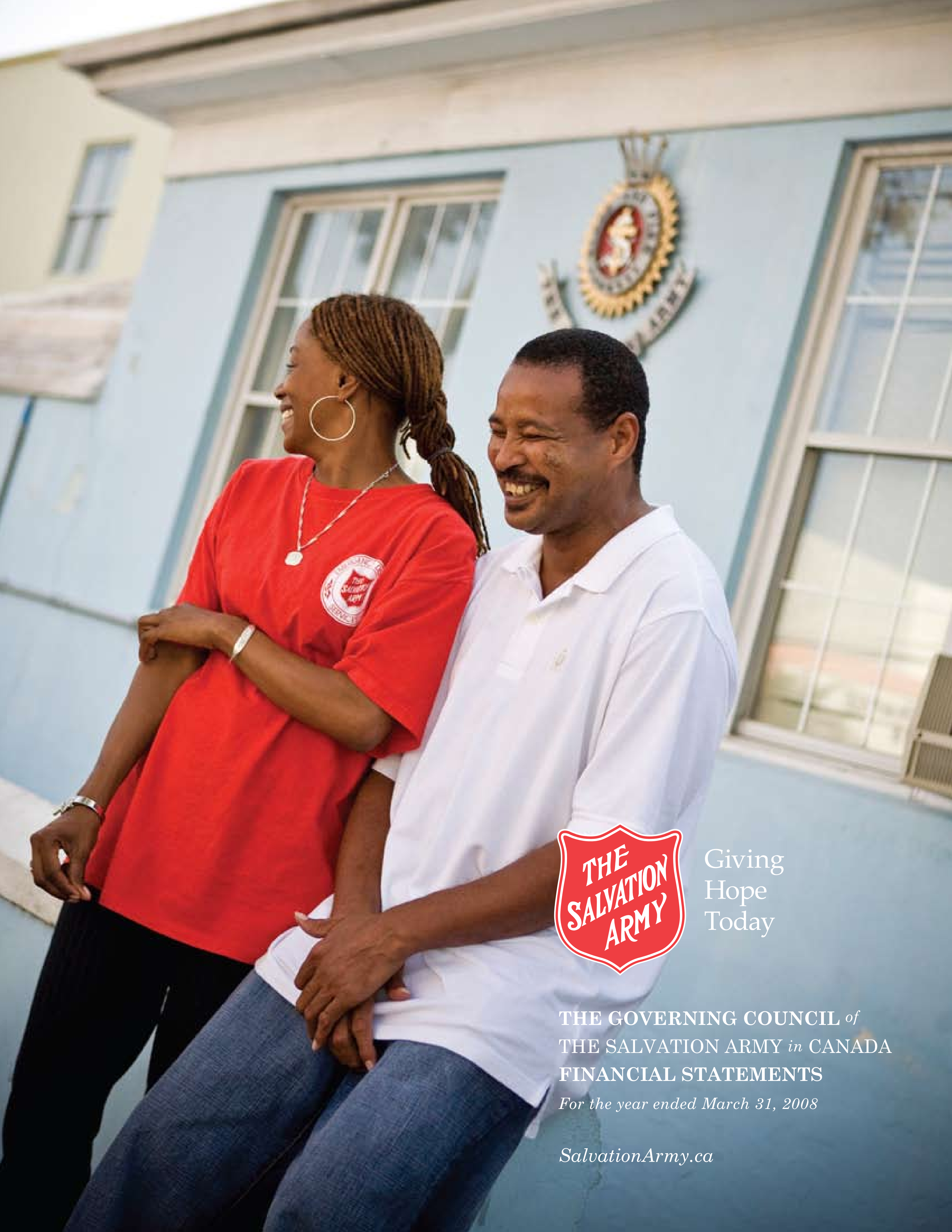

THE SALVATION ARMY

Giving Hope Today

THE GOVERNING COUNCIL *of*
THE SALVATION ARMY *in* CANADA
FINANCIAL STATEMENTS
For the year ended March 31, 2008

SalvationArmy.ca

MORE THAN *1.5 million* **PEOPLE** WERE HELPED BY THE **SALVATION ARMY** *in* **CANADA** *and* BERMUDA LAST YEAR

Addictions, Rehabilitation and Shelter
6,370 shelter, addictions, detox and mental health beds provided each night for vulnerable men, women and families
2,000 people completed addictions and rehabilitation programs
2.3 million meals served

