



# CONSOLIDATED FINANCIAL STATEMENTS

The Governing Council of The Salvation Army in Canada  
Year Ended March 31, 2023

**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 133 countries around the world!**

**The Salvation Army Consolidated Financial Statements**

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Charitable Registration No. 107951618 RR 0001

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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" or "the Council") and all of the entities it controls for the year ended March 31, 2023. The financial statements were audited by KPMG LLP, Licensed Public Accountants, who issued their opinion on them on June 16, 2023.

This management commentary is provided to enhance readers' understanding of the financial statements and the notes which accompany them. 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, 2023

### ***Revenue and Expenses***

Consolidated revenues increased by 1.8% during the year, from \$916.3 million in the year ended March 31, 2022 ("fiscal 2022") to \$932.4 million in the year ended March 31, 2023 ("fiscal 2023"). The largest increase was in sale of donated goods, which increased by 17.0%: sales rebounded in fiscal 2023 after several years of negative impacts from the pandemic, with revenues of \$177.9 million recorded, an increase of \$25.9 million over the prior year.

Offsetting this increase was a decrease of 9.6% in donations, with revenue of \$234.7 million recorded, compared to \$259.6 million in the prior year. Fiscal 2022 was a record year, with significantly higher revenue from legacies recorded (\$68.7 million) than in the current year (\$55.5 million). There is considerable volatility in this number from year to year; as a result, the decline seen this year does not appear to be indicative of a long-term trend. In addition, specified donations, particularly for pandemic related efforts, were higher in fiscal 2022 (\$31.6 million) than in fiscal 2023 (\$26.7 million). Finally, the National Red Shield Appeal raised \$56.0 million in fiscal 2023 compared with \$58.2 million in fiscal 2022. These amounts seem reasonable by comparison to pre-pandemic levels.

Consolidated expenses rose 8.9% during the year, from \$847.0 million in fiscal 2022 to \$922.5 million in fiscal 2023. The most significant increase relates to headquarters operating costs, which increased 38%, from \$56.9 million to \$78.5 million. A multi-year initiative is underway to upgrade the Army's information technology systems, which will be completed by 2026, and annual headquarters costs are expected to decrease to a more normal level once the initiative is completed. Inflation was also a major cause of increases in expenses in all categories during the year.

## ***Financial Position***

Total assets increased by 0.5% during the year, or \$10.4 million. Total liabilities were reduced by 5.6%, from \$336.3 million to \$317.6 million, largely due to revaluation of future pension and other retirement benefits, which decreased from \$126.5 million to \$115.4 million.

Fund balances increased by 1.5%, from \$1,978.7 million to \$2,007.9 million, with most of the increase being seen in the operating fund balances, which increased from \$382.3 million to \$407.8 million and the investment in capital assets increasing from \$666.6 million to \$691.6 million.

The Salvation Army's policy is to maintain sufficient unrestricted operating fund balances to meet expenses for a period of at least 90 days. The total operating fund balances of \$407.8 million represents sufficient funds to meet 161 days (fiscal 2022 – 165 days) of expenses on a consolidated basis.

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, and geopolitical issues. Given this uncertainty, 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 available in the market. Net revenue from the Fund is used to make allocations to operating units for programs and services, as well as for the operations of Territorial Headquarters and Divisional Headquarters.

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, \$59.5 million was allocated to operations in fiscal 2023 (fiscal 2022- \$55.8 million). Based on advice from its Investment 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 \$369.8 million (fiscal 2022- \$413.6 million). This represents 26% of the value of the Fund, compared to 25% on March 31, 2022.

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/news-and-media/reports-and-statements>). 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, 2023, the Fund earned an average annual return of 6.4% on a nominal basis, or 2.8% on an inflation-adjusted basis, which is below the investment objective. Despite lower returns than desired, this performance has exceeded the fund’s benchmark of 6.2%, and is reflective of market conditions in a period that has seen significantly higher inflation than experienced in many years.

The Investment Committee continues to monitor the performance of the fund and remains focused on long-term performance to meet the Army’s needs, with no plans to make any significant changes in the asset mix at this time.

### Investment Committee

Member	Office held, if any	Date Appointed	Number of meetings eligible to attend 2022/23	Number of meetings attended 2022/23
<b>August Cruickshanks, MBA, CFA *</b> Director of Research, Eckler Ltd.	Chair	March 1, 2018; Chair from January 1, 2022	5	5
<b>R. Paul Goodyear, BCom, MBA, FCPA, FCMA</b> Chief Financial Officer & Territorial Financial Secretary		October 1, 1998	5	4
<b>Angela Lin-Reeve, BCom, CFA *</b> Senior Portfolio Manager, Pension Investments, Royal Bank of Canada		May 1, 2019	5	5
<b>Ken Luce, CFA *</b> Director, Business Development, Canada, IFM Investors		January 1, 2022	5	4
<b>Samantha Moss, CPA, CMA</b> Assistant Chief Financial Officer		September 1, 2020	5	3
<b>Michelle Peshko, MBA, CFA *</b> Head, Pension Investments, Glencore Canada		May 1, 2019	5	5
<b>Mary Anne Wiley, BA, CFA</b> Director, Investments	Secretary	January 1, 2017	5	5

\* Denotes volunteer member.

