Giving
Hope
Today

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Canada & Bermuda Territory
SalvationArmy.ca

Over 1.5 million people were helped by The Salvation Army in Canada and Bermuda last year. Some of the services offered include:

Addictions, Rehabilitation & Shelter

5,000 shelter beds provided for the homeless each night

10,000 people with addictions received assistance

1,100 people successfully completed addiction & rehabilitation programs

2.5 million meals served

Community Churches

350 community churches

Community & Family Services

900,000 family members provided with food, clothing or practical assistance

8,500 children went to Salvation Army camps

Emergency Disaster Services

17,000 people helped when disaster struck

Hospice, Health & Long-Term Care

500 hospital beds provided

1,500 long-term care and supportive housing beds provided

32 hospice beds provided

Work in Developing Countries

140 projects in 9 countries

2,500 children sponsored

50 members serving full-time in developing countries

Financial Statements of

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Year ended March 31, 2006

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Financial Statements

Year ended March 31, 2006

Introduction

The accompanying financial statements present the financial position of The Governing Council of The Salvation Army in Canada as of March 31, 2006, and its revenues and expenses during the year then ended.

The Governing Council of The Salvation Army in Canada was incorporated by a Special Act of Parliament in 1909 for the purposes of administering the property, business, and other temporal affairs of The Salvation Army in Canada. Most individual operating units of The Salvation Army in Canada are unincorporated. The Salvation Army is a religious, charitable and not-for-profit organization. In Canada, the Army is registered by Canada Revenue Agency for tax-deductible contributions, with individual operating units registered as associated charities of the territorial headquarters.

These financial statements include information for the territorial headquarters of The Salvation Army in Canada and Bermuda, and its related entities, as well as for its 13 divisional headquarters. They also include the real estate and investment assets for all Salvation Army entities in Canada and Bermuda because the Governing Council has legal title to these assets and holds them in trust on behalf of the other entities.

These statements reflect revenues of territorial and divisional headquarters, and their use for territorial and divisional operations, for capital projects, as well as in making allocations to local operating units (social service centres, corps and community churches).

Separate financial statements are issued for each of the Army's local operating units across Canada and in Bermuda in order to fulfill obligations for accountability to local communities, contributors and funding agencies. A project is currently underway to allow the publication of consolidated financial statements reflecting all operating units in Canada and Bermuda by 2010.

Management responsibility for financial reporting

The accompanying financial statements and all other information contained in this report are the responsibility of the management of The Salvation Army.

These financial statements have been prepared in accordance with 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 is responsible for the financial statements and is assisted in discharging this responsibility by the Territorial Finance Council, which meets regularly with management as well as internal and external auditors to help 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 KPMG LLP, Chartered Accountants. Their report, dated June 2, 2006, outlines the scope of KPMG's examination as well as their opinion on the financial statements.

Neil Watt, *Major*
Territorial Secretary for Business Administration
and Treasurer of the Governing Council

R. Paul Goodyear, *CMA, FCMA*
Territorial Financial Secretary
and Secretary of the Governing Council

Financial highlights

From a financial point of view, the year 2005/06 was an extremely positive one, in most respects.

The net financial position of the Governing Council was increased by $59.4 million during the year, compared to $2.9 million in the prior year. This year's surplus was comprised of increases in restricted funds of $61.4 million, offset by a decrease of $2.0 million in unrestricted funds available at the discretion of the Governing Council.

The Capital Fund increased by $22.8 million, representing the net additional investment in capital assets, primarily land and buildings, during the year. Other funds subject to external restrictions increased as well. Endowment funds increased by $5.0 million, while another $5.2 million represents increases in funds that are temporarily restricted until they are used in accordance with the terms and conditions set by donors.

The remaining $28.4 million represents funds that are restricted as a result of Army policies for investment and legacy income. The operating budget derives a significant source of its funding from these sources of income. The Army has implemented policies to lessen the impact of volatility in these sources of income on the annual operating budget.

Under these policies, funds are allocated to the operating budget based on long-term average earnings, rather than the actual returns realized in a particular year. This will result in a surplus for financial statement purposes, other factors aside, during periods of above-average earnings, and a deficit in periods of lower than average earnings.

As at March 31, 2006, the Army was holding internally restricted funds of $74.4 million related to investment and legacy income from the current and prior years, which will be used to fund operations in successive years. Given its past experience, the Army believes the balances of these funds to be at reasonable levels, given the volatility of these sources of income.

In total, revenues of $286.1 million were realized, an increase of $54.7 million over 2004/05. During 2005/06, the Governing Council realized donations, grants and legacies of $108.6 million (in addition, over $70 million was raised directly by operating units, bringing the total public support to The Salvation Army in Canada and Bermuda to over $180 million during the past year).

Donor support to the Governing Council represented a $14 million increase over 2004/05, driven largely by increases in legacy income and contributions to the National Red Shield Appeal.

