



CONSOLIDATED FINANCIAL STATEMENTS

The Governing Council of The Salvation Army in Canada

Year Ended March 31, 2021



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

The Salvation Army Consolidated Financial Statements

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Management Commentary

Introduction

These consolidated financial statements present the assets, liabilities, fund balances, revenues, expenses and cash flows of The Governing Council of The Salvation Army in Canada (“The Salvation Army” or “the Army”) and all of the entities it controls for the year ended March 31, 2021. These financial statements were audited by KPMG LLP, Licensed Public Accountants, who issued their opinion on them on June 23, 2021.

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, 2021

Revenue and Expenses

Revenue increased by 39% during the year, driven largely by investment income of \$246 million investments, compared to a loss of \$7 million in the prior year and an increase in government funding which reached \$362 million, compared to \$259 million in the prior year. Offsetting these increases was a reduction in sale of donated goods, from \$161 million last year to only \$107 million this year, as a result of store closures during the COVID-19 pandemic. Expenses increased by less than 2% overall during the year, with the largest increase seen in programs and services (7%) while the cost of thrift store operations declined by 16%.

An excess of revenue over expenses of \$269 million was realized, compared to a deficiency of \$18 million in the prior year. At March 31, 2021, investments stood at \$1.333 billion, slightly above their pre-pandemic value of \$1.298 billion at December 31, 2019.

As noted below, investment income is allocated to operations based on a long-term expected rate of return rather than the actual earnings. The remaining funds are placed in reserve for those years when returns fall below the long-term rate. Government funding recognized in the current year includes significant funds that will be spent in the year ahead. These factors are important to bear in mind in considering the significant excess being reported this year.

Financial Position

As of March 31, 2021, The Salvation Army’s total assets were \$2.2 billion, compared to \$1.9 billion at the prior year end. As noted above, most of this increase can be explained by the increase in investments.

Fund balances totaled \$1.9 billion, up from \$1.6 billion in the prior year, while liabilities remained largely unchanged. \$638 million of the total represents funds invested in capital assets, predominantly land and buildings, while \$58 million represents funds in endowments for which only the investment income can be spent.

The remaining fund balances represent the net funds being held for future operations, as follows:

	2021	2020
Externally Restricted Funds	\$213	\$175
Internally Restricted Funds		
Investment earnings spending policy reserve	\$447	\$265
Other internally restricted funds	\$213	\$233
TOTAL Restricted Funds	\$873	\$674
Unrestricted funds		
Operating funds	\$312	\$217
	\$1,185	\$891

The Salvation Army's policy is to maintain sufficient unrestricted operating funds to meet operating expenses for a period of at least 90 days. The total operating fund balance of \$312 million represents sufficient funds to meet 155 days of operating 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. Some parts of our operations, including thrift stores have remained closed for several months since March 31, 2021 due to COVID-19 restrictions, and while we are still optimistic about their ability to recover during the next fiscal year, we are maintaining higher fund balances as a precautionary measure. In addition, the operating fund balance includes funds held in operating units across Canada and Bermuda that were accumulated in the last quarter of the fiscal year and will be spent in the year ahead. For these reasons, the Army will monitor operating fund balances over the next few months to determine when it can prudently return to the 90-day level.

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.

The worldwide pandemic due to COVID-19 has created financial challenges for many organizations, The Salvation Army included. On a consolidated basis, the Army has done well, with government funding and investment earnings more than offsetting reductions in other revenue streams. What is true of the whole, however, is not true of the individual parts. Many individual operating units have experienced significant losses during the pandemic and some closures have been necessary. The nature of the Army's revenue streams is that most are tied to individual operating units, rather than to the Army as a whole, which makes it challenging to move funds from those with excess to those with shortfalls.

As this report is being written in early July 2021, we are slowly beginning to emerge from lockdown restrictions and most of the communities in which we serve are embracing a more normal way of life. The Army stands poised to continue to meet the needs of Canadians and Bermudians who have been most adversely affected by the pandemic, and the funds accumulated during the past year will help bolster services in the days ahead.

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 donor and board restricted funds. 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, \$48 million was allocated to operations in the year ended March 2021. 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 \$447 million, which after an allocation of \$55 million for operations in the year ended March 2022, will result in a balance of \$392 million available for fiscal 2023 and future years. This represents just under 30% of the value of the Fund.

The Fund is managed by external investment managers in accordance with a Statement of Investment Policy ([salvationarmy.ca/sip_gif_2021](https://www.salvationarmy.ca/sip_gif_2021)). 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 are required 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, 2021, the Fund earned an average annual return of 9.3%. When the average rate of inflation as measured by the Consumer Price Index of 1.55% is deducted, a real return of 7.87% resulted, which exceeds the investment objective.

