CONSOLIDATED FINANCIAL STATEMENTS

The Governing Council of The Salvation Army in Canada

Year Ended March 31, 2022

The Salvation Army gives **hope** and **dignity** to **vulnerable people** today and every day in more than **400 communities** across Canada and Bermuda and in **132 countries** around the world!

The Salvation Army Consolidated Financial Statements

Charitable Registration No. 107951618 RR 0001

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Commentary and statements: Finance Department
Auditors: KPMG LLP Canada
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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 (“The Salvation Army” or “the Army” or “the Council”) and all of the entities it controls for the year ended March 31, 2022. These financial statements were audited by KPMG LLP, Licensed Public Accountants, who issued their opinion on them on June 23, 2022.

As in prior years, the auditors have rendered a qualified opinion based on the fact that, in common with many charitable organizations, the Army receives donations, the completeness of which is not susceptible to satisfactory audit verification at present. Work is underway to determine if there are cost-effective audit verification procedures that could be implemented to remove, or limit the scope of, this qualification.

The Army has strong internal controls over the receipt and recording of donations, particularly donations that are acknowledged with an official receipt for income tax purposes and believes that this issue can be addressed in the near future.

This management commentary is provided to enhance readers’ understanding of the financial statements. It highlights key financial results for the year, as well as key features of The Salvation Army’s policy and internal control framework. This framework helps to provide assurance that the financial statements can be relied upon.

Financial Highlights for the Year Ended March 31, 2022

Revenue and Expenses

The Army realized an excess of revenue over expenses of $69.3 million during the year, compared to $269.1 million in the prior year.

Consolidated revenue declined by 13.8% in 2022, compared with 2021, driven largely by investment income. The General Investment Fund earned a return of 2.5% during the year, compared with 22.3% in the prior year (information on how we deal with this volatility from year to year is provided later in this report). Excluding the impact of the decline in investment income, other revenues increased by 8.0% during the year, with the most significant increases seen in sales of donated goods, which increased $44.9 million, and charitable donations, which increased $15.3 million.

Fewer periods of pandemic-related lockdowns meant that thrift stores were able to operate throughout most of the year, other than in the first quarter, and this allowed sales revenues to rebound almost to pre-pandemic levels. Over $70 million in legacy income was received during the year, compared with $44 million in the prior year, but this increase was partially offset by reductions in other donations, most notably those specified for use in particular cities or regions or programs. During the prior year, the Army had benefited from significant donations for COVID-19 related expenses.

Total expenses increased by $53.5 million or 6.7% during the year. Costs of programs and services accounted for $29.4 million, with the largest increases seen in health care ($17.2 million) and community and family services ($7.3 million). Most of the increase in health care program costs relates to the Toronto Grace Health Centre, which opened and operated a 90-bed specialized care centre at the request of the Ontario Ministry of Health to help the health system deal with the impact of the pandemic. Across family and community services centres, we have seen an increase in demand for assistance during the pandemic, and special funding from the federal government, as well as contributions from private foundations, corporations and the public has allowed us to increase our services, particularly with respect to the distribution of food.

Three other areas explain the remainder of the increase in expenses. The resumption of thrift store operations resulted in an increase of costs of $8.9 million, compared with the prior year, and amortization of capital assets increased by $9.0 million, of which $7.7 million related to the specialized care centre operated in Toronto mentioned above. In this case, the costs of setting up the centre, which were covered by special provincial funding, were amortized over one year due to the temporary nature of the operation.

Finally, headquarters operating costs increased by $7.1 million, largely as a result of the approval of a strategic plan with four key pillars, which are to strengthen spiritual health, design for people, forge innovative partnerships and optimize mission impact (More information on the plan and its four pillars can be found at https://salvationist.ca/mobilize-2-0/strategy/). Investments are being made in each of these key areas over the next few years to support the achievement of the plan. This includes key investments in human resources and information technology made in fiscal 2022 to help the Army ensure that we have the systems and processes to properly support our staff and volunteers in mission delivery.

Financial Position

As of March 31, 2022, The Salvation Army's total assets were $2,315.0 million, compared to $2,209.5 million at the prior year end.

Fund balances totaled $1,978.7 million, up from $1,884.4 million in the prior year, while liabilities remained largely unchanged. $666.6 million (2021 - $638.8 million) of the total represents funds invested in capital assets, predominantly land and buildings, while $53.3 million (2021 - $58.8 million) represents funds in endowments for which only the investment income can be spent.

The remaining fund balances, comprised of other restricted and unrestricted funds of $876.5 million (2021 - $873.9 million) and $382.3 million (2021 - $312.9 million), respectively, represent the net funds available for future operations.

(amounts in millions of dollars)	2022	2021
Capital Fund	$666.6	$638.8
Endowments	$53.3	$58.8
Other Restricted Funds		
Externally Restricted	$221.6	$213.5
Internally Restricted		
Investment earnings spending policy reserve	$413.6	$447.9
Other	$241.3	$212.5
	$876.5	$873.9
Unrestricted Funds		
Operating Funds	$382.3	$312.9
	$1,978.7	$1,884.4

The Salvation Army's policy is to maintain sufficient working capital (or unrestricted operating funds) to meet expenses for a period of at least 90 days. The total operating fund balance of $382.3 million represents sufficient funds to meet 165 days (2021 – 144 days) of expenses.

The Army has elected not to take any action to reduce operating fund balances to the 90-day level at present, for several reasons. There remains considerable uncertainty due to ongoing economic, financial, geopolitical and pandemic issues. Given these uncertainties, it seems prudent to maintain operating fund balances at higher than normal levels for the time being, although this is being frequently reviewed and assessed.

The Salvation Army takes its stewardship responsibility seriously. The desire to release funds for its work as quickly and as effectively as possible must be balanced with the need to ensure its long-term ability to maintain programs and services in the future.

Securities

Other than with respect to Grace Communities Corporation and the Bermuda Corporation, management of investments is centralized in the General Investment Fund ("the Fund"), which holds the Army's accumulated operating funds, endowments and long-term funds with both internal and external restrictions. Interest is paid to the constituent accounts based on prevailing market rates for similar financial instruments. Net revenue from the Fund is used for the operations of Territorial Headquarters ("THQ") and Divisional Headquarters ("DHQ"), as well as to make allocations to operating units for programs and services.

Allocations from investment earnings 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 in capital markets. In accordance with the spending policy, $55.8 million was allocated to operations in the year ended March 2022 (2021- $48.1 million). Based on advice from its Investment Advisory Committee, the Army strives to maintain a reserve between 25% and 33% of the value of the Fund. At year-end, the reserve stood at $413.6 million (2021- $447.9 million), which after an allocation of $59.5 million for operations in the year ended March 2023, will result in a balance of $354.1 million (2021 - $392.1 million) available for future years. This represents 25% of the value of the Fund, compared to 30% at March 31, 2021.

The Fund is managed by external investment managers in accordance with a Statement of Investment Policy (a copy of the policy can be found at https://salvationarmy.ca/wp-content/uploads/2022/08/SIP-GIF-2022-06.pdf). The policy establishes constraints with respect to asset classes, types of investment instruments, quality and size of holdings, as well as prohibiting investment in companies whose primary business is the manufacture, distribution or promotion of alcohol, tobacco, marijuana, pornography, gaming, gaming facilities or armaments and companies that are known to disregard human rights and/or environmental concerns. In addition, the Army encourages its investment managers to become signatories to the United Nations Principles for Responsible Investment and requires them to report on how they incorporate environmental, social and governance ("ESG") issues into their management of the Army's funds.

The Fund's investment objective is preservation of real (inflation-adjusted) asset value plus a 3.5% 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, 2022, the Fund earned an average annual return of 7.5%. When the four-year average rate of inflation as measured by the Consumer Price Index of 2.9% is deducted, a real return of 4.6% resulted, which exceeds the investment objective.

Future Pension and Other Retirement Benefits

The financial statements reflect actuarial estimates as at March 31, 2022. The net of the accrued pension asset of $6.1 million and the future pension and other retirement benefits liability of $126.5 million, or $120.4 million (2021 - $140.8 million) for pension and other retirement benefits represents the estimated net value of accrued benefits for commissioned officers and auxiliary-captains as at March 31, 2022. There is no liability for employees, other than commissioned officers and auxiliary-captains, as noted below, as they either participate in a group registered retirement savings plan sponsored by the Army or in multi-employer plans under which the Army's contributions are expensed as they are made.

