



Giving Hope Today

125

Over **1.5 million** people  
were helped by The  
Salvation Army in Canada  
and Bermuda last year.

**Addictions, Rehabilitation & Shelter**

**6,300** shelter, addictions, detox and mental health beds provided each night for vulnerable men, women and families  
**900** people completed addictions and rehabilitation programs  
**2.1** million meals served

**Community Churches**

**320** community churches

**Community & Family Services**

**994,000** persons assisted with food, clothing or practical assistance  
**8,000** children went to Salvation Army camps

**Emergency Disaster Services**

**8,900** people helped when disaster struck

**Hospice, Health & Long-Term Care**

**470** hospital beds provided  
**1,500** long-term care and supportive housing beds provided  
**60** hospice beds provided

**Work in Developing Countries**

**140** projects in 9 countries  
**2,700** children sponsored  
**60** Salvation Army officers and lay personnel serving outside Canada

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## **Introduction**

The accompanying financial statements present the financial position of The Governing Council of The Salvation Army in Canada ("the Governing Council") as of March 31, 2007, and its revenues and expenses during the year then ended.

The Governing Council 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, registered in Canada by the Canada Revenue Agency for tax-deductible contributions, with individual operating units registered as associated charities of Territorial Headquarters.

These financial statements reflect the assets, liabilities and fund balances for the Territorial Headquarters of The Salvation Army in Canada and Bermuda, the 13 divisional headquarters, National Recycling Operations, the William and Catherine Booth College, the Colleges for Officer Training and Grace Communities Corporation. 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 received by territorial and divisional headquarters, and the use of those funds for territorial and divisional headquarters 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. The accompanying consolidated charts have been prepared from all operating budgets for the year 2006/07 to help provide an understanding of the overall size and scope of the Army's operations. Total assets are approximately \$1.5 billion and the total annual operating budget is almost \$0.5 billion.

## **Financial highlights**

The net financial position of the Governing Council increased by \$60.7 million during the year, compared to \$59.4 million in the prior year. This year's surplus was comprised of increases in restricted funds of \$34 million, and of \$26.7 million in unrestricted funds available at the discretion of the Governing Council.

The net change in restricted funds is comprised of an increase of \$12.6 million in the Capital Fund, representing the net additional investment in capital assets during the year, an increase of \$2.0 million in endowment funds, which are permanently restricted, and \$19.4 million in other funds that are temporarily restricted.

Major sources of revenue, such as donations to most fundraising appeals and legacies are managed such that funds are raised in one year and allocated for operations in successive years. This prudent approach ensures that spending plans are in line with funds actually on hand, rather than expectations of future fundraising, but contributes to surpluses being realized in the financial statements in years of income growth.

In total, revenues of \$298.7 million were realized during the year, an increase of \$7.1 million over 2005/06. \$109.6 million of this revenue, or just over one-third, was in the form of donations and legacies. In addition to these amounts raised by territorial and divisional headquarters, over \$40 million was raised directly by operating units, bringing the total public support to The Salvation Army in Canada and Bermuda to over \$150 million during the past year. For the second year in row, the National Red Shield Appeal, the Army's annual campaign for its social service operations, exceeded all previous records, with a total of \$40.6 million being raised.

The second largest source of revenue was from ancillary operations (\$73.2 million), most of which represents the sale of used textiles and other goods through the Army's thrift stores and recycling centres. After deducting costs of \$68.0 million, net profits of \$5.2 million were realized. After making provision for any required increase in working capital, profits are used to fund the operations of territorial and divisional headquarters, as well as to make grants to operating units.

2006/07 was also a strong year for investment income, with \$40.6 million being realized, in comparison to \$32.1 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 \$12.4 million during the year due to market appreciation.

In percentage terms, the Fund realized a total return of 11.2%, exceeding its relative market benchmark of 10.1%. Over the four-year period ending March 31, 2007, the Fund earned a return of 15.2%, in comparison to a benchmark of 13.7%.

Investments are centralized in the General Investment Fund, which holds in trust 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. Net profits from the Fund are used to offset costs of administration, as well as to make allocations to local programs and services.

The Governing Council has implemented a spending policy for investment income, which results in budgetary allocations being based on long-term expected earnings, rather than actual income realized in a particular year. This approach lessens the impact of the natural volatility of capital markets on the annual operating budget.

