



**Consolidated
Financial Statements
of
THE GOVERNING COUNCIL OF
THE SALVATION ARMY IN CANADA**

Year ended March 31, 2016

CONTENTS	PAGE
Management Commentary	i
Independent Auditors' Report	x
Consolidated Balance Sheet	1
Consolidated Statements of Operations	2
Consolidated Statements of Changes in Fund Balances	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 28

Management Commentary

Introduction

These consolidated financial statements present the assets, liabilities, fund balances, revenues, expenses and cash flows of The Governing Council of The Salvation Army in Canada and all of the entities it controls for the year ended March 31, 2016. These financial statements were audited by KPMG LLP, Licensed Public Accountants, who rendered their opinion thereon dated July 22, 2016.

This management commentary has been prepared to assist readers of the financial statements by highlighting key financial results for the year, as well as key features of the Army's policy and internal control framework which help to provide assurance that the financial statements can be relied upon to gain an understanding of the Army's financial position and results of operations.

Financial highlights for the year ended March 31, 2016

Revenue and Expenses

Overall, revenue decreased by 15.1% in the year ended March 31, 2016, largely attributable to a decline in revenue from investments which moved from a gain of \$108.5 million in 2015 to a loss of \$22.4 million this year (\$130.9 million decrease). The rate of return for the year was -2.4% compared to 12.6% in the prior year, driven largely by lower returns in the Canadian and global equity markets. Excluding the impact of investments, revenue increased 2.3% in 2016.

Expenses were 2.7% higher than in the prior year. While total costs of programs and services and headquarters costs (for both the territorial and nine divisional headquarters) increased by 2.8% and 1.8% respectively, largely as a result of inflationary pressures, Thrift Store expenses increased by 3.9%. The increase in Thrift Store expenses above inflation was due largely to increased minimum wage levels mandated by provincial legislation. Thrift Store revenues increased by 4.0% to more than offset the increased expenses.

Securities

Securities are centralized in the General Investment Fund ("the Fund"), which holds the surplus operating funds, endowments and long-term donor restricted funds for all of the Governing Council's controlled entities. Interest is paid based on prevailing market rates for similar financial instruments. Net revenue from the Fund is used for costs of Territorial Headquarters (THQ) and Divisional Headquarters (DHQ) administration, as well as to make allocations to programs and services.

Allocations from investment revenue are based on a spending policy tied to long term expected rates of return. This approach has the benefit of providing a more stable and predictable level of funding from year to year, mitigating the inherent volatility associated with capital market investment returns. In the year ended March 31, 2016, the Fund lost \$22.4 million, incurred expenses of \$3.4 million, and paid interest to controlled entities' accounts of \$4.4 million, for a net loss of \$30.2 million. In accordance with the spending policy, \$21.2 million was allocated to 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 that are known to disregard environmental concerns.

The Fund's investment objective is preservation of real (inflation adjusted) asset value plus a 3.5% to 4.0% annual rate of return, gross of fees, before the impact of withdrawals, over a four-year period. In the four-year period ending March 31, 2016, the Fund earned an average annual return of 8.7%. When the average rate of inflation as measured by the Consumer Price Index of 1.3% is deducted, a real return of 7.4% resulted, well ahead of the investment objective.

Over the ten-year period ended March 31, 2016, the Fund earned an average annual return of 5.6%, or 3.9% in real terms, after considering average inflation of 1.7%.

Employee Future Benefits

The liability of \$164.4 million (2015 - \$168.0) for employee future benefits represents the estimated value at March 31, 2016 of the benefits accrued for commissioned officers (see note 9 to the financial statements for additional information on non-commissioned employees).

Benefits for commissioned officers are provided through two plans. The Officers' Retirement Plan is a defined benefit plan registered with the Financial Services Commission of Ontario. This plan provides for basic pension benefits for officers, while the supplementary plan provides for additional pension benefits, health care for retirees, and certain lump sum grants.

Both plans undergo actuarial valuations every three years. The Officers' Retirement Plan, which is funded through a pension trust, was last valued at March 31, 2014. At that time, the Plan had a surplus, measured on a going concern basis (i.e., assuming continued operations), of \$22.5 million or 14.5%, and \$24.9 million or 16.4% on a solvency basis (i.e., assuming the plan were to be wound up). During the year ended March 31, 2016, the Army made contributions of \$3 million to the trust.

The supplementary plan, which is funded through general revenues, was last valued at March 31, 2015. At that time, the supplementary benefits had an estimated value of \$115.4 million, annual service cost to accrue benefits for active officers of \$1.8 million and annual benefit payments to retired officers of \$6.1 million.

The financial statements reflect actuarial estimates as at March 31, 2016. The next actuarial valuations will be conducted as at March 31, 2017.

Long-Term Debt

The Army avoids debt financing, except for the acquisition and/or development of land and buildings. Total loans and mortgages payable (\$81.2 million long-term and \$10.1 million short-term) declined by \$5.9 million from the prior year as a result of principal repayments of \$8.8 million and new financing arrangements put in place during the year of \$2.9 million. The decrease in short-term loans and mortgages payable and offsetting increase in the long term portion reflects the fact that a number of these obligations were renewed during the year.

Financial Position

As of March 31, 2016, the Army's total assets were \$1.69 billion, compared to \$1.72 billion at the prior year end. This decline was largely attributable to a reduction in the value of securities.

The Army's net assets, or fund balances, totaled \$1.3 billion, down \$28.6 million from the prior year. Of the total, \$570.4 million represents funds invested in capital assets, predominantly land and buildings, \$32.0 million represents funds held in endowments that are externally restricted in perpetuity, and \$31.0 million represents funds held in endowments established internally to provide income for specified programs on an ongoing basis.

