses on the consolidated statements of operations by function. The Organization allocates costs by identifying an appropriate basis of allocating and applying that one 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

2. Significant accounting policies (continued):

(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 dates of the consolidated financial statements and the reported amounts of revenue and expenses during the years. 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 expenditures. Actual results could differ from those estimates.

3. Credit facilities:

The Organization has Canadian dollar demand, revolving operating facilities (lines of credit) with two Canadian banks for up to \$7,000 (March 31, 2012 - \$7,000; April 1, 2011 - \$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 \$272 (March 31, 2012 - \$297; April 1, 2011 - \$256) (note 17(a)).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

4. Securities:

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

March 31, 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	\$ 31,529	\$ –	\$ –	\$ –	\$ –	\$ 31,529
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
	\$ 33,351	\$ 2,290	\$ 33,695	\$ 77,514	\$ 596,932	\$ 743,782

Weighted average effective interest rate on fixed income securities	5.72%	2.55%	3.29%	5.59%
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March 31, 2012	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	\$ 29,784	\$ –	\$ –	\$ –	\$ –	\$ 29,784
Fixed income:						
Domestic	762	4,595	25,855	80,603	200	112,015
Foreign	–	1,025	821	548	–	2,394
Pooled funds:						
Fixed income:						
Domestic	–	–	–	–	136,378	136,378
Foreign	–	–	–	–	2,213	2,213
Equities	–	–	–	–	59,240	59,240
Equities:						
Domestic	–	–	–	–	143,854	143,854
Foreign	–	–	–	–	196,969	196,969
	\$ 30,546	\$ 5,620	\$ 26,676	\$ 81,151	\$ 538,854	\$ 682,847

Weighted average effective interest rate on fixed income securities	4.85%	4.95%	3.82%	4.84%
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THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

4. Securities (continued):

April 1, 2011	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	\$ 20,083	\$ –	\$ –	\$ –	\$ –	\$ 20,083
Fixed income:						
Domestic	1,196	1,456	19,027	77,073	200	98,952
Foreign	485	6,230	1,776	900	–	9,391
Pooled funds:						
Fixed income:						
Domestic	–	–	–	–	128,983	128,983
Foreign	–	–	–	–	2,837	2,837
Equities	–	–	–	–	128,182	128,182
Equities:						
Domestic	–	–	–	–	98,456	98,456
Foreign	–	–	–	–	191,119	191,119
	\$ 21,764	\$ 7,686	\$ 20,803	\$ 77,973	\$ 549,777	\$ 678,003
Weighted average effective interest rate on fixed income securities	5.69%	4.42%	4.49%	5.46%		

5. Financial risks:

Risk management relates to the understanding and active management of risks associated with all areas of the Organization and the associated operating environment. Investments are primarily exposed to interest rate, other price 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. There has been no change in risk exposures in 2013.

(a) Interest rate risk:

The Organization is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-interest instruments subject the Organization to a fair value risk while the floating-rate instruments subject it to a cash flow risk.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

5. Financial risks (continued):

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.

Further details about the fixed rate investments are included in note 4.

The Organization is exposed to interest rate risk on the financing of 12 (March 31, 2012 - 11; April 1, 2011 - 11) of its properties. The Organization has entered into interest rate swaps with major Canadian banks to exchange the variable interest payments on all its variable rate loans for fixed interest rates, ranging from 2.45% to 6.27% (March 31, 2012 - 3.82% to 6.27%; April 1, 2011 - 3.82% to 6.27%). The swaps had an original notional amount totalling \$64,821 (March 31, 2012 - \$63,004; April 1, 2011 - \$63,178) 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 (March 31, 2012 - February 24, 2016 to November 1, 2023; April 1, 2011 - February 24, 2016 to November 1, 2023). All bankers' acceptances and swap agreements have identical start and end dates, and meet all other requirements to qualify for hedge accounting at the date of transition to the new Not-For-Profit Standards. By effectively converting the interest rates from variable to fixed, the Organization has eliminated the volatility, consistent with its interest rate risk management objectives.