## ***Future Pension and Other Retirement Benefits***

The financial statements reflect actuarial estimates as of March 31, 2023. The net of the accrued pension asset of \$8.4 million (fiscal 2022 - \$6.1 million) and the future pension and other retirement benefits liability of \$115.4 million (fiscal 2022 - \$126.5 million), or net of \$107.0 (Fiscal 2022 - \$120.4 million) for pension and other retirement benefits represents the estimated net value of accrued benefits for commissioned officers and auxiliary-captains as of March 31, 2023. 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 paid at the date of retirement to 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 of March 31, 2022. At that time, the Plan had a surplus, measured on a going concern basis (i.e., assuming continued operations of the pension plan), of \$50.7 million or 28.4%, and a surplus of \$45.6 million or 24.9% 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 \$8.4 million.

The main reason for the difference relates to the discount rates used for the respective valuations, which were 4.9% per annum for the accounting valuation at March 2023 and 5.8% per annum for the going concern funding valuation at March 2022. 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, 2023, 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 March 31, 2022. At that time, the liability for supplementary benefits had an estimated value of \$97.9 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 \$4.1 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 \$53.1 million (comprised of \$48.9 million long-term and \$4.2 million short-term) decreased by \$4.9 million.

## **Governance**

The Salvation Army Canada & Bermuda Territory is part of a worldwide organization, at work in 133 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, it has between three and five members who serve 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.



## Governing Council

	Office held, if any	Date Appointed	Number of meetings eligible to attend 2022/23	Number of meetings attended 2022/23
<b>MEMBERS:</b>				
<b>Commissioner Floyd Tidd, BSc, MTS</b> Territorial Commander	Chair	October 1, 2019	12	12
<b>Colonel Evie Diaz, AA</b> Chief Secretary		May 1, 2021	12	10
<b>Lt. Colonel Brian Armstrong, BA, MDiv, MRel, DMin</b> Secretary for Personnel	Vice chair	May 1, 2018 to June 30, 2022; Vice Chair from September 1, 2021 to June 30, 2022	4	3
<b>Lt. Colonel Roxanne Jennings, MA</b> Secretary for Personnel	Vice chair	July 1, 2022	8	8
<b>Lt. Colonel Fred Waters, MA</b> Secretary for Business Administration		January 1, 2017	12	10
<b>R. Paul Goodyear, BCom, MBA, FCPA, FCMA</b> Chief Financial Officer & Territorial Financial Secretary		July 1, 2001 to January 31, 2023	10	7
<b>ADVISORS (non-voting):</b>				
<b>Kimberley Mullins, BA (Hons), MS, PhD *</b> Vice President, Talent and Culture, Suncor		March 1, 2023	1	1
<b>Commissioner Tracey Tidd</b> Territorial President of Women's Ministries		September 1, 2021	12	11
<b>Rev. Douglas C. Ward, BA, MRE, MDiv *</b> Senior Fellow (Communities), Cardus Institute		January 1, 2023	3	3

\* Denotes independent advisors.

## Territorial Management Board

Member	Office held, if any	Date Appointed	Number of meetings eligible to attend 2022/23	Number of meetings attended 2022/23
<b>Colonel Evie Diaz, AA</b> Chief Secretary	Chair	May 1, 2021; Chair from September 1, 2021	11	10
<b>Lt. Colonel Fred Waters, MA</b> Secretary for Business Administration	Vice chair	September 1, 2015 to December 31, 2022; Vice chair from September 1, 2021 to December 31, 2022	8	7
<b>Graham D. Moore, BCom, MBA, CPA, CMA</b> Assistant Chief Secretary for Organizational Development	Vice chair	September 1, 2021; Vice Chair from January 1, 2023	11	11
<b>Lt. Colonel Brian Armstrong, BA, MDiv, MRel, DMin</b> Divisional Commander, Prairies		May 1, 2018 to June 30, 2022; September 1, 2022	10	8
<b>Lt. Colonel Lynn Armstrong, BA, MMFT</b> Secretary for Mission		July 1, 2018 to June 30, 2022	3	2
<b>Janice Barton, MSc</b> Chief Human Relations Officer		September 1, 2021 to October 31, 2022	6	3
<b>Lt. Colonel Jamie Braund, BSc, MA</b> Divisional Commander, British Columbia		September 1, 2022	7	6
<b>Lt. Colonel Shawn Critch, CPA, CGA</b> Divisional Commander, Ontario		September 1, 2022	7	5
<b>Major Glenda Davis, MBA</b> Territorial Social Mission Secretary		September 1, 2022	7	6
<b>R. Paul Goodyear, BCom, MBA, FCPA, FCMA</b> Chief Financial Officer & Territorial Financial Secretary		July 1, 2001	11	8
<b>Lt. Colonel Roxanne Jennings, MA</b> Secretary for Personnel		July 1, 2022 to December 31, 2022	5	4
<b>Lt. Colonel Les Marshall</b> Secretary for Mission		July 1, 2022	8	8

