Giving Hope Today

Consolidated FINANCIAL STATEMENTS

The Governing Council of The Salvation Army in Canada

Year Ended March 31, 2018

The Salvation Army gives **hope** and **dignity** to **vulnerable people** today and every day in over **400 communities** across **Canada** and in **130 countries** around the world!

Charitable Registration No. 10795 1618 RR0001

Territorial Headquarters for Canada and Bermuda
2 Overlea Boulevard, Toronto, Ontario M4H 1P4
416-425-2111 | SalvationArmy.ca

Financial commentary and statements: Territorial Finance Department
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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") and all of the entities it controls for the year ended March 31, 2018. These financial statements were audited by KPMG LLP, Licensed Public Accountants, who issued their opinion on them on July 4, 2018.

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

Financial Highlights for the Year Ended March 31, 2018

Revenue and Expenses

Total revenues declined by 2.7% ($22.4 million) in the year ended March 31, 2018, largely as a result of lower investment income and gain on disposal of tangible capital assets than in the prior year, which were partially offset by increases in charitable donations and government funding.

Investment income dropped by $32.9 million from the prior year, with the General Investment Fund having realized a 9.3% return compared to 13.8% last year. As noted later in this report, the Governing Council has policies in place to mitigate the inherent volatility experienced in the capital markets in which it invests.

In the prior year, there was a significant gain realized on the sale of a property in the Vancouver area which was no longer required for program purposes and there was no similar sale this year, leading to a $23.3 million decline in the gain on disposal of tangible capital assets. Funds from the sale have been reserved for future property development needs.

The increase in charitable donations was driven largely by capital campaigns in St. John's, where a new Centre of Hope is being developed, and in Toronto where funds were raised to revitalize the Toronto Grace Hospital, as well as by a disaster relief campaign to raise funds for victims affected by fires in the Fort McMurray area.

Increased government funding was significantly affected by the Yukon government's construction and gift of a property to The Salvation Army in Whitehorse, which is being used to provide transitional housing.

Overall, expenses grew by 3.7% in the current year, compared to 2.0% in the prior year. The most significant factor contributing to this level of cost increases, other than general inflation, was increases in minimum wage levels across Canada, and general upward pressure on compensation costs in both unionized and non-unionized facilities. This was particularly acute for the Army's Thrift Store operations, where costs increased 7.4% over the prior year. Further increases are anticipated in the year ahead as further minimum wage increases are planned.

Securities

The management of securities is centralized in the General Investment Fund ("the Fund"), which holds the accumulated operating funds, endowments and long-term donor and board restricted funds for all of the Governing Council's controlled entities. Interest is paid to these entities based on prevailing market rates for similar financial instruments. Net revenue from the Fund is used for the operations of the territorial headquarters (THQ) and the nine divisional headquarters (DHQs), as well as to make allocations to programs and services.

Allocations from investment revenue are based on a spending policy tied to long term expected rates of return. This approach has the benefit of providing a stable and predictable level of funding from year to year, mitigating the inherent volatility in capital markets. In the year ended March 31, 2018, the Fund gained $93.9 million, incurred expenses of $4.9 million, and paid interest of $7.0 million, for a net gain of $82.0 million. In accordance with the spending policy, $34.0 million was allocated to operations.

The Fund is managed by external investment managers in accordance with a Statement of Investment Policy (**www.salvationist.ca/files/salvationarmy/finance/pdf/sip_gif_2016_02.pdf**). The policy establishes constraints with respect to asset classes, types of investment instruments, quality and size of holdings, as well as prohibiting investment in companies whose primary business is the manufacture, distribution or promotion of alcohol, tobacco, pornography, gaming, gaming facilities or armaments and companies that are known to disregard environmental concerns.

The Fund's investment objective is preservation of real (inflation-adjusted) asset value plus a 3.5% to 4.0% annual rate of return, gross of fees, before the impact of withdrawals, over a four-year period. In the four-year period ending March 31, 2018, the Fund earned an average annual return of 8.1%. When the average rate of inflation as measured by the Consumer Price Index of 1.6% is deducted, a real return of 6.5% resulted, which is ahead of the investment objective.

Over the ten-year period ended March 31, 2018, the Fund earned an average annual return of 7.0%, or 5.4% in real terms, after deducting average inflation of 1.6%

Employee Future Benefits

The financial statements reflect actuarial estimates as at March 31, 2018. The liability of $165.9 million (2017 - $156.0) for employee future benefits represents the estimated value of accrued benefits as at March 31, 2018 for commissioned officers. There is no liability for other employees (see note 9 to the financial statements for additional information). Benefits for commissioned officers are provided through two plans. The Officers' Retirement Plan is a defined benefit plan registered with the Financial Services Commission of Ontario. This plan provides for basic pension benefits for officers. The supplementary plan provides for additional pension benefits, health care for retirees, and certain lump sum grants.

Actuarial valuations for both plans are performed every three years. The Officers' Retirement Plan, which is funded through a pension trust, was last valued for funding purposes at March 31, 2017. At that time, the Plan had a surplus, measured on a going concern basis (i.e., assuming continued operations), of $35.3 million or 21.6%, and a surplus of $13.0 million or 7.0% on a solvency basis (i.e., assuming the plan were to be wound up on the valuation date).

Although on the going concern funding basis, the plan showed a surplus as at March 31, 2017, a deficit is presented in these financial statements. The main reason for the difference relates to the discount rates used for the respective valuations. The 3.7% per annum discount rate for the accounting valuation in accordance with the relevant standards reflects the yield on high quality corporate bonds. The 6.0% per annum discount rate for the going concern funding valuation reflects the long-term expected rate of return on the assets the pension trust actually holds, 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, 2018, The Salvation Army made contributions of $2.2 million to the pension trust. Based on the surplus funding position, it is expected that investment earnings will be adequate to fund pension payments for the foreseeable future. As a result, the Army has since ceased making contributions; however, the need for contributions is being reviewed annually.

