



Giving
Hope
Today



Consolidated **FINANCIAL STATEMENTS**

The Governing Council of The Salvation Army in Canada

Year Ended March 31, 2019

The Salvation Army gives **hope** and **dignity**
to **vulnerable people** today and every day
in over **400 communities** across **Canada**
and in **131 countries** around the world!

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Management Commentary

Introduction

These consolidated financial statements present the assets, liabilities, fund balances, revenues, expenses and cash flows of The Governing Council of The Salvation Army in Canada (“The Salvation Army” or “the Army”) and all of the entities it controls for the year ended March 31, 2019. These financial statements were audited by KPMG LLP, Licensed Public Accountants, who issued their opinion on them on June 18, 2019.

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, 2019

Revenue and Expenses

Total revenues have declined slightly from the prior year (\$0.3 million), however more significant variations year over year are observed on a line by line basis. Investment income and donations have dropped by 17.0% and 4.1% respectively, which were offset by increases in gain on disposal of tangible capital assets, government funding and sale of donated goods.

Investment income is volatile in nature and dropped by \$16.0 million from the prior year, with the General Investment Fund, the Army’s main investment portfolio, having realized a 7.1% return compared to 9.3% last year. As noted later in this report, the Army has policies in place to mitigate the inherent volatility experienced in the capital markets in which it invests.

The decline in charitable donations was driven largely by one-time fundraising campaigns undertaken in the prior year for disaster relief efforts, primarily for victims affected by fires in the Fort McMurray area. These campaigns raised \$2.1 million in the prior year. There were no campaigns of similar magnitude in the current year. Declines in legacy income (\$2.4 million) and the National Red Shield Appeal (\$1.1 million) were also experienced.

A significant gain was realized on the sale of a property in the Montreal area, leading to the \$11.3 million increase in the gain on disposal of tangible capital assets.

Increased government funding resulted from expanded programming at a number of social services facilities, most notably an additional \$2.5 million was received by Toronto Broadview Village for expanded support and programs to help adults with developmental disabilities live independently in community homes with other people with similar disabilities.

Overall, expenses grew by 5.0% in the current year, compared to 3.7% in the prior year. A 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 7.1% from the prior year. Program costs for addictions, corrections and residential increased significantly due to the additional funding received from government to expand programs and services.

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 virtually 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 Territorial Headquarters (“THQ”) and Divisional Headquarters (“DHQ”), 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, 2019, the Fund earned \$77.9 million, incurred expenses of \$4.9 million, and paid interest of \$7.0 million, for a net gain of \$66.0 million. In accordance with the spending policy, \$36.8 million was allocated to operations and \$33.0 million was reserved for use in future years.

The Fund is managed by external investment managers in accordance with a Statement of Investment Policy (salvationist.ca/files/salvationarmy/finance/Resources/sip_gif_2019.pdf). The policy establishes constraints with respect to asset classes, types of investment instruments, quality and size of holdings, as well as prohibiting investment in companies whose primary business is the manufacture, distribution or promotion of alcohol, tobacco, marijuana, pornography, gaming, gaming facilities or armaments and companies that are known to disregard human rights and/or environmental concerns.

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, 2019, the Fund earned an average annual return of 6.8%. When the average rate of inflation as measured by the Consumer Price Index of 1.7% is deducted, a real return of 5.1% resulted, which exceeds the investment objective.

Over the ten-year period ended March 31, 2019, the Fund earned an average annual return of 9.8%, or 8.2% in real terms, after deducting average annual inflation of 1.6%.

Employee Future Benefits

The financial statements reflect actuarial estimates as at March 31, 2019. The liability of \$182.2 million (2018 - \$165.9) for employee future benefits represents the estimated value of accrued benefits for commissioned officers as at March 31, 2019. 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 Regulatory Authority of Ontario (formerly 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 the financial position of the plan as at March 31, 2017 revealed a surplus on a funding basis, a deficit is presented in these financial statements. The main reason for the difference relates to the discount rates used for the respective valuations, which were 3.3% per annum for the accounting valuation and 6.0% per annum for the going concern funding valuation. The discount rate for the accounting valuation reflects the yield on high quality corporate bonds whereas the discount rate for the going concern funding valuation reflects the long-term expected rate of return on assets (including the higher returns expected on allocations to equities and asset classes other than bonds). A higher discount rate results in a lower value of obligations, and vice versa, all other factors being equal.