The remaining \$702.4 million (2015 - \$703.8) represents the net funds being held for allocation to future operations, as follows:

	2016	2015
Externally restricted funds	\$181.0	\$141.2
Internally restricted funds		
Investment earnings spending policy reserve	\$269.7	\$319.7
Other internally restricted funds	\$252.6	\$248.0
Unrestricted funds		
Operating funds	\$103.6	\$110.7
Re-measurement of employee future benefits	(\$104.5)	(\$115.8)
	\$702.4	\$703.8

The Army's target is to have sufficient unrestricted operating fund balances to meet at least three months' operating expenses. Only 58% of ministry units met this target at March 31, 2016, compared to 62% in the prior year. On an overall basis, the total operating funds represent sufficient funds to meet approximately 1.9 months' operating expenses, compared to 2.1 months in the prior year.

A plan is in place to fund the re-measurement deficiency over the remaining service life of the employees for whom benefits are provided, which was estimated at 10.9 years as of March 31, 2016, compared with 11.3 years at March 31, 2015.

The Army considers its stewardship responsibility seriously. While the desire is to release funds for its work as quickly and as effectively possible, this is balanced with a need to be prudent about ensuring its long-term financial viability so as to be able to maintain programs and services in the future. We believe that we are managing this tension well.

Governance

Information concerning the Army's overall governance structure can be found in the Annual Review report. The following committees play key roles with respect to financial management and internal control over financial reporting.

Territorial Finance Council

The Territorial Finance Council is charged with the oversight of the financial management of all financial and property resources of The Salvation Army in Canada and Bermuda. It approves operating and capital budgets, oversees internal and external audits, and makes recommendations to The Governing Council with respect to the approval of the audited financial statements.

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2015/16	Number of meetings attended in 2015/16
Commissioner Susan McMillan , <i>BAS, MBA, CPA, CGA</i> Territorial Commander	Chair	September 1, 2014	23	19
Colonel Mark Tillsley , <i>MSW, Ph.D.</i> Chief Secretary	Vice-Chair	June 1, 2013	23	18
Mr. R. Paul Goodyear , <i>B.Com., MBA, FCPA, FCMA</i> Financial Secretary	Secretary	July 1, 2001	23	17
Lt.-Colonel Jamie Braund , <i>B.Sc., MAL</i> Secretary for Personnel		July 1, 2014	23	22
Lt.-Colonel James Champ , <i>BRE, MBA</i> Secretary for Communications		July 1, 2013	23	18
Mr. David Dunstan , <i>B.Com., CPA, CMA</i> Assistant Financial Secretary		August 1, 2012	23	22
Ms. Mary Ellen Eberlin , <i>BScN, MScN</i> Territorial Social Services Secretary		September 1, 2013	23	18
Lt.-Colonel Lee Graves , <i>MBA</i> Secretary for Business Administration		July 1, 2013	23	20
Lt.-Colonel Junior Hynes , <i>MTS</i> Secretary for Program		July 1, 2010 to June 30, 2015	7	7
Mr. Graham Moore , <i>B.Com., MBA, CPA, CMA</i> Director of Organizational Development		September 1, 2013	23	22
Major Shona Pike , <i>BA</i> Secretary for Candidates		September 1, 2015	13	12
Lt.-Colonel Fred Waters Secretary for Program		September 1, 2013	23	18

Investment Advisory Committee

The Investment Advisory Committee is responsible for making recommendations to the Territorial Finance Council with respect to the Army's investment policies and structures. The Committee reviews the statements of investment policy and makes recommendation for revisions, as appropriate; oversees the recruitment and selection of investment management firms, and makes recommendations for their engagement; monitors the performance of the Army's portfolios and ensures they are managed to achieve optimal long-term performance to meet the Army's needs, in accordance with the statements of investment policy.

During the year, following significant research and due diligence, the committee provided advice on the selection of infrastructure fund service providers and, as a result, the Territorial Finance Council approved the engagement of two fund managers to manage investments in this asset class. A total commitment of 10% of the assets of the General Investment Fund has been made, although only \$48.5 million or 5% was invested as of year-end. Further contributions were made shortly after year-end, and it is expected that the Army will be fully invested at the 10% level before the end of 2016.

Once fully invested, the target asset mix for the Fund will be 40% Global Equities, 20% Canadian Equities, 20% Canadian Fixed Income, 10% Real Estate, and 10% Infrastructure.

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2015/16	Number of meetings attended in 2015/16
Mr. William Chinery , <i>B.Math., FCIA, FSA, CFA</i> Independent investment professional *	Chair	January 1, 2011	5	5
Mr. William J. Stafford , <i>B.Comm., MBA, CFA</i> Director of Investments, The Salvation Army	Secretary	October 1, 2001	5	5
Mr. Kevin Fahey , <i>B.Comm., LL.B., CFA</i> Director, Investments Colleges of Applied Arts & Technology Pension Plan *		September 1, 2010	5	4
Mr. Michael Gallimore , <i>B.Comm., MBA, CFA</i> Independent investment professional *		June 5, 2013	5	5
Mr. R. Paul Goodyear , <i>B. Comm., MBA, FCPA, FCMA</i> Financial Secretary, The Salvation Army		October 1, 1998	5	4
Lt.-Colonel Lee Graves , <i>MBA</i> Secretary for Business Administration, The Salvation Army		July 1, 2014	5	5
Mr. Yannick Ménard , <i>B.Sc., CFA, FCIA, FSA</i> Managing Director, Pension Investments BMO Bank of Montreal*		July 29, 2013	5	4

* denotes volunteer members

Internal Controls

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

The Territorial Finance Council has overall responsibility for internal controls. The Internal Audit Advisory Committee provides oversight of the internal audit function and plan. The Internal Audit Department performs audits and other work to determine the extent to which internal controls are operating effectively and how any deficiencies should be remediated.

In addition to external and internal audits, The Salvation Army is also subject to triennial audits by an internal audit team from its International Headquarters (IHQ) in London, England. The most recent audit conducted in 2014, covering the period from April 1, 2011 to March 31, 2014, concludes that the Army in Canada and Bermuda "is in a sound financial position which can be largely attributed to careful management and the prudent use of volatile income streams..." The findings and recommendations include no high risk issues, one medium risk issue (the rebuilding of the operating fund balance, which has been depleted due to the recognition of all pension and post-retirement obligations, as noted earlier in this report) and three low risk issues. A long term plan is in place to address the medium risk issue, as noted elsewhere in this report, and the low risk issues have all been addressed.