The supplementary plan was last valued at March 31, 2017. At that time, the liability for supplementary benefits had an estimated value of $108.5 million, the annual service cost to accrue benefits for active officers was $1.2 million and the annual expected decrease in the liability for benefit payments to retired officers was $7.0 million. No assets have been set aside to fund these benefits; however, the Army maintains sufficient funds in the General Investment Fund to cover its endowments and other restricted fund balances, as well as its estimated obligation for employee future benefits.

The next actuarial valuations for both plans will be conducted as at March 31, 2020.

Long-Term Debt

The Salvation Army avoids debt financing, except for the acquisition and/or development of land and buildings. Total loans and mortgages payable ($64.3 million long-term and $14.6 million short-term) declined by $7.7 million from the prior year as a result of principal repayments of $9.3 million, offset by new financing arrangements put in place during the year of $1.6 million.

Financial Position

As at March 31, 2017, The Salvation Army's total assets were $1.89 billion, compared to $1.81 billion at the prior year end. This increase was largely attributable to the increase in the value of securities.

The Salvation Army's net assets, or fund balances, totaled $1.55 billion, up $74.2 million from the prior year. Of the total:

- $625.5 million represents funds invested in capital assets, predominantly land and buildings;
- $32.6 million represents funds held in endowments that are externally restricted in perpetuity; and
- $18.7 million represents funds held in endowments established internally to provide income for specified programs on an ongoing basis.

The remaining $874.3 million (2017 - $827.1) represents the net funds being held for allocation to future operations, as follows:

	2018	2017
Externally Restricted Funds	$183.7	$177.3
Internally Restricted Funds		
Investment earnings spending policy reserve	$375.1	$363.4
Other internally restricted funds	$222.4	$256.7
TOTAL Restricted Funds	$781.2	$797.4
Unrestricted funds		
Operating funds	$93.1	$29.7
	$874.3	$827.1

The Salvation Army's target is to have sufficient unrestricted operating funds to meet operating expenses for a period of at least 90 days.

The total operating fund balances of $93.1 million represents sufficient funds to meet approximately 50 days of operating expenses, which is a considerable improvement from the 17 days achieved in the prior year, although still short of the goal. During the year, the Territorial Management Board approved the closure of a number of internally restricted reserves in order to rebuild the operating fund balance to the appropriate level.

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

Governance

Information concerning The Salvation Army's overall governance structure can be found in the Annual Report (**www.salvationarmy.ca/annualreport**). The following committees play key roles with respect to financial management and internal control over financial reporting.

Territorial Finance Council

The Territorial Finance Council, a committee of the Territorial Management Board, is charged with the oversight of the management of all financial and property resources of The Salvation Army in Canada and Bermuda.

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2017/18	Number of meetings attended in 2017/18
Commissioner Susan McMillan, *B.Com., MBA, FCPA, FCGA* Territorial Commander	Chair	September 1, 2014	19	15
Colonel Lee Graves, *MBA* Chief Secretary	Vice-Chair	July 1, 2013 Vice-Chair, Jan 1, 2017	20	18
Mr. R. Paul Goodyear, *B.Com, MBA, FCPA, FCMA* Financial Secretary	Secretary	July 1, 2001	9	13
Mr. Arnold Adey, *B.Com., MBA, FCPA, FCMA* Assistant Financial Secretary		March 1, 2018	2	2
Lt.-Colonel Marsha-Jean Bowles Secretary for Program		January 1, 2017	19	15
Lt.-Colonel Jamie Braund, *B.Sc., MAL* Secretary for Personnel		July 1, 2014	19	17
Lt.-Colonel James Champ, *BRE, MBA* Secretary for Communications		July 1, 2013	18	17
Major Glenda Davis, *MBA* Territorial Social Services Secretary		August 1, 2017	11	9
Mr. David Dunstan, *B.Com., CPA, CMA* Assistant Financial Secretary		August 1, 2012 to February 28, 2018	17	16
Ms. Mary Ellen Eberlin, *BScN, MScN* Territorial Social Services Secretary		September 1, 2013 to July 31, 2017	8	4
Major Terence Hale, *BRE* Territorial Youth Secretary		August 1, 2017	11	7
Dr. Marjory Kerr, *BA, MASc, PhD* President, Booth University College		January 1, 2017	19	7
Mr. Graham Moore, *B.Com., MBA, CPA, CMA* Director of Organizational Development		September 1, 2013	19	16
Major Shona Pike, *BA* Secretary for Candidates		September 1, 2015 to July 31, 2017	8	4
Lt.-Colonel Fred Waters, *MA* Secretary for Business Administration		September 1, 2013	19	16

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 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 Committee has been established with three external members, who are not employed by The Salvation Army, and two members of The Governing Council. Although management of the finance and internal audit functions attend meetings to provide staff support, the Committee also meets independently with the external auditors, without members of the Governing Council or management present.