The Salvation Army made no contributions to the pension trust during the year, as it is expected that investment earnings will be adequate to fund pension payments for the foreseeable future. The need for contributions will be 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 real estate and other long-lived assets. Total loans and mortgages payable of \$69.5 million (comprised of \$56.1 million long-term and \$13.4 million short-term) declined by \$9.4 million from the prior year as a result of principal repayments of \$11.4 million, offset by new financing arrangements put in place during the year of \$2.0 million.

Financial Position

As at March 31, 2019, The Salvation Army's total assets were \$1.94 billion, compared to \$1.89 billion at the prior year end. This increase was largely attributable to the increase in value of investments and increased cash holdings as a result of significant capital asset sale proceeds received at the end of the year.

The Salvation Army's net assets, or fund balances, totaled \$1.59 billion, up \$34.3 million from the prior year. Of the total:

- 623.4 million represents funds invested in capital assets, predominantly land and buildings;
- \$32.8 million of the \$51.9 million held in endowments represents funds that are externally restricted in perpetuity, and the balance of \$19.1 million represents funds held in endowments established internally to provide income for specified programs on an ongoing basis.

The remaining \$910.2 million (2018 - \$874.3) represents the net funds being held for future operations, as follows:

	2019	2018
Externally Restricted Funds	\$192.7	\$183.7
Internally Restricted Funds		
Investment earnings spending policy reserve	\$328.1	\$375.1
Other internally restricted funds	\$215.6	\$222.4
TOTAL Restricted Funds	\$736.4	\$781.2
Unrestricted funds		
Operating funds	\$173.8	\$93.1
	\$910.2	\$874.3

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 \$173.8 million represents sufficient funds to meet 89 days of operating expenses, which is a considerable improvement from the 50 days achieved in the prior year. During the year, the Territorial Management Board approved a one-time transfer from the investment earnings spending policy reserve in order to rebuild the operating fund balance to the appropriate level.

It should be noted that the total operating fund balance of \$173.8 represents the aggregate of the individual operating fund balances of the Army's 400+ separate entities across Canada and in Bermuda and, as a result, while these funds are unrestricted at the consolidated Territory level, they are subject to restrictions that would impede transfers from one individual unit to another in many cases.

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 this tension is being managed well.

Governance

The Salvation Army Canada and Bermuda Territory is part of a worldwide organization, at work in 131 countries around the globe. Its operations are directed by the General from International Headquarters in London, England. The General is elected by senior Army leaders around the world. He/she gives oversight to the international work and appoints senior leaders in each territory.

Governing Council

In Canada, The Governing Council of The Salvation Army in Canada, a corporation established by Federal Act of Parliament in 1909, administers the temporal affairs of the Army, and most assets used in its operations are held by the Governing Council.

The Governing Council is a charitable organization, registered with Canada Revenue Agency, and each local operating unit is an associated charity of the Council.

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.

Under the legislation incorporating the Governing Council, five individuals hold ex officio membership by virtue of the positions to which they have been appointed by the General.

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

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2018/19	Number of meetings attended in 2018/19
Commissioner Susan McMillan , BCom, MBA, FCPA, FCGA Territorial Commander	Chair	September 1, 2014	19	17
Colonel Lee Graves , MBA Chief Secretary	Vice-Chair	July 1, 2013 Vice-Chair, Jan 1, 2017 to October 31, 2018	11	9
Colonel Edward Hill , MDiv, MA, BA Chief Secretary	Vice-Chair	November 1, 2018	8	7
Mr. R. Paul Goodyear , BCom, MBA, FCPA, FCMA Financial Secretary	Secretary	July 1, 2001	19	19
Lt-Colonel Fred Waters , MA Secretary for Business Administration	Treasurer	September 1, 2013	19	19
Lt-Colonel Brian Armstrong , BA, MDiv, MRel, DMin Secretary for Personnel		May 1, 2018	18	15
Lt-Colonel Jamie Braund , BSc, MAL Secretary for Personnel		July 1, 2014 to April 30, 2018	1	0