(b) Other price risk:

Other 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

5. Financial risks (continued):

(c) Foreign currency risk:

The Organization is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. As of March 31, 2013, 32% (March 31, 2012 - 30%; April 1, 2011 - 30%) of the securities are invested in non-Canadian equities, bonds and debentures. The Organization does not hedge its foreign currency risk on these securities. The philosophy of the Organization and its global investment management service providers is that since the portfolio is managed such that 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.

6. Capital assets:

March 31, 2013	Cost	Accumulated amortization	Net book value
Land and land improvements	\$ 133,816	\$ 199	\$ 133,617
Buildings	833,098	306,992	526,106
Furniture and equipment	41,521	27,687	13,834
Vehicles	10,182	6,790	3,392
Construction in progress	23,434	—	23,434
	\$ 1,042,051	\$ 341,668	\$ 700,383

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

6. Capital assets (continued):

March 31, 2012	Cost	Accumulated amortization	Net book value
Land and land improvements	\$ 133,497	\$ 94	\$ 133,403
Buildings	811,083	286,512	524,571
Furniture and equipment	38,455	25,544	12,911
Vehicles	9,223	6,033	3,190
Construction in progress	27,850	—	27,850
	<u>\$ 1,020,108</u>	<u>\$ 318,183</u>	<u>\$ 701,925</u>

April 1, 2011	Cost	Accumulated amortization	Net book value
Land and land improvements	\$ 131,405	\$ 8	\$ 131,397
Buildings	767,609	263,656	503,953
Furniture and equipment	45,406	30,463	14,943
Vehicles	9,770	6,608	3,162
Construction in progress	56,579	—	56,579
	<u>\$ 1,010,769</u>	<u>\$ 300,735</u>	<u>\$ 710,034</u>

As at March 31, 2013, \$83 (March 31, 2012 - \$32; April 1, 2011 - \$161) of interest was capitalized to construction in progress.

As at March 31, 2013, the Organization had assets held for sale with a net book value of \$4,270 (March 31, 2012 - \$132; April 1, 2011 - \$354).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

7. Employee future benefits:

(a) Officers' retirement benefits:

March 31, 2013	Defined benefit pension plan	Supplemental pension	Total accrued pension asset	Other post- retirement benefit plans
Accrued benefit obligation	\$ 180,710	\$ 21,679	\$ 202,389	\$ 98,674
Fair value of plan assets	158,391	–	158,391	–
Funded status - plan deficit	(22,319)	(21,679)	(43,998)	(98,674)
Unamortized, net actuarial loss	50,976	9,946	60,922	44,715
Unamortized past service costs	3,381	–	3,381	8,631
Accrued benefit asset (liability)	\$ 32,038	\$ (11,733)	\$ 20,305	\$ (45,328)

March 31, 2012	Defined benefit pension plan	Supplemental pension	Total accrued pension asset	Other post- retirement benefit plans
Accrued benefit obligation	\$ 172,276	\$ 20,225	\$ 192,501	\$ 81,418
Fair value of plan assets	149,708	–	149,708	–
Funded status - plan deficit	(22,568)	(20,225)	(42,793)	(81,418)
Unamortized, net actuarial loss	54,052	7,932	61,984	33,147
Unamortized past service costs	3,757	–	3,757	7,645
Accrued benefit asset (liability)	\$ 35,241	\$ (12,293)	\$ 22,948	\$ (40,626)

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

7. Employee future benefits (continued):

April 1, 2011	Defined benefit pension plan	Supplemental pension	Total accrued pension asset	Other post- retirement benefit plans
Accrued benefit obligation	\$ 142,477	\$ 16,873	\$ 159,350	\$ 70,073
Fair value of plan assets	152,650	–	152,650	–
Funded status - plan surplus (deficit)	10,173	(16,873)	(6,700)	(70,073)
Unamortized, net actuarial loss	19,530	4,805	24,335	23,934
Unamortized past service costs	4,133	–	4,133	9,078
Accrued benefit asset (liability)	\$ 33,836	\$ (12,068)	\$ 21,768	\$ (37,061)

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

	March 31, 2013	March 31, 2012	April 1, 2011
Cash	–	–	1%
Short-term notes and treasury bills	3%	4%	2%
Canadian equities	23%	23%	14%
Canadian bonds and debentures	15%	16%	15%
Canadian pooled funds	26%	27%	38%
Foreign equities	32%	29%	28%
Foreign bonds and debentures	1%	1%	2%
	100%	100%	100%