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2017/18	Number of meetings attended in 2017/18
Patricia L. O'Malley, *B.Com., FCPA, FCA* Board Director and Independent Financial Reporting Consultant *	Chair	January 1, 2017	3	3
Mr. Brian W. Barrington, *B.Com.* Board Director and Independent Financial Reporting Consultant *		January 1, 2017	3	2
Ms. Annie Giraudou, *CPA, CA, MBA, FLMI, CFSA, CRMA, ASC* Senior Vice-President and Chief Risk Officer, Ivanhoé Cambridge *		January 1, 2017	3	3
Colonel Lee Graves, *MBA* Chief Secretary		January 1, 2017	3	3
Lt.-Colonel Fred Waters, *MA* Secretary for Business Administration		January 1, 2017	3	3

* denotes volunteer members

Investment Advisory Committee

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

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2017/18	Number of meetings attended in 2017/18
Mr. William Chinery, *B.Com., MBA, CFA* Independent Investment Professional *	Chair	January 1, 2011 to December 31, 2017	3	2
Mr. Kevin Fahey, *B.Com., LL.B., CFA* Director, Investments, Colleges of Applied Arts & Technology Pension Plan *	Chair	September 1, 2010 Chair, January 1, 2018	4	4
Mr. William J. Stafford, *B.Com., MBA, CFA* Director of Investments, The Salvation Army	Secretary	October 1, 2001 to December 31, 2017	3	3
Ms. Mary Ann Wiley, *BA, CFA* Independent Investment Professional *	Secretary	January 1, 2017 Secretary, Jan 1, 2018	4	4
Mr. August Cruikshanks, *MBA, CFA* Director of Research, Eckler Ltd.		January 1, 2018	1	0
Mr. David Dunstan, *B.Com., CPA, CMA* Assistant Financial Secretary		January 1, 2017	4	4
Mr. Michael Gallimore, *B.Com., MBA, CFA* Independent Investment Professional *		June 5, 2013	4	4
Mr. R. Paul Goodyear, *B.Com., MBA, FCPA, FCMA* Financial Secretary, The Salvation Army		October 1, 1998	4	4
Mr. Yannick Ménard, *B.Sc., CFA, FCIA, FSA* Managing Director, Pension Investments BMO Bank of Montreal *		July 29, 2013	4	2
Lt.-Colonel Fred Waters, *MA* Secretary for Business Administration The Salvation Army		January 1, 2017	4	3

* denotes volunteer members

Internal Controls

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

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

In addition to Canadian external and internal audits, The Salvation Army is also subject to triennial audits by an audit team from its International Headquarters (IHQ) in London, England. The most recent audit conducted in 2017, covering the period from April 1, 2014 to March 31, 2017, concluded that The Salvation Army in Canada and Bermuda "is in a sound financial position which can be largely attributed to careful management and the prudent use of volatile income streams…Time does not permit an in-depth review of all records, nor would the audit uncover every instance of deviation from policy or procedures. However, our review does indicate there are good documented policies and procedures in place; management is exercising well its stewardship duties and fulfilling its legal fiduciary responsibilities. The Governing Council demonstrates good governance practices."

Both a code of conduct (**www.salvationarmy.ca/Code-of-Conduct**) and a whistleblower policy (**www.salvationarmy.ca/whistleblower-policy**) are in place. The former sets out expectations for behaviour by all staff and volunteers, while the latter provides a mechanism for making anonymous complaints when violations of the code and other key policies are observed. During the year ended March 2018, 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 both commissioned officers and other employees. The compensation package for all commissioned officers of The Salvation Army includes housing, with furnishings and utilities provided by The Salvation Army, a leased vehicle or vehicle allowance, and a cash allowance based on years of service. The cost of allowances and benefits provided to senior officers is believed to be significantly lower than that paid to executives in other similar organizations for positions of comparable responsibility. The total employment income for income tax purposes reported in 2017 for the five most senior commissioned officers of The Salvation Army in Canada (including cash, as well as housing, automobile and other benefits), ranged from $41,861 to $66,335, with an average of $47,980.

The size and scope of The Salvation Army's operations create a level of complexity that requires the hiring of highly skilled professional and technical staff to supplement the skills found in its commissioned officer ranks. 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 requisite expertise.

In the 2017 calendar year, there were 101 employees whose total employment income (including salaries and benefits) reported for income tax purposes was above $100,000, as follows:

Compensation range	Number of employees
$100,000 – $119,999	64
$120,000 – $149,999	27
$150,000 – $199,999	7
$200,000 – $249,999	2
$250,000 - $299,999	0
$300,000 - $349,999	1

Paying competitive salaries to attract the right people on the one hand, and ensuring that compensation levels are as efficient and as appropriate on the other creates tension. This tension is particularly acute in the not-for-profit sector where organizations and donors are both concerned about keeping administrative costs at a reasonable level so as to maximize funds available for direct service delivery. The Salvation Army strives to employ highly qualified people, while at the same time managing its resources in a prudent manner.

Fundraising

For 136 years, faithful donors have helped The Salvation Army carry on its tradition of caring for vulnerable men, women and children in Canada, Bermuda and around the world. The Salvation Army is deeply grateful for their generosity and for the trust they have shown in us to use their investment wisely. During the fiscal year ended March 31, 2018, supporters made donations to The Salvation Army totaling $201.9 million, compared to $187.5 million the previous year, an increase of 7.7%.

Most fundraising costs are incurred by the Public Relations and Development Department. During the year, these costs were $23.4 million, compared to $22.7 million last year. As a proportion of charitable donations, these costs represented 11.6%, a drop from the 12.1% in the prior year, with an average of 11.8% per year for the past five years.

It should be noted, however, that there are some fundraising costs incurred at the ministry unit level that are not captured as such, and there are some public relations costs that are included in the total when they would more properly be categorized as either costs of administration or direct services.

Work is underway to capture these costs more accurately for future years, although management's belief is that the overall percentage of donations represented by fundraising costs will not be affected materially by this analysis.

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

> *First*, no donations of materials (e.g., to Thrift Stores) or services are recognized in these financial statements, even though costs are incurred in obtaining these donations.
>
> *Second*, as the name implies, some of the activity these costs represent relates to general marketing and communication functions, rather than fundraising activities.
>
> *Third*, the costs of the Planned Giving program and expenses related to the generation of planned gifts, particularly legacies and estates, are generally not incurred in the same year in which the revenues occur.
>
> *Fourth*, fundraising effectiveness may not be optimized by low fundraising costs as a greater fundraising investment may yield additional 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 2018, territorial and divisional headquarters operating costs, other than those expenses related directly to program and services provision or support, such as the development of program resources, etc., represented, on average, 5.3% of total expenses.