The General Investment Fund is managed by external investment managers in accordance with a statement of investment policy and procedures, which prohibits investment in companies whose primary business is the manufacture, distribution or promotion of alcohol, tobacco, pornography, gaming, gaming facilities, or armaments. 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 at March 31, 2007 was 30% Canadian equities, 30% global equities, and 40% Canadian fixed income.

## **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 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 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 12, 2007, 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



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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, 2007 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, excess of revenue over expenses and allocations, 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

June 12, 2007

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Balance Sheet  
(In thousands of dollars)

March 31, 2007, with comparative figures for 2006

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 71,472	\$ 28,271
Accounts receivable, principally from Salvation Army entities	10,292	13,013
Interest and dividends receivable	2,343	2,115
Inventories	1,764	1,822
Prepaid expenses	2,136	2,126
Construction advances recoverable, principally from Salvation Army entities	9,620	7,808
	97,627	55,155
Investments:		
Securities (note 4)	474,061	428,904
Loans receivable, principally from Salvation Army entities (note 6)	17,605	20,239
	491,666	449,143
Accrued pension asset (note 7)	18,837	20,390
Capital assets (note 8)	825,176	793,714
	\$ 1,433,306	\$ 1,318,402

	2007	2006
<b>Liabilities and Fund Balances</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 31,413	\$ 29,108
Deferred revenue	10,240	13,323
	<u>41,653</u>	<u>42,431</u>
Long-term liabilities:		
Other post-retirement benefits (note 7)	39,746	38,180
Mortgages payable (note 9)	84,925	78,793
Restricted deposits held for Salvation Army entities	208,695	160,879
Deposits on life leases (note 10)	16,357	16,909
	<u>349,723</u>	<u>294,761</u>
Fund balances:		
Operating:		
Internally restricted (note 11)	179,500	165,834
Unrestricted	34,122	7,443
	<u>213,622</u>	<u>173,277</u>
Restricted (notes 8 and 12):		
Endowment	53,717	51,672
Other	64,214	58,434
Capital	710,377	697,827
	<u>828,308</u>	<u>807,933</u>
	<u>1,041,930</u>	<u>981,210</u>
Contingencies and commitments (notes 16 and 17)		
	<u>\$ 1,433,306</u>	<u>\$ 1,318,402</u>

See accompanying notes to financial statements.

Approved by the Governing Council:

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# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Statement of Operations  
(In thousands of dollars)

Year ended March 31, 2007, with comparative figures for 2006

	2007				2006			
	Operating Fund	Endowment	Restricted Funds		Total	Total	Total	Total
			Other	Capital				
Revenue:								
Donations and grants	\$ 7,099	\$ 1,885	\$ 55,396	\$ 1,050	\$ 65,430	\$ 66,470		
Ancillary operations	73,163	—	—	—	73,163	72,359		
Legacies	17,382	223	26,637	—	44,242	42,122		
Capital contributions	3,439	—	—	32,215	35,654	36,742		
Investment	39,837	—	770	—	40,607	32,148		
Levies, assessments and supervision	25,062	—	—	—	25,062	21,193		
Net gain on disposal of land and buildings	—	—	—	6,992	6,992	12,495		
Other	7,231	335	—	—	7,566	8,086		
	173,213	2,443	82,803	40,257	298,716	291,615		
Expenses and allocations:								
Allocations/grants to other								
Salvation Army entities:								
Canada and Bermuda	—	356	62,288	14,750	77,394	77,330		
Overseas	—	—	6,869	—	6,869	6,320		
Ancillary operations	68,053	—	—	—	68,053	65,895		
Headquarters' operating costs	29,020	—	—	—	29,020	28,961		
Fundraising, planned giving and public relations	8,747	—	8,715	—	17,462	16,948		
Investment expenses	1,772	—	—	—	1,772	1,811		
Leadership development and training	5,898	—	—	—	5,898	5,458		
Officers' benefit plans	12,296	—	—	—	12,296	11,173		
Amortization	—	—	—	13,722	13,722	13,532		
Other	5,464	—	46	—	5,510	4,767		
	131,250	356	77,918	28,472	237,996	232,195		
Excess of revenue over expenses and allocations	\$ 41,963	\$ 2,087	\$ 4,885	\$ 11,785	\$ 60,720	\$ 59,420		

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, 2007, with comparative figures for 2006