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

Actuarial valuations for both plans are performed at least every three years. The Officers' Retirement Plan, which is funded through a pension trust fund held by CIBC Mellon as trustee, was last valued for funding purposes as at December 31, 2019. At that time, the Plan had a surplus, measured on a going concern basis (i.e., assuming continued operations of the pension plan), of $44.3 million or 25.2%, and a surplus of $22.0 million or 11.2% on a solvency basis (i.e., assuming the pension plan were to be wound up on the valuation date). As noted above the surplus reflected in these financial statements is an accrued pension asset is $6.1 million.

The main reason for the difference relates to the discount rates used for the respective valuations, which were 4.0% per annum for the accounting valuation at March 2022 and 5.8% per annum for the going concern funding valuation at December 2019. The discount rate for the accounting valuation reflects the yield on high quality corporate bonds whereas the discount rate for the going concern funding valuation reflects the long-term expected rate of return on assets (including the higher returns expected on allocations to equities and asset classes other than bonds). A higher discount rate results in a lower value of obligations, and vice versa, all other factors being equal.

During the year ended March 31, 2022, The Salvation Army did not make any contributions to the pension trust, as it is expected that investment earnings will be adequate to fund pension payments for the foreseeable future. This continues to be the case at the date of this report; however, the need for contributions is reviewed quarterly, based on analysis performed by the Plan's actuaries.

The supplementary plan was also last valued at December 31, 2019. At that time, the liability for supplementary benefits had an estimated value of $99.6 million, the annual service cost to accrue benefits for active officers was $0.9 million and the annual expected decrease in the liability for benefit payments to retired officers was $5.0 million. No assets have been specifically set aside to fund these benefits; however, the Army maintains sufficient funds in the General Investment Fund to cover its endowments and other restricted fund balances, as well as its estimated obligation for employee future benefits.

Long-Term Debt

The Salvation Army avoids debt financing, except for the acquisition and/or development of tangible capital assets used in its operations. Total loans and mortgages payable of $58.0 million (comprised of $47.3 million long-term and $10.7 million short-term) decreased by $7.2 million from the prior year as a result of principal repayments of $7.7 million, offset by new financing arrangements put in place during the year of $0.5 million.

Governance

The Salvation Army Canada & Bermuda Territory is part of a worldwide organization, at work in 132 countries. Its operations are directed by the General from International Headquarters in London, England. The General is elected by senior Army leaders around the world. He/she gives oversight to the international work and appoints senior leaders in each Territory.

In Canada, The Governing Council of The Salvation Army in Canada, a corporation established by Federal Act of Parliament in 1909, administers the temporal affairs of the Army, and most assets used in its operations are held by the Governing Council. In contrast, spiritual and denominational affairs are the purview of the Territorial Commander, who operates under a Memorandum of Appointment from the General, guided by international Orders and Regulations, and with the advice of the Spiritual & Denominational Affairs Board.

The Governing Council is a charitable organization, registered with Canada Revenue Agency, and operating units are registered as associated charities of the Council.

Under the legislation incorporating the Governing Council, its members are five individuals whose membership is by virtue of the positions to which they have been appointed by the General. Unlike conventional not-for-profit corporations, the Governing Council has no directors; members fulfil the roles typically played by both members and directors in other not-for-profit corporations. The Governing Council fulfils the roles and responsibilities normally associated with corporate boards of directors.

The Governing Council maintains control over related corporations primarily through appointment of their boards of directors or trustees. In addition to boards of incorporated entities, the Governing Council has, through by-law provisions, created boards with responsibility for governance for certain large institutions, typically with the Governing Council maintaining certain reserve powers.

Following a review, the General approved a restructuring of the Army's governance structures effective September 1, 2021. Key changes include:

a) The Territorial Commander continues as chair of the Governing Council, but the Chief Secretary has assumed the chair of the Territorial Management Board. This coincides with an international change to have territorial commanders focus primarily on governance and spiritual leadership, with the Chief Secretary focusing on management. As a result, the Chief Secretary has been replaced as vice chair of the Governing Council by the secretary for personnel. In addition to chairing the Governing Council, the territorial commander now also chairs the Spiritual & Denominational Affairs Board, which provides advice to the territorial commander on religious matters that are not the purview of the Governing Council. A series of committees supports the Spiritual & Denominational Affairs Board with respect to various denominational matters.
b) The Territorial Management Board, Audit Committee and Governance & Nominating Committee all report directly to the Governing Council.
c) The Territorial Management Board now has six key committees: business administration, communications, human relations, information technology, mission and risk. This has resulted in a greater delegation of authority, with only the most significant and strategic issues remaining on the Territorial Management Board agenda. With significant delegation to these committees, the Territorial Management Board membership has been reduced to a maximum of 12 (current membership is 8), and now meets twelve times per year rather than twenty-four.
d) All meetings of the Governing Council, Territorial Management Board and committees may be joined by video, enabling participation by individuals outside the Toronto area.
e) A plan to broaden the expertise and perspective available to the Governing Council is being implemented by appointing up to seven advisors, a majority of whom must be independent (i.e., not on the Army's staff). The first appointments are expected to be made during the period from September 2022 to January 2023.

Governing Council

Member	Office held, if any	Date Appointed	Number of meetings eligible to attend 2021/22	Number of meetings attended 2021/22
Commissioner Floyd Tidd, *BSc, MTS* Territorial Commander	Chair	October 1, 2019	16	13
Colonel Edward Hill, *MDiv, MA, BA* Chief Secretary	Vice chair	November 1, 2018 to April 30, 2021	1	1
Colonel Evie Diaz, *AA* Chief Secretary	Vice chair	May 1, 2021; Vice chair to August 31, 2021	15	13
Lt. Colonel Brian Armstrong, *BA, MDiv, MRel, DMin* Secretary for Personnel	Vice chair	May 1, 2018; Vice Chair from September 1, 2021	16	15
R. Paul Goodyear, *BCom, MBA, FCPA, FCMA* Chief Financial Officer & Territorial Financial Secretary		July 1, 2001	16	15
Lt. Colonel Fred Waters, *MA* Secretary for Business Administration		January 1, 2017	16	15

Territorial Management Board

Member	Office held, if any	Date Appointed	Number of meetings eligible to attend 2021/22	Number of meetings attended 2021/22
Commissioner Floyd Tidd, *BSc, MTS* Territorial Commander	Chair	October 1, 2019 to August 31, 2021	8	6
Colonel Evie Diaz, *AA* Chief Secretary	Chair	May 1, 2021; Vice Chair to August 31, 2021; Chair from September 1, 2021	19	17
Colonel Edward Hill, *MDiv, MA, BA* Chief Secretary	Vice chair	November 1, 2018 to April 30, 2021	2	1
Lt. Colonel Fred Waters, *MA* Secretary for Business Administration	Vice chair	September 1, 2015; Vice chair from September 1, 2021	21	21
Arnold Adey, *BCom, MBA, FCPA, FCMA* Assistant Chief Financial Officer		March 1, 2018 to August 31, 2021	8	8
Lt. Colonel Brian Armstrong, *BA, MDiv, MRel, DMin* Secretary for Personnel		May 1, 2018	21	19
Lt. Colonel Lynn Armstrong, *BA, MMFT* Secretary for Mission		July 1, 2018	21	18
Janice Barton, *MSc* Chief Human Relations Officer		September 1, 2021	13	12
Major Glenda Davis, *MBA* Territorial Social Mission Secretary		September 1, 2019 to August 31, 2021	8	8
R. Paul Goodyear, *BCom, MBA, FCPA, FCMA* Chief Financial Officer & Territorial Financial Secretary		July 1, 2001	21	19
Major Terence Hale, *BRE* Territorial Youth Secretary		September 1, 2019 to June 30, 2021	6	5
Captain Kristen Jackson-Dockeray, *B.Ed.* Advocate for Gender Equity		September 1, 2020 to June 30, 2021	6	3
Dr. Marjory Kerr, *BA, MASc, PhD* Former President – William and Catherine Booth University College		January 1, 2017 to April 15, 2020	1	0
Graham D. Moore, *BCom, MBA, CPA, CMA* Assistant Chief Secretary for Organizational Development		September 1, 2021	13	13
Lt. Colonel John Murray, *BA, MAL, APR, CFRE* Secretary for Communications		July 1, 2018	21	18
Commissioner Tracey Tidd Territorial President of Women's Ministries		October 1, 2019 to August 31, 2021	8	7

Audit Committee

The Audit Committee is responsible for overseeing financial reporting, including the quality and integrity of The Salvation Army's financial statements and disclosures, internal control over the financial reporting process, and legal and regulatory requirements.