While this is low by comparison to many other charities, The Salvation Army cautions stakeholders with respect to the conclusions they may draw based on this single indicator. First, there are some costs of administration that are currently classified as direct services at the ministry unit level. Work is underway to be able to differentiate these costs in future years. 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 be much less successful. As a result, undue focus on minimizing administration and management costs can have a negative impact on operations.

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

Privacy

The Salvation Army is committed to protecting the privacy of its donors, customers, clients, volunteers, employees, and members, and is always concerned with treating personal information carefully and with appropriate confidentiality. Personal information is not used or disclosed for purposes other than those for which it was collected, except with consent or as required by law. This information is retained only as long as necessary and The Salvation Army does not trade, rent or sell any personal information to third parties.

Donations

The Salvation Army will accept unrestricted gifts, as well as gifts restricted for specific programs and purposes, provided that such gifts are consistent with its stated mission, purposes, and priorities. Gifts may be restricted to specific Salvation Army programs/purposes or communities throughout Canada and around the world where The Salvation Army has established operations.

After a gift has been accepted, if circumstances should at any time make it impractical, in the view of The Salvation Army acting reasonably, to apply the gift to the designated purpose, it may re-designate the purpose of the gift using its best efforts to adhere as closely as possible to the original intent of the gift.

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

Imagine Canada Standards Program

The Salvation Army places accountability at the core of its relationships with its donors and members of the public. The Salvation Army is accredited by **Imagine Canada's Standards Program** for charities and non-profit organizations. The accreditation recognizes those organizations with excellence in accountability, transparency and governance.

STRONG CHARITIES. STRONG COMMUNITIES.
ACCREDITED SINCE 2015
IMAGINE CANADA

Management Responsibility for Financial Reporting

These consolidated financial statements are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations, as established by the 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 and external auditors' report. 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.

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

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

July 12, 2018

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

INDEPENDENT AUDITORS' REPORT

To The Governing Council of
The Salvation Army in Canada

We have audited the accompanying consolidated financial statements of The Governing Council of The Salvation Army in Canada, which comprise the consolidated balance sheet as at March 31, 2018, the consolidated statements of operations, changes in fund balances and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG

Basis for Qualified Opinion

In common with many charitable organizations, The Governing Council of The Salvation Army in Canada derives revenue from charitable donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of The Governing Council of The Salvation Army in Canada. Therefore, we were not able to determine whether, as at and for the years ended March 31, 2018 and March 31, 2017, any adjustments might be necessary to charitable donations and excess (deficiency) of revenue over expenses reported in the consolidated statements of operations, excess (deficiency) of revenue over expenses reported in the consolidated statements of changes in fund balances and excess of revenue over expenses reported in the consolidated statements of cash flows and assets and fund balances reported in the consolidated balance sheets. This caused us to qualify our opinion on the consolidated financial statements as at and for the year ended March 31, 2017.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Governing Council of The Salvation Army in Canada as at March 31, 2018, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

July 4, 2018
Vaughan, Canada

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Balance Sheet
(In thousands of dollars)

March 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 29,557	$ 53,387
Receivables and other current assets	32,396	27,766
	61,953	81,153
Securities (note 4)	1,097,364	1,019,302
Tangible capital assets (note 6)	725,071	707,006
Other assets (note 7(a))	4,741	4,801
	$ 1,889,129	$ 1,812,262
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities	$ 59,550	$ 53,846
Deferred revenue	13,729	17,490
Current portion of loans and mortgages payable (note 8)	14,550	17,766
	87,829	89,102
Long-term liabilities:		
Employee future benefits (note 9(a))	165,915	155,986
Loans and mortgages payable (note 8)	64,342	68,838
Deposits on life leases (note 10)	11,510	11,805
Other liabilities (notes 7(b) and 9(b))	8,394	9,585
	250,161	246,214
Fund balances:		
Operating (note 11(a))	93,127	29,715
Endowment (note 11(b))	51,300	63,449
Other Restricted (note 11(c))	781,217	797,429
Capital	625,495	586,353
	1,551,139	1,476,946
Contingencies and commitments (notes 16 and 17)		
	$ 1,889,129	$ 1,812,262

See accompanying notes to consolidated financial statements.

On behalf of The Governing Council:

____________________ Secretary

____________________ Treasurer

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Operations
(In thousands of dollars)