Employee Future Benefits

The financial statements reflect actuarial estimates as at March 31, 2021. The liability of \$140.8 million (2020 - \$171.7) for employee future benefits represents the estimated value of accrued benefits for commissioned officers as at March 31, 2021. 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).

Although the financial position of the plan as at December 31, 2019 revealed a surplus on a funding basis, a deficit is presented in these financial statements. The main reason for the difference relates to the discount rates used for the respective valuations, which were 3.3% per annum for the accounting valuation and 5.8% per annum for the going concern funding valuation. 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, 2021, The Salvation Army made contributions totaling \$3.5 million to the pension trust. Based on the surplus funding position, it is expected that investment earnings will be adequate to fund pension payments for the foreseeable future and as such, the Army has ceased making contributions since January 2021. The need for contributions is reviewed annually.

The supplementary plan was 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 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 real estate and other long-lived assets used in its operations. Total loans and mortgages payable of \$65.2 million (comprised of \$53.4 million long-term and \$11.8 million short-term) increased by \$3.5 million from the prior year as a result of new financing arrangements put in place during the year of \$14.9 million, offset by principal repayments of \$11.4 million.

Governance

The Salvation Army Canada and Bermuda Territory is part of a worldwide organization, at work in 132 countries around the globe. 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.

Governing Council

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.

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 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.

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2020/21	Number of meetings attended in 2020/21
Commissioner Floyd Tidd , <i>BSc, MTS</i> Territorial Commander	Chair	October 1, 2019	17	17
Colonel Edward Hill , <i>MDiv, MA, BA</i> Chief Secretary	Vice-Chair	November 1, 2018	17	17
Mr. R. Paul Goodyear , <i>BCom, MBA, FCPA, FCMA</i> Chief Financial Officer and Territorial Financial Secretary	Secretary	July 1, 2001	17	16
Lt-Colonel Fred Waters , <i>MA</i> Secretary for Business Administration	Treasurer	January 1, 2017	17	17
Lt-Colonel Brian Armstrong , <i>BA, MDiv, MRel, DMin</i> Secretary for Personnel		May 1, 2018	17	17

Territorial Management Board

The Territorial Management Board is charged with the oversight of the management of all financial and property resources of The Salvation Army in Canada and Bermuda. It sets policy and strategy for fiscal matters and approves significant transactions.

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2020/21	Number of meetings attended in 2020/21
Commissioner Floyd Tidd , <i>BBS, MTS</i> Territorial Commander	Chair	October 1, 2019	21	20
Colonel Edward Hill , <i>MDiv, MA, BA</i> Chief Secretary	Vice-Chair	November 1, 2018	22	19
Mr. R. Paul Goodyear , <i>BCom, MBA, FCPA, FCMA</i> Chief Financial Officer and Territorial Financial Secretary	Secretary	July 1, 2001	21	21
Mr. Arnold Adey , <i>BCom, MBA, FCPA, FCMA</i> Assistant Chief Financial Officer		March 1, 2018	21	20
Lt-Colonel Brian Armstrong , <i>BA, MDiv, MRel, DMin</i> Secretary for Personnel		May 1, 2018	21	21
Lt-Colonel Lynn Armstrong , <i>BA, MMFT</i> Secretary for Mission		July 1, 2018	21	21
Major Glenda Davis , <i>MBA</i> Territorial Social Mission Secretary		August 1, 2017 to July 31, 2019. Reappointed Sept 1, 2019	21	21
Major Terence Hale , <i>BRE</i> Territorial Youth Secretary		August 1, 2017 to July 31, 2019. Reappointed Sept 1, 2019	21	20
Captain Kristen Jackson-Dockeray , <i>B.Ed.</i> Advocate for Gender Equity		September 1, 2020	13	12
Dr. Marjory Kerr , <i>BA, MASc, PhD</i> Former President, Booth University College		January 1, 2017 to April 15, 2020	2	2
Lt-Colonel John Murray , <i>BA, MAL, APR, CFRE</i> Secretary for Communications		July 1, 2018	21	19
Commissioner Tracey Tidd Territorial President of Women's Ministries		October 1, 2019	21	14
Lt-Colonel Fred Waters , <i>MA</i> Secretary for Business Administration		September 1, 2015	21	21