Community Churches
311 community churches

Community and Family Services
863,000 persons given food, clothing or practical assistance
6,600 children attended Salvation Army camps
18 Daycare centres provide a total of **1060** available spaces

Emergency Disaster Services
7,350 people helped when disaster struck

Hospice, Health and Long-Term Care
200 hospital beds provided
1,500 long-term care and supportive housing beds provided
40 hospice beds provided

Work in Developing Countries
100 projects in **16** countries
2,660 children sponsored
53 Salvation Army officers and lay personnel serving outside Canada

Personnel
950 active Salvation Army officers
915 retired Salvation Army officers
8,400 employees
1.4 million volunteer hours provided

Financial Statements of

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Year ended March 31, 2008

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Financial Statements

Year ended March 31, 2008

Auditors' Report

Balance Sheet 1

Statement of Operations 3

Statement of Changes in Fund Balances 4

Statement of Cash Flows 5

Notes to Financial Statements 6

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, 2008, 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 (deficiency) 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, 2008 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, Licensed Public Accountants

Toronto, Canada

June 13, 2008

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Balance Sheet
(In thousands of dollars)

March 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 53,443	$ 71,473
Receivables, principally from Salvation Army entities	22,368	22,255
Other current assets	4,440	3,856
	80,251	97,584
Investments:		
Securities (note 6)	576,096	474,059
Loans receivable, principally from Salvation Army entities (note 8)	16,410	17,605
	592,506	491,664
Accrued pension asset (note 9)	19,564	18,837
Capital assets (note 10)	807,399	825,176
	$ 1,499,720	$ 1,433,261

	2008	2007

Liabilities and Fund Balances

	2008	2007
Current liabilities:		
Accounts payable and accrued liabilities	$ 40,488	$ 31,380
Deferred revenue	8,709	10,226
	49,197	41,606
Long-term liabilities:		
Post-retirement benefits (note 9)	41,741	39,746
Mortgages payable (note 11)	93,928	84,924
Derivative liability (note 7(b))	1,054	–
Restricted deposits held principally for Salvation Army entities	212,387	208,698
Deposits on life leases (note 12)	15,122	16,357
	364,232	349,725
Fund balances:		
Net unrealized gain on securities (note 3)	46,956	–
Operating:		
Internally restricted (note 13)	165,052	142,843
Other restricted (note 14(c))	41,588	41,272
Unrestricted	17,360	29,507
	224,000	213,622
Restricted:		
Endowment (note 14(a))	68,215	53,717
Other restricted (note 14(c))	61,611	64,214
Capital (note 10)	685,509	710,377
	815,335	828,308
	1,086,291	1,041,930
Contingencies and commitments (notes 20 and 21)		
	$ 1,499,720	$ 1,433,261

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, 2008, with comparative figures for 2007

					2008	2007
	Operating	Restricted Funds				
	Fund	Endowment	Other	Capital	Total	Total
Revenue:						
Donations and grants	$ 6,208	$ 379	$ 58,761	$ 1,370	$ 66,718	$ 65,396
Ancillary operations	75,733	–	–	–	75,733	73,163
Legacies	20,580	1,071	21,762	–	43,413	44,242
Capital contributions	–	–	–	18,649	18,649	41,209
Investment (note 15)	41,728	–	1,219	–	42,947	40,245
Levies, assessments and supervision	25,693	–	–	–	25,693	25,062
Net gain on disposal of capital assets	–	–	–	–	–	6,992
Other	2,754	5	213	–	2,972	3,881
	172,696	1,455	81,955	20,019	276,125	300,190
Expenses and allocations:						
Allocations/grants to other Salvation Army entities:						
Canada and Bermuda	5,085	207	67,091	6,354	78,737	82,080
Overseas	–	–	7,399	–	7,399	6,869
Ancillary operations	73,711	–	–	–	73,711	68,053
Headquarters' operating costs	32,668	–	–	–	32,668	29,574
Fundraising, planned giving and public relations	7,764	–	11,094	–	18,858	17,566
Investment expenses	1,694	–	–	–	1,694	1,409
Leadership development and training	5,322	–	–	–	5,322	5,898
Officers' benefit plans	12,512	–	–	–	12,512	12,296
Amortization	–	–	–	14,397	14,397	13,722
Net loss on disposal of capital assets (note 16)	–	–	–	30,935	30,935	–
Other	1,395	–	38	1,054	2,487	2,003
	140,151	207	85,622	52,740	278,720	239,470
Excess (deficiency) of revenue over expenses and allocations	$ 32,545	$ 1,248	$ (3,667)	$ (32,721)	$ (2,595)	$ 60,720