Year ended March 31, 2018, with comparative information for 2017

	2018					2017				
	Operating	Restricted Funds				Operating	Restricted Funds			
	Fund	Endowment	Other	Capital	**Total**	Fund	Endowment	Other	Capital	**Total**
Revenue:										
Public support:										
Charitable donations	$ 113,124	$ 634	$ 83,830	$ 4,262	**$ 201,850**	$ 108,653	$ 293	$ 78,435	$ 83	**$ 187,464**
Sale of donated goods	158,744	–	–	–	**158,744**	153,310	–	–	–	**153,310**
	271,868	634	83,830	4,262	**360,594**	261,963	293	78,435	83	**340,774**
Government funding	235,439	–	1,290	15,134	**251,863**	225,189	–	514	12,670	**238,373**
Fees for service	83,062	–	–	–	**83,062**	80,758	–	–	–	**80,758**
Investment income (note 12)	93,026	–	836	–	**93,862**	125,899	–	876	–	**126,775**
Gain on disposal of tangible capital assets	–	–	–	1,028	**1,028**	–	–	–	24,293	**24,293**
Other	15,759	–	529	1,003	**17,291**	17,490	–	597	1,060	**19,147**
	699,154	634	86,485	21,427	**807,700**	711,299	293	80,422	38,106	**830,120**
Expenses (note 13):										
Charitable programs and services:										
Addictions, corrections and residential	187,235	–	–	–	**187,235**	178,061	–	–	–	**178,061**
Health care	125,671	–	–	–	**125,671**	124,965	–	–	–	**124,965**
Community and family services	63,056	–	–	–	**63,056**	63,126	–	–	–	**63,126**
Congregational ministries	49,977	–	–	–	**49,977**	48,873	–	–	–	**48,873**
Children and youth	15,682	–	–	–	**15,682**	15,572	–	–	–	**15,572**
Educational	8,261	–	–	–	**8,261**	8,038	–	–	–	**8,038**
Overseas development and missions	600	–	5,204	–	**5,804**	541	–	4,198	–	**4,739**
Other programs and services	13,160	–	–	–	**13,160**	11,487	–	–	–	**11,487**
	463,642	–	5,204	–	**468,846**	450,663	–	4,198	–	**454,861**
Thrift store operations	148,696	–	–	–	**148,696**	138,422	–	–	–	**138,422**
Headquarters' operations	39,890	–	–	–	**39,890**	37,649	–	–	–	**37,649**
Fundraising and public relations	12,740	–	10,621	–	**23,361**	11,405	–	11,265	–	**22,670**
Amortization	–	–	–	32,511	**32,511**	–	–	–	30,482	**30,482**
Other	13,361	–	–	172	**13,533**	14,667	–	–	2,325	**16,992**
	678,329	–	15,825	32,683	**726,837**	652,806	–	15,463	32,807	**701,076**
Excess (deficiency) of revenue over expenses	$ 20,825	$ 634	$ 70,660	$ (11,256)	**$ 80,863**	$ 58,493	$ 293	$ 64,959	$ 5,299	**$ 129,044**

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, 2018, with comparative information for 2017

2018	Operating Fund (note 11(a))	Restricted Funds: Endowment (note 11(b))	Restricted Funds: Other (note 11(c))	Restricted Funds: Capital	Total
Fund balances, beginning of year	$ 29,715	$ 63,449	$ 797,429	$ 586,353	$ 1,476,946
Excess (deficiency) of revenue over expenses	20,825	634	70,660	(11,256)	80,863
Change in cumulative translation adjustment	(596)	–	–	–	(596)
Remeasurement and other items (note 9(a))	(6,074)	–	–	–	(6,074)
Net interfund transfers (note 14)	49,257	(12,783)	(86,872)	50,398	–
Fund balances, end of year	$ 93,127	$ 51,300	$ 781,217	$ 625,495	$ 1,551,139

2017	Operating Fund (note 11(a))	Restricted Funds: Endowment (note 11(b))	Restricted Funds: Other (note 11(c))	Restricted Funds: Capital	Total
Fund balances, beginning of year	$ (873)	$ 62,976	$ 703,281	$ 570,439	$ 1,335,823
Excess of revenue over expenses	58,493	293	64,959	5,299	129,044
Change in cumulative translation adjustment	350	–	–	–	350
Remeasurement and other items (note 9(a))	11,729	–	–	–	11,729
Net interfund transfers (note 14)	(39,984)	180	29,189	10,615	–
Fund balances, end of year	$ 29,715	$ 63,449	$ 797,429	$ 586,353	$ 1,476,946

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, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 80,863	$ 129,044
Items not affecting cash (note 15(a))	(28,916)	(82,390)
Change in non-cash operating working capital (note 15(b))	(2,687)	(563)
Contributions to other retirement benefits	(3,754)	(4,552)
Contributions to defined benefit and supplementary retirement pension plans	(3,802)	(4,715)
	41,704	36,824
Financing activities:		
Decrease (increase) in other assets	60	(200)
Repayment of loans and mortgages	(9,325)	(8,689)
Increase in loans and mortgages	1,613	4,034
Decrease in other liabilities	(1,161)	(2,415)
Decrease in deposits on life leases	(295)	(350)
	(9,108)	(7,620)
Investing activities:		
Sale (purchase) of securities, net	(6,282)	20,915
Additions to tangible capital assets	(57,525)	(59,564)
Proceeds on disposal of tangible capital assets	7,977	30,933
	(55,830)	(7,716)
Change in cumulative translation adjustment (note 11(a))	(596)	350
Increase (decrease) in cash and cash equivalents	(23,830)	21,838
Cash and cash equivalents, beginning of year	53,387	31,549
Cash and cash equivalents, end of year	$ 29,557	$ 53,387

See accompanying notes to consolidated financial statements.

The Governing Council of The Salvation Army in Canada ("The Governing Council"), a corporation established by a Special Act of Parliament, is the primary legal entity through which The Salvation Army, an international movement, conducts its operations in Canada. The Governing Council is a religious, charitable and not-for-profit organization, registered by Canada Revenue Agency for tax-deductible contributions, with every other Salvation Army operation registered as an associated charity of The Governing Council. The Salvation Army Corporation of Bermuda is a controlled entity through which The Governing Council conducts its operations in Bermuda.

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

The Salvation Army in Canada and Bermuda (the "Army") comprises territorial headquarters ("THQ"), nine divisional headquarters ("DHQ"), the College for Officer Training, William & Catherine Booth University College, National Recycling Operations ("NRO"), and over 400 operating ministry units, some of which are separately incorporated. Ministry unit operations include corps (churches), community centres, long-term care facilities, hospices and a hospital, transitional housing and shelters, addictions and rehabilitation centres, thrift stores and other social programs.

1. Basis of presentation:

These consolidated financial statements present, in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook, the assets, liabilities, fund balances, revenue, expenses and cash flows of The Governing Council and its controlled entities.

(a) Operating Fund:

The purpose of the Operating Fund is to record the administrative and operating activities of the Army.