Territorial Management Board

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

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2018/19	Number of meetings attended in 2018/19
Commissioner Susan McMillan , <i>BCom, MBA, FCPA, FCGA</i> Territorial Commander	Chair	September 1, 2014	17	12
Colonel Lee Graves , <i>MBA</i> Chief Secretary	Vice-Chair	July 1, 2013 Vice-Chair, Jan 1, 2017 to October 31, 2018	9	9
Colonel Edward Hill , <i>MDiv, MA, BA</i> Chief Secretary	Vice-Chair	November 1, 2018	8	8
Mr. R. Paul Goodyear , <i>BCom, MBA, FCPA, FCMA</i> Financial Secretary	Secretary	July 1, 2001	17	15
Mr. Arnold Adey , <i>BCom, MBA, FCPA, FCMA</i> Assistant Financial Secretary		March 1, 2018	17	16
Lt-Colonel Brian Armstrong , <i>BA, MDiv, MRel, DMin</i> Secretary for Personnel		May 1, 2018	16	13
Lt-Colonel Lynn Armstrong , <i>BA, MMFT</i> Secretary for Program		July 1, 2018	12	11
Lt-Colonel James Champ , <i>BRE, MBA</i> Secretary for Communications		July 1, 2013 to June 30, 2018	5	4
Lt-Colonel Marsha-Jean Bowles , <i>RN</i> Secretary for Program		January 1, 2017 to June 30, 2018	5	5
Lt-Colonel Jamie Braund , <i>BSc, MAL</i> Secretary for Personnel		July 1, 2014 to April 30, 2018	1	0
Major Glenda Davis , <i>MBA</i> Territorial Social Services Secretary		August 1, 2017	17	10
Major Terence Hale , <i>BRE</i> Territorial Youth Secretary		August 1, 2017	17	16
Dr. Marjory Kerr , <i>BA, MASc, PhD</i> President, Booth University College		January 1, 2017	17	11
Mr. Graham Moore , <i>BCom, MBA, CPA, CMA</i> Director of Organizational Development		September 1, 2013	17	16
Lt-Colonel John Murray , <i>BA, MAL, APR, CFRE</i> Secretary for Communications		July 1, 2018	12	10
Lt-Colonel Fred Waters , <i>MA</i> Secretary for Business Administration		January 1, 2017	17	17

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 2018/19	Number of meetings attended in 2018/19
Ms. Patricia L. O'Malley , BCom, FCPA, FCA Board Director and Independent Financial Reporting Consultant *	Chair	January 1, 2017	3	3
Mr. Brian W. Barrington , BCom, FCPA, FCA Board Director and Independent Financial Reporting Consultant *		January 1, 2017	3	3
Ms. Annie Giraudou , CPA, CA, MBA, FLMI, CFSA, CRMA, ASC Senior Vice-President and Chief Financial Officer, Otera Capital Inc. *		January 1, 2017	3	3
Colonel Lee Graves , MBA Chief Secretary		January 1, 2017 to October 31, 2018	3	3
Colonel Edward Hill , MDiv, MA, BA Chief Secretary		November 1, 2018	1	1
Lt-Colonel Fred Waters , MA Secretary for Business Administration		January 1, 2017	3	2

* denotes volunteer members

Investment Advisory Committee

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

Member	Office held (if any)	Date Appointed	Number of meetings eligible to attend in 2018/19	Number of meetings attended in 2018/19
Mr. Kevin Fahey , BCom, LL.B., CFA Director, Investments, Colleges of Applied Arts and Technology Pension Plan *	Chair	September 1, 2010 Chair, January 1, 2018	4	4
Ms. Mary Ann Wiley , BA, CFA Director, Investments, The Salvation Army *	Secretary	January 1, 2017 Secretary, Jan 1, 2018	4	4
Mr. August Cruikshanks , MBA, CFA Director of Research, Eckler Ltd.		January 1, 2018	4	3
Mr. David Dunstan , BCom, CPA, CMA Assistant Financial Secretary		January 1, 2017	4	3
Mr. Michael Gallimore , BCom, MBA, CFA Independent Investment Professional *		June 5, 2013	4	4
Mr. R. Paul Goodyear , BCom, MBA, FCPA, FCMA Financial Secretary, The Salvation Army		October 1, 1998	4	4
Mr. Yannick Ménard , BSc, CFA, FCIA, FSA Managing Director, Pension Investments BMO Bank of Montreal *		July 29, 2013	4	3
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 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 in London, England. The most recent audit conducted in 2017, covering the period from April 1, 2014 to March 31, 2017, concluded that The Salvation Army in Canada and Bermuda “is in a sound financial position which can be largely attributed to careful management and the prudent use of volatile income streams...Time does not permit an in-depth review of all records nor would the audit uncover every instance of deviation from policy or procedures. However, our review does indicate there are good documented policies and procedures in place; management is exercising well its stewardship duties and fulfilling its legal fiduciary responsibilities. The Governing Council demonstrates good governance practices.”