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, 2008, with comparative figures for 2007

			Restricted Funds			2008	2007
	Operating Fund	Net unrealized gain on securities	Endowment (note 14)	Other (note 14)	Capital (note 10)	Total	Total
Fund balances, beginning of year	$ 213,622	$ –	$ 53,717	$ 64,214	$ 710,377	$ 1,041,930	$ 981,210
Adjustment to opening fund balances (note 3)	–	108,493	–	–	–	108,493	–
Excess (deficiency) of revenue over expenses and allocations	32,545	–	1,248	(3,667)	(32,721)	(2,595)	60,720
Realized loss on securities recognized during year	–	(27,516)	–	–	–	(27,516)	–
Net unrealized loss in current year on securities	–	(34,021)	–	–	–	(34,021)	–
Net interfund transfers (note 17)	(22,167)	–	13,250	1,064	7,853	–	–
Fund balances, end of year	$ 224,000	$ 46,956	$ 68,215	$ 61,611	$ 685,509	$ 1,086,291	$ 1,041,930

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, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses and allocations	$ (2,595)	$ 60,720
Items not affecting cash (note 18(a))	55,123	15,956
Change in non-cash operating working capital (note 18(b))	6,894	(49)
Contributions to other post-retirement benefits	(5,823)	(6,106)
Contributions to defined benefit pension plan	(2,700)	–
	50,899	70,521
Financing activities:		
Decrease in loans receivable	1,195	2,634
Increase in long-term mortgages payable	9,004	6,132
Increase in derivative liability	1,054	–
Increase in restricted deposits	3,689	47,816
Decrease in deposits on life leases	(1,235)	(552)
	13,707	56,030
Investing activities:		
Purchase of securities, net	(55,081)	(45,157)
Additions to capital assets	(40,891)	(66,395)
Proceeds on disposals of capital assets	13,336	28,203
	(82,636)	(83,349)
Increase (decrease) in cash and cash equivalents	(18,030)	43,202
Cash and cash equivalents, beginning of year	71,473	28,271
Cash and cash equivalents, end of year	$ 53,443	$ 71,473

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.

The Salvation Army is comprised of more than 500 individual ministry units, scattered throughout all 10 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, Winnipeg, Orillia, London, Toronto, 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 11 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.

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 restrictions refer to those funds which management has earmarked for specific purposes, where the donors 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 social and community services 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.

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:

At March 31, 2008, securities are classified as available-for-sale and stated at fair value. In prior years, the securities were recorded at lower of cost and market. The change in the difference between the fair value and cost of securities at the beginning and end of each year is reflected in the statement of changes in fund balances. Equities and fixed income securities are valued at year-end quoted market prices. Transaction costs that are directly attributable to the acquisition of securities are not considered significant and are expensed when paid. Investment purchases and sales transactions are accounted for on the settlement date.

2. Significant accounting policies (continued):

(e) Capital assets:

(i) 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 is stated at cost, less accumulated amortization. Amortization is computed on a straight-line basis over their respective lives ranging from three to 10 years.

(ii) 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.

(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.

2. Significant accounting policies (continued):

(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.

(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 rental of office space, 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.

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' service. 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 pro-rated 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;

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 12 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, which was 15 years at the time of adoption.

(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 three months of continuous service.

(i) Interest rate swap contracts:

The Salvation Army uses interest rate swaps to manage fluctuations in interest rates on long-term mortgages. The interest rate swap is used for risk management purposes only and does not meet the criteria for hedge accounting as specified by The Canadian Institute of Chartered Accountants ("CICA").

Variations in the fair value are marked to market on a current basis, with the resulting gains or losses recorded in the statement of operations.

The Salvation Army's policy is not to utilize derivative financial instruments for investment purposes.