	2007				2006	
	Operating Fund	Endowment (note 12)	Restricted Funds		Total	Total
			Other (note 12)	Capital (note 8)		
Fund balances, beginning of year	\$ 173,277	\$ 51,672	\$ 58,434	\$ 697,827	\$ 981,210	\$ 921,790
Excess of revenue over expenses and allocations	41,963	2,087	4,885	11,785	60,720	59,420
Net interfund transfers (note 13)	(1,618)	(42)	895	765	–	–
Fund balances, end of year	\$ 213,622	\$ 53,717	\$ 64,214	\$ 710,377	\$ 1,041,930	\$ 981,210

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, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses and allocations	\$ 60,720	\$ 59,420
Items not affecting cash (note 14(a))	15,956	8,120
Change in non-cash operating working capital (note 14(b))	1,763	17,841
Contributions to other post-retirement benefits	(6,107)	(3,861)
	<u>72,332</u>	<u>81,520</u>
Financing activities:		
Decrease (increase) in construction advances recoverable	(1,812)	795
Decrease in loans receivable	2,634	265
Increase (decrease) in long-term mortgages payable	6,132	(8,905)
Increase in restricted deposits	47,816	1,619
Decrease in deposits on life leases	(552)	(927)
	<u>54,218</u>	<u>(7,153)</u>
Investing activities:		
Purchase of securities, net	(45,157)	(36,411)
Additions to capital assets	(66,395)	(36,792)
Proceeds from dispositions of capital assets	28,203	14,872
	<u>(83,349)</u>	<u>(58,331)</u>
Increase in cash and cash equivalents	43,201	16,036
Cash and cash equivalents, beginning of year	28,271	12,235
Cash and cash equivalents, end of year	<u>\$ 71,472</u>	<u>\$ 28,271</u>

See accompanying notes to financial statements.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements  
(In thousands of dollars)

Year ended March 31, 2007

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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.

The Salvation Army is comprised of over 500 individual ministry units, scattered throughout all ten Canadian provinces, the Yukon, Nunavut, and the Northwest Territories, as well as in Bermuda. Its territorial headquarters is located in Toronto, Ontario, and there are divisional headquarters in Vancouver, Edmonton, Regina, Winnipeg, Orillia, London, Toronto, Kingston, Montreal, Halifax, Gander, St. John's, and Hamilton, Bermuda.

The Salvation Army's operations in Canada and Bermuda (collectively the "Territory") include corps (churches), community centres, hospitals, long-term care facilities, hospices, transitional housing, shelters, addictions and rehabilitation centres, and various other social programs.

## **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"), National Recycling Operations ("NRO"), 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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## **1. Basis of presentation (continued):**

### **(a) Operating Fund:**

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

External restrictions refer to any conditions or specific uses that have been requested or required by the donor(s) in making a gift to The Salvation Army. Internal designations refer to those funds which management have earmarked for specific purposes or geographic areas of the country, where the donor(s) have not placed any restrictions on their use.

### **(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.

#### **(ii) Other Restricted Funds:**

The Other Restricted Funds record the receipt and use of funds for the National Red Shield Appeal campaigns, the World Services Appeal campaigns, and donations and legacies with external restrictions other than endowments. Funds raised through the National Red Shield Appeal campaigns 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.

#### **(iii) Capital Fund:**

The purpose of the Capital Fund is to record the real estate for all Salvation Army entities in the Territory.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## 2. Significant accounting policies:

### (a) Cash and cash equivalents:

The Salvation Army considers deposits in banks, certificates of deposit and other 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 on building projects in progress at 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) Hospitals:

Buildings used by the hospitals are carried at cost, less accumulated amortization. Amortization is provided for on a straight-line basis over their estimated useful lives of 40 years.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

### (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 deducted on these capital assets.

Capital assets capitalized after March 31, 1996 are stated at cost, less accumulated amortization.

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

(b) Buildings are stated at cost, less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives of 40 years.

(c) Furniture and equipment with cost exceeding \$5 are stated at cost, less accumulated amortization. Amortization is computed on a straight-line basis over their respective lives ranging from three to ten years.

### (iii) Financing costs during construction:

During construction of buildings, interest is paid monthly on contributions in excess of costs accumulated or charged on costs in excess of contributions based on the average balance of the project account. Interest paid is recognized as contributions to the project upon capitalization, and interest charged is capitalized as a cost of the project. Interest rates are set monthly by The Salvation Army based on prevailing rates available in the market.