Code of Conduct and Whistleblower Policy

Both a code of conduct (www.salvationarmy.ca/Code-of-Conduct) and a whistleblower policy (www.salvationarmy.ca/whistleblower-policy) are in place. The former sets out expectations for behavior by all staff and volunteers, while the latter provides a mechanism for making anonymous complaints when violations of the code and other key policies are observed. During the year ended March 2019, 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	39
\$150,000 – \$199,999	9
\$200,000 – \$249,999	3
\$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 137 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, 2019, supporters made donations to The Salvation Army totaling \$193.6 million, compared to \$201.9 million the previous year, representing a decrease of 4.1%.

Most fundraising costs are incurred by the public relations and development department. During the year, these costs were \$24.0 million, compared to \$23.4 million last year. As a proportion of charitable donations, these costs represented 12.4%, an increase from the 11.6% in the prior year, with an average of 11.9% per year for the past 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 classified as charitable programs and services.

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

First, no donations of materials (e.g., to Thrift Stores) or services are recognized in these financial statements, even though costs are incurred in obtaining these donations.

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

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

Fourth, fundraising effectiveness may not be optimized by low fundraising costs as a greater fundraising investment may yield proportionately larger donations. The Salvation Army reviews its fundraising efforts on an ongoing basis with an objective to find the right balance between effectiveness and efficiency of its fundraising activities.

Costs of Administration

Many stakeholders are interested in how much a charity spends on its administration and management versus programs and services. The Salvation Army currently classifies all activities and functions at the operating unit level as programs and services. Headquarters operating costs reflect the administrative activities performed at the territorial and divisional headquarters. Over the five-year period ended March 2019, 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, 5.4% 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 be much less successful. 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 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 congregational ministries.

Imagine Canada Standards Program

The Salvation Army places accountability at the core of its relationships with its donors and members of the public. The Salvation Army is accredited by **Imagine Canada's Standards Programs** for charities and non-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.



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.



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INDEPENDENT AUDITORS' REPORT

To The Governing Council of The Salvation Army in Canada

Qualified Opinion

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

- the consolidated balance sheet as at March 31, 2019
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in fund balances for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" section of our auditors' report, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at March 31, 2019, 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, 2019 and March 31, 2018
- the charitable donations revenue and excess (deficiency) of revenues over expenses reported in the consolidated statements of operations for the years ended March 31, 2019 and March 31, 2018



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- 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, 2019 and March 31, 2018
- the excess of revenues over expenses reported in the consolidated statements of cash flows for the years ended March 31, 2019 and March 31, 2018.

Our opinion on the financial statements for the year ended March 31, 2018 was qualified accordingly because of the possible effects of this limitation in scope.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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



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

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

We also:

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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- 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, slightly slanted style. Below the signature is a single, long, horizontal black line.

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 18, 2019

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Balance Sheet

(In thousands of dollars)

March 31, 2019, with comparative information for 2018

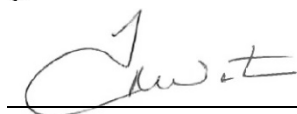
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 53,475	\$ 29,557
Receivables and other current assets	39,924	32,396
	93,399	61,953
Investments (note 4)	1,133,701	1,097,364
Tangible capital assets (note 6)	711,912	725,071
Other assets (note 7(a))	4,929	4,741
	<u>\$ 1,943,941</u>	<u>\$ 1,889,129</u>
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 71,802	\$ 59,550
Deferred revenue	15,780	13,729
Current portion of loans and mortgages payable (note 8)	13,449	14,550
	101,031	87,829
Long-term liabilities:		
Employee future benefits (note 9(a))	182,160	165,915
Loans and mortgages payable (note 8)	56,064	64,342
Deposits on life leases (note 10)	11,407	11,510
Other liabilities (notes 7(b) and 9(b))	7,797	8,394
	257,428	250,161
Fund balances:		
Operating (note 11(a))	173,792	93,127
Endowment (note 11(b))	51,868	51,300
Other Restricted (note 11(c))	736,436	781,217
Capital	623,386	625,495
	1,585,482	1,551,139
Contingencies and commitments (notes 16 and 17)		
	<u>\$ 1,943,941</u>	<u>\$ 1,889,129</u>

See accompanying notes to consolidated financial statements.