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 in 2020/21	Number of meetings attended in 2020/21
Ms. Patricia L. O'Malley , <i>BCom, FCPA, FCA, LLD (Hon)</i> Board Director and Independent Financial Reporting Consultant *	Chair	February 22, 2017	5	5
Mr. Brian W. Barrington , <i>BCom, CPA, CA</i> Board Director and Independent Financial Reporting Consultant *		February 22, 2017 to February 21, 2021	5	5
Ms. Annie Giraudou , <i>CPA, CA, MBA, FLMI, CFSA, CRMA, ASC</i> Senior Vice-President and Chief Financial Officer, Otera Capital Inc. *		February 22, 2017	5	5
Helen Polatajko , <i>ICD.D</i> Board Director and Independent Financial Reporting Consultant *		September 1, 2020	4	4
Colonel Edward Hill , <i>MDiv, MA, BA</i> Chief Secretary		November 1, 2018	5	5
Lt-Colonel Fred Waters , <i>MA</i> Secretary for Business Administration		January 1, 2017	5	5

* denotes volunteer members

Investment Advisory Committee

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

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2020/21	Number of meetings attended in 2020/21
Mr. Kevin Fahey , <i>BCom, LL.B., CFA</i> Director, Investments, Colleges of Applied Arts and Technology Pension Plan *	Chair	September 1, 2010 Assumed position of Chair, Jan 1, 2018	4	4
Mr. August Cruikshanks , <i>MBA, CFA</i> Director of Research, Eckler Ltd. *	Vice-Chair	March 1, 2018	4	4
Ms. Maryanne Wiley , <i>BA, CFA</i> Director, Investments	Secretary	January 1, 2017 Assumed position of Secretary Jan 1, 2018	4	4
Mr. David Dunstan , <i>BCom, CPA, CMA</i> Assistant Chief Financial Officer		January 1, 2017 to September 30, 2020	1	1
Mr. R. Paul Goodyear , <i>BCom, MBA, FCPA, FCMA</i> Chief Financial Officer and Territorial Financial Secretary		October 1, 1998	4	4
Ms. Angela Lin-Reeve , <i>BCom, CFA</i> Senior Portfolio Manager, Pension Investments, Royal Bank of Canada *		May 1, 2019	4	4
Samantha Moss , <i>BCom, CPA, CMA</i> Assistant Chief Financial Officer		September 30, 2020	3	3
Ms. Michelle D. Peshko , <i>CFA, MBA</i> Head, Pension Investments, Glencore Canada *		May 1, 2019	4	4
Mr. Daren Smith , <i>CFA, FRM, CAIA, FCIA, FSA, MSc, MA</i> President and Chief Investment Officer, University of Toronto Asset Management *		May 1, 2019	4	4
Lt-Colonel Fred Waters , <i>MA</i> Secretary for Business Administration		January 1, 2017	4	2

* denotes volunteer members

Internal Controls

The Salvation Army has a strong internal control environment to protect The Salvation Army's 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 is 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."

Code of Conduct and Whistleblower Policy

Both a code of conduct (salvationarmy.ca/code-of-conduct) and a whistleblower policy (salvationarmy.ca/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 2021, 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 eight most senior commissioned officers of The Salvation Army in Canada (including cash, as well as housing, automobile and other benefits), ranged from \$51,131 to \$55,657, with an average of \$53,021.

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.

In the 2020 calendar year, there were 193 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, as follows:

Compensation range	Number of employees
\$100,000 – \$199,999	180
\$200,000 – \$400,000	13

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 139 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 investment wisely. During the fiscal year ended March 31, 2021, charitable donations to The Salvation Army totalled \$244.2 million, compared to \$238.5 million the previous year, representing an increase of 2%.

Most fundraising costs are incurred by the public relations and development department. During the year, these costs were \$24.6 million, compared to \$23.0 million last year. As a proportion of charitable donations, these costs represented 10.0%.

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 classified as charitable programs and services.

The Salvation Army's results compare favourably to the Canada Revenue Agency upper limit of 35% and by comparison to similar 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 (e.g., to thrift stores) or services are recognized in these financial statements, even though costs are incurred in obtaining these donations.

Second, as the name implies, some of the activity these costs represent relates to general marketing and communication functions, rather than fundraising activities.

Third, the costs of the Planned Giving program and expenses related to the generation of planned gifts, particularly legacies and estates, are generally not incurred in the same year in which the revenues 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 2021, 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, 6.1% 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.

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 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 only 261 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, 2021
- 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, 2021, 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, 2021 and March 31, 2020
- the charitable donations revenue and excess (deficiency) of revenue over expenses reported in the consolidated statements of operations for the years ended March 31, 2021 and March 31, 2020



- 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, 2021 and March 31, 2020
- the excess (deficiency) of revenue over expenses reported in the consolidated statements of cash flows for the years ended March 31, 2021 and March 31, 2020.