During 2005/06, a total of $42.1 million was realized in legacies, compared with $31.1 million in the prior year. The National Red Shield Appeal — the Army's annual campaign for its social service operations — realized $37.9 million, an increase of $2.5 million over 2004/05. This represents the highest amount ever collected in the history of the Appeal.

Revenue from ancillary operations, which includes used textiles and other goods offered for sale to the public through the Army's Thrift stores and recycling centres, as well as other goods and services sold by various headquarters departments, predominantly to other Salvation Army entities, also increased year over year, with $72.4 million realized, in comparison to $66.9 million in the prior year. After deducting costs of $65.9 million (2004/05 - $62.2 million), net profits of $6.5 million (2004/05 - $4.7 million) were earned. These profits were used to fund the operations of territorial and divisional headquarters, as well as to make grants to operating units.

Contributions for capital projects totaled $36.7 million, up from $18.9 million in the prior year. This source of income shows some volatility from year to year, depending on the number and size of the particular capital projects being undertaken.

2005/06 was also a strong year for investment income, with $30.3 million being realized, in comparison to $21.9 million in the prior year. Gains or losses in the value of investments are recognized for accounting purposes only upon disposal. In addition to realized gains recognized in the financial statements, the investment portfolio's unrealized gains increased by $36.4 million during the year due to market appreciation.

Net gains on disposal of capital assets added $12.5 million to revenues during the year, compared to a net loss of $11.9 million in the prior year. Net proceeds from disposal of these capital assets were predominantly used to fund the acquisition of replacement facilities or reserved for future acquisitions.

Total expenses incurred were $226.7 million, in comparison to $228.5 million in the prior year. Most categories of expenses reflected insignificant changes year over year. Two categories are worthy of comment. First, grants and allocations to other Salvation Army entities in Canada and Bermuda increased from $72.1 million to $77.3 million, the increase being largely attributable to the increase in legacy income outlined above.

Second, headquarters' operations expenses were reduced from $29.9 million to $29.0 million, largely as a result of a multi-year cost cutting program at territorial and divisional headquarters, intended to better align administrative costs with revenues available to fund them.

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 in Canada and Bermuda.

Interest is paid on constituent accounts based on prevailing rates associated with similar instruments available in the market.

Net profits from the Fund are used to offset costs of administration at the territorial and divisional level, as well as to make grants and allocations to local programs and services.

The Fund is managed by external investment counseling firms in accordance with the Statement of Investment Policy and Procedures, which is approved by the Territorial Finance Council, on the recommendation of the Investment Advisory Committee. The Investment Advisory Committee also monitors the performance of the investment managers, with the assistance of a third party performance measurement reporting service, and makes recommendations to the Territorial Finance Council concerning their engagement. Custody of the assets is held by a separate financial institution.

The Statement of Investment Policy and Procedures restricts investment in companies involved in the manufacture, distribution or promotion of alcohol, tobacco, pornography, gaming, or gaming facilities. The investment policy also sets limits on the amounts of assets held in individual securities or classes of securities, and establishes quality and liquidity criteria.

The asset allocation policy of the fund as at March 31, 2006, was 30% Canadian equities, 40% Canadian fixed income, and 30% global equities.

As at March 31, 2006, the Fund had total assets with a market value of $524.4 million. The values reflected in the financial statements, however, are based on historical cost, in accordance with current generally accepted accounting principles.

The Fund experienced a total return of 15.7% in the one-year period ending March 31, 2006, exceeding its relative market benchmark of 14.6%. Over the four-year period then ended, the Fund experienced a total return of 9.1%, in comparison to its relative market benchmark of 7.7%.

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AUDITORS' REPORT

To The Governing Council of The Salvation Army in Canada

We have audited the balance sheet of The Governing Council of The Salvation Army in Canada ("The Salvation Army") as at March 31, 2006 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, The Salvation Army derives part of its revenue from the general public in the form of donations and legacies, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of revenue from these sources was limited to the amounts recorded in The Salvation Army's records and we were not able to determine whether any adjustments might be necessary to donation and legacy revenue, fund balances and assets.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the donation and legacy revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of The Salvation Army as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

June 2, 2006

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Balance Sheet
(In thousands of dollars)

March 31, 2006, with comparative figures for 2005

	2006	2005 (Restated - note 3)
Assets		
Current assets:		
Cash and cash equivalents	$ 28,271	$ 12,235
Accounts receivable, principally from Salvation Army entities	13,013	11,381
Interest and dividends receivable	2,115	3,000
Inventories	1,822	1,918
Prepaid expenses	2,126	2,903
Construction advances recoverable, principally from Salvation Army entities	7,808	8,603
	55,155	40,040
Investments:		
Securities (note 5)	428,904	392,493
Loans receivable, principally from Salvation Army entities (note 6)	20,239	20,504
	449,143	412,997
Accrued pension asset (note 7)	20,390	21,655
Capital assets (note 8)	793,714	772,831
	$ 1,318,402	$ 1,247,523