Member	Office held, if any	Date Appointed	Number of meetings eligible to attend 2022/23	Number of meetings attended 2022/23
<b>Ruth Moulton</b> Chief Human Relations Officer		November 1, 2022	5	5
<b>Lt. Colonel John Murray, BA, MAL, APR, CFRE</b> Secretary for Communications		July 1, 2018	11	9
<b>Major Elizabeth Nelson, BSc</b> Officer Personnel Secretary		January 1, 2023	3	3
<b>Major Bradley Reid</b> Assistant Territorial Secretary for Business Administration		January 1, 2023	3	3
<b>Lt. Colonel Sandra Stokes, MA</b> Divisional Commander, Newfoundland & Labrador		September 1, 2022	7	6

### 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 management. Although members of the finance and internal audit teams attend meetings to provide staff support, the Committee also meets independently with the external auditors and internal auditor, without members of management present.

Member	Office held, if any	Date Appointed	Number of meetings eligible to attend 2022/23	Number of meetings attended 2022/23
<b>Patricia L. O'Malley, BCom, FCPA, FCA, LLD (Hon) *</b> Board Director and Independent Financial Reporting Consultant	Chair	February 22, 2017	4	4
<b>Colonel Evie Diaz, AA</b> Chief Secretary		May 1, 2021	4	2
<b>Rajesh Ghosh, MBA, CPA, CMA, CIA, CISA, CRMA, CGEIT, CDPSE *</b> Senior Director, Internal Audit, University of Calgary		January 1, 2023	1	1
<b>Annie Giraudou, CPA, CA, MBA, FLMI, CFSA, CRMA, ASC *</b> Board Director and Independent Financial Reporting Consultant		February 22, 2017 to December 31, 2022	3	2
<b>Adam E. Harvey, CPA, CA, ICD.D *</b> Independent Corporate Director		April 1, 2022	4	4
<b>Helen Polatajko, ICD.D *</b> Board Director and Independent Financial Reporting Consultant		September 1, 2020	4	4
<b>Michael Szymanski, MBA, ICD.D *</b> Regional Vice-President, UniFirst Corporation, Board Director and Independent Financial Reporting Consultant		April 1, 2022	4	4
<b>Lt. Colonel Fred Waters, MA</b> Secretary for Business Administration		January 1, 2017	4	4

\* Denotes independent 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 and expected outcomes for the coming year commencing April 1.

A centrally coordinated budgetary planning process is in place in which 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. This information is then used to develop five-year forward forecasts that are used to help management see the impact of strategies to be pursued in the coming year and ensure that corrective action is taken at an appropriate time when forecasts show any evidence of financial unsustainability.

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. A consolidated budget is prepared based on a bottom-up analysis and management reviews a quarterly comparison of the consolidated budget to actual financial performance. These monthly and quarterly reviews of budget to actual performance are critical to identify issues and make course corrections that can respond appropriately to economic conditions and their impact on the Army's revenue and expense streams.

## 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 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 transaction processing is performed 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 was conducted in 2017, covering the period from April 1, 2014 to March 31, 2017. Due to the pandemic, an audit has not been conducted since that time, but is now scheduled for 2024.

## 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.

The Chief Risk Officer makes a formal presentation to the Audit Committee at least once per year and provides a written update for every meeting of the Audit Committee.

## Code of Conduct and Whistleblower Policy

Both a code of conduct ([https://salvationist.ca/files/salvationarmy/docs/policy/code\\_of\\_conduct\\_2019.pdf](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 2023, 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 500 commissioned officers and over 10,000 employees. The compensation package for all commissioned officers includes housing, with furnishings and utilities provided, 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 2022 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 \$46,621 to \$76,105, with an average of \$62,650.

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 the 50th percentile of the market based on analysis provided by a third-party service provider.

In the 2022 calendar year, there were 259 employees, which represents about 3% of the total workforce, whose total employment income (including salaries and benefits) reported for income tax purposes was above \$100,000, compared with 221 in 2021.

Compensation range	2022	2021
\$100,000 - \$149,999	211	186
\$150,000 - \$199,999	27	22
\$200,000 - \$249,999	14	9
\$250,000 - \$299,999	4	2
\$300,000 - \$349,999	0	1
\$350,000 - \$399,999	3	1
Total	259	221

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.