### (f) Contributions of materials and services:

Contributions of materials and services are not recognized in these financial statements. Revenue from the disposition of contributions of materials and services is recognized as revenue at the point of sale.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

### (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.

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

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.

Investment income, which is recorded on the accrual basis, includes interest income, dividends and capital gains (losses) on the sale of investments.

Revenue from ancillary operations includes sales of used clothing and other donated goods by the NRO, sales of materials and publications. Sales revenue is recognized as revenue at the point of sale. Ancillary operations also include the operations of GCC whose rental revenue is recognized in the month to which it relates.

Management Support Assessment and other levies received from corps, community churches and institutions are recognized as revenue earned to offset the cost of certain national programs and administration. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.



# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

(h) Retirement benefits:

(i) Officers' retirement benefits:

The Salvation Army maintains a non-contributory defined benefit pension plan for officers. All officers are eligible for enrolment in the plan following completion of two years' training. 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 supplementary allowances, medical and dental 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;
- (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;

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

(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' retirement benefits:

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.

### (i) Interest rate swap contracts:

The Salvation Army is party to four interest rate swap contracts used to convert the variable interest rate on long-term mortgages to fixed rates (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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

### (j) GCC life leases:

#### (i) Guaranteed:

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

#### (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.

### (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.

## 3. Bank indebtedness:

The Salvation Army has a Canadian dollar demand revolving operating facility of up to \$5,000 to cover Canadian and U.S. dollars overdrafts and standby Letters of Credit. In addition, The Salvation Army has a demand revolving capital project facility of up to \$4,000 to cover a portion of the cost of construction or provide bridge financing on specified real estate and capital improvement projects. These lines of credit bear interest at the prime rate. At year end, The Salvation Army had not drawn on these lines of credit, other than to issue standby Letters of Credit in the amount of \$599 (note 17).

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 4. Securities:

	2007		2006	
	Carrying value	Market value	Carrying value	Market value
Cash and short-term investments	\$ 12,656	\$ 12,656	\$ 13,305	\$ 13,305
Pooled funds - fixed income	110,016	110,016	88,631	88,631
Pooled funds - equities	14,102	22,425	16,769	25,216
Fixed income	104,825	104,824	93,050	93,176
Equities	232,462	332,098	217,149	304,026
	<u>\$ 474,061</u>	<u>\$ 582,019</u>	<u>\$ 428,904</u>	<u>\$ 524,354</u>

Further information related to cash and short-term investments and fixed income securities is as follows:

	2007		2006	
	Carrying value	Weighted average interest rate	Carrying value	Weighted average interest rate
Term to maturity				
Less than one year	\$ 12,656	4.22%	\$ 13,305	2.91%
One to five years	45,662	4.41%	35,551	4.78%
Greater than five years	59,163	5.82%	57,499	6.07%
	<u>\$ 117,481</u>		<u>\$ 106,355</u>	

## 5. Financial risk:

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 GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## **5. Financial risk (continued):**

The Salvation Army is exposed to interest rate risk on the financing of four of its properties. The Salvation Army has entered into interest rate swaps with highly reputable counterparties to exchange the variable interest payments on its debt for fixed interest rates from 5.44% to 6.61%. As of March 31, 2007, the swaps have a notional amount totalling \$17,171 (2006 - \$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, consistent with its interest rate risk management objectives.

As of March 31, 2007, 30% (2006 - 30%) of investments is invested in non-Canadian securities. These foreign 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 provides loans to Salvation Army entities to assist in the funding of capital projects and, in some circumstances, for operating purposes.

At March 31, 2007, interest-bearing loans receivable, principally from Salvation Army entities were \$13,375 (2006 - \$9,093). These loans bear interest from 4.97% to 8.75% (2006 - 4.97% to 8.75%) and The Salvation Army receives payments from the local entities in fixed amounts over various terms.

Net non-interest bearing loans receivable from Salvation Army entities total \$511 (2006 - \$3,609).

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 6. Loans receivable (continued):

There are no interest-bearing mortgages receivable from external parties in 2007 (2006 - \$3,894, with an interest rate of 6.42%).

Non-interest bearing loans receivable from external parties total \$417 (2006 - \$341).