	2006	2005 (Restated - note 3)
## Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities	$ 29,108	$ 15,632
Deferred revenue	13,323	9,084
	42,431	24,716
Long-term liabilities:		
Other post-retirement benefits (note 7)	38,180	36,223
Mortgages payable (note 9)	78,793	87,698
Restricted deposits held for Salvation Army entities	160,879	159,260
Deposits on life leases (note 10)	16,909	17,836
	294,761	301,017
Fund balances:		
Operating:		
Internally restricted (note 11)	165,834	137,382
Unrestricted	7,443	9,472
	173,277	146,854
Restricted (notes 8 and 12):		
Endowment	51,672	46,706
Other	58,434	53,206
Capital	697,827	675,024
	807,933	774,936
	981,210	921,790
	$ 1,318,402	$ 1,247,523

See accompanying notes to financial statements.

Approved by the Governing Council:

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2006, with comparative figures for 2005

					2006	2005
	Operating Fund	Restricted Funds				
		Endowment	Other	Capital	Total	Total (Restated - note 3)
Revenue:						
Donations and grants	$ 5,543	$ 96	$ 59,861	$ 970	$ 66,470	$ 63,140
Ancillary operations	72,359	–	–	–	72,359	66,946
Legacies	17,992	1,059	23,071	–	42,122	31,128
Capital contributions	–	–	–	36,742	36,742	18,907
Investment	29,696	–	641	–	30,337	21,869
Levies, assessments and supervision	21,193	–	–	–	21,193	19,483
Net gain on disposal of land and buildings	–	–	–	12,495	12,495	–
Other	4,361	–	12	–	4,373	9,939
	151,144	1,155	83,585	50,207	286,091	231,412
Expenses and allocations:						
Allocations/grants to other Salvation Army entities:						
Canada and Bermuda	4,333	2,180	61,854	8,963	77,330	72,055
Overseas	–	–	6,320	–	6,320	5,166
Ancillary operations	65,895	–	–	–	65,895	62,244
Headquarters' operating costs	28,961	–	–	–	28,961	29,902
Fundraising, planned giving and public relations	7,675	–	9,273	–	16,948	17,282
Leadership development and training	5,458	–	–	–	5,458	5,818
Officers' benefit plans	11,173	–	–	–	11,173	9,972
Amortization	–	–	–	13,532	13,532	12,453
Net loss on disposal of land and buildings	–	–	–	–	–	11,927
Other	872	–	182	–	1,054	1,727
	124,367	2,180	77,629	22,495	226,671	228,546
Excess (deficiency) of revenue over expenses and allocations	$ 26,777	$ (1,025)	$ 5,956	$ 27,712	$ 59,420	$ 2,866

See accompanying notes to financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Statement of Changes in Fund Balances
(In thousands of dollars)

Year ended March 31, 2006, with comparative figures for 2005

					2006	2005
	Operating	Restricted Funds				
	Fund	Endowment	Other	Capital	Total	Total
						(Restated - note 3)
Fund balances, beginning of year: As restated (note 3)	$ 146,854	$ 46,706	$ 53,206	$ 675,024	$ 921,790	$ 918,924
Excess (deficiency) of revenue over expenses and allocations	26,777	(1,025)	5,956	27,712	59,420	2,866
Net interfund transfers (note 13)	(354)	5,991	(728)	(4,909)	–	–
Fund balances, end of year	$ 173,277	$ 51,672	$ 58,434	$ 697,827	$ 981,210	$ 921,790

See accompanying notes to financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2006, with comparative figures for 2005

	2006	2005 (Restated - note 3)
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses and allocations	$ 59,420	$ 2,866
Items not affecting cash (note 14(a))	8,120	30,674
Change in non-cash operating working capital (note 14(b))	17,841	(12,232)
Contributions to other post-retirement benefit plan	(3,861)	(4,068)
	81,520	17,240
Financing activities:		
Decrease (increase) in construction advances recoverable	795	(1,046)
Decrease in loans receivable	265	160
Increase (decrease) in long-term mortgages payable	(8,905)	10,961
Increase in restricted deposits	1,619	9,567
Increase (decrease) in deposits on life leases	(927)	96
	(7,153)	19,738
Investing activities:		
Purchase of securities, net	(36,411)	(12,739)
Additions to capital assets	(36,792)	(50,677)
Proceeds from dispositions of capital assets	14,872	31,753
	(58,331)	(31,663)
Increase in cash and cash equivalents	16,036	5,315
Cash and cash equivalents, beginning of year	12,235	6,920
Cash and cash equivalents, end of year	$ 28,271	$ 12,235

See accompanying notes to financial statements.

The Governing Council of The Salvation Army in Canada ("The Salvation Army" or the "Organization") is a religious, charitable and not-for-profit organization, incorporated by a special Act of Parliament and registered by Canada Revenue Agency for tax-deductible contributions.