2. Significant accounting policies (continued):

(j) Translation of foreign currencies:

Assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at exchange rates prevailing at the year-end date. Revenue and expenses and allocations have been translated using exchange rates prevailing on the transaction date. Gains and losses arising from these translation policies are included in the statement of operations.

(k) 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.

(l) 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 and allocations during the year. Actual results could differ from those estimates.

3. Change in accounting policy:

Effective April 1, 2007, the Organization adopted the CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement.

Upon adoption of this new standard, the Organization designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Receivables and loans receivable, principally from Salvation Army entities and mortgages payable, are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The Organization has designated all of its securities as available-for-sale and carries them at market value. The impact of this change is to adjust net assets as at April 1, 2007 for the net unrealized gain on securities of $108,493, and to recognize a decrease in the net unrealized gain on securities in the current year of $61,537 resulting in a net unrealized gain on securities at year end of $46,956.

4. Future accounting changes:

The following will be relevant to the Organization's financial statements subsequent to March 31, 2008:

Financial Instruments - Disclosures and Presentation:

The CICA has issued two new accounting standards on financial instruments that revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. These new standards will be effective for the Organization commencing April 1, 2008. The new disclosures will provide additional information on the nature and extent of risks arising from financial instruments to which the Organization is exposed and how it manages those risks.

(In thousands of dollars)

5. Credit facilities:

The Salvation Army has a Canadian dollar demand revolving operating facility of up to $10,000 to cover Canadian and US dollar 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 certain percentage 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. The facilities are higher than normal to cover any disruptions while The Salvation Army changed banks during fiscal 2008. During the year, The Salvation Army moved their banking business to the Royal Bank of Canada following the issuance of a request for proposal involving all the major Canadian banks. 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 $732 (note 21).

6. Securities:

(a) An analysis of the carrying value of securities is as follows:

	Remaining term to maturity					2008	2007
	Within 3 months	Within 12 months	Within 5 years	Over 5 years	No specific maturity	Fair value	Cost
Available-for-sale securities[1]:							
Cash and cash equivalents	$ 10,708	$ –	$ –	$ –	$ –	$ 10,708	$ 13,531
Pooled funds - fixed income:							
Domestic	–	–	–	–	115,919	115,919	110,016
Foreign	–	–	–	–	607	607	550
Pooled funds - equities	–	–	–	–	26,444	26,444	14,760
Fixed income:							
Domestic	4,095	1,431	59,784	40,002	–	105,312	102,850
Foreign	–	2,180	257	133	–	2,570	2,360
Equities[2]:							
Domestic	–	–	–	–	166,355	166,355	73,354
Foreign	–	–	–	–	148,181	148,181	156,638
	$ 14,803	$ 3,611	$ 60,041	$ 40,135	$ 457,506	$ 576,096	$ 474,059
Weighted average effective interest rate	4.3%	4.2%	4.6%	6.1%			

(1) Effective fiscal 2008, available-for-sale securities are carried at fair value. Prior to 2008, available-for-sale securities were classified as investment securities and were carried at the lower of cost or market.

(2) Equities have no stated term and as a result, have been classified in the "No specific maturity" column.

(In thousands of dollars)

6. Securities (continued):

(b) An analysis of net unrealized gains on available-for-sale securities is as follows:

			2008			2007
	Cost	Net unrealized gains	Fair value	Cost	Net unrealized gains	Fair value
Cash and cash equivalents	$ 10,708	$ –	$ 10,708	$ 13,531	$ –	$ 13,531
Pooled funds - fixed income	116,156	370	116,526	110,566	–	110,566
Pooled funds - equities	19,704	6,740	26,444	14,760	8,523	23,283
Fixed income	106,821	1,061	107,882	105,210	60	105,270
Equities	275,751	38,785	314,536	229,992	99,910	329,902
	$ 529,140	$ 46,956	$ 576,096	$ 474,059	$ 108,493	$ 582,552

7. Financial instruments:

(a) Investment risk management:

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

(b) Interest rate risk:

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

7. Financial instruments (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, ranging from 5.44% to 6.61%. As of March 31, 2008, the swaps had a notional amount totalling $16,362 (2007 - $17,171) that reduces on a basis consistent with the principal value of the underlying debt. The swaps mature on dates from August 29, 2008 to November 1, 2023. The fair value of the interest rate swaps at March 31, 2008 is a loss of $1,054. 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.