1. Basis of presentation (continued):

(b) Restricted Funds:

(i) Endowment Fund:

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

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

(ii) Other Restricted Funds:

The Other Restricted Funds record receipt and use of funds that are both externally and internally restricted (note 11(c)), other than Endowment Fund or Capital Fund items.

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

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

1. Basis of presentation (continued):

(iii) Capital Fund:

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

2. Significant accounting policies:

(a) Cash and cash equivalents:

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

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. The Army has elected to carry all securities at fair value and as a result, they are revalued monthly. All other financial instruments are subsequently recorded at cost or amortized cost.

Transaction costs incurred on the acquisition of securities are expensed as incurred.

Receivables are assessed for impairment on an annual basis at the end of the fiscal year. If there is an indicator of impairment, the Army determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Army expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss is reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Significant accounting policies (continued):

(c) Interest rate hedging:

The Army uses interest rate swaps as a hedging strategy to manage interest rate volatility on some long-term mortgages. The Army uses the accrual basis of accounting for hedges. Gains or losses realized on the settlement of the hedging item are deferred until the settlement of the hedged item.

At the inception of the hedging relationship, the Army designates that hedge accounting will be applied. The Army formally documents the hedging relationship between the hedging instruments and hedged items. At the inception of the hedge and throughout its term, the terms of the hedging item and hedged item are the same.

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

(d) Tangible capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution.

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	40 years
Land improvements	15 years
Furniture and equipment	3 to 10 years
Vehicles	5 years

Repairs and maintenance costs are charged to expense. Betterments which extend the estimated life of an asset are capitalized. When a capital asset no longer contributes to the Army's ability to provide services, its carrying amount is written down to its residual value.

2. Significant accounting policies (continued):

(e) Contributions of materials and services:

The Army receives contributions of goods and materials, as well as volunteer time and services. The value of these contributions is not recognized in these consolidated financial statements.

(f) Revenue recognition:

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

Charitable donations include legacies which are recorded when received.

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

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

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

2. Significant accounting policies (continued):

(g) Employee future benefits:

(i) Officers' retirement benefits:

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

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

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

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

(c) the discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments;

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

2. Significant accounting policies (continued):

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

(ii) Employees' retirement benefits:

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

(h) Translation of foreign currencies:

Assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at exchange rates prevailing at the year-end date. Revenue and expenses and allocations have been translated using exchange rates prevailing on the transaction date.

Exchange gains and losses arising from the translation of the consolidated financial statements of The Salvation Army Corporation of Bermuda, a self-sustaining foreign operation, are recognized in the Operating Fund balances on the consolidated balance sheet.

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

(i) Guaranteed:

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

2. Significant accounting policies (continued):

(ii) Non-guaranteed:

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

(j) Use of estimates:

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

3. Credit facilities:

The Army has demand revolving operating facilities ("lines of credit") with one (2017 - two) Canadian bank for up to $5,000 (2017 - $7,000). The facilities are to cover overdrafts, as well as standby letters of credit. The line of credit bears interest at the prime rate. At year end, the Army had not drawn on the line of credit, other than to issue standby letters of credit (note 17(a)).

(In thousands of dollars)

4. Securities:

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

	2018	2017
Cash and cash equivalents	$ 19,828	$ 18,915
Fixed income:		
Domestic	104,378	79,895
Foreign	2,952	2,848
Pooled funds:		
Fixed income:		
Domestic	111,426	112,125
Foreign	3,879	3,907
Equities	13,238	236,223
Equities:		
Domestic	199,321	208,476
Foreign	484,965	218,516
Real estate - domestic	85,810	80,654
Infrastructure - foreign	71,567	57,743
	$ 1,097,364	$ 1,019,302

Fixed income investments mature at various dates between April 2018 and October 2067 (2017 - August 2017 and October 2067), and bear interest at rates between 0.50% to 9.92% (2017 - 0.50% to 9.92%).

The carrying value of securities held in the General Investment Fund total $1,088,145 (2017 - $1,010,245), while $9,219 (2017 - $9,057) relates to other investment funds held by the Army.

5. Financial risks:

(a) Investment risk management:

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

5. Financial risks (continued):

(b) Interest rate risk:

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

The Army is exposed to interest rate risk on the financing of 16 (2017 - 15) of its properties. The Army has entered into interest rate swaps with major Canadian banks to exchange the variable interest payments for fixed interest rates on all but one of its variable rate loans. Swap interest rates range from 2.00% to 6.27% (2017 - 2.00% to 6.27%). As at March 31, 2018, the swaps have principal outstanding of $35,848 (2017 - $39,837) that reduces on a basis consistent with the repayment of principal of the underlying debt. The swaps mature between July 3, 2018 and February 1, 2028. By effectively converting the interest rates from variable to fixed, the Army has eliminated almost all the volatility, consistent with its interest rate risk management objectives. The one unhedged loan has a principal outstanding of $2,522 as at March 31, 2018 and an interest rate of 2.39%, tied to the one month bankers' acceptance Canadian dollar offered rate. The Army monitors interest rates and may enter into an interest rate swap on this loan if interest rate risk increases.

(c) Market price risk:

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

(In thousands of dollars)

5. Financial risks (continued):

(d) Foreign currency risk:

As at March 31, 2018, 51% (2017 - 28%) of the investments are invested in foreign securities.

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

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

6. Tangible capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 135,064	$ –	$ 135,064	$ 134,031
Buildings and land improvements	964,435	415,080	549,355	504,753
Furniture and equipment	59,159	36,487	22,672	17,162
Vehicles	14,791	11,174	3,617	3,208
Construction in progress	14,363	–	14,363	47,852
	$ 1,187,812	$ 462,741	$ 725,071	$ 707,006

As at March 31, 2018, the Army had assets held for sale with a net book value of $2,029 (2017 - $2,944).