The Salvation Army, as an international movement, is an evangelical branch of the Christian Church. Its message is based on the Bible; its ministry is motivated by love for God and the needs of humanity. Its mission is to preach the gospel of Jesus Christ, supply basic human needs, provide personal counselling, and undertake the spiritual and moral regeneration and physical rehabilitation of all persons in need who come within its sphere of influence regardless of race, creed, sex or age.

1. Basis of presentation:

These financial statements present, in accordance with Canadian generally accepted accounting principles, the assets, liabilities, revenue, expenses and cash flows of the Territorial Headquarters ("THQ"), the 13 Divisional Headquarters ("DHQ"), the colleges of The Salvation Army in Canada and Bermuda and Grace Communities Corporation ("GCC"). They include the real estate for all Salvation Army entities in the territory because the Organization has legal title to it. Also included are funds held in trust for all Salvation Army entities in the territory.

Separate financial statements are prepared for all Salvation Army operations, including corps and community churches, institutions, hospitals and GCC.

(a) Operating Fund:

The purpose of the Operating Fund is to record the day-to-day operations of THQ and DHQ, including the receipt and use of donations and legacies with no external restrictions.

1. Basis of presentation (continued):

(b) Restricted Funds:

(i) Endowment Fund:

The purpose of the Endowment Fund is to record the accumulation of externally restricted endowment contributions and unrestricted amounts internally designated as endowments.

Investment income earned on contributions with external use restrictions is recorded in the Other Restricted Funds and other investment income is recorded in the Operating Fund.

(ii) Other Restricted Funds:

The purpose of the Other Restricted Funds is to record the fundraising and use of funds for the National Red Shield Appeal and the World Services Appeal campaigns, and to record the receipt and use of donations and legacies with external restrictions other than endowments. The National Red Shield Appeal campaign is the main fundraising appeal of The Salvation Army and the funds are used to support the work of The Salvation Army in Canada and Bermuda. Funds raised through the World Services Appeal campaign are used to support the work of The Salvation Army internationally.

Investment income recorded represents the earnings from certain of the Other Restricted Funds' assets, as well as the earnings from the Endowment Fund's assets pertaining to contributions with external use restrictions.

(iii) Capital Fund:

The purpose of the Capital Fund is to record the real estate for all Salvation Army entities in the territory because The Salvation Army has legal title to it.

2. Significant accounting policies:

(a) Cash and cash equivalents:

The Salvation Army considers deposits in banks, certificates of deposit and short-term investments with original maturities of 90 days or less at the date of acquisition as cash and cash equivalents.

(b) Inventories:

Inventories are valued at the lower of cost and net realizable value.

(c) Construction advances recoverable:

Construction advances recoverable represent reimbursable expenditures made for building projects in process at the year end. Amounts recoverable include grants receivable from government and civic agencies, proceeds of special capital fundraising projects, proceeds of sale of land and buildings, and contributions by corps and community churches, social service programs, hospitals and others.

(d) Securities:

Investments received by gift are stated at fair market value at the date of receipt. Other investments are stated at cost. If there is an other than temporary decline in value, these investments are written down to provide for the loss.

(e) Capital assets:

(i) Capital assets used by the hospitals are carried at cost, less amortization on the buildings computed on a straight-line basis over their estimated useful lives of 40 years.

(ii) Other capital assets:

Capital assets capitalized before April 1, 1996 are stated at cost, if purchased, or at fair market value at the date of receipt, if by gift. Amortization is not taken on these buildings.

2. Significant accounting policies (continued):

Capital assets capitalized after March 31, 1996 are stated at cost, less amortization on the buildings computed on a straight-line basis over their estimated useful lives of 40 years.

(iii) Land is carried at cost or fair market value at the date of acquisition and is not being amortized.

(iv) Furniture and equipment:

Furniture and equipment with cost exceeding $5 are stated at cost, less amortization computed on a straight-line basis over the following periods:

Furniture	10 years
Equipment	3 years

(f) Contributions of materials and services:

Contributions of materials and services are not recognized in these financial statements. The sale of contributed materials and services is recognized as revenue when sold.

(g) Revenue recognition:

The Salvation 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.

Contributions and grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Legacy revenue and donations from the National Red Shield Appeal and the World Services Appeal campaigns are recorded when received.

2. Significant accounting policies (continued):

Ancillary operations' revenue includes recycling and sales of used clothing and other donated goods offered through the National Recycling Operations, sales of materials by the Supplies and Purchasing Department and sales of publications. Sales revenue is recognized as revenue at the point of sale. Ancillary operations also includes the operations of GCC whose rental revenue is recognized in the month to which it relates.

Investment income is recognized as revenue of the appropriate fund when earned.

Levies, assessment and supervision are recognized as revenue earned for services rendered at an agreed upon rate to offset the cost of certain national programs.