The Committee reviews the audited consolidated financial statements and assesses:

- the quality and appropriateness of the principles and policies used in preparing the statements, including any changes in accounting principles and/or policies that are proposed;
- significant estimates used in preparing the financial statements; and
- significant variances from plans or comparable results of prior periods.

The Committee discusses the financial statements and auditors' report with the external auditors and management and recommends the approval of the statements to the Governing Council.

The Committee is responsible for oversight of The Salvation Army's relationship with the external auditor and recommends the appointment or replacement of the external auditor to the Governing Council as well as the proposed compensation for the services to be provided.

The Committee is responsible for oversight of management's establishment of an adequate system of internal control over financial reporting, considers the integrity of the financial reporting process, and discusses significant financial risk exposures. The Audit Committee also oversees the performance of the internal audit department (see section on Internal Control below).

The Committee has been established with both independent volunteers and two members of The Governing Council. Although management of the finance and internal audit functions attend meetings to provide staff support, the Committee also meets independently with the external auditors and internal auditor, without members of the Governing Council or management present.

Member	Office held, if any	Date Appointed	Number of meetings eligible to attend 2021/22	Number of meetings attended 2021/22
Patricia L. O'Malley, *BCom, FCPA, FCA, LLD (Hon)* Board Director and Independent Financial Reporting Consultant *	Chair	February 22, 2017	5	5
Colonel Evie Diaz, *AA* Chief Secretary		May 1, 2021	5	4
Annie Giraudou, *CPA, CA, MBA, FLMI, CFSA, CRMA, ASC* Board Director and Independent Financial Reporting Consultant *		February 22, 2017	5	5
Colonel Edward Hill, *MDiv, MA, BA* Chief Secretary		November 1, 2018 to April 30, 2021	0	0
Helen Polatajko, *ICD.D* Board Director and Independent Financial Reporting Consultant *		September 1, 2020	5	5
Lt. Colonel Fred Waters, *MA* Secretary for Business Administration		January 1, 2017	5	5

** denotes volunteer members.*

Fiscal Strategy & Budgetary Planning

The development of fiscal strategy and budgetary planning is taken very seriously by the Governing Council and Territorial Management Board.

A discussion paper and invitation to comment is distributed throughout the organization in the spring of each year to invite input into the following year's budget. The overall fiscal strategy is approved in the fall and guides the process for the coming year commencing April 1.

During the past year, the final phase of a centrally coordinated budgetary planning process was implemented in which rather than provide budget owners with information and guidelines to assist them in preparing budget proposals, teams comprised of finance staff from territorial and divisional headquarters are assigned to all budget owners to complete the detailed calculations on their behalf and based on their plans for the coming year. Phased in over the last three years, this approach is already showing evidence of better budgeting and forecasting throughout the organization.

For fiscal 2023, for the first time, a consolidated budget has been approved and this will be monitored in comparison to actual financial results throughout the year, in addition to the reporting and budget variance analysis for individual budget entities that has been in place for many years. Monthly reporting of actual results compared to budget to date is provided to budget owners, and quarterly reporting at a high level is distributed to senior management across the organization, and is discussed at a meeting of the Territorial Management Board.

Finally, work has commenced on expanding the annual budgetary planning process to include five-year forward forecasts that will assist management in taking corrective action at the appropriate time when forecasts show any evidence of financial unsustainability.

Financial Management

The Army has a strong financial policy environment. Operating policies provide the framework within which designated management staff may approve expenditures, including dollar limits by type of expenditure, and the thresholds beyond which more additional approval is required. A staff expense policy sets out the rules governing expenditures for which staff may be reimbursed (including reasonable limits on expense amounts).

The Army has adopted a series of principles that create a framework for resource allocation. These principles are:

- ***Mission***

  Principle:
  All of The Salvation Army's resources are for mission advancement.

  Implications:
  Funds should be used in the most efficient manner to achieve maximum mission effectiveness. Programs and services that are not meeting mission objectives should be evaluated to determine if funds could better be used elsewhere.

- ***Stewardship***

Principle:
The resources we use to accomplish the mission are entrusted to us first by God and we must use them to honour Him. These resources include people and money. We also recognize that we have an obligation to donors, funders, clients, staff, members, and other stakeholders to ensure that resources are used efficiently and effectively to maximize mission outcomes and comply with the purposes for which they have been given to us.

Implications:
We will manage financial resources carefully, ensuring that we can provide a full account of how they have been used and what has been accomplished. We will attract and retain mission-focused, talented, and committed staff to ensure that we can realize effective mission outcomes.

- ***Disclosure***

Principle:
The cost of every operation should be fully disclosed in its financial statements.

Implications:
Where operating units are not self-supporting, the total cost of operations can only be understood if all subsidies, grants, and allocations are explicitly recognized.

- ***Self-support***

Principle:
Corps (congregations) should be self-supporting.

Implications:
The nature of some corps and the economics of the communities they serve is that they will not be able to be fully self-supporting, despite the commitment of their officers and congregations. Every corps should, however, to the greatest extent possible raise its own support and reduce its dependence on other parts of the Army. Whenever possible, corps should be able to demonstrate a greater degree of self-support today than yesterday.

Community and social services programs are not expected to be self-supporting; we believe that it is reasonable to ask governments, corporations, and members of the public to assist us by providing financial resources to fund the important work we do to help the needy and vulnerable in our society. We do not, however, expect them to fund the evangelical mission undertaken in our corps; that work should be funded by Salvationists and other revenues.

- ***Administration***

Principle:
The resources available to fund administrative costs in the territory should not be dependent on divisional boundaries and subject to regional economic variances.

Implications:
All territorial and divisional administration in Canada is funded centrally. This ensures that the costs of administration are kept at a reasonable level and that budgetary allocations are based on a case for support, rather than the funds that can be generated in a particular division. Allocations to THQ and DHQ entities are based on a variety of factors, such as mandate and role, size, complexity, geography, etc.

It is important to keep administrative costs at a reasonable level and not to allow them to grow unchecked. The present target is that THQ and DHQ administrative costs do not exceed 10% of the total budget of the territory.

- ***Public funds***

Principle:
Public funds should be used for community and social services work, rather than for work that would be undertaken as a natural expression of congregational or denominational life.

Implications:
When funds are allocated to a corps, they must be justified by virtue of demonstrable community services work performed by the corps.

When costs are allocated from the corps to its related community and social services operations, it must be on a reasonable and defensible basis, such as hours worked for personnel costs, the market value of space occupied, etc.

- ***Long-term viability***

Principle:
The fundamental financial goal of every operating unit should be to achieve a break-even position over the long term, that is, that expenses will not be greater than the revenues available to fund them.

Implications:
Agreement to the principle does not mean that there should never be a surplus or deficit in any particular year. What it does mean is that a surplus or deficit should only be planned for in the sense that it helps achieve an agreed upon purpose for the long-term or to allow time to deal with unexpected circumstances.

We believe that there are five key indicators which indicate financial viability.

1. **Adequate Cash Flow.** Cash flow is judged to be adequate if it allows the unit to meet its operating costs when they are incurred without overdrafts.

2. **Adequate Capital Reserves.** Adequate reserves are held to meet capital maintenance and replacement costs.

3. **Adequate Working Capital.** Operating fund balances are at a level to fund at least 90 days' operating expenses.

4. **Long Term Balanced Budget.** Over the long-term, revenues meet or exceed expenses.

5. **Meeting Reasonable Costs.** An operating unit is able to meet reasonable costs of operations, including paying competitive wages.

Only when operations meet these five conditions can they be properly assessed to be financially viable, and only when an operation is financially viable can its mission be viable. Mission viability is the goal and financial viability is a necessary means to that end.

- ***Fundraising***

Principle:
Fundraising costs should be kept to the minimum level necessary to raise the required funds.

Implications:
Fundraising costs are tied to measurable results that provide a reasonable return on investment over the long term.

- ***Transparency***

Principle:
Disclosure of relevant information is essential to good financial management. To make appropriate decisions, stakeholders need to understand the facts.

Implications:
Disclosure of relevant financial information at corps and institutions, divisional and territorial headquarters is essential to mission-effective decision making with respect to the allocation of resources.

Every Salvation Army entity should publish relevant and timely financial information to its key stakeholders to facilitate their understanding and support.

