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Today



The Governing Council of
The Salvation Army in Canada

FINANCIAL REVIEW

For the year ended
March 31, 2010

FINANCIAL REVIEW 2009/10

Introduction

The accompanying condensed financial statements have been compiled from the audited financial statements of The Governing Council of The Salvation Army in Canada ("the Governing Council") as of March 31, 2010.

The Salvation Army in Canada and Bermuda ("the Army") is comprised of 500 individual operating units, scattered throughout all ten Canadian provinces, the Yukon, Nunavut, and Northwest Territories, as well as in Bermuda. The Army's operations include corps (churches), community centres, hospitals, long-term care facilities, hospices, transitional housing, addictions and rehabilitation centres, and various other social programs. The Salvation Army is the largest non-government direct provider of social services in Canada.

The Governing Council was incorporated by an Act of Parliament in 1909 for the purposes of administering the property, business, and other temporal affairs of The Salvation Army in Canada. The Salvation Army is a religious, charitable and not-for-profit organization, registered by the Canada Revenue Agency for tax-deductible contributions.

These financial statements present the assets, liabilities, fund balances, revenues and expenses of the Territorial Headquarters, National Recycling Operations, the College for Officer Training, William and Catherine Booth College, Grace Communities Corporation, the eight divisional headquarters in Canada, and The Salvation Army Corporation of Bermuda. In addition, they include real estate and investment assets for all other Salvation Army operations in Canada because the Governing Council is the legal owner of these assets and holds them in trust on behalf of operating units.

Separate financial statements are issued for each of the operating units in order to fulfill obligations for accountability to local communities, contributors and funding agencies. A project is currently underway to permit the publication of consolidated financial statements reflecting all operating units in the near future. In the meantime, the accompanying unaudited charts have been prepared to help provide an understanding of the overall size and scope of the Army's operations in Canada and Bermuda.

Copies of the complete financial statements audited by KPMG, LLP are available on request from the Finance Department, 2 Overlea Boulevard, Toronto, Ontario M4H 1P4, or may be downloaded from our website at www.SalvationArmy.ca

Financial highlights

During, 2009/10, the Governing Council realized a net surplus of revenues over expenses and allocations of \$62.3 million, compared to a deficiency of \$37.6 million in the prior year.

The significant improvement in the Governing Council's financial position during the past year largely stems from two key sources of revenue. First, the recovery in financial markets resulted in investment income of \$25.7 million, compared to a loss of \$13.0 million in the prior year. Second, donations and grants increased by almost \$30 million, most significantly from estates and legacies, as well as gifts to international disaster relief.

Most expenses were in line with, or reduced from the prior year, with the result that total expenses and allocations were \$259.2 million, compared with \$274.8 million in 2008/09.

Investments

Investments are centralized in the General Investment Fund, which holds in trust the surplus operating funds, endowments, and long-term donor restricted funds of all Salvation Army units. Interest is paid on constituent accounts based on prevailing market rates for similar financial instruments. Net profits from the Fund are used to offset costs of administration, as well as to make allocations to programs and services. A spending policy approach, which bases budgetary allocations on a long-term rate of return, rather than that achieved in a particular year, is in place. This helps mitigate against volatility in budgeting, but introduces volatility into these financial statements during years of greater, or lesser, than average investment returns.

The General Investment Fund is managed by external investment managers in accordance with a statement of investment policy and procedures, which establishes quality constraints, 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. An investment advisory committee assists the Army by regularly reviewing both the investment policy, as well as individual manager's performance compared to market benchmarks.

Executive compensation

The compensation package for all commissioned officers of The Salvation Army includes housing accommodation, with furnishings and utilities provided by the Army, a leased vehicle or vehicle allowance, and a cash allowance based on years of service. The cost of compensation provided to senior officers is comparatively lower than that paid to executives in other similar organizations. The employment income for tax purposes reported in 2009 for the five most senior officers of The Salvation Army in Canada, ranged from \$26,841 to \$38,588, with an average of \$33,739.