(h) Retirement benefits:

(i) Officers' retirement benefits:

The Salvation Army maintains a non-contributory defined benefit pension plan covering all eligible officers. Officers of The Salvation Army are individuals who have relinquished secular employment in response to a spiritual calling, so as to devote all their time and energies to the service of God and the people and who, having successfully completed the required period of training, are commissioned as officers and ordained as ministers of the gospel of Jesus Christ. The Salvation Army also provides other post-retirement benefits to eligible officers. Other post-retirement benefits include yearly grants, housing allowances, medical and dental benefits and survivor death benefits. The Salvation Army uses actuarial reports prepared by independent actuaries for funding and accounting purposes.

The Salvation 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 post-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;

2. Significant accounting policies (continued):

(b) For purposes of calculating the expected return on plan assets, those assets are valued at fair value;

(c) The discount rate used to determine the accrued benefit obligation was 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) For pension and other post-retirement benefits, the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and fair value of plan assets is amortized over the average remaining service life of active officers. The average remaining service period of the active officers covered by the pension plan is 15 years. The average remaining service period of the active officers covered by the other post-retirement benefits is 17 years; and

(e) Upon adoption of the current accounting standard, a transitional asset was calculated, which is amortized over the average remaining service period of active officers expected to receive benefits under the benefit plan, being 15 years.

(ii) Employees' post-retirement benefits:

There are no post-retirement benefits for employees other than officers.

The Salvation Army makes regular contributions to a group Registered Retirement Savings Plan ("RRSP"), 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 two years of continuous service.

2. Significant accounting policies (continued):

(i) Interest rate swap contracts:

The Salvation Army is party to two interest rate swap contracts (used to fix the variable interest rate on long-term mortgages (note 5)). These instruments are not recognized in the financial statements on inception. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. The Salvation Army's policy is not to utilize derivative financial instruments for investment purposes.

(j) GCC life leases:

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

Non-guaranteed life leases:

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 of the unit. Prior to taking possession, cash deposits and instalments paid are recorded as deposits on life leases.

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(In thousands of dollars)

3. Restatement of prior year's figures:

During 2006, The Salvation Army retroactively changed its accounting policy for reporting one of its controlled entities. In prior years, the assets, liabilities, revenue and expenses of GCC were reported separately in the notes to the financial statements.

After the elimination of inter-entity transactions, this change had the effect of increasing assets by $38,475 (2005 - $40,306), increasing liabilities by $34,273 (2005 - $35,194), increasing fund balances by $4,730 (2005 - $5,113), increasing revenue by $3,560 (2005 - $4,127) and increasing expenses by $3,942 (2005 - $4,243).

The opening net assets for 2005 have been restated as follows:

	Operating Fund	Restricted Funds Endowment	Other	Capital	Total
Fund balances, beginning of year, as previously reported	$ 143,854	$ 45,354	$ 46,536	$ 677,953	$ 913,697
Adjustment to include Grace Communities Corporation	(338)	–	917	4,648	5,227
	$ 143,516	$ 45,354	$ 47,453	$ 682,601	$ 918,924

The opening net assets for 2006 have been restated as follows:

	Operating Fund	Restricted Funds Endowment	Other	Capital	Total
Fund balances, beginning of year, as previously reported	$ 146,094	$ 46,706	$ 52,192	$ 671,685	$ 916,677
Adjustment to include Grace Communities Corporation	760	–	1,014	3,339	5,113
	$ 146,854	$ 46,706	$ 53,206	$ 675,024	$ 921,790

4. Bank indebtedness:

The Salvation Army has a Canadian dollar demand operating facility of up to $5,000. The line of credit bears interest at the prime rate. At year end, The Salvation Army had not drawn on this line of credit.

(In thousands of dollars)

5. Securities:

	2006		2005	
	Carrying value	Market value	Carrying value	Market value
Cash and cash equivalents	$ 13,305	$ 13,305	$ 34,165	$ 34,165
Pooled funds - fixed income	88,631	88,631	–	–
Pooled funds - equities	16,769	25,216	10,410	13,583
Fixed income	93,050	93,176	154,865	158,190
Equities	217,149	304,026	193,053	245,594
	$ 428,904	$ 524,354	$ 392,493	$ 451,532

Further information related to cash and cash equivalents and fixed income securities is as follows:

	2006		2005	
Term to maturity	Carrying value	Weighted average interest rate	Carrying value	Weighted average interest rate
Less than one year	$ 13,305	2.91%	$ 34,165	1.95%
One to five years	35,551	4.78%	67,244	4.83%
Greater than five years	57,499	6.07%	87,610	5.64%
	$ 106,355		$ 189,019	

The Salvation Army is exposed to financial risk as follows:

Investments are subject to the risk that values will fluctuate due to the changes in market interest rates.

The Salvation Army is exposed to interest rate risk on the financing of two of its properties. The Salvation Army has entered into interest rate swaps with highly rated counterparties to swap the variable interest payments on the debt into fixed interest rates from 6.27% to 6.61%, consistent with its interest rate risk management objectives. The swaps have an initial notional amount totalling $16,698 that reduces on a basis consistent with the principal value of the underlying debt and matures on dates from August 29, 2008 to November 1, 2023. By effectively converting the interest rates from variable to fixed, The Salvation Army has eliminated the volatility.