(In thousands of dollars)

7. Other assets and liabilities:

(a) Other assets:

Included in other assets are charitable remainder trusts amounting to $3,411 (2017 - $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 $4,376 (2017 - $5,404).

8. Loans and mortgages payable:

Loans and mortgages payable are secured by either the investments or properties, bear interest at rates ranging from 0.00% to 9.63% (2017 - 0.00% to 9.63%) with an average interest rate of approximately 3.24% (2017 - 3.37%) and extend for terms of up to 20 years from March 31, 2018.

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

Interest paid on loans and mortgages totals $2,764 (2017 - $2,979).

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

2019	$ 14,550
2020	11,945
2021	20,329
2022	4,901
2023	3,138
Thereafter	24,029
	78,892
Less current portion	14,550
	$ 64,342

(In thousands of dollars)

9. Employee future benefits:

(a) Officers' retirement benefits:

2018	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total employee future benefits
Accrued benefit obligation	$ 236,256	$ 25,672	$ 112,997	$ 374,925
Fair value of plan assets	209,010	–	–	209,010
Plan deficit	$ 27,246	$ 25,672	$ 112,997	$ 165,915

2017	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total employee future benefits
Accrued benefit obligation	$ 216,579	$ 22,340	$ 116,064	$ 354,983
Fair value of plan assets	198,997	–	–	198,997
Plan deficit	$ 17,582	$ 22,340	$ 116,064	$ 155,986

Continuity of the employee future benefits liability is as follows:

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	2018	2017
Balance, beginning of year	$ 17,582	$ 22,340	$ 116,064	$ 155,986	$ 164,367
Benefit expense	4,765	878	5,768	11,411	12,615
Employer contributions	(2,232)	(1,570)	(3,754)	(7,556)	(9,267)
Remeasurement and other items	7,131	4,024	(5,081)	6,074	(11,729)
Balance, end of year	$ 27,246	$ 25,672	$ 112,997	$ 165,915	$ 155,986

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

(In thousands of dollars)

9. Employee future benefits (continued):

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

2018	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
Current service cost	$ 4,015	$ 78	$ 1,518	$ 5,611
Interest cost	750	800	4,250	5,800
	$ 4,765	$ 878	$ 5,768	$ 11,411

2017	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
Current service cost	$ 4,799	$ 90	$ 1,418	$ 6,307
Interest cost	1,206	842	4,260	6,308
	$ 6,005	$ 932	$ 5,678	$ 12,615

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 $2,832 (2017 - $3,142).

The Army measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation for funding purposes of the pension plan and other retirement benefit plans was as at March 31, 2017 and the next actuarial valuations for both plans will be as at March 31, 2020.

(In thousands of dollars)

9. Employee future benefits (continued):

(b) Pre-retirement benefits:

Included in other liabilities are accrued pre-retirement benefits of $3,431 (2017 - $3,461), 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 $17,210 (2017 - $17,214). 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, 2018, contributions paid and expensed in the amount of $3,881 (2017 - $3,900) are included in charitable programs and services.

10. Deposits on life leases:

	2018	2017
Balance, beginning of year	$ 11,805	$ 12,155
Amounts reclassified from deposits on life lease upon occupancy	798	838
Current year activity:		
Refunds	(1,013)	(1,104)
Amounts recognized as revenue	(80)	(84)
Balance, end of year	$ 11,510	$ 11,805

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

(In thousands of dollars)

11. Fund balances:

(a) The Operating Fund balance consists of $163,580 (2017 - $103,694) held for normal operations, which includes the cumulative translation adjustment of $4,080 (2017 - $4,676) arising from the currency translation of self-sustaining operations in Bermuda, and ($70,453) (2017 - ($73,979)) related to remeasurement of the value of employee future benefits. The Army has a plan to fund the remeasurement deficit over the average remaining service life of the employees concerned, which is estimated at 12.5 years (2017 - 12.3 years). In 2018, $9,600 was applied to the shortfall (2017 - $18,800).

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

2018	Externally restricted	Internally restricted	Total
Ministry units	$ 8,370	$ 1,930	$ 10,300
DHQ	4,410	3,076	7,486
THQ	19,817	13,697	33,514
	$ 32,597	$ 18,703	$ 51,300

2017	Externally restricted	Internally restricted	Total
Ministry units	$ 8,184	$ 1,930	$ 10,114
DHQ	4,836	3,072	7,908
THQ	19,375	26,052	45,427
	$ 32,395	$ 31,054	$ 63,449

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

2018	Externally restricted	Internally restricted	Total
Ministry units	$ 37,448	$ 117,378	$ 154,826
DHQ	92,149	90,226	182,375
THQ	54,113	389,903	444,016
	$ 183,710	$ 597,507	$ 781,217

(In thousands of dollars)

11. Fund balances (continued):

2017	Externally restricted	Internally restricted	Total
Ministry units	$ 28,190	$ 120,219	$ 148,409
DHQ	98,048	94,308	192,356
THQ	51,102	405,562	456,664
	$ 177,340	$ 620,089	$ 797,429

As described in note 1(b)(ii), the Army mitigates the impact of the inherent volatility in capital markets on its operations by planning its spending based on a long-term expected rate of return rather than the actual investment earnings recognized in a particular year. As a result, the Army maintains a reserve with a target balance between 25% and 33% of the fair market value of its investments portfolio. The balance of this internally restricted reserve held in the Other Restricted Funds was $374,319 (2017 - $360,001) 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 $1,088,145 (2017 - $1,010,245), meaning the reserve balance represents 34% (2017 - 36%) of the market value. The Army will review the excess reserve that exists during the year to determine if funds will be released to bring the balance down to the targeted level.