A charitable remainder trust is an arrangement by 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 (2006 - \$3,302).

## 7. Retirement benefits:

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

	2007		2006	
	Defined benefit pension plan	Other post-retirement benefit plans	Defined benefit pension plan	Other post-retirement benefit plans
Accrued benefit obligation	\$ 153,426	\$ 69,708	\$ 138,980	\$ 66,531
Fair value of plan assets	156,426	—	146,792	—
Funded status - plan surplus (deficit)	3,000	(69,708)	7,812	(66,531)
Unamortized net actuarial loss	26,553	29,962	30,974	28,351
Unamortized net transitional asset	(10,716)	—	(18,396)	—
Accrued benefit asset (liability)	\$ 18,837	\$ (39,746)	\$ 20,390	\$ (38,180)

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 7. Retirement benefits (continued):

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

	Allocation of plan assets	
	2007	2006
Canadian equities	24%	27%
Canadian bonds and debentures	23%	18%
Short-term notes and treasury bills	2%	2%
Canadian pooled funds	23%	23%
Non-Canadian equities	28%	30%
	100%	100%

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

The significant assumptions used are as follows:

	2007		2006	
	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%	5.50%	5.50%
Rate of compensation increase	3.00%	—	3.00%	—
Benefit costs for years ended March 31:				
Discount rate	5.25%	5.25%	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%	—

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 7. Retirement benefits (continued):

Assumed health care cost trend rates at March 31:

	2007	2006
Initial health care cost trend rate for prescription drugs	6.0%	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	2009
Assumed increase in other benefit costs per annum	4.5%	4.5%

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

	2007		2006	
	Defined benefit pension plan	Other post- retirement benefit plans	Defined benefit pension plan	Other post- retirement benefit plans
Current service cost	\$ 3,467	\$ 956	\$ 2,802	\$ 1,961
Interest cost	7,641	4,332	7,310	3,182
Expected return on plan assets	(8,596)	—	(7,885)	—
Amortization of net transitional asset	(2,044)	—	(2,044)	—
Amortization of other items	1,085	2,385	1,082	675
	\$ 1,553	\$ 7,673	\$ 1,265	\$ 5,818

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 \$3,068 (2006 - \$4,089).

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, 2006. The next required valuation will be as of March 31, 2009.



# **THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA**

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 8. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Hospitals:				
Land	\$ 1,259	\$ —	\$ 1,259	\$ 1,249
Buildings	67,997	(31,826)	36,171	40,571
Other land and buildings:				
Capitalized before April 1, 1996	214,346	—	214,346	222,704
Capitalized after March 31, 1996:				
Land	63,397	—	63,397	61,217
Buildings	519,573	(67,007)	452,566	418,134
Furniture and equipment	13,331	(8,753)	4,578	4,133
Construction in progress	52,859	—	52,859	45,706
	<b>\$ 932,762</b>	<b>\$ (107,586)</b>	<b>\$ 825,176</b>	<b>\$ 793,714</b>

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 \$1,325 (2006 - \$625).

During the year, \$479 (2006 - \$895) of interest was capitalized to construction in progress.

The Capital Fund balance is comprised of:

	2007	2006
Current assets	\$ 7,355	\$ 10,239
Investments	(3,723)	5,270
Current liabilities	(4,149)	(4,712)
Long-term liabilities:		
Deposits on life leases	(16,357)	(16,909)
Net assets invested in capital assets:		
Net book value of capital assets	825,176	793,714
Less mortgages payable	(97,925)	(89,775)
	<b>727,251</b>	<b>703,939</b>
	<b>\$ 710,377</b>	<b>\$ 697,827</b>

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 9. Mortgages payable:

Mortgages payable bear interest at rates from 2.00% to 9.63% with an average interest rate of approximately 6.04% (2006 - 6.48%) and extend for terms of up to 33 years from March 31, 2007. 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:

2008	\$ 13,000
2009	22,230
2010	10,636
2011	6,980
2012	8,762
Thereafter	36,317
	97,925
Less current portion	13,000
	<u>\$ 84,925</u>

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

## 10. Deposits on life leases:

	2007	2006
Balance, beginning of year	\$ 16,909	\$ 17,836
Amounts reclassified from deposits on life lease upon occupancy	1,450	1,289
Less current portion:		
Refunds	(1,489)	(2,087)
Amounts recognized as revenue	(513)	(129)
Balance, end of year	<u>\$ 16,357</u>	<u>\$ 16,909</u>