5. Securities (continued):

Investments are subject to the risk that values will fluctuate due to changes in foreign exchange rates.

Returns on investments are subject to risk factors specific to general economic conditions. The market value represents the maximum exposure to market/credit risk. This risk is mitigated by investing in a portfolio that is widely diversified by industry.

6. Loans receivable:

The Salvation Army makes loans available to Salvation Army entities to assist in the funding of capital projects and, in some circumstances, for operating purposes.

Interest-bearing loans receivable, principally from Salvation Army entities, at March 31, 2006 were $9,093 (2005 - $8,609). These loans bear interest from 4.97% to 8.75% (2005 - 4.97% to 8.75%) and are to be received at fixed amounts over various terms.

There is one interest-bearing mortgage receivable from an external party totalling $3,894 (2005 - $3,992) with an interest rate of 6.42% (2005 - 6.42%).

Net non-interest bearing loans receivable from Salvation Army entities total $3,609 (2005 - $4,275). Non-interest bearing loans receivable from external parties total $341 (2005 - $367).

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. Charitable remainder trusts amounted to $3,302 (2005 - $3,261).

(In thousands of dollars)

7. Retirement benefits:

Information about The Salvation Army's retirement plans is as follows:

	2006		2005	
	Defined benefit pension plan	Other post-retirement benefit plans	Defined benefit pension plan	Other post-retirement benefit plans
Accrued benefit obligation	$ 138,980	$ 66,531	$ 122,262	$ 53,015
Fair value of plan assets	146,792	–	134,662	–
Funded status - plan surplus (deficit)	7,812	(66,531)	12,400	(53,015)
Unamortized net actuarial loss	30,974	28,351	29,696	16,792
Unamortized net transitional asset	(18,396)	–	(20,441)	–
Accrued benefit asset (liability)	$ 20,390	$ (38,180)	$ 21,655	$ (36,223)

The following table summarizes the allocation of plan assets of the defined benefit pension plan by major asset category:

	Allocation of plan assets	
	2006	2005
Canadian equities	27%	28%
Canadian bonds and debentures	18%	38%
Short-term notes and treasury bills	2%	3%
Canadian pooled funds	23%	2%
Non-Canadian equities	30%	29%
	100%	100%

(In thousands of dollars)

7. Retirement benefits (continued):

The allocation is measured as of the measurement date of March 31 of each year.

The significant assumptions used are as follows:

	2006		2005	
	Defined benefit pension plan	Other post-retirement benefit plans	Defined benefit pension plan	Other post-retirement benefit plans
Accrued benefit obligation as of March 31:				
Discount rate	5.50%	5.50%	6.00%	6.00%
Rate of compensation increase	3.00%	–	3.00%	–
Benefit costs for years ended March 31:				
Discount rate	6.00%	6.00%	6.00%	6.00%
Expected long-term rate of return on plan assets	6.00%	–	6.00%	–
Rate of compensation increase	3.00%	–	3.00%	–

Assumed health care cost trend rates at March 31:

	2006	2005
Initial health care cost trend rate for prescription drugs	7.0%	7.0%
Cost trend rate declines to	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2009	2006
Assumed increase in other benefit costs per annum	4.5%	4.5%

(In thousands of dollars)

7. Retirement benefits (continued):

The Salvation Army's net benefit plan expenses (credits) are as follows:

	2006		2005	
	Defined benefit pension plan	Other post-retirement benefit plans	Defined benefit pension plan	Other post-retirement benefit plans
Current service cost	$ 2,802	$ 1,961	$ 2,722	$ 1,881
Interest cost	7,310	3,182	6,874	3,023
Expected return on plan assets	(7,885)	–	(7,653)	–
Amortization of net transitional asset	(2,044)	–	(2,044)	–
Amortization of other items	1,082	675	1,085	631
	$ 1,265	$ 5,818	$ 984	$ 5,535

Additional expenses for officers' benefits, consisting of cash payments made by The Salvation Army directly to beneficiaries for its unfunded other post-retirement benefit plans and other current benefits for the active officers were $4,089 (2005 - $3,253).

The Salvation 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 of the plans for funding purposes was as of March 31, 2004, and the next required valuation will be as of March 31, 2007.

(In thousands of dollars)

8. Capital assets:

	Cost	Accumulated amortization	2006 Net book value	2005 Net book value
Hospitals:				
Land	$ 1,249	$ –	$ 1,249	$ 1,264
Buildings	69,988	29,417	40,571	40,162
Other land and buildings:				
Capitalized before April 1, 1996	222,704	–	222,704	305,973
Capitalized after March 31, 1996:				
Land	61,217	–	61,217	51,990
Buildings	493,013	59,219	433,794	353,856
Furniture and equipment	12,005	7,872	4,133	3,729
Construction in progress	30,046	–	30,046	15,857
	$ 890,222	$ 96,508	$ 793,714	$ 772,831

It is the policy of The Salvation Army to expense individual items of furniture and equipment that are less than $5. Furniture and equipment expensed during the year amounted to $625 (2005 - $509).