Most fundraising costs are incurred by territorial and divisional headquarters. During the year, these costs were \$25.8 million, compared to \$23.8 million last year. As a proportion of charitable donations, these costs represented 11.0% in 2023, compared with an average of 10.4% 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 2023, 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, 6.8% 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 AUDITOR'S 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, 2023
- 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 auditor's report, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2023, 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, 2023 and March 31, 2022
- the charitable donations revenue and excess (deficiency) of revenue over expenses reported in the consolidated statements of operations for the years ended March 31, 2023 and March 31, 2022



- 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, 2023 and March 31, 2022
- the excess of revenue over expenses reported in the consolidated statements of cash flows for the years ended March 31, 2023 and March 31, 2022.

Our opinion on the financial statements for the year ended March 31, 2022 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 **"Auditor's Responsibilities for the Audit of the Financial Statements"** section of our auditor's 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.

### ***Other information***

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in Annual Report 2022-23 document.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor's report thereon, included in Annual Report 2022-23 document as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.



## ***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.

## ***Auditor's 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 auditor's 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 auditor's 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 auditor's 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.

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

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 16, 2023

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

## Consolidated Balance Sheet


(In thousands of dollars)

March 31, 2023, with comparative information for 2022

	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 75,416	\$ 106,052
Receivables and other current assets	41,640	43,560
	117,056	149,612
Investments (note 4)	1,431,929	1,410,582
Tangible capital assets (note 6)	764,111	743,914
Other assets (note 8(a))	5,061	4,800
Accrued pension asset (note 10(a))	8,423	6,101
	<b>\$ 2,326,580</b>	<b>\$ 2,315,009</b>
<b>Liabilities and Fund Balances</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 100,582	\$ 104,173
Deferred revenue	32,528	29,412
Loans and mortgages payable (note 9)	9,358	10,740
	142,468	144,325
Long-term liabilities:		
Future pension and other retirement benefits (note 10(a))	115,132	126,544
Loans and mortgages payable (note 9)	42,497	47,295
Deposits on life leases (note 11)	10,932	10,997
Other liabilities (notes 8(b) and 10(b))	6,503	7,110
	175,064	191,946
Total liabilities	317,532	336,271
Fund balances:		
Operating (note 12(a))	407,548	382,265
Endowment (note 12(b))	53,308	53,358
Other Restricted (note 12(c))	856,618	876,542
Capital	691,574	666,573
	2,009,048	1,978,738
Commitments and contingencies (note 18)		
	<b>\$ 2,326,580</b>	<b>\$ 2,315,009</b>

See accompanying notes to consolidated financial statements.

On behalf of The Governing Council of The Salvation Army in Canada:

  
 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, 2023, with comparative information for 2022

	Operating Fund	Restricted Funds			2023 Total	2022 Total
		Endowment	Other	Capital		
Revenue:						
Public support:						
Charitable donations	\$ 188,086	\$ 12	\$ 46,632	\$ —	\$ 234,730	\$ 259,582
Sale of donated goods	177,876	—	—	—	177,876	152,066
	365,962	12	46,632	—	412,606	411,648
Government funding (notes 14 and 18(d))	369,603	—	12,939	7,424	389,966	388,265
Fees for service	58,591	—	—	—	58,591	54,206
Investment income (loss) (note 13)	37,948	—	(1,094)	—	36,854	35,221
Gain on disposal of tangible capital assets	—	—	—	18,833	18,833	14,143
Other	15,314	—	—	136	15,450	12,813
	847,418	12	58,477	26,393	932,300	916,296
Expenses (note 15):						
Charitable programs and services:						
Additions, corrections and residential	228,325	—	—	—	228,325	222,614
Health care	183,980	—	—	—	183,980	168,873
Community and family services	98,811	—	—	—	98,811	87,204
Congregational ministries	46,647	—	—	—	46,647	43,501
Children and youth	15,929	—	—	—	15,929	12,423
Educational	7,543	—	—	—	7,543	7,706
Overseas development and missions	1,320	—	5,888	—	7,208	6,349
Other programs and services	15,735	—	—	—	15,735	12,588
	598,290	—	5,888	—	604,178	561,258
Thrift store operations	155,132	—	—	—	155,132	145,522
Headquarters' operations	77,848	—	—	—	77,848	56,894
Fundraising and public relations	22,837	—	2,984	—	25,821	23,825
Amortization	—	—	—	48,799	48,799	47,453
Other	9,438	—	—	—	9,438	12,035
	863,545	—	8,872	48,799	921,216	846,987
Excess (deficiency) of revenue over expenses	\$ (16,127)	\$ 12	\$ 49,605	\$ (22,406)	\$ 11,084	\$ 69,309

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, 2023, with comparative information for 2022