- ***Working Capital***

Principle:
Funds should be reserved for periods when unforeseen events result in expenses being greater than revenues.

Implications:
Each operating entity is expected to maintain sufficient and uncommitted working capital or operating fund balance to be able to meet at least 90 days' expenses. This provides a source of funds in the event of a significant unplanned reduction in revenue so that the entity can have sufficient time to adjust its expenses to match the new reduced revenue level or seek new sources of revenue. It also provides a cushion in the event of significant unplanned expenses.

• ***Collaboration***

Principle:
To achieve the best mission outcomes for the Army, the work of resource allocation should be undertaken by THQ, DHQs and ministry units with as much collaboration as possible.

Implications:
The budgetary planning process requires a partnership between THQ, DHQs and ministry units to ensure that operating, capital, and cash flow budgets prepared at all levels of the organization accurately reflect the underlying plans that advance the mission.

This collaboration is achieved through utilizing all possible opportunities for input into the process and ensuring good communication throughout.

Internal Controls

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

Accounting, payroll and financial reporting functions are centralized in the finance department, with staff located in Calgary, Toronto and St. John's. Only two ministry units perform their own accounting and three perform their own payroll functions due to exceptional circumstances.

Ministry unit leaders have financial management responsibilities, but all transactions are processed by the finance department.

Separate accounting records and financial reporting are maintained for each division and ministry unit, but bank accounts are consolidated, with access controlled by the finance department.

Electronic workflows are used to process accounts payable and staff expense claims. The system ensures that all payables are reviewed both in the finance department and by the individuals with expenditure approval authority in the division or ministry unit before being processed for payment. A similar system is in place for staff payroll processing.

The Audit Committee is responsible to oversee management's establishment of an adequate system of internal controls and procedures and effective performance of those internal controls and procedures. The Committee considers the integrity of the financial reporting processes and controls, discusses significant financial risk exposures and reviews the overall process management has taken to identify the principal risks affecting financial reporting, monitor, control and report such exposures.

The Audit Committee oversees the performance of the internal audit department. In this regard, the Committee reviews the charter, activities, staffing and organizational structure of the internal audit function; reviews and approves the annual work plan, its scope and link with organizational risk assessments, and all major changes to the plan.

The internal audit department provides an independent and objective assurance and consulting function to improve the operations of The Salvation Army. It conducts audits and other engagements to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

In addition to Canadian external and internal audits, The Salvation Army is also subject to periodic audits by an audit team from its International Headquarters in London, England. The most recent audit conducted in 2017, covering the period from April 1, 2014 to March 31, 2017, concluded that The Salvation 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 . . . Time does not permit an in-depth review of all records nor would the audit uncover every instance of deviation from policy or procedures. However, our review does indicate there are good documented policies and procedures in place; management is exercising well its stewardship duties and fulfilling its legal fiduciary responsibilities. The Governing Council demonstrates good governance practices."

Risk

An enterprise risk management ("ERM") function is in place, overseen by the Risk Committee, which is chaired by the Chief Secretary. The Chief Risk Officer ("CRO") is accountable to the committee and the office of the Chief Secretary, providing leadership, innovation, governance and management to the Army's enterprise-wide risk management activities.

Through the ERM department, expertise and support is provided to the Risk Committee and senior management, ensuring the development, implementation and ongoing review of a best practice ERM framework and the application of the International Organization for Standards ISO 31000 risk management standard across the Army.

A revised strategic risk register and heat map were approved by the Governing Council in December 2021 and a comprehensive review of existing and planned risk action plans and controls is underway. Processes to monitor and respond to significant and/or escalating risks have been implemented.

Project-based risk assessments for significant projects are undertaken. During the past year, the CRO has conducted such assessments for two significant projects that are being undertaken as part of the Army's strategic plan and the results of these assessments have been used to help guide the implementation of the projects.

Code of Conduct and Whistleblower Policy

Both a code of conduct (https://salvationist.ca/files/salvationarmy/docs/policy/code_of_conduct_2019.pdf) and a whistleblower policy (https://salvationarmy.ca/why-us/accountability/whistleblower-policy) are in place. 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. The Salvation Army takes violations of the code of conduct seriously. All complaints are thoroughly investigated and an annual report is submitted to both the Audit Committee and the Governing Council. During the year ended March 2022, no complaints were received with respect to alleged breaches by individuals who had an oversight role in financial reporting.

Staff Compensation

The Salvation Army employs over 600 commissioned officers and over 11,000 employees. The compensation package for all commissioned officers of The Salvation Army includes housing, with furnishings and utilities provided by The Salvation 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 significantly lower than compensation paid to executives in other not-for-profit organizations for positions of comparable responsibility. The total employment income for income tax purposes reported in 2021 for the six most senior commissioned officers of The Salvation Army in Canada (including cash, as well as housing, automobile and other benefits), ranged from $38,808 to $60,303, with an average of $50,191.

The size and scope of The Salvation Army's operations result in a level of complexity that requires the hiring of skilled professional and technical staff in a variety of disciplines. These salaries are typically less than comparable positions in the for-profit sector. However, significant competition exists for professional staff in the not-for-profit sector. As a result, compensation in the not-for-profit sector has increased in recent years in order to attract and retain the requisite expertise. The Army's goal is to be at 50^{th} percentile of the market based on analysis provided by a third-party service provider.

In the 2021 calendar year, there were 221 employees, which represents about 1% of the total workforce, whose total employment income (including salaries and benefits) reported for income tax purposes was above $100,000, compared with 216 in 2020.

Compensation range	2021	2020
$100,000 - $149,999	186	185
$150,000 - $199,999	22	17
$200,000 - $249,999	9	11
$250,000 - $299,999	2	2
$300,000 - $349,999	1	1
$350,000 - $399,999	1	0
Total	221	216

Paying competitive salaries to attract the right people is a key ingredient to long-term organizational performance and success. At the same time, we are also concerned about keeping administrative costs at a reasonable level to maximize funds available for direct service delivery. The Salvation Army strives to employ highly qualified people, while at the same time managing its resources in a prudent manner.

Fundraising

For 140 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 in us to use their contributions wisely. During the fiscal year ended March 31, 2022, charitable donations to The Salvation Army totalled $259.6 million, compared to $244.2 million the previous year, representing an increase of 6.3%.

Most fundraising costs are incurred by the public relations and development department. During the year, these costs were $23.8 million, compared to $24.6 million last year. As a proportion of charitable donations, these costs represented 9.2% in 2022, compared with an average of 10.6% over the last five years.

It should be noted, however, that all ministry unit operating costs are classified into a specific program or service area; as a result, there are some fundraising costs incurred at the ministry unit level that are included in programs and services in these financial statements.

The Salvation Army's results compare favourably to the Canada Revenue Agency upper limit of 35% and by comparison to other large, national charities. At the same time, it should be recognized that the "fundraising costs as a proportion of charitable donations" measure has several limitations as an indicator of effectiveness for a number of reasons.

First, no donations of materials 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 occur.

Fourth, fundraising effectiveness may not be optimized by low fundraising costs as a greater fundraising investment may yield proportionately larger donations. The Salvation 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. Headquarters operating costs reflect the administrative activities performed at the territorial and divisional headquarters. Over the five-year period ended March 2022, 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, represented, on average, 6.3% 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. First, all ministry unit operating costs are classified into a specific program or service area; as a result, there are some costs of administration that are currently classified as charitable programs and services. Second, while it is generally true that costs of administration represent an indicator of overall efficiency, it does not necessarily measure effectiveness of program outcomes.

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

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

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 Salvation 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 Salvation Army does not trade, rent or sell any personal information to third parties. A privacy officer has been appointed to monitor compliance and help ensure that the Army is adhering to best practice.

Donations

The Salvation 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 Salvation Army has established operations.

After a gift has been accepted, if circumstances should at any time make it impractical, in the view of The Salvation 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 Salvation Army uses funds raised in public appeals for its community and social services programs and activities, rather than for its congregational ministries.

Imagine Canada's Standards Program

The Salvation Army places accountability at the core of its relationships with its donors and members of the public. The Salvation Army is accredited by Imagine Canada's Standards Programs for charities and not-for-profit organizations. The accreditation recognizes those organizations that have taken action to bolster trust with the public by identifying and reducing organizational risk, improving board governance practices, being transparent and accountable with finances and fundraising and fostering a strong workforce.

The Army is one of fewer than 300 of Canada's 80,000 registered charities that have attained this accreditation.