Both a code of conduct (www.salvationarmy.ca/Code-of-Conduct) and a whistleblower policy (www.salvationarmy.ca/whistleblower-policy) are in place. The former sets out expectations for behaviour by all staff and volunteers, while the latter provides a mechanism for making anonymous complaints when violations of the code and other key policies are observed. During the year ended March 2016, no complaints were received with respect to alleged breaches by individuals who had an oversight role in financial reporting.

Staff Compensation

The Army employs both commissioned officers and lay staff. The compensation package for all commissioned officers of the Army includes housing, 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 allowances and benefits provided to senior officers is believed to be significantly lower than that paid for positions of comparable responsibility to executives in other similar organizations. The total employment income for income tax purposes reported in 2015 for the five most senior commissioned officers of The Salvation Army in Canada (including cash, as well as housing, automobile and other benefits), ranged from \$37,391 to \$62,111, with an average of \$43,802.

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 significant competition for professional staff in the not-for-profit sector, and as a result, compensation in the sector has increased in recent years in order to attract and retain requisite expertise.

In the 2015 calendar year, there were 72 non commissioned employees whose total employment income (including salaries and benefits) reported for income tax purposes was above \$100,000, as follows:

Compensation range	Number of employees
\$100,000 - \$119,999	41
\$120,000 - \$159,999	20
\$160,000 - \$199,999	9
\$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 compensation levels are as efficient as appropriate 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 at a reasonable level so as to maximize funds available for direct service delivery. The Army strives to employ highly qualified employees, while at the same time managing its resources in a prudent manner.

Fundraising

For more than 130 years, faithful donors have helped the 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, 2016, supporters made donations to The Army totaling \$189.7 million, compared to \$193.7 million the previous year, a decrease of 2.1%. Fundraising costs, which represents total costs incurred by the Public Relations and Development Department, for the same period were \$22.9 million, compared to \$22.2 million last year. As a proportion of charitable donations, these costs represented 12.1%, compared to 11.5% in the prior year and an average of 11.8% per year for the past five years. The Army does not allocate any costs incurred by the Public Relations and Development Department to functions other than fundraising. Arguably, this means that the actual fundraising costs are below 11.8%. This compares very favourably to the Canada Revenue Agency upper limit of 35%.

At the same time, it should be recognized that the fundraising costs as a proportion of charitable donations measure has some limitations as an indicator of effectiveness. First, no donations of materials (e.g. to Thrift Stores) or services are recognized 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 communication functions, rather than fundraising activities. Third, the costs of the Planned Giving program and expenses related to the generation of planned gifts, particularly legacies and estates, are generally not incurred in the same year in which the revenues are realized. Fourthly, fundraising effectiveness may not be optimized by low fundraising costs as a greater fundraising investment may yield additional donations. The Army reviews its fundraising efforts on an ongoing basis with an objective to find the right balance between effectiveness and efficiency of its fundraising activities.

Costs of Administration

Many stakeholders are interested in how much a charity spends on its administration and management versus programs and services. The Salvation Army currently classifies all activities and functions at the operating unit level as programs and services. Only activities at the territorial and divisional headquarters level are attributed to administration. Over the five-year period ended March 2016, territorial and divisional headquarters operating costs, other than those expenses related directly to program and services provision or support, such as the development of program resources, etc., represented, on average, 5.3% of total expenses.

While this is low by comparison to many other charities, The Salvation Army cautions stakeholders with respect to the conclusions they may draw based on this single indicator. While it is generally true that it is an indicator of overall efficiency, it does not necessarily measure effectiveness of program delivery.

In addition, this indicator does not provide a reasonable comparator across organizations. Typically, smaller organizations lack the economies of scale that helps larger organizations achieve lower ratios, while fundraising organizations will tend to have lower ratios than operating charities.

Administration and management functions are as essential to effective outcomes as direct programs and services. Without them, charities such as The Salvation Army would be much less successful. As a result, undue focus on minimizing administration and management costs can result in a negative impact on operations.

The Salvation Army is committed to ensuring that its administrative costs remain appropriate for the size and complexity of the organization and to effectively support its varied programs and service delivery.

Privacy

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.

Donations

The Army will accept unrestricted gifts, as well as gifts restricted for specific programs and purposes, provided that such gifts are consistent 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 impractical, in the view of the Army acting reasonably, 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.

Except as directed otherwise by the donor, the Army uses funds raised in public appeals for its community and social services programs and activities, rather than for its corps and congregational ministries.

Imagine Canada Standards Program

The Salvation Army places accountability at the core of its relationships with its donors and members of the public. In 2015, the Army was accredited by Imagine Canada's Standards Programs for charities and nonprofit organizations. The accreditation recognizes excellence in accountability, transparency and governance.



Management responsibility for financial reporting

These consolidated 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 CPA Canada.

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 external auditors' report. The Governing Council appoints the external 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 Professional Accountants and Licensed Public Accountants. Their report outlines the scope of KPMG's examination and presents their opinion on the financial statements.

A blue ink signature consisting of a large, stylized circular loop followed by a horizontal line extending to the right.

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

A blue ink signature in a cursive script, appearing to read "Paul Goodyear".

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

July 22, 2016



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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 sheet as at March 31, 2016, the consolidated statements of operations, changes in fund balances and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Page 2

Basis for Qualified Opinion

In common with many charitable organizations, The Governing Council of The Salvation Army in Canada derives revenue from charitable donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of The Governing Council of The Salvation Army in Canada. Therefore, we were not able to determine whether, as at and for the years ended March 31, 2016 and March 31, 2015, any adjustments might be necessary to charitable donations and excess (deficiency) of revenue over expenses reported in the consolidated statements of operations, excess (deficiency) of revenue over expenses reported in the consolidated statements of changes in fund balances and excess (deficiency) of revenue over expenses reported in the consolidated statements of cash flows and assets and fund balances reported in the consolidated balance sheets. This caused us to qualify our opinion on the consolidated financial statements as at and for the year ended March 31, 2015.