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## 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. 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 management's opinion, 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:

	2007	2006
Divisional reserves	\$ 56,975	\$ 49,504
Investment earnings and legacies held for future operations	90,993	74,431
Self insurance	7,447	9,748
Property maintenance and development	2,497	7,201
Other	21,588	24,950
	<u>\$ 179,500</u>	<u>\$ 165,834</u>

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 12. Restricted Funds:

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

	2007			2006		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Corps and community churches	\$ 3,925	\$ 130	\$ 4,055	\$ 4,377	\$ 130	\$ 4,507
Institutions	6,700	1,398	8,098	4,598	1,398	5,996
Hospitals	1,382	—	1,382	1,382	—	1,382
DHQ	3,132	4,376	7,508	2,948	4,377	7,325
THQ (i)	17,472	15,202	32,674	16,452	16,010	32,462
	\$ 32,611	\$ 21,106	\$ 53,717	\$ 29,757	\$ 21,915	\$ 51,672

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

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

	2007	2006
Operating Fund	\$ 756	\$ 512
Other Restricted Funds	770	641
	\$ 1,526	\$ 1,153

(c) The Other Restricted Funds balances are restricted as follows:

	2007			2006		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Corps and community churches	\$ (136)	\$ 1	\$ (135)	\$ 215	\$ 1	\$ 216
Institutions	3,267	47	3,314	2,555	45	2,600
Hospitals	230	178	408	202	160	362
DHQ	16,105	21	16,126	15,690	20	15,710
THQ (i)	43,733	768	44,501	38,797	749	39,546
	\$ 63,199	\$ 1,015	\$ 64,214	\$ 57,459	\$ 975	\$ 58,434

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

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 13. Net interfund transfers:

	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Transfer legacy fundraising costs to Campaign Fund	\$ (524)	\$ —	\$ 524	\$ —
Interest earned allocated to Other Restricted Funds	(190)	—	190	—
Capital projects (from reserves)	(145)	—	—	145
Property-related transfers to Capital Fund from units	(620)	—	—	620
Other	(139)	(42)	181	—
	<u>\$ (1,618)</u>	<u>\$ (42)</u>	<u>\$ 895</u>	<u>\$ 765</u>

## 14. Statement of cash flows:

### (a) Items not affecting cash:

	2007	2006
Gain on disposal of capital assets	\$ (6,992)	\$ (12,495)
Amortization	13,722	13,532
Other post-retirement benefits expense	7,673	5,818
Decrease in accrued pension asset	1,553	1,265
	<u>\$ 15,956</u>	<u>\$ 8,120</u>

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

	2007	2006
Accounts receivable, principally from Salvation Army entities	\$ 2,721	\$ (1,632)
Interest and dividends receivable	(228)	885
Inventories	58	96
Prepaid expenses	(10)	777
Accounts payable and accrued liabilities	2,305	13,476
Deferred revenue	(3,083)	4,239
	<u>\$ 1,763</u>	<u>\$ 17,841</u>

# **THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA**

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## 15. Controlled entities:

There are 333 corps and community churches, 189 social services centres and 3 hospitals that are considered controlled entities but are not included in these financial statements. A project is currently underway to allow the publication of consolidated financial statements reflecting operating units in Canada and Bermuda by 2010. In the meantime, summarized financial information is not available.

## 16. Lease obligations:

The Salvation Army 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:

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2008	\$ 15,911
2009	11,866
2010	8,966
2011	5,407
2012	2,725
Thereafter	5,539
	<hr/>
	\$ 50,414

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## 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.



# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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## **17. Contingencies and commitments (continued):**

At March 31, 2007, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated \$1,934 (2006 - \$2,036), 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.

As of March 31, 2007, The Salvation Army had issued Letters of Credit totalling \$599 (2006 - \$701). These are primarily irrevocable standby Letters of Credit issued in favour of municipalities and other entities requiring performance guarantees on projects undertaken by The Salvation Army.

### **(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 \$26,536 (2006 - \$22,335) 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.