Our opinion on the financial statements for the year ended March 31, 2020 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, 2021

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Balance Sheet
(In thousands of dollars)


March 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 81,594	\$ 49,885
Receivables and other current assets (note 14(b))	60,135	42,050
	141,729	91,935
Investments (note 4)	1,333,400	1,107,106
Tangible capital assets (note 6)	729,619	723,730
Other assets (note 8(a))	4,795	4,795
	\$ 2,209,543	\$ 1,927,566
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 84,356	\$ 74,233
Deferred revenue	15,997	16,951
Loans and mortgages payable (notes 5, 9 and 19(b))	11,809	24,464
	112,162	115,648
Long-term liabilities:		
Employee future benefits (note 10(a))	140,812	171,715
Loans and mortgages payable (notes 5 and 9)	53,391	37,232
Deposits on life leases (note 11)	11,332	11,317
Other liabilities (notes 8(b) and 10(b))	7,453	7,344
	212,988	227,608
Fund balances:		
Operating (note 12(a))	312,905	217,327
Endowment (note 12(b))	58,755	56,885
Other Restricted (note 12(c))	873,919	674,405
Capital	638,814	635,693
	1,884,393	1,584,310
Contingencies and commitments (notes 18 and 19)		
	\$ 2,209,543	\$ 1,927,566

See accompanying notes to consolidated financial statements.

On behalf of The Governing Council:

 Secretary

 Treasurer

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Operations

(In thousands of dollars)

Year ended March 31, 2021, with comparative information for 2020

	2021					2020				
	Operating Fund	Restricted Funds			Total	Operating Fund	Restricted Funds			Total
		Endowment	Other	Capital			Endowment	Other	Capital	
Revenue:										
Public support:										
Charitable donations	\$ 134,976	\$ 8	\$ 109,251	\$ —	\$ 244,235	\$ 157,688	\$ 63	\$ 80,571	\$ 223	\$ 238,545
Sale of donated goods	107,165	—	—	—	107,165	161,650	—	—	—	161,650
Government funding (notes 14 and 19(b))	242,141	8	109,251	—	351,400	319,338	63	80,571	223	400,195
Fees for service	341,257	—	11,429	9,908	362,594	257,096	—	2,369	219	259,684
Investment income (loss) (note 13)	80,446	—	—	—	80,446	84,942	—	—	—	84,942
Gain on disposal of tangible capital assets	246,110	—	565	—	246,675	(8,064)	—	887	—	(7,177)
Other	—	—	—	9,243	9,243	—	—	—	9,488	9,488
	12,173	—	8	43	12,224	14,523	—	260	145	14,928
	922,127	8	121,253	19,194	1,062,582	667,835	63	84,087	10,075	762,060
Expenses (note 15):										
Charitable programs and services:										
Additions, corrections and residential	222,958	—	—	—	222,958	206,648	—	—	—	206,648
Health care	151,664	—	—	—	151,664	132,724	—	—	—	132,724
Community and family services	79,912	—	—	—	79,912	66,629	—	—	—	66,629
Congregational ministries	42,703	—	—	—	42,703	49,821	—	—	—	49,821
Children and youth	10,392	—	—	—	10,392	16,012	—	—	—	16,012
Educational	7,865	—	—	—	7,865	8,413	—	—	—	8,413
Overseas development and missions	847	—	4,427	—	5,274	891	—	4,272	—	5,163
Other programs and services	11,090	—	—	—	11,090	12,431	—	—	—	12,431
Thrift store operations	527,431	—	4,427	—	531,858	493,569	—	4,272	—	497,841
Headquarters' operations	136,591	—	—	—	136,591	162,264	—	—	—	162,264
Fundraising and public relations	49,748	—	—	—	49,748	47,639	—	—	—	47,639
Amortization	9,989	—	14,628	—	24,617	12,627	—	10,344	—	22,971
Other	—	—	—	38,410	38,410	—	—	—	35,507	35,507
	12,228	—	—	—	12,228	14,241	—	—	—	14,241
	735,987	—	19,055	38,410	793,452	730,340	—	14,616	35,507	780,463
Excess (deficiency) of revenue over expenses	\$ 186,140	\$ 8	\$ 102,198	\$ (19,216)	\$ 269,130	\$ (62,505)	\$ 63	\$ 69,471	\$ (25,432)	\$ (18,403)

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, 2021, with comparative information for 2020