Qualified Opinion

In our opinion, except for the possible effects of the matter 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, 2016, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

July 22, 2016
Toronto, Canada

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

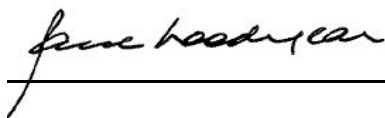
Consolidated Balance Sheet
(In thousands of dollars)

March 31, 2016, with comparative information for 2015

	2016	2015
		(Recast - note 18)
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,549	\$ 43,385
Receivables and other current assets	32,437	28,276
	63,986	71,661
Securities (note 4)	939,008	972,743
Tangible capital assets (note 6)	684,564	676,269
Other assets (note 7(a))	4,601	5,335
	<u>\$ 1,692,159</u>	<u>\$ 1,726,008</u>
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 59,032	\$ 54,516
Deferred revenue	17,538	16,864
Current portion of loans and mortgages payable (note 8)	10,088	32,843
	86,658	104,223
Long-term liabilities:		
Employee future benefits (note 9(a))	164,367	168,013
Loans and mortgages payable (note 8)	81,171	64,325
Deposits on life leases (note 10)	12,155	12,237
Other liabilities (notes 7(b) and 9(b))	11,985	12,813
	269,678	257,388
Fund balances:		
Operating (note 11(a))	(873)	(5,075)
Endowment (note 11(b))	62,976	66,055
Other Restricted (note 11(c))	703,281	708,863
Capital	570,439	594,554
	1,335,823	1,364,397
Contingencies and commitments (note 17)		
	<u>\$ 1,692,159</u>	<u>\$ 1,726,008</u>

See accompanying notes to consolidated financial statements.

On behalf of The Governing Council:



Secretary



Treasurer

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement
(In thousands of dollars)

Year ended March 31, 2016, with comparative information for 2015

2016										2015
	Operating Fund	Restricted Funds			Total	Operating Fund	Restricted Funds			Total
		Endowment	Other	Capital			Endowment	Other	Capital	
(Recast - note 18)										
Revenue:										
Charitable donations	\$ 108,845	\$ 499	\$ 80,223	\$ 88	\$ 189,655	\$ 105,655	\$ 1,643	\$ 86,399	\$ 46	\$ 193,743
Government funding	219,775	—	948	314	221,037	221,108	—	1,041	809	222,958
Fees for service	78,713	—	—	—	78,713	76,242	—	—	—	76,242
Investment (note 12)	(23,569)	—	1,181	—	(22,388)	107,478	—	1,032	—	108,510
Thrift stores	143,506	—	—	—	143,506	137,998	—	—	—	137,998
Gain on disposal of capital assets	—	—	—	15,972	15,972	—	—	—	10,500	10,500
Other	15,471	—	155	7,677	23,303	12,835	—	1,999	855	15,689
	542,741	499	82,507	24,051	649,798	661,316	1,643	90,471	12,210	765,640
Expenses (note 13):										
Charitable programs and services:										
Additions, corrections and residential	174,939	—	—	—	174,939	171,594	—	—	—	171,594
Health care	123,866	—	—	—	123,866	119,765	—	—	—	119,765
Community and family services	61,712	—	—	—	61,712	63,698	—	—	—	63,698
Congregational ministries	51,961	—	—	—	51,961	48,093	—	—	—	48,093
Children and youth	15,453	—	—	—	15,453	14,264	—	—	—	14,264
Educational	7,712	—	—	—	7,712	7,048	—	—	—	7,048
Overseas development and missions	502	—	6,228	—	6,730	129	—	6,067	—	6,196
Other programs and services	11,373	—	—	—	11,373	10,718	—	—	—	10,718
Thrift stores	447,518	—	6,228	—	453,746	435,309	—	6,067	—	441,376
Headquarters' operating	131,032	—	—	—	131,032	126,144	—	—	—	126,144
Public relations and development	36,271	—	—	—	36,271	35,637	—	—	—	35,637
Amortization	12,329	—	10,569	—	22,898	11,111	—	11,061	—	22,172
Other	—	—	—	30,206	30,206	—	—	—	29,458	29,458
	13,381	—	—	120	13,501	14,577	—	—	201	14,778
	640,531	—	16,797	30,326	687,654	622,778	—	17,128	29,659	669,565
Excess (deficiency) of revenue over expenses	\$ (97,790)	\$ 499	\$ 65,710	\$ (6,275)	\$ (37,856)	\$ 38,538	\$ 1,643	\$ 73,343	\$ (17,449)	\$ 96,075

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016, with comparative information for 2015

2016	Operating Fund (note 11(a))	Restricted Funds			Total
		Endowment (note 11(b))	Other (note 11(c))	Capital	
Fund balances, beginning of year	\$ (5,075)	\$ 66,055	\$ 708,863	\$ 594,554	\$ 1,364,397
Excess (deficiency) of revenue over expenses	(97,790)	499	65,710	(6,275)	(37,856)
Change in cumulative translation adjustment	781	—	—	—	781
Remeasurement and other items (note 9(a))	8,501	—	—	—	8,501
Net interfund transfers (note 14)	92,710	(3,578)	(71,292)	(17,840)	—
Fund balances, end of year	\$ (873)	\$ 62,976	\$ 703,281	\$ 570,439	\$ 1,335,823

2015	Operating Fund (note 11(a))	Restricted Funds			Total
		Endowment (note 11(b))	Other (note 11(c))	Capital (Recast - note 18)	
Fund balances, beginning of year	\$ 17,683	\$ 66,476	\$ 603,375	\$ 601,748	\$ 1,289,282
Excess (deficiency) of revenue over expenses	38,538	1,643	73,343	(17,449)	96,075
Change in cumulative translation adjustment	1,909	—	—	—	1,909
Remeasurement and other items (note 9(a))	(22,869)	—	—	—	(22,869)
Net interfund transfers (note 14)	(40,336)	(2,064)	32,145	10,255	—
Fund balances, end of year	\$ (5,075)	\$ 66,055	\$ 708,863	\$ 594,554	\$ 1,364,397