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

7. Employee future benefits (continued):

The assumed health care cost trend rates are as follows:

	March 31, 2013	March 31, 2012	April 1, 2011
Initial health care cost trend rate for prescription drugs	7.40%	7.40%	9.00%
Cost trend rate declines to	5.00%	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2015	2014	2014
Assumed increase in other benefit costs per annum	5.00%	5.00%	5.00%

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

7. Employee future benefits (continued):

The significant assumptions used are as follows:

	March 31, 2013		March 31, 2012		April 1, 2011	
	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans
Accrued benefit obligation:						
Discount rate	4.00%	4.00%	4.10%	4.20%	4.20%	5.25%
Rate of compensation increase	2.00%	2.00%	–	2.00%	2.00%	–
Benefit costs:						
Discount rate	4.00%	4.00%	4.10%	4.20%	4.20%	5.25%
Expected long-term rate of return on plan assets	5.90%	–	–	5.90%	–	–
Rate of compensation increase	2.00%	2.00%	–	2.00%	2.00%	–

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

7. Employee future benefits (continued):

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

	2013		2012			
	Defined benefit pension plan	Supplemental pension	Other post- retirement benefit plans	Defined benefit pension plan	Supplemental pension	Other post- retirement benefit plans
Current service cost	\$ 4,143	\$ 74	\$ 1,831	\$ 3,616	\$ —	\$ 1,550
Interest cost	7,240	812	3,599	7,459	833	3,691
Expected return on plan assets	(8,695)	—	—	(9,772)	—	—
Amortization of past service costs	376	—	1,433	376	1,250	1,433
Amortization of net actuarial loss	3,541	497	1,812	315	175	1,227
	\$ 6,605	\$ 1,383	\$ 8,675	\$ 1,994	\$ 2,258	\$ 7,901

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

7. Employee future benefits (continued):

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 \$2,730 (2012 - \$2,677).

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.

(b) Pre-retirement benefits:

Included in other liabilities is accrued pre-retirement benefits of \$3,308 (March 31, 2012 - \$3,040; April 1, 2011 - \$2,839), representing health and sick leave future payments for several ministry units.

(c) Employees' retirement benefits:

The contributions paid and expensed by the Organization for the year amounted to \$11,103 (2012 - \$10,495). 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 \$3,162 (2012 - \$3,077) and are included in charitable programs and services.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

8. Other assets and liabilities:

(a) Other assets:

Other assets include interest-bearing loans to external parties and charitable remainder trusts. Interest-bearing loans to external parties total \$283 (March 31, 2012 - \$299; April 1, 2011 - \$375). These loans bear interest from 0% to 7% (March 31, 2012 - 0% to 7%; April 1, 2011 - 0% to 7%) and are to be repaid in fixed amounts over various terms. 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. Charitable remainder trusts amounted to \$4,202 (March 31, 2012 - \$4,250; April 1, 2011 - \$4,250).

(b) Other liabilities:

Other liabilities include gift annuities, which are planned giving arrangements, in the amount of \$14,539 (March 31, 2012 - \$16,398; April 1, 2011 - \$18,004).

9. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$961 (March 31, 2012 - \$2,488; April 1, 2011 - \$1,190), which includes amounts payable for harmonized sales taxes, program claw-backs and payroll-related taxes.

10. Loans and mortgages payable:

Loans and mortgages payable, which are secured by either the investments or properties, bear interest at rates ranging from 0.0% to 9.63% (March 31, 2012 - 0.00% to 9.63%; April 1, 2011 - 2.00% to 9.63%) with an average interest rate of approximately 4.10% (March 31, 2012 - 4.17%; April 1, 2011 - 5.33%) and extend for terms of up to 30 years from March 31, 2013. Some of these mortgages are subsidized by governments so that the effective interest rate to the Organization is reduced.