2021	Operating Fund (note 12(a))	Restricted Funds			Total
		Endowment (note 12(b))	Other (note 12(c))	Capital	
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

2020	Operating Fund (note 12(a))	Restricted Funds			Total
		Endowment (note 12(b))	Other (note 12(c))	Capital	
Fund balances, beginning of year	\$ 173,792	\$ 51,868	\$ 736,436	\$ 623,386	\$ 1,585,482
Excess (deficiency) of revenue over expenses	(62,505)	63	69,471	(25,432)	(18,403)
Change in cumulative translation adjustment	721	—	—	—	721
Remeasurement and other items (note 10(a))	16,510	—	—	—	16,510
Net interfund transfers (note 16)	88,809	4,954	(131,502)	37,739	—
Fund balances, end of year	\$ 217,327	\$ 56,885	\$ 674,405	\$ 635,693	\$ 1,584,310

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, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 269,130	\$ (18,403)
Items not affecting cash (note 17(a))	(182,298)	74,367
Change in non-cash operating working capital (note 17(b))	(8,916)	1,476
Contributions to other retirement benefits	(5,135)	(5,836)
Contributions to defined benefit and supplementary retirement pension plans	(5,097)	(1,785)
	67,684	49,819
Financing activities:		
Decrease in other assets	—	134
Repayment of loans and mortgages payable	(11,451)	(10,329)
Increase in loans and mortgages payable	14,955	747
Decrease in other liabilities	108	(336)
Net change in deposits on life leases	15	(90)
	3,627	(9,874)
Investing activities:		
Purchase of investments, net	(2,990)	(6,419)
Additions to tangible capital assets	(53,915)	(53,141)
Proceeds on disposal of tangible capital assets	18,859	15,304
	(38,046)	(44,256)
Change in cumulative translation adjustment	(1,556)	721
Increase (decrease) in cash and cash equivalents	31,709	(3,590)
Cash and cash equivalents, beginning of year	49,885	53,475
Cash and cash equivalents, end of year	\$ 81,594	\$ 49,885

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements
(In thousands of dollars)

Year ended March 31, 2021

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

The Salvation Army in Canada and Bermuda (the "Army") comprises territorial headquarters ("THQ"), nine divisional headquarters ("DHQ"), the College for Officer Training, William & Catherine Booth University College, National Recycling Operations ("NRO"), 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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 in making a gift to the Army. 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) 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 Fund 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), donations and legacies with external restrictions, other than endowments, as well as the receipt and use of funds for the World Services Appeal campaigns (used to support the work of the Army internationally).

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

1. Basis of presentation (continued):

(iii) Capital Fund:

The purpose of the Capital Fund is to record purchased capital assets, 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.

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 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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, 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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
Land improvements	15 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. When a capital asset no longer contributes to the Army's ability to provide services, its carrying amount is written down to its residual value.

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

Charitable donations include legacies which are recorded when received.

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

2. Significant accounting policies (continued):

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

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

(g) Employee future benefits:

(i) Officers' retirement benefits:

The Army maintains a non-contributory defined benefit pension plan for all commissioned officers and auxiliary-captains. 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. Other retirement benefits include 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;

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actuarial gains (losses) on the accrued benefit obligation that arise from differences between actual and expected experience and from the changes in the actuarial assumptions used to determine the accrued benefit obligation are immediately recognized in the consolidated statement of changes in fund balances; and

(e) past service costs arising from plan amendments are recognized immediately in the consolidated statement of changes in fund balances.

(ii) Employees' retirement benefits:

The Army makes regular contributions to a group Registered Retirement Savings Plan, administered by a third party, on behalf of each eligible employee. All permanent full-time and part-time employees are eligible for enrolment in the plan following completion of three months of service.

(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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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 employee future 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 (2020 - \$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)).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

4. Investments:

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

	2021	2020
Cash and cash equivalents	\$ 49,200	\$ 8,675
Fixed income:		
Domestic	155,090	139,869
Foreign	6,904	5,016
Pooled funds:		
Fixed income:		
Domestic	216,800	174,640
Foreign	1,350	1,399
Equities	13,927	8,818
Equities:		
Domestic	142,293	110,871
Foreign	560,659	467,798
Real estate - domestic	97,718	99,940
Infrastructure - foreign	89,459	90,080
	\$ 1,333,400	\$ 1,107,106

Fixed income investments mature at various dates between April 2021 and October 2067 (2020 - April 2020 and October 2067), and bear interest at rates between 0.25% and 9.92% (2020 - 0.25% and 9.92%).