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
		(Recast - note 18)
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ (37,856)	\$ 96,075
Items not affecting cash (note 15(a))	75,507	(52,258)
Change in non-cash operating working capital (note 15(b))	1,029	(1,640)
Contributions to other post-retirement benefits	(4,024)	(3,643)
Contributions to defined benefit and supplementary retirement pension plans	(4,667)	(4,978)
	29,989	33,556
Financing activities:		
Decrease (increase) in other assets	734	(201)
Repayment of loans and mortgages	(8,895)	(8,623)
Increase in loans and mortgages	2,986	—
Decrease in other liabilities	(798)	(1,589)
Decrease in deposits on life leases	(82)	(654)
	(6,055)	(11,067)
Investing activities:		
Purchase of securities, net	(14,022)	(25,031)
Additions to tangible capital assets	(44,989)	(19,880)
Proceeds on disposal of tangible capital assets	22,460	24,541
	(36,551)	(20,370)
Change in cumulative translation adjustment (note 11(a))	781	1,909
Increase (decrease) in cash and cash equivalents	(11,836)	4,028
Cash and cash equivalents, beginning of year	43,385	39,357
Cash and cash equivalents, end of year	\$ 31,549	\$ 43,385

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended March 31, 2016

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 Corporation of Bermuda is a controlled entity through which The Governing Council conducts its operations in Bermuda.

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 "Army") comprises over 400 controlled entities, with operations including corps (churches), community centres, long-term care facilities, hospices and a hospital, transitional housing and shelters, addictions and rehabilitation centres, thrift stores and other social programs.

1. Basis of presentation:

These consolidated financial statements present, in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook, the assets, liabilities, fund balances, 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 Army. This includes the operations of THQ and the nine divisional headquarters ("DHQ"), the College for Officer Training, William & Catherine Booth University College, National Recycling Operations ("NRO"), Grace Communities Corporation ("GCC") and all programs operated at ministry units.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

1. Basis of presentation (continued):

(b) Restricted Funds:

(i) Endowment Fund:

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

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

(ii) Other Restricted Funds:

The Other Restricted Funds record receipt and use of funds that are both externally and internally restricted (note 11 (c)).

Externally restricted funds include receipt of funds for the National Red Appeal campaigns (used to support the social and community services work of the Army in Canada and Bermuda), donations and legacies with external restrictions, other than endowments, as well as the receipt and use of funds for the World Services Appeal campaigns (used to support the work of the Army internationally).

Internally restricted funds represent reserves designated by the Army for specific purposes, including future years' operations. Included in internally restricted funds is the Army's excess investment earnings reserve. Under Army policy, investment earnings are allocated for operations based on an expected long-term rate of return. In years when actual earnings are greater, the excess is placed in reserve for future years when actual earnings are less than the expected long-term rate of return. This approach helps mitigate the impact of inherent volatility in the capital markets on the Army's operations.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

1. Basis of presentation (continued):

(iii) Capital Fund:

The purpose of the Capital Fund is to record all transactions related to the acquisition and improvement of tangible capital assets, as well as the related debt and net investment of the Army in such assets.

Tangible capital assets include land and buildings, furniture and equipment, and vehicles.

2. Significant accounting policies:

(a) Cash and cash equivalents:

The Army considers deposits in banks, certificates of deposit and other short-term investments with original maturities of 90 days or less at the date of acquisition and held for operating purposes as cash and cash equivalents. From time to time, the long-term investment portfolio, while having no policy allocation to cash and cash equivalents, holds cash and cash equivalents as a short-term tactical strategy. Such investments are shown as securities in the non-current assets section of the consolidated balance sheet as they are not used for current operating needs.

(b) 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 Army has elected to carry all securities at fair value.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

2. Significant accounting policies (continued):

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

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Army 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 Army 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.

(c) Interest rate hedging:

The Army uses interest rate swaps to manage fluctuations in interest rates on long-term mortgages. The Army 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 Army designates that hedge accounting will be applied. The Army formally documents the hedging relationship between the hedging instruments and hedged items. At the inception of the hedge and throughout its term, the terms of the hedging item and hedged item are the same.

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

2. Significant accounting policies (continued):

(d) Tangible 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.

(e) Contributions of materials and services:

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

(f) Revenue recognition:

The Army follows the restricted fund method of accounting for restricted contributions and endowments. Restricted contributions and endowments are recognized as revenue of the appropriate restricted fund. When a restricted contribution is received for which there is not a restricted fund established, the contribution will be deferred in the Operating Fund and recognized as revenue in the year in which the related expenses are incurred.

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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

2. Significant accounting policies (continued):

Investment income, which is recorded on the accrual basis, includes interest income, dividends, net realized gains (losses) on the sale of securities and change in net unrealized gains on securities. Interest income earned on restricted funds is recognized in the Other Restricted Funds, while other investment income is recorded in the Operating Fund.

Thrift stores revenue includes sales of used clothing and other goods that have been donated to NRO and ministry-operated thrift stores. Revenue is recognized at the point of sale.

(g) Employee future benefits:

(i) Officers' retirement benefits:

The Army 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 Army are individuals who have relinquished secular employment in response to a spiritual calling, so as to devote all their time and energies to the service of God and the people and who, having successfully completed the required period of training, are commissioned as officers and ordained as ministers of the Gospel of Jesus Christ. The Army also provides other post-retirement benefits to eligible officers. Other post-retirement benefits include supplementary allowances and medical and dental benefits. The Army uses actuarial reports prepared by independent actuaries for funding purposes.