Non-officer executives are retained to provide professional expertise in specialized areas. While salaries are typically less than comparable positions in the for-profit sector, there is increased competition among large and complex not-for-profit organizations for professional staff, and as a result, compensation for executives in the sector has increased in recent years.

In 2009, there were 21 non-officer executives employed by The Salvation Army at its territorial and divisional headquarters whose total employment income for tax purposes was above \$100,000. Their income for tax purposes ranged from \$102,666 to \$241,314 with an average of \$145,776.

There is a tension between paying competitive salaries to attract the right people on the one hand, and ensuring that executive compensation does not reach unreasonable levels on the other. This tension is particularly acute in the not-for-profit sector where organizations and donors are both concerned about keeping administrative costs low so as to maximize funds available for direct service delivery. We believe that The Salvation Army is managing this tension well.

Public accountability

The Salvation Army recognizes its accountability for the financial resources placed at its disposal by its contributors for the furtherance of its mission to serve the most vulnerable in our society.

The Salvation Army's social conscience stems from its Christian values. While it is both a Christian denomination and a social agency, which believes in a holistic ministry, the Army maintains separate financial structures for its social service programs and its community church operations. Where community churches receive funding from the National Red Shield Appeal, they are required to demonstrate that these funds have been used for social and community services, rather than congregational ministries.

Ethical Fundraising & Financial Accountability Code

The Salvation Army has adopted Imagine Canada's Ethical Fundraising & Financial Accountability Code. In doing so, the Army undertakes to adhere to the standards set out in the Code in its treatment of donors and the public, its fundraising practices and its financial transparency, and to be accountable for doing so. A copy of the Code is available at www.imaginecanada.ca or may be requested in writing from The Salvation Army, 2 Overlea Boulevard, Toronto, Ontario M4H 1P4.

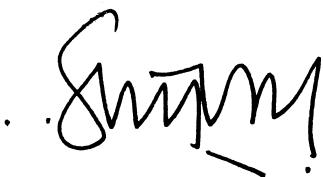
Management responsibility for financial reporting

These 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 Accounting Standards Board of the Canadian Institute of Chartered Accountants.

The preparation of financial information is an integral part of the ongoing management of the 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 Territorial Finance Council, which meets regularly with management as well as internal and external auditors to ensure the adequacy of internal controls, and to review the financial statements and auditors' report. The Governing Council appoints the auditors and approves the financial statements, based on a recommendation from the Territorial Finance Council.

The financial statements have been audited by external auditors KPMG, LLP, Chartered Accountants. Their report outlines the scope of KPMG's examination as well as their opinion on the financial statements.



Neil Watt, *Lieut.-Colonel*
Territorial Secretary for Business Administration



R. Paul Goodyear, *BCom, MBA, CMA, FCMA*
Territorial Financial Secretary



KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

AUDITORS' REPORT ON CONDENSED FINANCIAL STATEMENTS

To The Governing Council of The Salvation Army in Canada

The accompanying condensed balance sheet and condensed statement of operations and changes in fund balances are derived from the complete financial statements of The Governing Council of The Salvation Army in Canada ("The Salvation Army") as at March 31, 2010 and for the year then ended on which we expressed a reservation in our report dated June 11, 2010. Our opinion stated that except for our inability to satisfy ourselves concerning the completeness of revenue from the general public in the form of donations and legacies, the complete financial statements are, in all material respects, fairly presented in accordance with Canadian generally accepted accounting principles. The fair summarization of the complete financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the condensed financial statements.

In our opinion, the accompanying financial statements fairly summarize, in all material respects, the related complete financial statements in accordance with the criteria described in the Guideline referred to above.