The carrying value of investments held in the General Investment Fund totals \$1,325,844 (2020 - \$1,100,363), while \$7,556 (2020 - \$6,743) relates to other investment funds held by the Army.

In addition, current assets include interest and dividends receivable and accrued investment income totalling \$8,571 (2020 - \$11,235) and current liabilities includes investment purchases pending totalling \$6,275 (2020 - \$8,748), bringing the total General Investment Fund value to \$1,328,140 (2020 - \$1,102,850).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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. The COVID-19 pandemic and the measures taken to contain the virus continue to impact the market as a whole. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on investments is not known at this time.

(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 (2020 - 15) 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 three of its variable rate loans. Swap interest rates range from 2.33% to 6.27% (2020 - 2.00% to 6.27%). As at March 31, 2021, the swaps have principal outstanding of \$30,033 (2020 - \$25,136) that reduces on a basis consistent with the repayment of principal of the underlying debt. The swaps mature between July 2021 and December 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 three unhedged loans have a principal outstanding of \$3,586 (2020 - one unhedged loan valued at \$1,514) as at March 31, 2021 and an interest rate of 1.22% (2020 - 2.25%), tied to the one month bankers' acceptance Canadian dollar offered rate.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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, 2021, investments in foreign markets represent 49% (2020 - 51%) 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:

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2021

6. Tangible capital assets (continued):

2020	Cost	Accumulated amortization	Net book value
Land	\$ 135,837	\$ –	\$ 135,837
Buildings	945,149	438,894	506,255
Leasehold improvements	29,876	19,346	10,530
Furniture and equipment	72,111	44,394	27,717
Vehicles	16,975	12,699	4,276
Construction in progress	39,115	–	39,115
	\$ 1,239,063	\$ 515,333	\$ 723,730

As at March 31, 2021, the Army had assets held for sale with a net book value of \$3,950 (2020 - \$2,814).

7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of \$6,160 (2020 - \$3,144), 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 (2020 - \$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 \$3,093 (2020 - \$3,507).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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% (2020 - 0.00% to 7.63%) with an average interest rate of approximately 2.39% (2020 - 2.78%) and extend for terms of up to 10 years from March 31, 2021.

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 \$1,527 (2020 - \$1,840).

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

2022	\$ 11,809
2023	7,198
2024	5,363
2025	13,409
2026	8,359
Thereafter	19,062
	65,200
Less current portion	11,809
	\$ 53,391

10. Employee future benefits:

(a) Officers' retirement benefits:

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total employee future benefits
2021				
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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

10. Employee future benefits (continued):

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total employee future benefits
2020				
Accrued benefit obligation	\$ 235,157	\$ 23,359	\$ 114,952	\$ 373,468
Fair value of plan assets	201,753	—	—	201,753
Plan deficit	\$ 33,404	\$ 23,359	\$ 114,952	\$ 171,715

Continuity of the employee future benefits liability is as follows:

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	2021	2020
Balance, beginning of year	\$ 33,404	\$ 23,359	\$ 114,952	\$ 171,715	\$ 182,160
Benefit expense	6,259	934	4,645	11,838	13,686
Employer contributions	(3,356)	(1,741)	(5,135)	(10,232)	(7,621)
Remeasurement and other items	(26,601)	2,056	(7,964)	(32,509)	(16,510)
Balance, end of year	\$ 9,706	\$ 24,608	\$ 106,498	\$ 140,812	\$ 171,715

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

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

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
2021				
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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

10. Employee future benefits (continued):

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
2020				
Current service cost	\$ 6,057	\$ 97	\$ 1,492	\$ 7,646
Interest cost	1,203	809	4,028	6,040
	\$ 7,260	\$ 906	\$ 5,520	\$ 13,686

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 \$1,955 (2020 - \$2,096).

The Army measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation for funding purposes of the pension plan and other retirement benefit plans was as at December 31, 2019 and the next actuarial valuations for both plans will be completed within three years of this date, as required by the Financial Services Regulatory Authority of Ontario.

(b) Pre- and post-retirement benefits:

Included in other liabilities are accrued pre- and post-retirement benefits of \$3,431 (2020 - \$3,430), 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 \$18,114 (2020 - \$19,278). The assets of the employees' retirement benefits plan are held separately from those of the Army in an independently administered fund.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

10. Employee future 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, 2021, contributions were paid and expensed in the amount of \$4,744 (2020 - \$4,721) 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 its current or former employees.