Interest expense on loans and mortgages totals \$5,778 (2012 - \$5,793).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

10. Loans and mortgages payable (continued):

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

2014	\$ 9,029
2015	13,360
2016	28,335
2017	11,512
2018	14,853
Thereafter	50,844
	127,933
Less current portion	9,029
	\$ 118,904

11. Deposits on life leases:

	March 31, 2013	March 31, 2012	April 1, 2011
Balance, beginning of year	\$ 13,558	\$ 13,884	\$ 14,371
Amounts reclassified from deposits on life lease upon occupancy	1,063	940	512
Current year activity:			
Refunds	(1,252)	(1,174)	(874)
Amounts recognized as revenue	(107)	(92)	(125)
Balance, end of year	\$ 13,262	\$ 13,558	\$ 13,884

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)

Years ended March 31, 2013 and 2012

12. Fund balances:

(a) Included in the Operating Fund is the cumulative translation adjustment arising from the self-sustaining translation of foreign operations of \$558 (March 31, 2012 - \$333; April 1, 2011 - nil).

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

	March 31, 2013			March 31, 2012			April 1, 2011		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	
Ministry units	\$ 11,802	\$ 1,528	\$ 13,330	\$ 11,832	\$ 1,528	\$ 13,360	\$ 11,837	\$ 1,528	
DHQ	8,175	4,061	12,236	8,165	4,060	12,225	8,363	4,061	
THQ	18,369	26,219	44,588	18,379	27,613	45,992	18,288	28,201	
	\$ 38,346	\$ 31,808	\$ 70,154	\$ 38,376	\$ 33,201	\$ 71,577	\$ 38,488	\$ 33,790	
									\$ 72,278

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

	March 31, 2013			March 31, 2012			April 1, 2011		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	
Ministry units	\$ 6,024	\$ 83,936	\$ 89,960	\$ 3,158	\$ 93,255	\$ 96,413	\$ 3,840	\$ 96,447	
DHQ	67,014	46,990	114,004	61,809	34,835	96,644	57,745	29,501	
THQ	60,901	242,665	303,566	62,421	199,954	262,375	57,855	215,698	
	\$ 133,939	\$ 373,591	\$ 507,530	\$ 127,388	\$ 328,044	\$ 455,432	\$ 119,440	\$ 341,646	
									\$ 461,086

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

13. Investment income:

	2013	2012
Interest	\$ 11,591	\$ 11,487
Dividends	10,363	9,443
Net realized gains (losses) on sale of securities	13,556	(553)
Change in net unrealized gains (losses) on securities	29,565	(9,006)
	<u>\$ 65,075</u>	<u>\$ 11,371</u>

14. Net interfund transfers:

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 and reserves	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)	–
	<u>\$ (6,109)</u>	<u>\$ (1,502)</u>	<u>\$ (6,609)</u>	<u>\$ 14,220</u>

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

14. Net interfund transfers (continued):

2012	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 87,785	\$ –	\$ (87,785)	\$ –
Funding of capital purchases from operations and reserves	(8,637)	–	(17,978)	26,615
Transfers from internally restricted endowment to operations and reserves	664	(764)	100	–
Transfer of property sale proceeds	116	–	9,077	(9,193)
Transfers for future property repairs/maintenance	(6,675)	–	6,675	–
Net investment gain transferred to reserve for future operations	(5,974)	–	5,974	–
Unrestricted legacies transferred to reserve for future operations	(18,268)	–	18,268	–
Other	485	12	(497)	–
	\$ 49,496	\$ (752)	\$ (66,166)	\$ 17,422

15. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2013	2012
Gain on disposal of capital assets	\$ (10,984)	\$ (5,171)
Amortization	27,419	26,099
Increase in pre-retirement benefits	268	201
Other post-retirement benefits expense	8,675	7,901
Defined benefit and supplemental pension plan expense	7,988	4,252
Net realized losses (gains) on sale of securities	(13,556)	553
Change in net unrealized losses (gains) on securities	(29,565)	9,006
	\$ (9,755)	\$ 42,841

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

15. Consolidated statement of cash flows (continued):

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

	2013	2012
Receivables and other current assets	\$ (7,423)	\$ (1,847)
Accounts payable and accrued liabilities	4,395	(1,868)
Deferred revenue	(603)	679
	<u>\$ (3,631)</u>	<u>\$ (3,036)</u>

16. 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:

2014	\$ 15,698
2015	11,073
2016	6,613
2017	4,300
2018	2,142
Thereafter	1,866
	<u>\$ 41,692</u>

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

17. 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 Canadian accounting standards. 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.