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

- (a) the cost of pensions and the other post-retirement benefits earned by officers are actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of officers and expected health care costs;

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

2. Significant accounting policies (continued):

- (b) the measurement date of the plan assets, which are recorded at fair value, and accrued benefit obligation coincides with the Army's fiscal year;
 - (c) the discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments;
 - (d) actuarial gains (losses) on plan assets arising from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period are immediately recognized in the consolidated statement of changes in fund balances. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from the changes in the actuarial assumptions used to determine the accrued benefit obligation are immediately recognized in the consolidated statement of changes in fund balances; and
 - (e) past service costs arising from plan amendments are recognized immediately in the consolidated statement of changes in fund balances.
- (ii) Employees' retirement benefits:
- The Army makes regular contributions to a group Registered Retirement Savings Plan, administered by a third party, on behalf of each eligible employee. All permanent full-time and part-time employees are eligible for enrolment in the plan following completion of three months of continuous service.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

2. Significant accounting policies (continued):

(h) 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 consolidated financial statements of a self-sustaining foreign operation are recognized in the Operating Fund balances on the consolidated balance sheet.

(i) GCC life leases:

(i) Guaranteed:

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

(ii) Non-guaranteed:

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

2. Significant accounting policies (continued):

(j) Allocation of expenses:

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

- (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.

(k) Use of estimates:

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

3. Credit facilities:

The Army has Canadian dollar demand, revolving operating facilities (lines of credit) with two Canadian banks for up to \$7,000 (2015 - \$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 Army had not drawn on these lines of credit, other than to issue standby letters of credit in the amount of \$607 (2015 - \$195) (note 17(a)).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

4. Securities:

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

2016	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	\$ 16,041	\$ —	\$ —	\$ —	\$ —	\$ 16,041
Fixed income:						
Domestic	2,979	2,626	17,507	56,021	200	79,333
Foreign	—	—	1,461	111	—	1,572
Pooled funds:						
Fixed income:						
Domestic	—	—	—	—	141,440	141,440
Foreign	—	—	—	—	3,644	3,644
Equities	—	—	—	—	208,871	208,871
Equities:						
Domestic	—	—	—	—	208,113	208,113
Foreign	—	—	—	—	155,258	155,258
Real estate	—	—	—	—	76,232	76,232
Infrastructure - foreign	—	—	—	—	48,504	48,504
	\$ 19,020	\$ 2,626	\$ 18,968	\$ 56,132	\$ 842,262	\$ 939,008

Weighted average effective interest rate on fixed income securities	2.58%	2.55%	2.66%	5.14%
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2015	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	\$ 22,913	\$ —	\$ —	\$ —	\$ —	\$ 22,913
Fixed income:						
Domestic	1,041	2,201	37,182	104,560	200	145,184
Foreign	—	—	1,009	222	—	1,231
Pooled funds:						
Fixed income:						
Domestic	—	—	—	—	193,458	193,458
Foreign	—	—	—	—	4,200	4,200
Equities	—	—	—	—	79,913	79,913
Equities:						
Domestic	—	—	—	—	211,998	211,998
Foreign	—	—	—	—	306,227	306,227
Real estate	—	—	—	—	7,619	7,619
	\$ 23,954	\$ 2,201	\$ 38,191	\$ 104,782	\$ 803,615	\$ 972,743

Weighted average effective interest rate on fixed income securities	2.57%	2.01%	2.75%	4.71%
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THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

5. Financial risks:

(a) Investment risk management:

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

(b) Interest rate risk:

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

The Army is exposed to interest rate risk on the financing of 14 (2015 - 13) of its properties. The Army has entered into interest rate swaps with major Canadian banks to exchange the variable interest payments for fixed interest rates on all but one of its variable rate loans. Swap interest rates range from 2.00% to 6.27% (2015 - 2.45% to 6.27%). As at March 31, 2016, the swaps had a notional amount totaling \$66,783 (2015 - \$64,821) that reduces on a basis consistent with the repayment of principal of the underlying debt. The swaps mature on dates from July 3, 2018 to March 28, 2026. By effectively converting the interest rates from variable to fixed, the Army has eliminated almost all the volatility, consistent with its interest rate risk management objectives. The one unhedged loan had a notional amount outstanding of \$3,530 as at March 31, 2016 and an interest rate of 1.67%, tied to the one month bankers' acceptance CDOR rate. The Army monitors interest rates and may enter into an interest rate swap on this loan if interest rate risk increases.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

5. Financial risks (continued):

(c) Market price risk:

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

(d) Foreign currency risk:

As at March 31, 2016, 22% (2015 - 32%) of the investments are invested in non-Canadian equities, bonds and debentures.

Foreign currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on the Army's foreign equities. The Army does not hedge its foreign currency risk on these equity investments. The philosophy of the Army, and its global investment management service provider, is that since the portfolio is managed such that individual equities are held for the long term, and equities are held in multiple currencies, residual foreign exchange risk is considered acceptable in the long term without the need for a hedging strategy to be implemented.

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

6. Tangible capital assets:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Land and land improvements	\$ 131,431	\$ —	\$ 131,431	\$ 132,659
Buildings	867,119	365,275	501,844	494,500
Furniture and equipment	46,036	32,049	13,987	15,046
Vehicles	12,453	9,435	3,018	3,217
Construction in progress	34,284	—	34,284	30,847
	\$ 1,091,323	\$ 406,759	\$ 684,564	\$ 676,269

As at March 31, 2016, no interest (2015 - \$83) was capitalized to construction in progress.

As at March 31, 2016, the Army had assets held for sale with a net book value of \$4,000 (2015 - \$4,533).

7. Other assets and liabilities:

(a) Other assets:

Included in other assets are charitable remainder trusts amounting to \$3,411 (2015 - \$4,202). A charitable remainder trust is an arrangement in which property or money is donated to a charity, but the donor continues to use the property and/or receive income from it while living.