12. Investment income:

	2018	2017
Interest	$ 7,421	$ 8,193
Dividends	14,661	17,373
Net realized gains on sale of securities	73,836	33,070
Increase (decrease) in net unrealized gain on securities	(2,056)	68,139
	$ 93,862	$ 126,775

(In thousands of dollars)

13. Expenses by category:

Expenses comprise the following categories:

	2018	2017
Salaries and benefits	$ 447,548	$ 431,531
Other program and general operating	158,596	153,788
Occupancy	88,182	85,275
Amortization	32,511	30,482
	$ 726,837	$ 701,076

14. Net interfund transfers:

2018	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	$ 117,782	$ –	$ (117,782)	$ –
Funding of capital transactions from operations and reserves	(13,541)	–	(44,467)	58,008
Transfers from internally restricted endowments to operations and reserves	11,798	(12,359)	561	–
Transfer to internally restricted reserves	(4,316)	–	4,316	–
Transfer of property sale proceeds	(340)	–	7,950	(7,610)
Transfers for future property repairs/maintenance	(10,157)	–	10,157	–
Net investment gain transferred to reserve for future operations (notes 1(b)(ii) and 11(c))	(51,223)	–	51,223	–
Other	(746)	(424)	1,170	–
	$ 49,257	$ (12,783)	$ (86,872)	$ 50,398

(In thousands of dollars)

14. Net interfund transfers (continued):

2017	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	$ 130,362	$ –	$ (130,362)	$ –
Funding of capital transactions from operations and reserves	(18,183)	–	(26,023)	44,206
Transfers from internally restricted endowment to reserves	–	(5,113)	5,113	–
Net transfer to internally restricted reserves	(3,588)	5,165	(1,577)	–
Transfer of property sale proceeds	1,265	–	32,224	(33,489)
Transfers for future property repairs/maintenance	(7,820)	–	7,820	–
Net investment gain transferred from reserve for future operations (notes 1(b)(ii) and 11(c))	(119,544)	–	119,544	–
Unrestricted legacies transferred to reserve for future operations	(21,841)	–	21,841	–
Other	(635)	128	609	(102)
	$ (39,984)	$ 180	$ 29,189	$ 10,615

15. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2018	2017
Gain on disposal of tangible capital assets	$ (1,028)	$ (24,293)
Amortization	32,511	30,482
Increase (decrease) in pre-retirement benefits	(30)	15
Other retirement benefits expense	5,768	5,678
Defined benefit and supplementary retirement pension plan expense	5,643	6,937
Net realized gains on sale of securities	(73,836)	(33,070)
Decrease (increase) in net unrealized gain on securities	2,056	(68,139)
	$ (28,916)	$ (82,390)

(In thousands of dollars)

15. Consolidated statement of cash flows (continued):

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

	2018	2017
Receivables and other current assets	$ (4,630)	$ 4,671
Accounts payable and accrued liabilities	5,704	(5,186)
Deferred revenue	(3,761)	(48)
	$ (2,687)	$ (563)

16. 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:

2019	$ 20,418
2020	15,379
2021	10,359
2022	7,280
2023	4,840
Thereafter	10,142
	$ 68,418

17. Contingencies and commitments:

(a) Letters of credit and letters of comfort:

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

As at March 31, 2018, the Army had issued letters of credit totaling $210 (2017 - $607). 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.

17. Contingencies and commitments (continued):

(b) Contingent liabilities:

The Army receives government assistance in the form of forgivable loans to fund some capital projects. This funding is considered a grant as long as the Army continues to meet the terms of the agreements. In the event of default, the funding is repayable to the government. As at year end, the Army has an unforgiven loan balance of $27,017 (2017 - $30,849) of such funding. Management believes that it is currently in compliance with all such agreements and, accordingly, no amounts are recorded as a liability in these consolidated financial statements related to this assistance.

(c) Government capital contributions for programs:

In fiscal 2010, the Army acquired title to a property in Milton, Ontario from the Province of Ontario as part of an agreement to operate a program for young offenders. Under the agreement, the province retains the right to reacquire the property, valued at $4,440 at the time of acquisition, under certain conditions, such as if the Army ceases to operate the program. The Army has also acquired title to a property from the Government of Yukon in fiscal 2018, valued at $14,550, that is contingent on providing transitional housing in an emergency shelter for a minimum of ten years. The Army intends to operate both programs for the foreseeable future and meet all conditions set by the government for its operations; as a result, the transfer of properties have been reflected in these consolidated financial statements as an increase in tangible capital assets and by recognizing revenue in the form of capital contributions.

(d) Legal actions:

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

17. Contingencies and commitments (continued):

(e) Indemnification of directors and officers:

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

The Salvation Army in Canada and Bermuda

Territorial Headquarters:

2 Overlea Boulevard, Toronto, ON M4H 1P4

Divisional Headquarters:

Alberta and Northern Territories
(Alberta / Yukon / Northwest Territories / Nunavut)
9618 101A Avenue NW, Edmonton, AB T5H 0C7

Bermuda
76 Roberts Avenue, Devonshire
PO Box HM 2259, Hamilton, Bermuda HM JX

British Columbia
103 – 3833 Henning Drive, Burnaby, BC V5C 6N5

Maritime
(New Brunswick / Nova Scotia / Prince Edward Island)
330 Herring Cove Road, Halifax, NS B3R 1V4

Newfoundland and Labrador
PO Box 91 – 430 Topsail Rd, St. John's, NL A1E 4N1

Ontario Central East
1645 Warden Avenue, Scarborough, ON M1R 5B3

Ontario Great Lakes
371 King Street, London, ON N6B 1S4

Prairie
(Manitoba / Saskatchewan / Northwest Ontario)
204 – 290 Vaughan Street, Winnipeg, MB R3B 2N8

Québec
Armée du Salut
1700 – 625 Avenue du Président-Kennedy
Montréal, QC H3A 1K2

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