11. Deposits on life leases:

	2021	2020
Balance, beginning of year	\$ 11,317	\$ 11,407
Amounts reclassified from deposits on life lease upon occupancy	26	405
Current year activity:		
Refunds	(8)	(343)
Amounts recognized as revenue	(3)	(152)
Balance, end of year	\$ 11,332	\$ 11,317

Under some life lease contracts signed to date, GCC has committed to the life occupancy resident that upon termination of the resident's life lease, GCC will attempt to lease the unit and reimburse the resident from the proceeds. However, as a minimum, GCC has guaranteed that the resident will receive not less than 90% of the original amount of the life lease proceeds. While repayment of these life lease proceeds could be required at any time, in the opinion of management, it is unlikely that material amounts of such repayments will be required in the next year.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

12. Fund balances:

(a) The Operating Fund balances include the cumulative translation adjustment of \$3,649 (2020 - \$5,205) arising from the currency translation of self-sustaining operations in Bermuda.

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

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

2020	Externally restricted	Internally restricted	Total
Ministry units	\$ 8,988	\$ 21,137	\$ 30,125
DHQ	4,422	1,684	6,106
THQ	18,766	1,888	20,654
	\$ 32,176	\$ 24,709	\$ 56,885

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

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

12. Fund balances (continued):

2020	Externally restricted	Internally restricted	Total
Ministry units	\$ 40,986	\$ 114,911	\$ 155,897
DHQ	79,843	73,751	153,594
THQ	54,799	310,115	364,914
	\$ 175,628	\$ 498,777	\$ 674,405

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 \$447,867 (2020 - \$265,595) and represents funds held for future operations in years when actual earnings are below the long-term expected rate of return. A total of \$55,800 has been approved for allocation to operations for 2022 (2021 - \$48,100), leaving a net balance of \$392,067. The General Investment Fund (note 4) was valued at \$1,325,844 (2020 - \$1,100,363), meaning the reserve balance represents 30% (2020 - 20%) of the market value.

13. Investment income (loss):

	2021	2020
Interest	\$ 11,327	\$ 10,941
Dividends	12,044	14,896
Net realized gains on sale of investments	63,019	39,175
Change in net unrealized gain (loss) on investments	160,285	(72,189)
	\$ 246,675	\$ (7,177)

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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 2021, funding of \$362,594 (2020 - \$259,684) was received. Funding received from varying levels of government is as follows:

	2021	2020
Provincial and territorial	\$ 192,931	\$ 165,340
Municipal	92,854	74,545
Federal	76,809	19,799
	<u>\$ 362,594</u>	<u>\$ 259,684</u>

(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 \$33,041, of which \$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:

	2021	2020
Salaries and benefits	\$ 495,569	\$ 490,716
Other program and general operating	162,438	160,437
Occupancy	97,035	93,803
Amortization	38,410	35,507
	<u>\$ 793,452</u>	<u>\$ 780,463</u>

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

16. Net interfund transfers:

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

2020	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 157,749	\$ (1)	\$ (157,748)	\$ –
Funding of capital transactions				
from operations and reserves	(18,722)	–	(36,272)	54,994
Transfers to internally restricted endowments	–	4,955	(4,955)	–
Transfer to internally restricted reserves	(50,336)	–	50,336	–
Transfer of property sale proceeds	5,035	–	12,220	(17,255)
Transfers for future property repairs/maintenance	(4,917)	–	4,917	–
	\$ 88,809	\$ 4,954	\$ (131,502)	\$ 37,739

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

17. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2021	2020
Gain on disposal of tangible capital assets	\$ (9,243)	\$ (9,488)
Amortization	38,410	35,507
Increase (decrease) in pre- and post-retirement benefits	1	(117)
Other retirement benefits expense	4,645	5,520
Defined benefit and supplementary retirement pension plan expense	7,193	8,166
Net realized gains on sale of investments	(63,019)	(39,175)
Change in net unrealized loss (gain) on investments	(160,285)	72,189
Recognition of contingent liability (note 19(b))	—	1,765
	\$ (182,298)	\$ 74,367

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

	2021	2020
Receivables and other current assets	\$ (18,085)	\$ (2,126)
Accounts payable and accrued liabilities	10,123	2,431
Deferred revenue	(954)	1,171
	\$ (8,916)	\$ 1,476

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:

2022	\$ 23,628
2023	19,054
2024	15,413
2025	11,732
2026	7,794
Thereafter	14,677
	\$ 92,298

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

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, 2021, the Army had issued letters of credit totaling \$268 (2020 - \$139). 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 \$29,329 (2020 - \$26,032). During fiscal 2020, the decision was made to cease the operations at one of its shelters effective July 31, 2020. The ministry unit previously received government assistance in the form of a forgivable loan, contingent upon continuing to operate a shelter. Due to the decision to cease operations, in fiscal 2020, a balance of \$1,765 was repayable to the funder. This balance was reflected as current portion of loans and mortgages payable and a decrease to government funding revenue in the fiscal 2020 comparative balances of these consolidated financial statements. The balance was repaid during fiscal 2021. Management believes that it is currently in compliance with all other such agreements and, accordingly, no other amounts are recorded as a liability in these consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2021

19. Contingencies and commitments (continued):

(c) Government capital contributions for programs:

The Army has 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 of time 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 their operation.