2023	Operating Fund (note 12(a))	Restricted Funds			Total
		Endowment (note 12(b))	Other (note 12(c))	Capital	
Fund balances, beginning of year	\$ 382,265	\$ 53,358	\$ 876,542	\$ 666,573	\$ 1,978,738
Excess (deficiency) of revenue over expenses	(16,127)	12	49,605	(22,406)	11,084
Change in cumulative translation adjustment	1,295	—	—	—	1,295
Remeasurement and other items (note 10(a))	17,931	—	—	—	17,931
Net interfund transfers (note 16)	22,184	(62)	(69,529)	47,407	—
Fund balances, end of year	\$ 407,548	\$ 53,308	\$ 856,618	\$ 691,574	\$ 2,009,048

2022	Operating Fund (note 12(a))	Restricted Funds			Total
		Endowment (note 12(b))	Other (note 12(c))	Capital	
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

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, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operating activities:		
Net excess of revenue over expenses	\$ 11,084	\$ 69,309
Items not affecting cash (note 17(a))	35,529	34,630
Change in non-cash operating working capital (note 17(b))	1,445	49,807
Contributions to defined benefit and supplementary retirement pension plans	(1,713)	(1,724)
Contributions to other retirement benefits	(4,321)	(4,644)
	42,024	147,378
Financing activities:		
Increase in other assets	(261)	(5)
Repayment of loans and mortgages payable	(9,229)	(7,703)
Increase in loans and mortgages payable	3,049	538
Decrease in other liabilities	(448)	(435)
Net change in deposits on life leases	(65)	(335)
	(6,954)	(7,940)
Investing activities:		
Purchase of investments, net	(16,838)	(67,248)
Additions to tangible capital assets	(76,716)	(69,708)
Proceeds on disposal of tangible capital assets	26,553	22,103
	(67,001)	(114,853)
Change in cumulative translation adjustment	1,295	(127)
Increase (decrease) in cash and cash equivalents	(30,636)	24,458
Cash and cash equivalents, beginning of year	106,052	81,594
Cash and cash equivalents, end of year	\$ 75,416	\$ 106,052

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, 2023

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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, eight divisional headquarters, 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 and family services 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.

### (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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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## 1. Basis of presentation (continued):

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 the Army 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 the receipt and use of funds for international development campaigns, as well as other donations and legacies with external restrictions, other than endowments.

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, 2023

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## 2. Significant accounting policies:

### (a) Cash and cash equivalents:

The Army considers deposits in banks, certificates of deposit and other short-term investments, with a maturity of 90 days or less, 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.

### (c) Interest rate hedging:

The Army uses interest rate swaps as a hedging strategy to manage interest rate volatility on some long-term mortgages and 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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 2. Significant accounting policies (continued):

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.

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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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## 2. Significant accounting policies (continued):

### (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.

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 GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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## 2. Significant accounting policies (continued):

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;
  - (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.



# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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## 2. Significant accounting policies (continued):

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.

### (i) The Salvation Army 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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 2. Significant accounting policies (continued):

### (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. 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 (2022 - \$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 18(c)).

## 4. Investments:

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

	2023	2022
Cash and cash equivalents	\$ 16,715	\$ 35,697
Fixed income:		
Domestic	220	161,024
Foreign	1,281	11,084
Pooled funds:		
Fixed income:		
Domestic	365,300	207,291
Foreign	1,624	1,427
Equities	11,900	15,811
Equities:		
Domestic	135,598	167,600
Foreign	572,164	569,467
Real estate - domestic	113,569	112,439
Infrastructure - foreign	154,793	99,232
Private debt	58,765	29,510
	\$ 1,431,929	\$ 1,410,582

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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## 4. Investments (continued):

Fixed income investments mature at various dates between June 2023 and January 2028 (2022 - April 2022 and October 2067), and bear interest at fixed rates between 0.38% and 2.88% (2022 - 0.50% and 9.92%).

The carrying value of investments held in the General Investment Fund totals \$1,423,653 (2022 - \$1,402,437), while \$8,276 (2022 - \$8,145) relates to other investment funds held by the Army.

In addition, current assets include interest and dividends receivable and accrued investment income totalling \$3,270 (2022 - \$9,677) and current liabilities includes investment purchases pending totalling \$1,476 (2022 - \$7,155), bringing the total General Investment Fund value to \$1,425,447 (2022 - \$1,404,959).

## 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. There have been no significant changes to the risk exposures from 2022. The Army has formal policies and procedures that establish a target asset mix, requiring diversification of investments within categories and setting limits on exposure to individual investments. These policies help mitigate the impact of these risks on the Army's 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, provincial or municipal bonds, represents more than 5% of the fixed income component of the portfolio.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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## 5. Financial risks (continued):

The Army is exposed to interest rate risk on 17 (2022 - 17) instruments on the financing of its properties. The Army has entered into interest rate swaps with major Canadian banks to exchange the variable interest payments for fixed interest rates on all but two (2022 - four) of its variable rate loans. Swap interest rates range from 2.33% to 6.27% (2022 - 2.33% to 6.27%). As at March 31, 2023, the swaps have principal outstanding of \$24,358 (2022 - \$25,494) 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 two unhedged loans have a principal outstanding of \$448 (2022 - four unhedged loans valued at \$3,370) as at March 31, 2023 and an interest rate of 5.74% (2022 - 1.74%), tied to the one month bankers' acceptance Canadian dollar offered rate.