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

## 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 4.

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

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Loans receivable, principally from Salvation Army entities	\$ 17,605	\$ 22,371	\$ 20,239	\$ 21,349
Financial liabilities:				
Current portion of mortgages payable	13,000	13,000	10,982	10,982
Long-term portion of mortgages payable	84,925	82,735	78,793	72,364

# THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Notes to Financial Statements (continued)  
(In thousands of dollars)

Year ended March 31, 2007

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

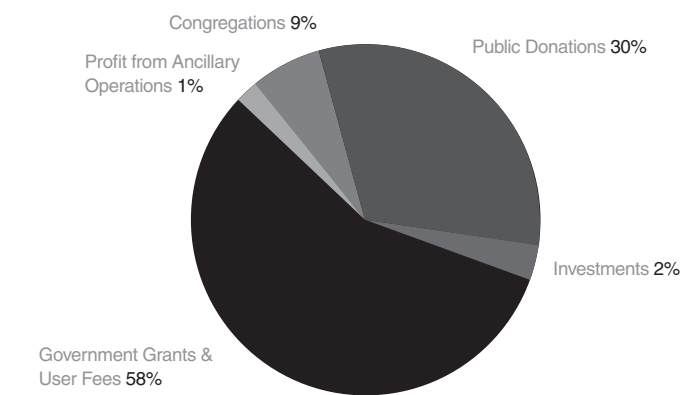
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision.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

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

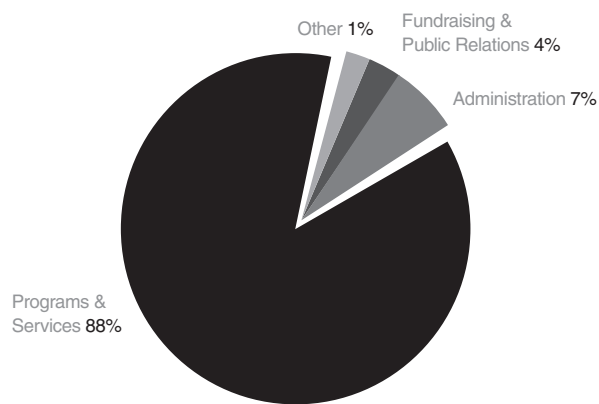
**19. Comparative figures:**

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

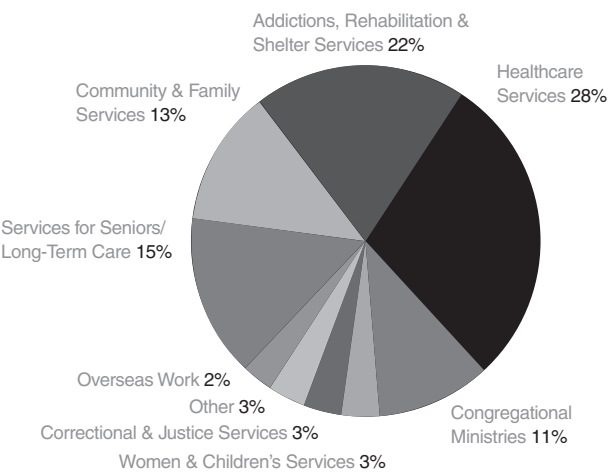
Sources of Funds



Use of Funds



Programs & Services (%)



Financial Overview

Total operating budget for The Salvation Army in Canada & Bermuda is almost \$500 million annually. Separate financial statements are issued for each of the Army's almost 500 operating units. Due to the fact that consolidated statements are not yet available, the following charts have been prepared from operating budgets for the year 2006-07, to help provide an understanding of the overall size and scope of the Army's operations.

## **Members of The Governing Council of The Salvation Army in Canada**

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Commissioner William W. Francis, Chair *(from July 1, 2007)*  
Colonel Glen Shepherd, Vice Chair  
Major Neil Watt, Treasurer  
R. Paul Goodyear, Secretary  
Major Jean Moulton

## **Territorial Finance Council**

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Paul Thornhill, Secretary  
Major James Champ  
Mary Ellen Eberlin  
Commissioner Marilyn D. Francis *(from July 1, 2007)*  
R. Paul Goodyear  
Lt.-Colonel David Hiscock  
John Kershaw  
Major Mona Moore *(to April 11, 2007)*  
Major Jean Moulton  
Lt.-Colonel Raymond Moulton  
Colonel Eleanor Shepherd  
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Major Floyd Tidd  
Major Neil Watt

## **Investment Advisory Committee**

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