As of March 31, 2013, the Organization had issued letters of credit totalling \$272 (March 31, 2012 - \$297; April 1, 2011 - \$256). 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 Organization continues to meet the terms of the agreements. In the case of default, the funding is repayable to the government. At year end, the Organization had \$18,344 (2012 - \$19,205) 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 to meet all conditions set by the province for its operations; as a result, the property has been reflected in these consolidated financial statements as a capital asset.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

17. Contingencies and commitments (continued):

(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.

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

18. Transitional adjustments:

(a) Fund balances:

The following table summarizes the impact of the transition to Not-For-Profit Standards on the Organization's fund balances as of April 1, 2011:

Fund balances:	
As previously reported under Canadian generally accepted accounting principles, March 31, 2011	\$ 1,200,088
Transition election to recognize cumulative translation differences (i)	(2,285)
Transition adjustment to recognize all unamortized transitional assets on employee future benefits (ii)	8,176
Transition election to retrospectively apply hedge accounting (iii)	2,404
<hr/> Restated, April 1, 2011	<hr/> \$ 1,208,383

In accordance with transitional provisions of Not-For-Profit Standards, the Organization has elected to use the following exemptions:

(i) Cumulative translation differences:

The Organization has chosen to deem cumulative translation differences to be zero at the date of transition.

(ii) Employee future benefits:

The Organization has chosen to use the deferral and amortization approach and, therefore, must recognize the unamortized transitional asset in opening fund balances.

(iii) Hedge accounting:

The Organization has chosen to retrospectively hedge account for all qualifying hedging relationships.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Years ended March 31, 2013 and 2012

18. Transitional adjustments (continued):

(b) Excess of revenue over expenses:

As a result of the above-noted elections and the retrospective application of Not-for-Profit Standards, the Organization recorded the following adjustments to excess of revenue over expenses for the year ended March 31, 2012:

Excess of revenue over expenses:	
As previously reported under Canadian generally accepted accounting principles for year ended March 31, 2012	\$ 12,695
Increase to employee future benefit expense as a result of recognizing unamortized transitional asset	(2,044)
Decrease to investment income as unrealized loss on securities recorded on consolidated statement of operations	(9,006)
Increase to other revenue as a result of retrospectively applying hedge accounting	2,762
<u>Restated for the year ended March 31, 2012</u>	<u>\$ 4,407</u>

19. Fundraising remuneration:

Public relations and development expenses include remuneration paid to employees whose principal duties involve fundraising totalling \$2,593 (2012 - \$2,308).

20. Expenses by category:

The expenses comprise the following categories:

	2013	2012
Salaries and benefits	\$ 394,928	\$ 380,966
Operating	130,977	124,910
Occupancy	89,632	91,213
Amortization	27,419	26,099
	<u>\$ 642,956</u>	<u>\$ 623,188</u>

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- 1.** The Salvation Army has a proven track record that goes back almost 150 years, and almost 130 years in Canada. This has made it one of the world's largest providers of social services, and one of the most trusted.
- 2.** The Salvation Army ministers to the whole person. It strives to be an agent of beneficial change in people's lives, as well as meet the needs of the moment.
- 3.** All funds donated to The Salvation Army are used by The Salvation Army, or agencies of which it is a member. The Salvation Army connects your donation directly to the point of most urgent need.
- 4.** The Salvation Army, in its compassionate concern to exemplify the love of God for a broken world, seeks to reach out to those most in need in our society, and does so without discrimination except on the basis of need.
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- 6.** The Salvation Army keeps its administrative costs low, and gives its donors full charitable value for every dollar it receives.
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- 8.** We get results! The newsletter our donors receive offers stories of success in overcoming life's obstacles among those we have helped. There are more stories like this in our magazine Faith & Friends.
- 9.** The Salvation Army works through a large quasi-military organizational model, that includes volunteers, committed members of The Salvation Army, its officers, employees and lay leaders. There is no organization that can more readily mobilize itself where and when the need is greatest, and deliver the personal care and attention that we believe everyone deserves.

The Salvation Army in Canada and Bermuda

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