During the year, $895 (2005 - $792) of interest was capitalized to construction in progress.

The Capital Fund balance is comprised of:

	2006	2005
Current assets	$ 10,239	$ 9,021
Investments	5,270	3,360
Current liabilities	(4,712)	(4,654)
Long-term liabilities (deposits on life leases)	(16,909)	(17,836)
Net assets invested in capital assets:		
Net book value of capital assets	793,714	772,831
Less mortgages payable	(89,775)	(87,698)
	703,939	685,133
	$ 697,827	$ 675,024

(In thousands of dollars)

9. Mortgages payable:

Mortgages payable bear interest at rates from 2.0% to 9.625% with an average interest rate of approximately 6.48% (2005 - 6.65%) and extend for terms of up to 34 years from March 31, 2006. Some of these mortgages are subsidized by governments so that the effective interest rate to The Salvation Army is reduced. The repayment of the principal and interest on these mortgages is the responsibility of the local Salvation Army entities occupying the mortgaged properties.

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

2007	$ 10,982
2008	10,095
2009	23,973
2010	8,632
2011	5,078
Thereafter	31,015
	89,775
Less current portion	10,982
	$ 78,793

The current portion of the mortgages payable balance is included in accounts payable and accrued liabilities.

10. Deposits on life leases:

	2006	2005
Balance, beginning of year	$ 17,836	$ 17,740
Amounts reclassified from deposits on life lease upon occupancy	1,289	1,854
Less current portion:		
Refunds	(2,087)	(1,577)
Amounts recognized as revenue	(129)	(181)
Balance, end of year	$ 16,909	$ 17,836

(In thousands of dollars)

10. Deposits on life leases (continued):

Under the guaranteed life lease contracts, GCC has committed to each 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.

11. Operating Fund:

Internally restricted funds within the Operating Fund balance are as follows:

	2006	2005
Divisional reserves	$ 49,504	$ 46,500
Investment earnings and legacies held for future operations	74,431	50,651
Self insurance	9,748	9,990
Property maintenance and development	7,201	7,172
Other	24,950	23,069
	$ 165,834	$ 137,382

(In thousands of dollars)

12. Restricted Funds:

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

	2006			2005		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Corps and community churches	$ 4,377	$ 130	$ 4,507	$ 4,166	$ 130	$ 4,296
Institutions	4,598	1,398	5,996	4,543	1,398	5,941
Hospitals	1,382	–	1,382	1,364	–	1,364
DHQ	2,948	4,377	7,325	3,026	4,377	7,403
THQ (i)	16,452	16,010	32,462	15,192	12,510	27,702
	$ 29,757	$ 21,915	$ 51,672	$ 28,291	$ 18,415	$ 46,706

(i) THQ includes National Recycling Operations, Jackson's Point Conference Centre and the colleges.

(b) Investment income earned on the Endowment Fund has been recognized as follows:

	2006	2005
Operating Fund	$ 512	$ 554
Other Restricted Funds	641	880
	$ 1,153	$ 1,434

(In thousands of dollars)

12. Restricted Funds (continued):

The Other Restricted Funds balances are restricted as follows:

	2006			2005		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Corps and community churches	$ 215	$ 1	$ 216	$ 178	$ 1	$ 179
Institutions	2,555	45	2,600	770	49	819
Hospitals	202	160	362	197	199	396
DHQ	15,690	20	15,710	12,056	22	12,078
THQ (i)	38,797	749	39,546	38,791	943	39,734
	$ 57,459	$ 975	$ 58,434	$ 51,992	$ 1,214	$ 53,206

(i) THQ includes National Recycling Operations, Jackson's Point Conference Centre and the colleges.

13. Net interfund transfers - other:

	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Capital projects (from reserves)	$ (7,400)	$ –	$ –	$ 7,400
Proceeds from sale of properties	9,951	4,999	–	(14,950)
Property related transfers to capital fund from units	(1,786)	–	(1,014)	2,800
Interest earned allocated to restricted fund	(1,286)	1,000	286	–
Other	167	(8)	–	(159)
	$ (354)	$ 5,991	$ (728)	$ (4,909)

(In thousands of dollars)

14. Statement of cash flows:

(a) Items not affecting cash:

	2006	2005
Loss (gain) on disposal of capital assets	$ (12,495)	$ 11,702
Amortization	13,532	12,453
Increase in other post-retirement benefits	5,818	5,535
Decrease in accrued pension asset	1,265	984
	$ 8,120	$ 30,674

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

	2006	2005
Accounts receivable, principally from Salvation Army entities	$ (1,632)	$ (1,051)
Interest and dividends receivable	885	(194)
Inventories	96	254
Prepaid expenses	777	(324)
Accounts payable and accrued liabilities	13,476	(9,429)
Deferred revenue	4,239	(1,488)
	$ 17,841	$ (12,232)

15. Controlled entities:

The corps and community and social service centres are considered controlled entities but are not included in these financial statements as they are individually immaterial.