(b) Other liabilities:

Other liabilities include gift annuities, which are planned giving arrangements, in the amount of \$7,716 (2015 - \$8,911).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

8. Loans and mortgages payable:

Loans and mortgages payable, which are secured by either the investments or properties, bear interest at rates ranging from 0.00% to 9.63% (2015 - 0.00% to 9.63%) with an average interest rate of approximately 3.54% (2015 - 3.83%) and extend for terms of up to 28 years from March 31, 2016.

Some of these mortgages are subsidized by governments so that the effective interest rate to the Army is reduced. The repayment of the principal and interest on these mortgages is the responsibility of the local Army entities occupying the mortgaged properties.

Interest paid on loans and mortgages totals \$3,475 (2015 - \$4,156).

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

2017	\$ 10,088
2018	17,271
2019	13,445
2020	10,930
2021	19,737
Thereafter	19,788
	91,259
Less current portion	10,088
	\$ 81,171

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

9. Employee future benefits:

(a) Officers' retirement benefits:

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	Total employee future benefits
2016				
Accrued benefit obligation	\$ 210,005	\$ 22,940	\$ 112,722	\$ 345,667
Fair value of plan assets	181,300	—	—	181,300
Plan deficit	\$ 28,705	\$ 22,940	\$ 112,722	\$ 164,367

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	Total employee future benefits
2015				
Accrued benefit obligation	\$ 214,630	\$ 24,324	\$ 121,960	\$ 360,914
Fair value of plan assets	192,901	—	—	192,901
Plan deficit	\$ 21,729	\$ 24,324	\$ 121,960	\$ 168,013

Continuity of the employee future benefits liability is as follows:

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	2016	2015
Balance, beginning of year	\$ 21,729	\$ 24,324	\$ 121,960	\$ 168,013	\$ 141,475
Benefit expense	6,092	914	6,540	13,546	12,290
Employer contributions	(2,987)	(1,680)	(4,024)	(8,691)	(8,621)
Remeasurement and other items	3,871	(618)	(11,754)	(8,501)	22,869
Balance, end of year	\$ 28,705	\$ 22,940	\$ 112,722	\$ 164,367	\$ 168,013

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

9. Employee future benefits (continued):

Remeasurements and other items include the difference between the actual return on plan assets and the return calculated using the discount rate used to determine the defined benefit obligation and actuarial gains and losses.

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

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	Total
2016				
Current service cost	\$ 5,210	\$ 89	\$ 2,149	\$ 7,448
Interest cost	882	825	4,391	6,098
	\$ 6,092	\$ 914	\$ 6,540	\$ 13,546

	Defined benefit pension plan	Supplementary retirement pension	Other post- retirement benefit plans	Total
2015				
Current service cost	\$ 4,281	\$ 72	\$ 1,696	\$ 6,049
Interest cost	676	924	4,641	6,241
	\$ 4,957	\$ 996	\$ 6,337	\$ 12,290

Additional expenses for officers' benefits, consisting of cash payments made by the Army directly to beneficiaries for its unfunded other post-retirement benefit plans and other current benefits for the active officers were \$2,914 (2015 - \$2,966).

The Army measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation for funding purposes of the pension plan and other post-retirement benefit plans was as at March 31, 2014 and March 31, 2015, respectively. The next required valuations will be as at March 31, 2017 and March 31, 2018, respectively.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

9. Employee future benefits (continued):

(b) Pre-retirement benefits:

Included in other liabilities are accrued pre-retirement benefits of \$3,446 (2015 - \$3,476), representing health and sick leave future payments for certain ministry units.

(c) Employees' retirement benefits:

The contributions paid and expensed by the Army for the year amounted to \$15,929 (2015 - \$14,024). The assets of the employees' retirement benefits plan are held separately from those of the Army in an independently administered fund.

(d) Multi-employer defined benefit plans:

Several ministry units are part of multi-employer defined benefit plans under which contributions are made by the individual ministry units. For the fiscal year ended March 31, 2016, contributions paid and expensed in the amount of \$3,802 (2015 - \$3,539) are included in charitable programs and services.

10. Deposits on life leases:

	2016	2015
Balance, beginning of year	\$ 12,237	\$ 12,891
Amounts reclassified from deposits on life lease upon occupancy	1,000	563
Current year activity:		
Refunds	(984)	(1,162)
Amounts recognized as revenue	(98)	(55)
Balance, end of year	\$ 12,155	\$ 12,237

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

10. Deposits on life leases (continued):

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.

11. Fund balances:

- (a) Included in the Operating Fund is the cumulative translation adjustment arising from the currency translation of self-sustaining operations in Bermuda of \$4,326 (2015 - \$3,545).

The Operating Fund balance consists of \$103,635 (2015 - \$110,734) held for normal operations and (\$104,508) (2015 - (\$115,809)) related to remeasurement of the value of employee future benefits. The Army has a plan to fund the remeasurement deficit over the average remaining service life of the employees concerned, which is estimated at 10.9 years (2015 - 11.3 years). \$2,800 was applied to the shortfall in 2016 (2015 - \$4,300).

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

2016	Externally restricted	Internally restricted	Total
Ministry units	\$ 8,184	\$ 1,930	\$ 10,114
DHQ	4,668	8,185	12,853
THQ	19,131	20,878	40,009
	\$ 31,983	\$ 30,993	\$ 62,976

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

11. Fund balances (continued):

2015	Externally restricted	Internally restricted	Total
Ministry units	\$ 9,386	\$ 1,528	\$ 10,914
DHQ	4,626	8,806	13,432
THQ	19,100	22,609	41,709
	\$ 33,112	\$ 32,943	\$ 66,055

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

2016	Externally restricted	Internally restricted	Total
Ministry units	\$ 37,136	\$ 111,839	\$ 148,975
DHQ	90,096	67,748	157,844
THQ	53,725	342,737	396,462
	\$ 180,957	\$ 522,324	\$ 703,281

2015	Externally restricted	Internally restricted	Total
Ministry units	\$ 2,262	\$ 99,419	\$ 101,681
DHQ	82,083	63,441	145,524
THQ	56,871	404,787	461,658
	\$ 141,216	\$ 567,647	\$ 708,863

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

11. Fund balances (continued):

As described in note 1(b)(ii), the Army mitigates the impact of the inherent volatility in capital markets on its operations by planning its spending based on a long-term expected rate of return rather than the actual investment earnings recognized in a particular year. As a result, the Army maintains a reserve with a target balance between a minimum of 25% and a maximum of 33% of the fair market value of its investment portfolio. As at March 31, 2016, the balance of this internally restricted reserve held at THQ was \$269,900 (2015 - \$319,600) and represents funds held for future operations in years when actual earnings are below the long-term expected rate of return. The General Investment Fund was valued at \$933,200 (2015 - \$967,500). As a result, the reserve balance at March 31, 2016 represents 29% (2015 - 33%) of the market value.