Management Responsibility for Financial Reporting

The consolidated financial statements in this report 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 Canadian Accounting Standards Board.

The preparation of financial information is an integral part of the ongoing management of The Salvation 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 Audit Committee, which meets regularly with management as well as internal and external auditors to ensure the adequacy of internal controls over financial reporting, and to review the financial statements, the external auditors' report, and this management commentary. The Governing Council appoints the external auditors and approves the financial statements, based on recommendations from the Audit Committee.

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.

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INDEPENDENT AUDITORS' REPORT

To The Governing Council of The Salvation Army in Canada

Qualified Opinion

We have audited the consolidated financial statements of The Governing Council of The Salvation Army in Canada (the Entity), which comprise:

- the consolidated balance sheet as at March 31, 2022
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in fund balances for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, except for the possible effects of the matter described in the ***"Basis for Qualified Opinion"*** section of our auditors' report, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2022, 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.

Basis for Qualified Opinion

In common with many charitable organizations, the Entity derives revenue from charitable donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Entity.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets reported in the consolidated balance sheets as at March 31, 2022 and March 31, 2021
- the charitable donations revenue and excess (deficiency) of revenue over expenses reported in the consolidated statements of operations for the years ended March 31, 2022 and March 31, 2021

- the operating fund balances, at the beginning and end of the year, reported in the consolidated statements of changes in fund balances for the years ended March 31, 2022 and March 31, 2021
- the excess of revenue over expenses reported in the consolidated statements of cash flows for the years ended March 31, 2022 and March 31, 2021.

Our opinion on the financial statements for the year ended March 31, 2021 was qualified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 23, 2022

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Balance Sheet
(In thousands of dollars)

March 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 106,052	$ 81,594
Receivables and other current assets (note 14(b))	43,560	60,135
	149,612	141,729
Investments (note 4)	1,410,582	1,333,400
Tangible capital assets (note 6)	743,914	729,619
Other assets (note 8(a))	4,800	4,795
Accrued pension asset (note 10(a))	6,101	–
	$ 2,315,009	$ 2,209,543
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	$ 104,173	$ 84,356
Deferred revenue	29,412	15,997
Loans and mortgages payable (notes 5 and 9)	10,740	11,809
	144,325	112,162
Long-term liabilities:		
Future pension and other retirement benefits (note 10(a))	126,544	140,812
Loans and mortgages payable (notes 5 and 9)	47,295	53,391
Deposits on life leases (note 11)	10,997	11,332
Other liabilities (notes 8(b) and 10(b))	7,110	7,453
	191,946	212,988
Total liabilities	336,271	325,150
Fund balances:		
Operating (note 12(a))	382,265	312,905
Endowment (note 12(b))	53,358	58,755
Other Restricted (note 12(c))	876,542	873,919
Capital	666,573	638,814
	1,978,738	1,884,393
Contingencies and commitments (notes 18 and 19)		
	$ 2,315,009	$ 2,209,543

See accompanying notes to consolidated financial statements.

On behalf of The Governing Council:

Chief Financial Officer and Territorial Financial Secretary

Chief Operating Officer and Territorial Secretary for Business Administration

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Operations
(In thousands of dollars)

Year ended March 31, 2022, with comparative information for 2021

	2022					2021				
	Operating	Restricted Funds				Operating	Restricted Funds			
	Fund	Endowment	Other	Capital	**Total**	Fund	Endowment	Other	Capital	**Total**
Revenue:										
Public support:										
Charitable donations	$ 141,122	$ 43	$ 118,038	$ 379	**$ 259,582**	$ 134,976	$ 8	$ 109,251	$ –	**$ 244,235**
Sale of donated goods	152,066	–	–	–	**152,066**	107,165	–	–	–	**107,165**
	293,188	43	118,038	379	**411,648**	242,141	8	109,251	–	**351,400**
Government funding (notes 14 and 19(b))	366,254	–	14,234	7,777	**388,265**	371,674	–	11,429	9,908	**393,011**
Fees for service	54,206	–	–	–	**54,206**	50,029	–	–	–	**50,029**
Investment income (note 13)	34,658	–	563	–	**35,221**	246,110	–	565	–	**246,675**
Gain on disposal of tangible capital assets	–	–	–	14,143	**14,143**	–	–	–	9,243	**9,243**
Other	12,442	1	30	340	**12,813**	12,173	–	8	43	**12,224**
	760,748	44	132,865	22,639	**916,296**	922,127	8	121,253	19,194	**1,062,582**
Expenses (note 15):										
Charitable programs and services:										
Addictions, corrections and residential	222,614	–	–	–	**222,614**	222,958	–	–	–	**222,958**
Health care	168,873	–	–	–	**168,873**	151,664	–	–	–	**151,664**
Community and family services	87,204	–	–	–	**87,204**	79,912	–	–	–	**79,912**
Congregational ministries	43,501	–	–	–	**43,501**	42,703	–	–	–	**42,703**
Children and youth	12,423	–	–	–	**12,423**	10,392	–	–	–	**10,392**
Educational	7,706	–	–	–	**7,706**	7,865	–	–	–	**7,865**
Overseas development and missions	799	–	5,550	–	**6,349**	847	–	4,427	–	**5,274**
Other programs and services	12,588	–	–	–	**12,588**	11,090	–	–	–	**11,090**
	555,708	–	5,550	–	**561,258**	527,431	–	4,427	–	**531,858**
Thrift store operations	145,522	–	–	–	**145,522**	136,591	–	–	–	**136,591**
Headquarters' operations	56,894	–	–	–	**56,894**	49,748	–	–	–	**49,748**
Fundraising and public relations	9,748	–	14,077	–	**23,825**	9,989	–	14,628	–	**24,617**
Amortization	–	–	–	47,453	**47,453**	–	–	–	38,410	**38,410**
Other	12,035	–	–	–	**12,035**	12,228	–	–	–	**12,228**
	779,907	–	19,627	47,453	**846,987**	735,987	–	19,055	38,410	**793,452**
Excess (deficiency) of revenue over expenses	$ (19,159)	$ 44	$ 113,238	$ (24,814)	**$ 69,309**	$ 186,140	$ 8	$ 102,198	$ (19,216)	**$ 269,130**

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, 2022, with comparative information for 2021

2022	Operating Fund (note 12(a))	Restricted Funds Endowment (note 12(b))	Restricted Funds Other (note 12(c))	Restricted Funds Capital	Total
Fund balances, beginning of year	$ 312,905	$ 58,755	$ 873,919	$ 638,814	$ 1,884,393
Excess (deficiency) of revenue over expenses	(19,159)	44	113,238	(24,814)	69,309
Change in cumulative translation adjustment	(127)	–	–	–	(127)
Remeasurement and other items (note 10(a))	25,163	–	–	–	25,163
Net interfund transfers (note 16)	63,483	(5,441)	(110,615)	52,573	–
Fund balances, end of year	$ 382,265	$ 53,358	$ 876,542	$ 666,573	$ 1,978,738

2021	Operating Fund (note 12(a))	Restricted Funds Endowment (note 12(b))	Restricted Funds Other (note 12(c))	Restricted Funds Capital	Total
Fund balances, beginning of year	$ 217,327	$ 56,885	$ 674,405	$ 635,693	$ 1,584,310
Excess (deficiency) of revenue over expenses	186,140	8	102,198	(19,216)	269,130
Change in cumulative translation adjustment	(1,556)	–	–	–	(1,556)
Remeasurement and other items (note 10(a))	32,509	–	–	–	32,509
Net interfund transfers (note 16)	(121,515)	1,862	97,316	22,337	–
Fund balances, end of year	$ 312,905	$ 58,755	$ 873,919	$ 638,814	$ 1,884,393

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, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 69,309	$ 269,130
Items not affecting cash (note 17(a))	34,630	(182,298)
Change in non-cash operating working capital (note 17(b))	49,807	(8,916)
Contributions to defined benefit and supplementary retirement pension plans	(1,724)	(5,097)
Contributions to other retirement benefits	(4,644)	(5,135)
	147,378	67,684
Financing activities:		
Increase in other assets	(5)	–
Repayment of loans and mortgages payable	(7,703)	(11,451)
Increase in loans and mortgages payable	538	14,955
Increase (decrease) in other liabilities	(435)	108
Net change in deposits on life leases	(335)	15
	(7,940)	3,627
Investing activities:		
Purchase of investments, net	(67,248)	(2,990)
Additions to tangible capital assets	(69,708)	(53,915)
Proceeds on disposal of tangible capital assets	22,103	18,859
	(114,853)	(38,046)
Change in cumulative translation adjustment	(127)	(1,556)
Increase in cash and cash equivalents	24,458	31,709
Cash and cash equivalents, beginning of year	81,594	49,885
Cash and cash equivalents, end of year	$ 106,052	$ 81,594

See accompanying notes to consolidated financial statements.