There are 349 corps and community churches and 130 community and social services centres. Summarized financial information has not been provided for these entities because it would not be practical or cost-effective to accumulate all the required information in the time available. Three hospitals are not consolidated as they are essentially controlled by their Boards of Directors and the provincial governments.

(In thousands of dollars)

16. Lease obligations:

The Governing Council has lease commitments regarding premises of Salvation Army entities. These leases are funded by individual entities and expire on or before 2052. The lease payments are due as follows:

2007	$ 13,746
2008	10,312
2009	7,886
2010	5,532
2011	2,389
Thereafter	1,184
	$ 41,049

The Salvation Army has agreed to indemnify the landlords against losses occurring on the leased premises.

17. Contingencies and commitments:

(a) Letters of credit and letters of comfort:

The Salvation Army enters into agreements in the normal course of operations that contain features which meet the definition of a guarantee according to The Canadian Institute of Chartered Accountants' Handbook. Various debt obligations (such as overdrafts and lines of credit) related to certain controlled organizations have been directly guaranteed by The Governing Council under such agreements with third parties. The Salvation Army would be required to perform on these guarantees in the event of default by the guaranteed parties. No material loss is anticipated by reason of such agreements and guarantees.

At March 31, 2006, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated $2,036 (2005 - $11,905), representing the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. In the event that any of the guarantees are executed, The Salvation Army has legal rights and remedies to recover some, or all, of the funds paid.

17. Contingencies and commitments (continued):

As of March 31, 2006, the current carrying amount of the obligations of the guaranteed entities for which these guarantees applied amounted to $701 (2005 - $905). At March 31, 2006, the amount of total recourse available to The Salvation Army in the event of the default of these guarantees resulting from realization on collateral held amounted to approximately nil (2005 - nil).

(b) Supporting Communities Partnership Initiatives ("SCPI"):

The Salvation Army receives funding for certain capital projects from the federal government under the SCPI program. This funding is considered a grant as long as The Salvation Army continues to meet the terms of the agreements. In the case of default, the funding is repayable to the government. At year end, The Salvation Army had received $22,335 (2005 - $16,184) 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 financial statements related to this funding.

(c) Legal actions:

The Salvation 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 Salvation Army.

(d) Environmental contamination:

The Salvation Army periodically assesses whether any of its properties have been environmentally contaminated. These assessments are not in response to any governmental or regulatory directives. Management records remediation expenses when the timing, extent and cost of corrective actions can be reasonably estimated.

(In thousands of dollars)

17. Contingencies and commitments (continued):

(e) Indemnification of directors and officers:

The Salvation Army has indemnified its past, present and future directors, officers, trustees, employees and volunteers against expenses (including legal expenses), judgments and any amount actually or reasonably incurred by them in connection with any wrongful act in which the directors 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 Salvation Army. The nature of the indemnity prevents The Salvation Army from reasonably estimating the maximum exposure. The Salvation Army has purchased directors' and officers' liability insurance with respect to this indemnification.

18. Fair values of financial assets and financial liabilities:

The carrying values of cash and cash equivalents, accounts receivable, interest and dividends receivable, construction advances recoverable, accounts payable and accrued liabilities and restricted deposits approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

The fair values of securities are disclosed in note 5.

The carrying amounts and the fair values of the loans receivable, principally from Salvation Army entities, and mortgages payable are as follows:

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Loans receivable, principally from Salvation Army entities	$ 20,239	$ 21,349	$ 20,504	$ 22,414
Financial liabilities:				
Current portion of mortgages payable	10,982	10,982	3,568	3,568
Long-term portion of mortgages payable	78,793	72,364	87,698	89,122

18. Fair values of financial assets and financial liabilities (continued):

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of deposits on life leases is not readily determinable.

19. South Asia Earthquake:

During 2006, The Salvation Army collected funds to provide financial support for relief, rehabilitation and reconstruction projects in earthquake affected areas of South East Asia. The Government of Canada, via the Canadian International Development Agency ("CIDA") created a South Asia Earthquake Matching Fund to contribute the equivalent amount of aid as collected by The Salvation Army.

Between October 8, 2005 and October 26, 2005, the Salvation Army collected $199 from individual Canadians, as declared in the letter of attestation to CIDA dated December 12, 2005.

During the year, the Salvation Army expended $499 for earthquake response efforts.

20. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

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Colonel Glen Shepherd
Major Jean Moulton
Major Neil Watt
R. Paul Goodyear

Territorial Finance Council
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Colonel Glen Shepherd
Colonel Eleanor Shepherd
Lieut.-Colonel David Hiscock
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