On behalf of The Governing Council:



Secretary



Treasurer

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Operations

(In thousands of dollars)

Year ended March 31, 2019, with comparative information for 2018

	2019					2018				
	Operating Fund	Restricted Funds			Total	Operating Fund	Restricted Funds			Total
		Endowment	Other	Capital			Endowment	Other	Capital	
Revenue:										
Public support:										
Charitable donations	\$ 110,194	\$ 163	\$ 83,227	\$ 22	\$ 193,606	\$ 113,124	\$ 634	\$ 83,830	\$ 4,262	\$ 201,850
Sale of donated goods	163,191	—	—	—	163,191	158,744	—	—	—	158,744
Government funding	273,385	163	83,227	22	356,797	271,868	634	83,830	4,262	360,594
Fees for service	251,067	—	1,434	6,560	259,061	235,439	—	1,290	15,134	251,863
Investment income (note 12)	83,353	—	—	—	83,353	83,062	—	—	—	83,062
Gain on disposal of tangible capital assets	77,088	—	815	—	77,903	93,026	—	836	—	93,862
Other	—	—	—	12,302	12,302	—	—	—	1,028	1,028
	17,688	—	274	—	17,962	15,759	—	529	1,003	17,291
	702,581	163	85,750	18,884	807,378	699,154	634	86,485	21,427	807,700
Expenses (note 13):										
Charitable programs and services:										
Additions, corrections and residential	199,261	—	—	—	199,261	187,235	—	—	—	187,235
Health care	129,600	—	—	—	129,600	125,671	—	—	—	125,671
Community and family services	64,983	—	—	—	64,983	63,056	—	—	—	63,056
Congregational ministries	48,779	—	—	—	48,779	49,977	—	—	—	49,977
Children and youth	15,584	—	—	—	15,584	15,682	—	—	—	15,682
Educational	8,322	—	—	—	8,322	8,261	—	—	—	8,261
Overseas development and missions	1,346	—	4,420	—	5,766	600	—	5,204	—	5,804
Other programs and services	13,015	—	—	—	13,015	13,160	—	—	—	13,160
Thrift store operations	480,890	—	4,420	—	485,310	463,642	—	5,204	—	468,846
Headquarters' operations	159,244	—	—	—	159,244	148,696	—	—	—	148,696
Fundraising and public relations	43,343	—	—	—	43,343	39,890	—	—	—	39,890
Amortization	13,800	—	10,236	—	24,036	12,740	—	10,621	—	23,361
Other	—	—	—	34,227	34,227	—	—	—	32,511	32,511
	17,197	—	—	—	17,197	13,361	—	—	172	13,533
	714,474	—	14,656	34,227	763,357	678,329	—	15,825	32,683	726,837
Excess (deficiency) of revenue over expenses	\$ (11,893)	\$ 163	\$ 71,094	\$ (15,343)	\$ 44,021	\$ 20,825	\$ 634	\$ 70,660	\$ (11,256)	\$ 80,863

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, 2019, with comparative information for 2018

2019	Operating Fund (note 11(a))	Restricted Funds			Total
		Endowment (note 11(b))	Other (note 11(c))	Capital	
Fund balances, beginning of year	\$ 93,127	\$ 51,300	\$ 781,217	\$ 625,495	\$ 1,551,139
Excess (deficiency) of revenue over expenses	(11,893)	163	71,094	(15,343)	44,021
Change in cumulative translation adjustment	404	—	—	—	404
Remeasurement and other items (note 9(a))	(10,082)	—	—	—	(10,082)
Net interfund transfers (note 14)	102,236	405	(115,875)	13,234	—
Fund balances, end of year	\$ 173,792	\$ 51,868	\$ 736,436	\$ 623,386	\$ 1,585,482

2018	Operating Fund (note 11(a))	Restricted Funds			Total
		Endowment (note 11(b))	Other (note 11(c))	Capital	
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

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, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 44,021	\$ 80,863
Items not affecting cash (note 15(a))	(18,585)	(28,916)
Change in non-cash operating working capital (note 15(b))	6,775	(2,687)
Contributions to other retirement benefits	(4,231)	(3,754)
Contributions to defined benefit and supplementary retirement pension plans	(1,764)	(3,802)
	26,216	41,704
Financing activities:		
Decrease (increase) in other assets	(188)	60
Repayment of loans and mortgages payable	(11,429)	(9,325)
Increase in loans and mortgages payable	2,050	1,613
Decrease in other liabilities	(713)	(1,161)
Decrease in deposits on life leases	(103)	(295)
	(10,383)	(9,108)
Investing activities:		
Sale (purchase) of investments, net	16,447	(6,282)
Additions to tangible capital assets	(42,168)	(57,525)
Proceeds on disposal of tangible capital assets	33,402	7,977
	7,681	(55,830)
Change in cumulative translation adjustment	404	(596)
Increase (decrease) in cash and cash equivalents	23,918	(23,830)
Cash and cash equivalents, beginning of year	29,557	53,387
Cash and cash equivalents, end of year	\$ 53,475	\$ 29,557

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, 2019

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

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

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

1. Basis of presentation:

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

(a) Operating Fund:

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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 under the investments caption in the non-current assets section of the consolidated balance sheet as they are not used for current operating needs.