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, an international movement, 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 every other Salvation Army operation registered as an associated charity of The Governing Council. The Salvation Army Corporation of Bermuda is a controlled entity through which The Governing Council conducts its operations in Bermuda.

The Salvation Army is an international Christian Church. Its message is based on the Bible; its ministry is motivated by love for God and the needs of humanity. Its mission is to 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 territorial headquarters ("THQ"), eight divisional headquarters ("DHQ"), the College for Officer Training, William & Catherine Booth University College, National Recycling Operations, and over 400 operating ministry units, some of which are separately incorporated. Ministry unit operations include 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 - Accounting, the assets, liabilities, fund balances, revenues, 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, including the receipt and use of funds with no external restrictions.

1. Basis of presentation (continued):

(b) Restricted Funds:

(i) Endowment Fund:

The purpose of the Endowment Fund is to record the principal amounts of externally restricted endowment contributions and unrestricted funds internally designated as endowments, where the amounts are to be maintained in perpetuity.

External restrictions refer to any conditions or specific uses that have been requested or required by the donors. Internal restrictions refer to those funds which management has earmarked for specific purposes, which are not subject to any donor or other third-party restrictions on their use.

(ii) Capital Fund:

The purpose of the Capital Fund is to record tangible capital assets, including land, buildings, furniture and equipment, as well as the related debt and net investment of the Army in such assets. Interest expense associated with debt financing is recorded in the Operating Fund.

(iii) Other Restricted Funds:

The Other Restricted Funds record receipt and use of funds that are both externally and internally restricted (note 12(c)), other than Endowment or Capital Fund items.

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

1. Basis of presentation (continued):

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.

2. Significant accounting policies:

(a) Cash and cash equivalents:

The Army considers deposits in banks, certificates of deposit and other short-term investments 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 under the investments caption 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. The Army has elected to carry all investments at fair value and as a result, they are revalued monthly. All other financial instruments are subsequently recorded at cost or amortized cost.

Transaction costs incurred on the acquisition or disposal of investments are expensed as incurred.

Receivables are assessed for impairment on an annual basis at the end of the fiscal year. 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 year, an impairment loss is reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Significant accounting policies (continued):

(c) Interest rate hedging:

The Army uses interest rate swaps as a hedging strategy to manage interest rate volatility on some 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.

(d) Tangible capital assets:

At the date of acquisition, tangible capital assets are recorded at cost if purchased or constructed, and at fair value if contributed.

Tangible capital assets are written down to fair value or replacement cost to reflect partial impairments when conditions indicate that the assets no longer contribute to the Army's ability to provide goods and services, or that the value of future economic benefits or service potential associated with the tangible capital assets are less than their net carrying amounts.

2. Significant accounting policies (continued):

Capital assets with a cost exceeding $5 are stated at cost, less accumulated amortization, provided for on a straight-line basis over their estimated useful lives, as follows:

	Amortization period
Buildings	20 to 40 years
Leasehold improvements	Over the term of the lease
Furniture and equipment	3 to 10 years
Vehicles	5 years

Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. Assets under construction are not amortized until they are available for use.

(e) Contributions of materials and services:

The Army receives contributions of goods and materials, as well as a significant amount of time from a substantial number of volunteers each year. The value of these contributions is not recognized or disclosed in these consolidated financial statements due to the difficulty of determining the fair value of the contributions.

(f) Revenue recognition:

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

Unrestricted revenues, including donations, government funding and fees for services are recognized as revenue in the Operating Fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Sale of donated goods includes sales of used clothing and other goods that have been donated to the Army's thrift stores. Revenue is recognized at the point of sale.

2. Significant accounting policies (continued):

Investment income includes interest income, dividends, net realized gains or losses on the sale of investments and change in net unrealized gain (loss) on investments. Restricted and unrestricted investment income is recognized as revenue in the appropriate fund when earned.

(g) Future pension and other retirement benefits:

(i) Officers' retirement benefits:

The Army maintains a non-contributory defined benefit pension plan for all commissioned officers and auxiliary-captains, which is registered with the Financial Services Regulatory Authority of Ontario. Commissioned officers are enrolled in the plan at the date of commissioning and auxiliary-captains at the date of warranting. The Army also provides other retirement benefits to eligible officers, including supplementary allowances and medical and dental benefits. The Army uses actuarial reports prepared by independent actuaries as the basis for its funding decisions.

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 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 plan assets, which are recorded at fair value, and the accrued benefit obligation are measured at March 31 of each year;

(c) the discount rate used to determine the accrued benefit obligation is 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;

2. Significant accounting policies (continued):

(d) actuarial gains (losses) on plan assets arising from the difference between the actual and expected return on plan assets for a period are immediately recognized in the consolidated statement of changes in fund balances, as are actuarial gains (losses) on the accrued benefit obligation that arise from differences between actual and expected experience and from the changes in the actuarial assumptions used to determine the accrued benefit obligation. These changes are shown in the consolidated statement of changes in fund balances as remeasurement and other items; 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 service.

Several ministry units are part of multi-employer defined benefit or defined contribution plans under which contributions are made by the individual ministry units (and the employees). The ministry units have no direct liability or entitlement to any unfunded liability or surplus in these plans related to their current or former employees.

(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 financial statements of The Salvation Army Corporation of Bermuda are recognized in the Operating Fund balances on the consolidated balance sheet.

2. Significant accounting policies (continued):

(i) Grace Communities Corporation ("GCC") operates three housing units, with two providing tenants with a life lease agreement on the unit they occupy. Life lease agreements are either guaranteed or non-guaranteed and are recorded as follows:

(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 deposits on life leases 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.

(j) 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 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 accrued liabilities, assets and obligations related to future pension and other retirement benefits and the valuation of certain investments. Actual results could differ from those estimates.

3. Credit facilities:

The Army has a demand revolving operating facility bearing interest at the prime rate with a Canadian bank for up to $5,000 (2021 - $5,000), to cover overdrafts, as well as standby letters of credit. At year end, the Army had not drawn on this line of credit, other than to issue standby letters of credit (note 19(a)).

(In thousands of dollars)

4. Investments:

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

	2022	2021
Cash and cash equivalents	$ 65,207	$ 49,200
Fixed income:		
Domestic	161,024	155,090
Foreign	11,084	6,904
Pooled funds:		
Fixed income:		
Domestic	207,291	216,800
Foreign	1,427	1,350
Equities	15,811	13,927
Equities:		
Domestic	167,600	142,293
Foreign	569,467	560,659
Real estate - domestic	112,439	97,718
Infrastructure - foreign	99,232	89,459
	$ 1,410,582	$ 1,333,400

Fixed income investments mature at various dates between April 2022 and October 2067 (2021 - April 2021 and October 2067), and bear interest at rates between 0.5% and 9.92% (2021 - 0.25% and 9.92%).

The carrying value of investments held in the General Investment Fund totals $1,402,437 (2021 - $1,325,844), while $8,145 (2021 - $7,556) relates to other investment funds held by the Army.

In addition, current assets include interest and dividends receivable and accrued investment income totalling $9,677 (2021 - $8,571) and current liabilities includes investment purchases pending totalling $7,155 (2021 - $6,275), bringing the total General Investment Fund value to $1,404,959 (2021 - $1,328,140).

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 price 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 investments held by the Army. This risk is managed by staggering the terms of the investments held, and ensuring diversification of the holdings, such that no single security, other than Government of Canada or provincial bonds or municipal 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 17 (2021 - 17) instruments on 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 four of its variable rate loans. Swap interest rates range from 2.33% to 6.27% (2021 - 2.33% to 6.27%). As at March 31, 2022, the swaps have principal outstanding of $25,494 (2021 - $30,033) that reduces on a basis consistent with the repayment of principal of the underlying debt. The swaps mature between July 4, 2023 and December 16, 2030. 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 four unhedged loans have a principal outstanding of $3,370 (2021 - three unhedged loans valued at $3,586) as at March 31, 2022 and an interest rate of 1.74% (2021 - 1.22%), tied to the one month bankers' acceptance Canadian dollar offered rate.