### (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, 2023, investments in foreign markets represent 51% (2022 - 48%) 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 in multiple currencies. As a result, any 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 investment policy 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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 6. Tangible capital assets:

2023	Cost	Accumulated amortization	Net book value
Land	\$ 137,011	\$ —	\$ 137,011
Buildings	994,595	504,078	490,517
Leasehold improvements	28,272	20,844	7,428
Furniture and equipment	93,670	57,334	36,336
Vehicles	23,022	16,855	6,167
Construction in progress	86,652	—	86,652
	<u>\$ 1,363,222</u>	<u>\$ 599,111</u>	<u>\$ 764,111</u>

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
	<u>\$ 1,326,758</u>	<u>\$ 582,844</u>	<u>\$ 743,914</u>

As at March 31, 2023, the Army had assets held for sale with a net book value of \$15,364 (2022 - \$3,729).

## 7. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances of \$12,874 (2022 - \$9,157), which include amounts payable for payroll related taxes and government subsidy clawbacks.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 8. Other assets and liabilities:

### (a) Other assets:

Included in other assets are charitable remainder trusts amounting to \$3,411 (2022 - \$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 \$2,370 (2022 - \$2,700).

## 9. Loans and mortgages payable:

Loans and mortgages payable are secured by either investments or tangible capital assets pledged in the amount of \$18,466 (2022 - \$18,342), bear interest at rates ranging from 0.00% to 7.63% (2022 - 0.00% to 7.63%) with an average interest rate of approximately 2.32% (2022 - 2.28%) and extend for terms of up to 8 years from March 31, 2023.

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

Interest expensed on loans and mortgages totals \$1,418 (2022 - \$1,436).

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

2024	\$ 9,358
2025	13,681
2026	8,604
2027	6,303
2028	8,907
Thereafter	5,002
	51,855
Less current portion	9,358
	\$ 42,497

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 10. Future pension and other retirement benefits:

(a) Officers' retirement benefits:

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total future pension and other retirement benefits
2023				
Accrued benefit obligation	\$ 215,030	\$ 22,283	\$ 92,849	\$ 330,162
Fair value of plan assets	223,453	–	–	223,453
Plan liability (asset)	\$ (8,423)	\$ 22,283	\$ 92,849	\$ 106,709

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

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

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	2023	2022
Balance, beginning of year	\$ (6,101)	\$ 22,190	\$ 104,354	\$ 120,443	\$ 140,812
Benefit expense	4,381	923	4,927	10,231	11,162
Employer contributions	–	(1,713)	(4,321)	(6,034)	(6,368)
Remeasurement and other items	(6,703)	883	(12,111)	(17,931)	(25,163)
Balance, end of year	\$ (8,423)	\$ 22,283	\$ 92,849	\$ 106,709	\$ 120,443

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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

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

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
2023				
Current service cost	\$ 4,534	\$ 69	\$ 817	\$ 5,420
Interest cost (recovery)	(153)	854	4,110	4,811
	\$ 4,381	\$ 923	\$ 4,927	\$ 10,231

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

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 \$2,279 (2022 - \$2,212).

Actuarial valuations for all plans are performed at least every three years. The defined benefit pension plan was last valued for funding purposes as at March 31, 2022. At that time, the plan had a surplus, measured on a going concern basis (i.e., assuming continued operations of the pension plan), of \$50,692 or 28.4%, and a surplus of \$45,565 or 24.9% on a solvency basis (i.e., assuming the pension plan were to be wound up on the valuation date). The surplus reflected in these consolidated financial statements as an accrued pension asset is \$8,423 (2022 - \$6,101). The main reason for the difference relates to the discount rates used for the respective valuations, which were 4.9% (2022 - 4.0%) per annum for the accounting valuation at March 31, 2023 and 5.8% per annum for the going concern funding valuation at March 31, 2022.



# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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

### (b) Pre- and post-retirement benefits:

Included in other liabilities are accrued pre- and post-retirement benefits of \$3,364 (2022 - \$3,523), 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 \$21,518 (2022 - \$20,241). The assets of the employees' retirement benefits plan are held separately from those of the Army in an independently administered fund.

### (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, 2023, contributions were paid and expensed in the amount of \$5,612 (2022 - \$5,200) 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:

	2023	2022
Balance, beginning of year	\$ 10,997	\$ 11,332
Amounts reclassified from deposits on life lease upon occupancy	40	17
Current year activity:		
Refunds	(101)	(350)
Amounts recognized as revenue	(4)	(2)
Balance, end of year	\$ 10,932	\$ 10,997

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 11. Deposits on life leases (continued):

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

## 12. Fund balances:

(a) The Operating Fund balances includes the cumulative translation adjustment of \$4,817 (2022 - \$3,522) arising from the currency translation of self-sustaining operations in Bermuda.