(b) Financial instruments:

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

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

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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 investments and change in net unrealized gain on investments. Restricted and unrestricted investment income is recognized as revenue when earned in the appropriate fund.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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 financial statements of The Salvation Army Corporation of Bermuda 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 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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 a demand revolving operating facility bearing interest at the prime rate with a Canadian bank for up to \$5,000 (2018 - \$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 17(a)).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

4. Investments:

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

	2019	2018
Cash and cash equivalents	\$ 34,523	\$ 19,905
Fixed income:		
Domestic	139,219	111,471
Foreign	3,260	4,491
Pooled funds:		
Fixed income:		
Domestic	183,453	104,378
Foreign	2,006	2,875
Equities	6,341	10,979
Equities:		
Domestic	118,509	199,321
Foreign	466,058	486,567
Real estate - domestic	93,045	85,810
Infrastructure - foreign	87,287	71,567
	\$ 1,133,701	\$ 1,097,364

Fixed income investments mature at various dates between June 2019 and October 2067 (2018 - April 2018 and October 2067), and bear interest at rates between 0.50% and 9.92% (2018 - 0.50% and 9.92%).

The carrying value of investments held in the General Investment Fund totals \$1,126,964 (2018 - \$1,088,145), while \$6,737 (2018 - \$9,219) 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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 investments held by the Army. This risk is managed by staggering the terms of the investments held, and ensuring diversification of the holdings, such that no single security, other than Government of Canada or provincial bonds, represents more than 5% of the fixed income component of the portfolio.

The Army is exposed to interest rate risk on the financing of 17 (2018 - 16) 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% (2018 - 2.00% to 6.27%). As at March 31, 2019, the swaps have principal outstanding of \$31,823 (2018 - \$35,848) that reduces on a basis consistent with the repayment of principal of the underlying debt. The swaps mature between June 1, 2019 and January 29, 2029. 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 \$2,018 (2018 - \$2,522) as at March 31, 2019 and an interest rate of 2.79% (2018 - 2.39%), tied to the one month bankers' acceptance Canadian dollar offered rate.

(c) Market price risk:

Market price risk arises as a result of trading 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

5. Financial risks (continued):

(d) Foreign currency risk:

As at March 31, 2019, 49% (2018 - 52%) of the investments are invested in foreign markets.

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. 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:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 133,847	\$ —	\$ 133,847	\$ 135,064
Buildings and land improvements	960,320	435,000	525,320	549,355
Furniture and equipment	64,433	41,309	23,124	22,672
Vehicles	15,494	11,943	3,551	3,617
Construction in progress	26,070	—	26,070	14,363
	\$ 1,200,164	\$ 488,252	\$ 711,912	\$ 725,071

As at March 31, 2019, the Army had assets held for sale with a net book value of \$1,600 (2018 - \$2,029).

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

7. Other assets and liabilities:

(a) Other assets:

Included in other assets are charitable remainder trusts amounting to \$3,411 (2018 - \$3,411). A charitable remainder trust is an arrangement in which property or money is donated to a charity, but the donor continues to use the property and/or receive income from it while living.

(b) Other liabilities:

Other liabilities include gift annuities, which are planned giving arrangements, in the amount of \$3,722 (2018 - \$4,376).

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 7.63% (2018 - 0.00% to 9.63%) with an average interest rate of approximately 2.91% (2018 - 3.24%) and extend for terms of up to 12 years from March 31, 2019.

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 \$2,352 (2018 - \$2,764).