(In thousands of dollars)

5. Financial risks (continued):

(c) Market price risk:

Market price risk arises as a result of investing in equity investments and fixed income investments. 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, 2022, investments in foreign markets represent 48% (2021 - 49%) of the investment portfolio.

Foreign currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on the Army's foreign investments. The Army does not hedge its foreign currency risk on these investments because individual equities are held for the long term, and equities are held in multiple currencies. As a result, residual foreign exchange risk is considered acceptable in the long term without implementing a hedging strategy.

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 dollar denominated bonds and when they do, to employ forward contracts to eliminate any related foreign currency risk.

6. Tangible capital assets:

2022	Cost	Accumulated amortization	Net book value
Land	$ 135,409	$ –	$ 135,409
Buildings	979,323	482,123	497,200
Leasehold improvements	45,657	31,622	14,035
Furniture and equipment	87,015	53,958	33,057
Vehicles	21,587	15,141	6,446
Construction in progress	57,767	–	57,767
	$ 1,326,758	$ 582,844	$ 743,914

(In thousands of dollars)

6. Tangible capital assets (continued):

2021	Cost	Accumulated amortization	Net book value
Land	$ 133,815	$ –	$ 133,815
Buildings	964,587	460,242	504,345
Leasehold improvements	40,843	21,723	19,120
Furniture and equipment	78,278	48,152	30,126
Vehicles	20,171	13,402	6,769
Construction in progress	35,444	–	35,444
	$ 1,273,138	$ 543,519	$ 729,619

As at March 31, 2022, the Army had assets held for sale with a net book value of $3,729 (2021 - $3,950).

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of $9,157 (2021 - $6,160), which include amounts payable for payroll related taxes and government subsidy clawbacks.

8. Other assets and liabilities:

(a) Other assets:

Included in other assets are charitable remainder trusts amounting to $3,411 (2021 - $3,411). 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 $2,700 (2021 - $3,093).

(In thousands of dollars)

9. Loans and mortgages payable:

Loans and mortgages payable are secured by either the investments or properties, bear interest at rates ranging from 0.00% to 7.63% (2021 - 0.00% to 7.63%) with an average interest rate of approximately 2.28% (2021 - 2.39%) and extend for terms of up to 10 years from March 31, 2022.

Some of these mortgages are subsidized by governments so that the effective interest rate to the Army is reduced.

Interest paid on loans and mortgages totals $1,436 (2021 - $1,527).

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

2023	$ 10,740
2024	5,685
2025	13,728
2026	8,647
2027	7,427
Thereafter	11,808
	58,035
Less current portion	10,740
	$ 47,295

10. Future pension and other retirement benefits:

(a) Officers' retirement benefits:

2022	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total future pension and other retirement benefits
Accrued benefit obligation	$ 224,653	$ 22,190	$ 104,354	$ 351,197
Fair value of plan assets	230,754	–	–	230,754
Plan deficit (surplus)	$ (6,101)	$ 22,190	$ 104,354	$ 120,443

(In thousands of dollars)

10. Future pension and other retirement benefits (continued):

2021	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total future pension and other retirement benefits
Accrued benefit obligation	$ 245,985	$ 24,608	$ 106,498	$ 377,091
Fair value of plan assets	236,279	–	–	236,279
Plan deficit	$ 9,706	$ 24,608	$ 106,498	$ 140,812

Continuity of the future pension and retirement benefits (asset) liability is as follows:

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	2022	2021
Balance, beginning of year	$ 9,706	$ 24,608	$ 106,498	$ 140,812	$ 171,715
Benefit expense	5,833	879	4,450	11,162	11,838
Employer contributions	–	(1,724)	(4,644)	(6,368)	(10,232)
Remeasurement and other items	(21,640)	(1,573)	(1,950)	(25,163)	(32,509)
Balance, end of year	$ (6,101)	$ 22,190	$ 104,354	$ 120,443	$ 140,812

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

2022	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
Current service cost	$ 5,423	$ 93	$ 989	$ 6,505
Interest cost	410	786	3,461	4,657
	$ 5,833	$ 879	$ 4,450	$ 11,162

(In thousands of dollars)

10. Future pension and other retirement benefits (continued):

2021	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
Current service cost	$ 4,975	$ 78	$ 921	$ 5,974
Interest cost	1,284	856	3,724	5,864
	$ 6,259	$ 934	$ 4,645	$ 11,838

Additional expenses for officers' benefits, consisting of cash payments made by the Army directly to beneficiaries for its unfunded other retirement benefit plans and other current benefits for the active officers were $2,212 (2021 - $1,955).

Actuarial valuations for both plans are performed at least every three years. The defined benefit pension plan was last valued for funding purposes as at December 31, 2019. At that time, the plan had a surplus, measured on a going concern basis (i.e., assuming continued operations of the pension plan), of $44,300 or 25.2%, and a surplus of $22,000 or 11.2% on a solvency basis (i.e., assuming the pension plan were to be wound up on the valuation date). As noted above the surplus reflected in these financial statements as an accrued pension asset is $6,100. The main reason for the difference relates to the discount rates used for the respective valuations, which were 4.0% per annum for the accounting valuation at March 31, 2022 and 5.8% per annum for the going concern funding valuation at December 31, 2019.

(b) Pre- and post-retirement benefits:

Included in other liabilities are accrued pre- and post-retirement benefits of $3,523 (2021 - $3,431), 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 $20,241 (2021 - $18,114). The assets of the employees' retirement benefits plan are held separately from those of the Army in an independently administered fund.

(In thousands of dollars)

10. Future pension and other retirement benefits (continued):

(d) Multi-employer benefit plans:

Several ministry units are part of multi-employer defined benefit or defined contribution plans under which contributions are made by the individual ministry units (and the employees). For the fiscal year ended March 31, 2022, contributions were paid and expensed in the amount of $5,200 (2021 - $4,744) under the terms of these plans and reflected in these consolidated financial statements as part of charitable programs and services expenses. The ministry units have no direct liability or entitlement to any unfunded liability or surplus in these plans related to their current or former employees.

11. Deposits on life leases:

	2022	2021
Balance, beginning of year	$ 11,332	$ 11,317
Amounts reclassified from deposits on life lease upon occupancy	17	26
Current year activity:		
Refunds	(350)	(8)
Amounts recognized as revenue	(2)	(3)
Balance, end of year	$ 10,997	$ 11,332

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.

(In thousands of dollars)

12. Fund balances:

(a) The Operating Fund balances include the cumulative translation adjustment of $3,522 (2021 - $3,649) arising from the currency translation of self-sustaining operations in Bermuda.

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

2022	Externally restricted	Internally restricted	Total
Ministry units	$ 8,788	$ 17,989	$ 26,777
DHQ	4,413	1,462	5,875
THQ	18,818	1,888	20,706
	$ 32,019	$ 21,339	$ 53,358

2021	Externally restricted	Internally restricted	Total
Ministry units	$ 8,788	$ 23,199	$ 31,987
DHQ	4,413	1,693	6,106
THQ	18,774	1,888	20,662
	$ 31,975	$ 26,780	$ 58,755

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

2022	Externally restricted	Internally restricted	Total
Ministry units	$ 68,768	$ 137,077	$ 205,845
DHQ	69,554	88,188	157,742
THQ	83,318	429,637	512,955
	$ 221,640	$ 654,902	$ 876,542

(In thousands of dollars)

12. Fund balances (continued):

2021	Externally restricted	Internally restricted	Total
Ministry units	$ 74,858	$ 125,728	$ 200,586
DHQ	68,987	78,208	147,195
THQ	69,612	456,526	526,138
	$ 213,457	$ 660,462	$ 873,919

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 25% and 33% of the fair market value of its investments portfolio. The balance of this internally restricted reserve held in the Other Restricted Funds was $413,562 (2021 - $447,867) and represents funds held for future operations in years when actual earnings are below the long-term expected rate of return. A total of $59,500 has been approved for allocation to operations for 2023 (2022 - $55,800), leaving a net balance of $354,062 (2021 - $392,067). The General Investment Fund (note 4) was valued at $1,402,437 (2021 - $1,325,844), meaning the reserve balance represents 25% (2021 - 30%) of the market value.