These condensed financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the financial position, results of operations and cash flows of The Salvation Army, reference should be made to the related complete financial statements.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

June 11, 2010

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Condensed Balance Sheet
(In millions of dollars)

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 50.7	\$ 29.3
Receivables, principally from Salvation Army entities	19.5	17.6
Other current assets	2.8	3.7
	<u>73.0</u>	<u>50.6</u>
Investments:		
Accrued pension asset	615.9	508.8
Capital assets	8.5	6.4
	<u>697.8</u>	<u>683.8</u>
	<hr/> \$ 1,395.2	<hr/> \$ 1,249.6

Liabilities and Fund Balances

Current liabilities:		
Accounts payable and accrued liabilities	\$ 28.5	\$ 39.6
Deferred revenue	5.1	9.7
	<u>33.6</u>	<u>49.3</u>
Long-term liabilities:		
Restricted deposits held principally for Salvation Army entities	237.2	223.0
Mortgages payable	98.0	98.8
Post-retirement benefits	32.8	30.7
Other	16.2	18.5
	<u>384.2</u>	<u>371.0</u>
Fund balances:		
Net unrealized gains (losses) on investments	45.7	(40.2)
Operating	11.5	6.7
Endowment	72.5	66.0
Other Restricted	280.6	243.9
Capital	567.1	552.9
	<u>977.4</u>	<u>829.3</u>
	<hr/> \$ 1,395.2	<hr/> \$ 1,249.6

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Condensed Statement of Operations & Changes in Fund Balances
(In millions of dollars)

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Donations and grants		
National Red Shield Appeal	\$ 42.6	\$ 42.1
Legacies	53.9	41.6
Other	43.3	26.1
	<u>139.8</u>	<u>109.8</u>
Ancillary operations	78.5	76.5
Investment income (loss)	25.7	(13.0)
Levies and assessments from other Salvation Army entities	26.1	26.7
Net gain on disposal of capital assets	7.9	3.8
Contributions to capital projects	29.3	22.4
Other	14.2	11.0
	<u>321.5</u>	<u>237.2</u>
Expenses and allocations:		
Grants and allocations to Salvation Army entities	86.5	87.6
Ancillary operations	74.0	77.2
Territorial and Divisional Headquarters operations	30.4	32.9
Fundraising, planned giving and public relations	18.8	20.0
Depreciation	20.6	20.5
Officers' benefit plans	13.4	13.7
Interest paid on restricted deposits	2.0	5.7
Investment expenses	2.3	2.4
Leadership development and training	5.1	5.5
Other	6.1	9.3
	<u>259.2</u>	<u>274.8</u>
Deficiency of revenue over expenses and allocations	\$ 62.3	\$ (37.6)
Fund balances, beginning of year	829.3	954.0
Realized gains on investments	2.4	37.3
Net unrealized gain (losses) on investments	83.4	(124.4)
Fund balances, end of year	\$ 977.4	\$ 829.3

Members of The Governing Council of The Salvation Army in Canada

Commissioner William W. Francis, Chair
Colonel Donald J. Copple, Vice Chair (*to February 28, 2010*)
Colonel Floyd J. Tidd, Vice Chair (*from March 1, 2010*)
Lieut.-Colonel Neil Watt, Treasurer
Mr. R. Paul Goodyear, Secretary
Lieut.-Colonel Sandra Rice

Territorial Finance Council

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Colonel Donald J. Copple, Vice Chair (*to February 28, 2010*)
Colonel Floyd J. Tidd, Vice Chair (*from March 1, 2010*)
Ms. Maisie Wong, Secretary
Major James Champ (*to February 28, 2010*)
Colonel Ann Copple (*to February 28, 2010*)
Major Alison Cowling
Mary Ellen Eberlin (*to February 28, 2010*)
Commissioner Marilyn D. Francis
Mr. R. Paul Goodyear
Major Douglas Hefford (*to February 28, 2010*)
Lieut.-Colonel David Hiscock (*to June 30, 2010*)
Lieut.-Colonel Junior Hynes (*from July 1, 2010*)
Mr. John Kershaw (*to February 28, 2010*)
Lieut.-Colonel Sandra Rice
Lieut.-Colonel Neil Watt

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Mr. Michael Campbell, Chair
Mr. William J. Stafford, Secretary
Ms. Julie C. Cays (*to June 30, 2010*)
Mr. R. Paul Goodyear
Ms. Janet Greenwood
Mr. Paul Purcell
Mr. Roger Robineau
Mr. Keith Walter
Lieut.-Colonel Neil Watt



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

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