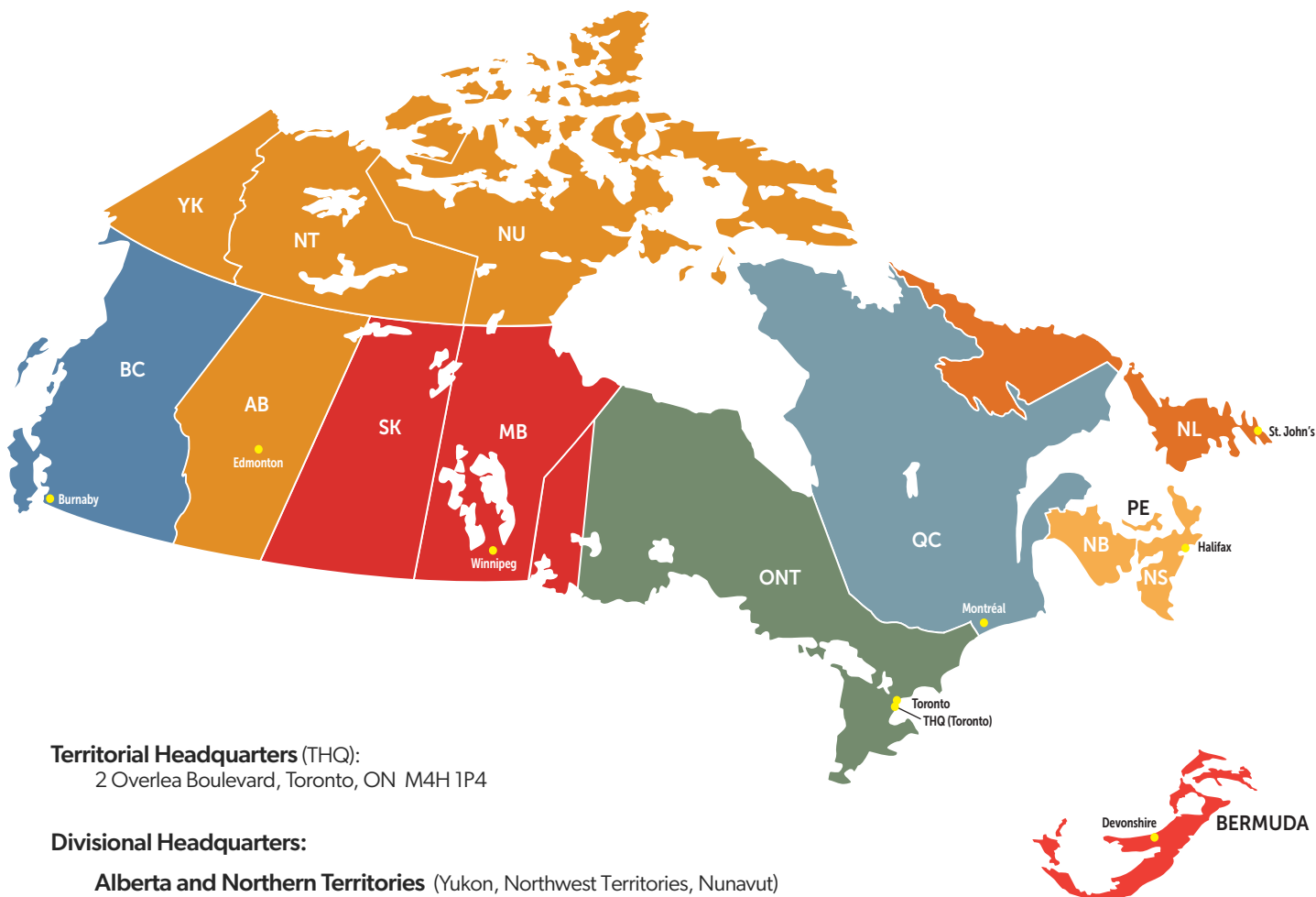
(d) Legal actions:

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.

(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.

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