13. Investment income:

	2022	2021
Interest	$ 11,834	$ 11,327
Dividends	13,453	12,044
Net realized gains on sale of investments	41,431	63,019
Change in net unrealized gain (loss) on investments	(31,497)	160,285
	$ 35,221	$ 246,675

(In thousands of dollars)

14. Government funding:

(a) Sources of government funding:

The Army receives government funding for operations from a variety of different government agencies, at the federal, provincial, territorial and municipal levels. In fiscal 2022, funding of $388,265 (2021 - $393,011) was received. Funding received from varying levels of government is as follows:

	2022	2021
Provincial and territorial	$ 246,831	$ 223,348
Municipal	88,207	92,854
Federal	53,227	76,809
	$ 388,265	$ 393,011

(b) Government Wage Subsidy:

The Army applied for and received government assistance in the form of the Canada Emergency Wage Subsidy ("CEWS"). Total CEWS included in government funding in the consolidated statement of operations amounts to $17,365 (2021 - $33,041), of which no amount (2021 - $21,205) is included in receivables and other current assets at year-end. Management believes that it is in compliance with all eligibility criteria under the CEWS program.

15. Expenses by category:

Expenses comprise the following categories:

	2022	2021
Salaries and benefits	$ 522,495	$ 495,569
Other program and general operating	181,104	162,438
Occupancy	95,935	97,035
Amortization	47,453	38,410
	$ 846,987	$ 793,452

(In thousands of dollars)

16. Net interfund transfers:

2022	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	$ 134,022	$ –	$ (134,022)	$ –
Funding of capital transactions from operations and reserves	(11,460)	–	(63,120)	74,580
Transfer funds to internally restricted reserves and endowments	(53,016)	1,790	51,226	–
Transfer of property sale proceeds	4,927	–	17,080	(22,007)
Transfers for future property repairs/maintenance	(10,990)	–	10,990	–
Transfer of internally restricted endowment to reserves	–	(7,231)	7,231	–
	$ 63,483	$ (5,441)	$ (110,615)	$ 52,573

2021	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	$ 210,203	$ –	$ (210,203)	$ –
Funding of capital transactions from operations and reserves	(21,192)	–	(19,883)	41,075
Transfer funds to internally restricted reserves and endowments	(65,015)	1,862	63,153	–
Transfer of property sale proceeds	1,450	–	17,288	(18,738)
Transfers for future property repairs/maintenance	(6,907)	–	6,907	–
Net investment gain transferred to reserve for future operations	(240,054)	–	240,054	–
	$ (121,515)	$ 1,862	$ 97,316	$ 22,337

(In thousands of dollars)

17. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2022	2021
Gain on disposal of tangible capital assets	$ (14,143)	$ (9,243)
Amortization	47,453	38,410
Increase in pre- and post-retirement benefits	92	1
Other retirement benefits expense	4,450	4,645
Defined benefit and supplementary retirement pension plan expense	6,712	7,193
Net realized gains on sale of investments	(41,431)	(63,019)
Change in net unrealized loss (gain) on investments	31,497	(160,285)
	$ 34,630	$ (182,298)

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

	2022	2021
Receivables and other current assets	$ 16,575	$ (18,085)
Accounts payable and accrued liabilities	19,817	10,123
Deferred revenue	13,415	(954)
	$ 49,807	$ (8,916)

18. Lease commitments:

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:

2023	$ 23,637
2024	18,365
2025	14,396
2026	10,153
2027	7,280
Thereafter	10,402
	$ 84,233

19. 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 - Accounting. 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, 2022, the Army had issued letters of credit totaling $409 (2021 - $268). 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 Army receives government assistance in the form of forgivable loans to fund some capital projects. This funding is considered a grant as long as the 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 total of forgivable loans that would be repayable if the Army defaulted was $38,994 (2021 - $32,500). 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 assistance.

(c) Government capital contributions for programs:

The Army acquired title to a property from the City of Yellowknife in fiscal 2019 as part of an agreement to operate a men's homeless transitional facility. Under the agreement, the Army will continue to operate and maintain the facility as required for a set period and upon failure to do so, will transfer the facility and the land on which it stands, valued at $5,946, back to the City of Yellowknife. The Army intends to operate the program for the foreseeable future and meet all the conditions set by the government with respect to its operation.

(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.

19. Contingencies and commitments (continued):

(e) Indemnification of directors and officers:

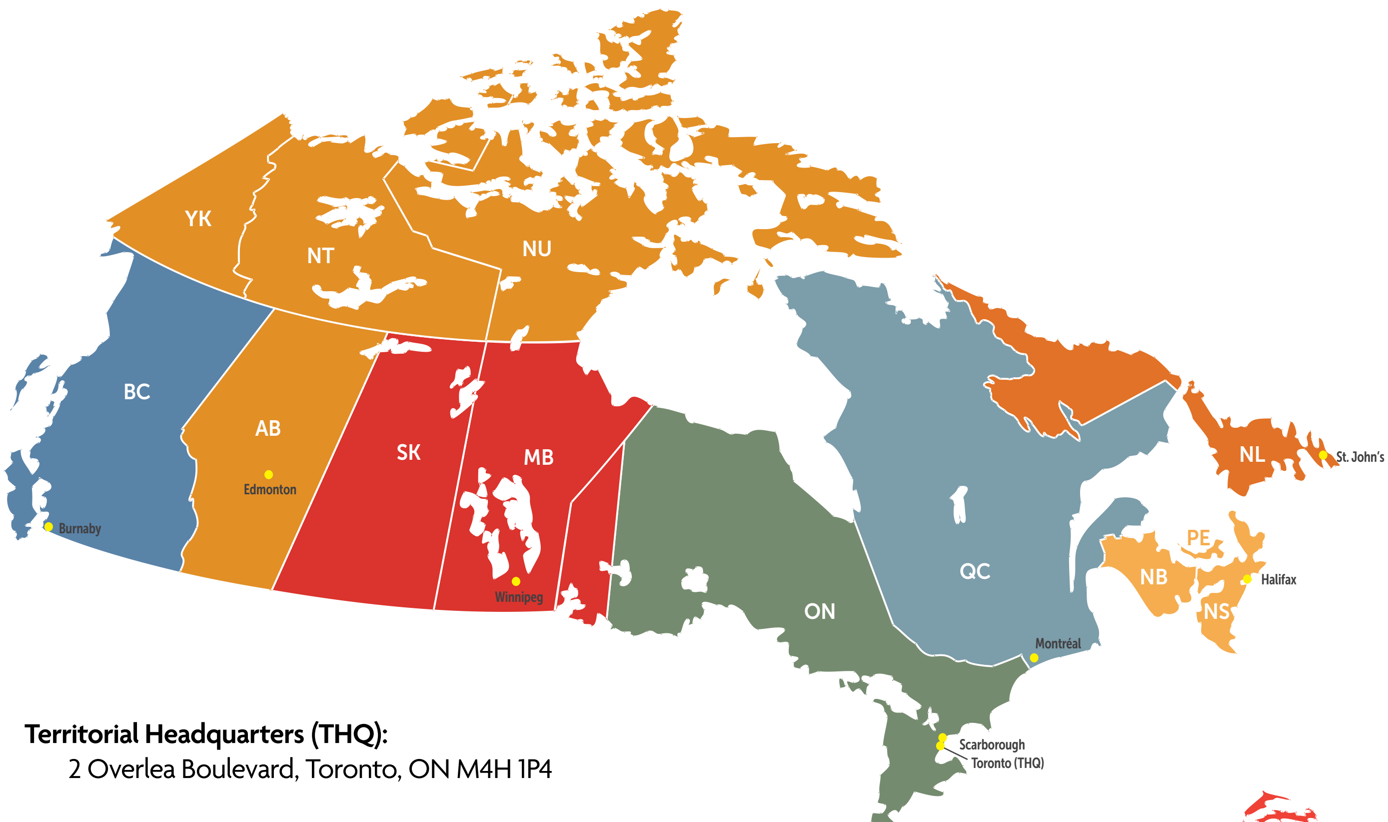
The Army has indemnified, its past, present and future members of The Governing Council, directors of controlled corporations, officers, trustees, employees and volunteers against expenses (including legal expenses), judgments and any amount actually or reasonably incurred by them in connection with any actual or alleged wrongful act in which any of these individuals 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.

20. Comparative information:

In order to align with presentation for the current year, $30,417 was reclassified in the prior year from fees for service to government funding and is also reflected in note 14(a).

THE SALVATION ARMY

Canada and Bermuda



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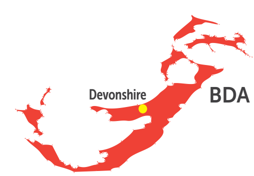

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