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

2023	Externally restricted	Internally restricted	Total
Ministry units	\$ 8,795	\$ 17,926	\$ 26,721
Divisions	4,413	1,462	5,875
Territorial Headquarters	18,823	1,889	20,712
	\$ 32,031	\$ 21,277	\$ 53,308

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

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 12. Fund balances (continued):

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

2023	Externally restricted	Internally restricted	Total
Ministry units	\$ 66,800	\$ 158,679	\$ 225,479
Divisions	65,632	104,123	169,755
Territorial Headquarters	31,480	429,904	461,384
	<u>\$ 163,912</u>	<u>\$ 692,706</u>	<u>\$ 856,618</u>

2022	Externally restricted	Internally restricted	Total
Ministry units	\$ 68,768	\$ 137,077	\$ 205,845
Divisions	69,554	88,188	157,742
Territorial Headquarters	83,318	429,637	512,955
	<u>\$ 221,640</u>	<u>\$ 654,902</u>	<u>\$ 876,542</u>

As described in note 1(b)(iii), 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 \$371,238 (2022 - \$413,562) and represents funds held for future operations in years when actual earnings are below the long-term expected rate of return. The General Investment Fund (note 4) was valued at \$1,423,653 (2022 - \$1,402,437), meaning the reserve balance represents 26% (2022 - 25%) of the market value.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 13. Investment income:

	2023	2022
Interest	\$ 16,380	\$ 11,834
Dividends	15,965	13,453
Net realized gain (loss) on sale of investments	(10,723)	41,431
Change in net unrealized gain (loss) on investments	15,232	(31,497)
	<u>\$ 36,854</u>	<u>\$ 35,221</u>

## 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 2023, funding of \$389,966 (2022 - \$388,265) was received. Funding received from varying levels of government is as follows:

	2023	2022
Provincial and territorial	\$ 272,781	\$ 246,831
Municipal	81,046	88,207
Federal	36,139	53,227
	<u>\$ 389,966</u>	<u>\$ 388,265</u>

### (b) Government Wage Subsidy:

In prior years, the Army applied for and received government assistance in the form of the Canada Emergency Wage Subsidy ("CEWS"). In 2022, CEWS was reported in Federal government funding and totalled \$17,365. No funds were received in 2023.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 15. Expenses by category:

Expenses comprise the following categories:

	2023	2022
Salaries and benefits	\$ 559,145	\$ 522,495
Other program and general operating	208,129	181,104
Occupancy	105,143	95,935
Amortization	48,799	47,453
	<b>\$ 921,216</b>	<b>\$ 846,987</b>

## 16. Net interfund transfers:

2023	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves and endowment	\$ 103,693	\$ (62)	\$ (103,631)	\$ –
Funding of tangible capital asset transactions from operations and reserves	(6,277)	–	(66,776)	73,053
Transfer funds to internally restricted reserves	(64,236)	–	64,236	–
Transfer of tangible capital asset sale proceeds	1,210	–	24,436	(25,646)
Transfers for future tangible capital asset repairs/maintenance	(12,206)	–	12,206	–
	<b>\$ 22,184</b>	<b>\$ (62)</b>	<b>\$ (69,529)</b>	<b>\$ 47,407</b>

2022	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 134,022	\$ –	\$ (134,022)	\$ –
Funding of tangible capital asset 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 tangible capital asset sale proceeds	4,927	–	17,080	(22,007)
Transfers for future tangible capital asset repairs/maintenance	(10,990)	–	10,990	–
Transfer of internally restricted endowment to reserves	–	(7,231)	7,231	–
	<b>\$ 63,483</b>	<b>\$ (5,441)</b>	<b>\$ (110,615)</b>	<b>\$ 52,573</b>

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 17. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2023	2022
Gain on disposal of tangible capital assets	\$ (18,833)	\$ (14,143)
Amortization	48,799	47,453
Increase (decrease) in pre and post-retirement benefits	(159)	92
Other retirement benefits expense	4,927	4,450
Defined benefit and supplementary retirement pension plan expense	5,304	6,712
Net realized loss (gain) on sale of investments	10,723	(41,431)
Change in net unrealized loss (gain) on investments	(15,232)	31,497
	<u>\$ 35,529</u>	<u>\$ 34,630</u>

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

	2023	2022
Receivables and other current assets	\$ 1,920	\$ 16,575
Accounts payable and accrued liabilities	(3,591)	19,817
Deferred revenue	3,116	13,415
	<u>\$ 1,445</u>	<u>\$ 49,807</u>

## 18. Commitments and contingencies:

(a) 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:

2024	\$ 31,270
2025	23,340
2026	14,365
2027	10,967
2028	6,798
Thereafter	8,524
	<u>\$ 95,264</u>

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

## 18. Commitments and contingencies (continued):

### (b) Other commitments:

The Army has entered into software as a service (SaaS) agreements that relate to ongoing services and are typically payable over the contract term in accordance with the payment terms outlined in the agreements. The payments are due as follows:

2024	\$ 3,785
2025	4,064
2026	4,770
2027	5,056
2028	3,410
Thereafter	2,983
	<hr/>
	\$ 24,068

### (c) 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, 2023, the Army had issued letters of credit totaling \$731 (2022 - \$409). 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.