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

2020	\$ 13,449
2021	21,086
2022	6,284
2023	4,135
2024	7,975
Thereafter	16,584
	<hr/> 69,513
Less current portion	13,449
	<hr/> \$ 56,064

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

9. Employee future benefits:

(a) Officers' retirement benefits:

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total employee future benefits
2019				
Accrued benefit obligation	\$ 246,669	\$ 25,344	\$ 122,993	\$ 395,006
Fair value of plan assets	212,846	—	—	212,846
Plan deficit	\$ 33,823	\$ 25,344	\$ 122,993	\$ 182,160

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total employee future benefits
2018				
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

Continuity of the employee future benefits liability is as follows:

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	2019	2018
Balance, beginning of year	\$ 27,246	\$ 25,672	\$ 112,997	\$ 165,915	\$ 155,986
Benefit expense	5,946	955	5,257	12,158	11,411
Employer contributions	—	(1,764)	(4,231)	(5,995)	(7,556)
Remeasurement and other items	631	481	8,970	10,082	6,074
Balance, end of year	\$ 33,823	\$ 25,344	\$ 122,993	\$ 182,160	\$ 165,915

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

9. Employee future benefits (continued):

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

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
2019				
Current service cost	\$ 4,912	\$ 86	\$ 1,328	\$ 6,326
Interest cost	1,034	869	3,929	5,832
	\$ 5,946	\$ 955	\$ 5,257	\$ 12,158

	Defined benefit pension plan	Supplementary retirement pension	Other retirement benefit plans	Total
2018				
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

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 \$2,180 (2018 - \$2,832).

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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

9. Employee future benefits (continued):

(b) Pre-retirement benefits:

Included in other liabilities are accrued pre-retirement benefits of \$3,547 (2018 - \$3,431), representing health and sick leave future payments for certain ministry units.

(c) Employees' retirement benefits:

The contributions paid and expensed by the Army for the year amounted to \$18,855 (2018 - \$17,210). 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, 2019, contributions paid and expensed in the amount of \$3,967 (2018 - \$3,881) are included in charitable programs and services.

10. Deposits on life leases:

	2019	2018
Balance, beginning of year	\$ 11,510	\$ 11,805
Amounts reclassified from deposits on life lease upon occupancy	270	798
Current year activity:		
Refunds	(346)	(1,013)
Amounts recognized as revenue	(27)	(80)
Balance, end of year	\$ 11,407	\$ 11,510

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

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

11. Fund balances:

(a) The Operating Fund balance includes the cumulative translation adjustment of \$4,484 (2018 - \$4,080) arising from the currency translation of self-sustaining operations in Bermuda.

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

2019	Externally restricted	Internally restricted	Total
Ministry units	\$ 8,471	\$ 1,930	\$ 10,401
DHQ	4,415	3,071	7,486
THQ	19,880	14,101	33,981
	\$ 32,766	\$ 19,102	\$ 51,868

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

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

2019	Externally restricted	Internally restricted	Total
Ministry units	\$ 41,347	\$ 119,565	\$ 160,912
DHQ	98,049	79,674	177,723
THQ	53,322	344,479	397,801
	\$ 192,718	\$ 543,718	\$ 736,436

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

11. Fund balances (continued):

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

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 \$327,652 (2018 - \$374,319) 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 \$1,126,964 (2018 - \$1,088,145), meaning the reserve balance represents 29% (2018 - 34%) of the market value.

12. Investment income:

	2019	2018
Interest	\$ 9,588	\$ 7,421
Dividends	15,531	14,661
Net realized gains on sale of investments	59,225	70,495
Change in net unrealized gain on investments	(6,441)	1,285
	\$ 77,903	\$ 93,862

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

13. Expenses by category:

Expenses comprise the following categories:

	2019	2018
Salaries and benefits	\$ 477,718	\$ 447,548
Other program and general operating	162,683	158,596
Occupancy	88,729	88,182
Amortization	34,227	32,511
	\$ 763,357	\$ 726,837

14. Net interfund transfers:

2019	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	\$ 163,235	\$ —	\$ (163,235)	\$ —
Funding of capital transactions from operations and reserves	(22,072)	—	(24,420)	46,492
Transfers from internally restricted endowments to operations and reserves	300	(720)	420	—
Transfer to internally restricted reserves and endowments	(5,755)	1,125	4,630	—
Transfer of property sale proceeds	10,717	—	22,541	(33,258)
Transfers for future property repairs/maintenance	(10,493)	—	10,493	—
Net investment gain transferred to reserve for future operations (notes 1(b)(ii) and 11(c))	(33,029)	—	33,029	—
Other	(667)	—	667	—
	\$ 102,236	\$ 405	\$ (115,875)	\$ 13,234

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

14. Net interfund transfers (continued):

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

15. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2019	2018
Gain on disposal of tangible capital assets	\$ (12,302)	\$ (1,028)
Amortization	34,227	32,511
Increase (decrease) in pre-retirement benefits	116	(30)
Other retirement benefits expense	5,257	5,768
Defined benefit and supplementary retirement pension plan expense	6,901	5,643
Net realized gains on sale of investments	(59,225)	(70,495)
Change in net unrealized gain on investments	6,441	(1,285)
	\$ (18,585)	\$ (28,916)