12. Investment income (loss):

	2016	2015
Interest	\$ 11,845	\$ 12,992
Dividends	13,524	11,867
Net realized gains on sale of securities	49,372	38,243
Change in net unrealized gain (loss) on securities	(97,129)	45,408
	<u>\$ (22,388)</u>	<u>\$ 108,510</u>

13. Expenses by category:

The expenses comprise the following categories:

	2016	2015
Salaries and benefits	\$ 419,340	\$ 409,839
Other program and general operating	145,062	135,588
Occupancy	93,046	94,680
Amortization	30,206	29,458
	<u>\$ 687,654</u>	<u>\$ 669,565</u>

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

14. Net interfund transfers:

2016	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 111,629	\$ —	\$ (111,629)	\$ —
Funding of capital transactions from operations	(3,369)	—	—	3,369
Transfers from internally restricted endowment to reserves	—	(3,578)	3,578	—
Transfer to internally restricted reserves	(17,596)	—	17,596	—
Transfer of property sale proceeds	7,387	—	13,812	(21,199)
Transfers for future property repairs/maintenance	(13,887)	—	13,887	—
Net investment loss funded from reserve (note 1(b)(ii) and 11(c))	24,762	—	(24,762)	—
Unrestricted legacies transferred to reserve for future operations	(18,083)	—	18,083	—
Other	1,867	—	(1,857)	(10)
	\$ 92,710	\$ (3,578)	\$ (71,292)	\$ (17,840)

2015	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 91,542	\$ —	\$ (91,542)	\$ —
Funding of capital transactions from operations and reserves	(11,299)	—	(24,643)	35,942
Transfers from internally restricted endowment to operations	2,100	(2,100)	—	—
Transfer to internally restricted reserves	(1,366)	—	1,366	—
Transfer of property sale proceeds	947	—	24,750	(25,697)
Transfers for future property repairs/maintenance	(4,028)	—	4,028	—
Net investment gain transferred to reserve for future operations (note 1(b)(ii) and 11(c))	(101,043)	—	101,043	—
Unrestricted legacies transferred to reserve for future operations	(16,944)	—	16,944	—
Other	(245)	36	199	10
	\$ (40,336)	\$ (2,064)	\$ 32,145	\$ 10,255

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

15. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2016	2015
Gain on disposal of capital assets	\$ (15,972)	\$ (10,500)
Amortization	30,206	29,458
Increase (decrease) in pre-retirement benefits	(30)	145
Other post-retirement benefits expense	6,540	6,337
Defined benefit and supplementary retirement pension plan expense	7,006	5,953
Net realized gains on sale of securities	(49,372)	(38,243)
Change in net unrealized loss (gain) on securities	97,129	(45,408)
	<u>\$ 75,507</u>	<u>\$ (52,258)</u>

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

	2016	2015
Receivables and other current assets	\$ (4,161)	\$ 422
Accounts payable and accrued liabilities	4,516	(3,065)
Deferred revenue	674	1,003
	<u>\$ 1,029</u>	<u>\$ (1,640)</u>

16. Lease obligations:

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

2017	\$ 18,681
2018	13,978
2019	10,987
2020	8,159
2021	4,102
Thereafter	5,578
	<u>\$ 61,485</u>

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

17. Contingencies and commitments:

(a) Letters of credit and letters of comfort:

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

As at March 31, 2016, the Army had issued letters of credit totaling \$607 (2015 - \$195). These are primarily irrevocable standby letters of credit issued in favour of municipalities and other entities requiring performance guarantees on projects undertaken by the Army.

(b) Contingent liabilities:

The Salvation Army receives certain government assistance in the form of forgivable loans to fund certain capital projects. This funding is considered a grant as long as The Salvation Army continues to meet the terms of the agreements. In the event of default, the funding is repayable to the government. As at year end, The Salvation Army has an unforgiven loan balance of \$30,998 (2015 - \$31,084) of such funding. Management believes that it is currently in compliance with all such agreements and, accordingly, no amounts are recorded as a liability in these financial statements related to this assistance.

(c) Government capital contribution for a program:

In fiscal 2010, the Army acquired title to a property in Milton, Ontario from the Province of Ontario as part of an agreement to operate a program for young offenders. Under the agreement, the province retains the right to reacquire the property, valued at \$4,440 at the time of acquisition, under certain conditions, such as if the Army ceases to operate the program. The Army intends to operate the program for the foreseeable future and meet all conditions set by the province for its operations; as a result, the transfer of property has been reflected in these consolidated financial statements as an increase in capital assets and by recognizing revenue in the form of capital contributions.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2016

17. Contingencies and commitments (continued):

(d) Legal actions:

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

(e) Indemnification of directors and officers:

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

18. Recast:

In previous years, the Army had recorded certain forgivable loans as long-term debt. All forgivable loans should be treated as government grants upon receipt provided certain criteria are met. As these criteria had been met previously and in the current year, the Army made adjustments which resulted in an increase in opening capital fund balances as at April 1, 2014 for \$19,567, a decrease in long-term debt as at March 31, 2015 for \$19,373, and a decrease to revenue in the capital fund for the year ended March 31, 2015 for \$194. There is no material impact on the consolidated statement of operations for fiscal 2015.

19. Comparative information:

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

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