### (d) 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 \$40,877 (2022 - \$38,994). The Army 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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2023

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## 18. Commitments and contingencies (continued):

### (e) 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.

### (f) 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.

### (g) 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.

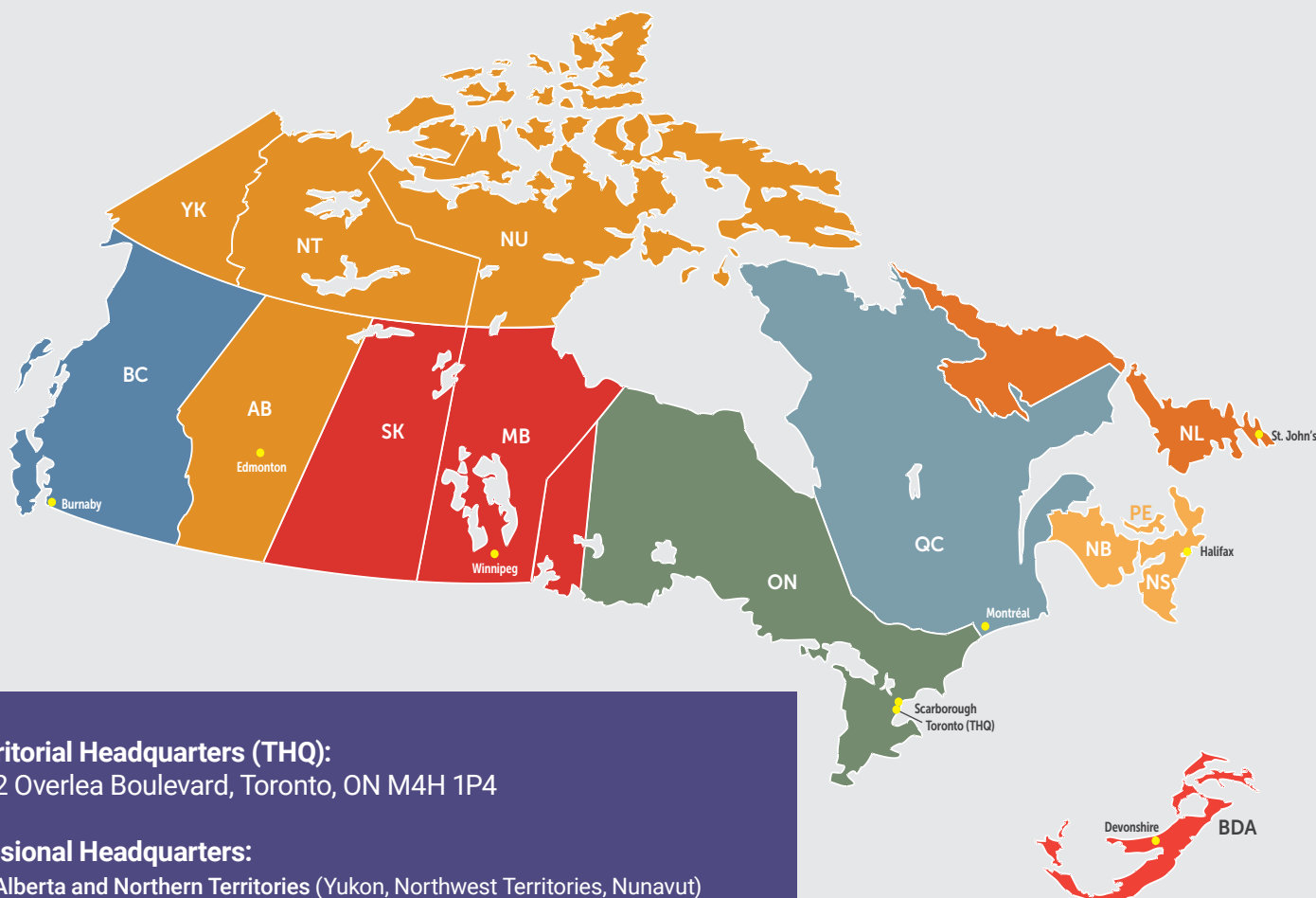
## 19. Comparative information:

The prior year comparative information in note 4 investments has been modified to reflect an adjustment to reduce cash and cash equivalents and increase private debt to align with the current year presentation.



# THE SALVATION ARMY

## Canada and Bermuda



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