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

15. Consolidated statement of cash flows (continued):

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

	2019	2018
Receivables and other current assets	\$ (7,528)	\$ (4,630)
Accounts payable and accrued liabilities	12,252	5,704
Deferred revenue	2,051	(3,761)
	<u>\$ 6,775</u>	<u>\$ (2,687)</u>

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:

2020	\$ 20,958
2021	14,814
2022	11,686
2023	8,933
2024	6,214
Thereafter	14,518
	<u>\$ 77,123</u>

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 - 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, 2019, the Army had issued letters of credit totaling \$139 (2018 - \$210). 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

Year ended March 31, 2019

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 \$25,835 (2018 - \$26,613) 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 City of Yellowknife in fiscal 2019 as part of an agreement to operate a men's homeless transitional facility. Under the agreement, the Army will continue to operate and maintain the facility as required for a set period of time and upon failure to do so, will transfer the facility and the land on which it stands, valued at \$5,946, back to the City of Yellowknife. The Army intends to operate both programs for the foreseeable future and meet all the conditions set by the government with respect to their operation. As such, the transfer of properties has 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.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars)

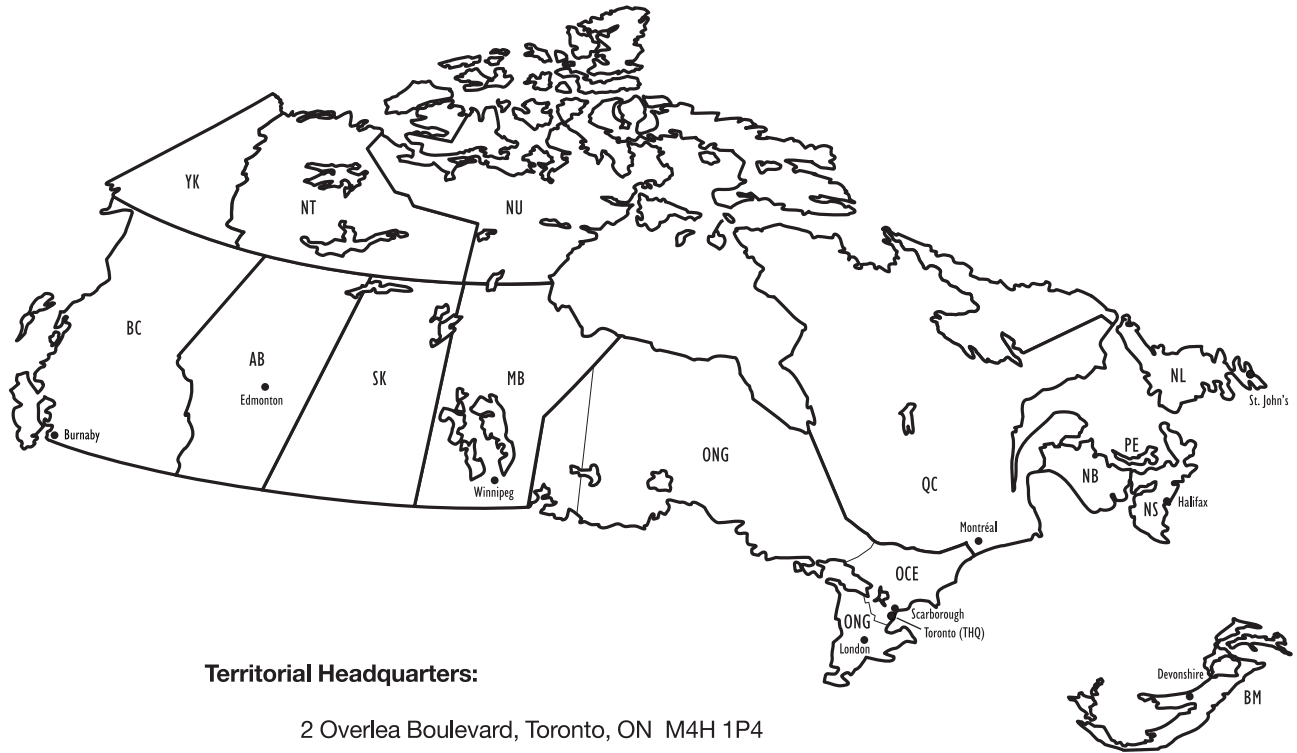
Year ended March 31, 2019

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



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