(c) Market risk:

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

(d) Foreign currency risk:

As of March 31, 2008, 30% (2007 - 30%) of the investments are invested in non-Canadian equities. Foreign currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on the Organization's foreign securities. The Organization does not hedge its foreign currency risk on these investments. The philosophy of the Organization, and its global investment management service provider, is that since the portfolio is managed such as individual securities are held for the long term, and investments are held in multiple currencies, any foreign exchange risk should be minimized in the long term without the need for a hedging strategy to be implemented.

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

(In thousands of dollars)

8. 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, 2008, interest bearing loans receivable, principally from Salvation Army entities were $11,533 (2007 - $13,375). These loans bear interest from 4.97% to 8.75% (2007 - 4.97% to 8.75%) and are to be repaid by fixed amounts over various terms.

Net non-interest bearing loans receivable from Salvation Army entities total $1,173 (2007 - $511). Non-interest bearing loans receivable from external parties total $402 (2007 - $417).

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 (2007 - $3,302).

9. Retirement benefits:

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

	2008		2007	
	Defined benefit pension plan	Other post-retirement benefit plans	Defined benefit pension plan	Other post-retirement benefit plans
Accrued benefit obligation	$ 144,883	$ 66,917	$ 153,426	$ 69,708
Fair value of plan assets	145,439	–	156,426	–
Funded status - plan surplus (deficit)	556	(66,917)	3,000	(69,708)
Unamortized net actuarial loss	28,057	25,176	26,553	29,962
Unamortized net transitional asset	(9,049)	–	(10,716)	–
Accrued benefit asset (liability)	$ 19,564	$ (41,741)	$ 18,837	$ (39,746)

(In thousands of dollars)

9. 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 2008	2007
Canadian equities	25%	24%
Canadian bonds and debentures	23%	23%
Short-term notes and treasury bills	1%	2%
Canadian pooled funds	21%	23%
Non-Canadian equities	30%	28%
	100%	100%

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

The significant assumptions used are as follows:

	2008		2007	
	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	5.25%	5.25%	5.50%	5.50%
Rate of compensation increase	3.00%	–	3.00%	–
Benefit costs for years ended March 31:				
Discount rate	6.00%	6.00%	5.25%	5.25%
Expected long-term rate of return on plan assets	6.00%	–	6.00%	–
Rate of compensation increase	3.00%	–	3.00%	–

(In thousands of dollars)

9. Retirement benefits (continued):

Assumed health care cost trend rates at March 31:

	2008	2007
Initial health care cost trend rate for prescription drugs	7.0%	6.0%
Cost trend rate declines to	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2011	2009
Assumed increase in other benefit costs per annum	5.0%	4.5%

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

	2008		2007	
	Defined benefit pension plan	Other post-retirement benefit plans	Defined benefit pension plan	Other post-retirement benefit plans
Current service cost	$ 4,161	$ 1,094	$ 3,467	$ 956
Interest cost	8,085	4,254	7,641	4,332
Expected return on plan assets	(9,332)	–	(8,596)	–
Amortization of net transitional asset	(2,044)	–	(2,044)	–
Amortization of past service costs	376	–	–	–
Amortization of other items	727	2,470	1,085	2,385
	$ 1,973	$ 7,818	$ 1,553	$ 7,673

Additional expenses for officers' benefit, 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 $2,416 (2007 - $3,068).

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, and the next required valuation will be as of March 31, 2009.

(In thousands of dollars)

10. Capital assets:

			2008	2007
	Cost	Accumulated amortization	Net book value	Net book value
Capitalized before April 1, 1996	$ 282,033	$ –	$ 282,033	$ 287,013
Capitalized after March 31, 1996:				
Land	79,569	–	79,569	79,745
Buildings	442,941	77,039	365,902	363,551
Hospitals:				
Land	657	–	657	1,259
Buildings	9,119	7,780	1,339	36,171
Furniture and equipment	14,476	8,877	5,599	4,578
Construction in progress	72,300	–	72,300	52,859
	$ 901,095	$ 93,696	$ 807,399	$ 825,176

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 $1,171 (2007 - $1,325).

During the year, $406 (2007 - $479) of interest was capitalized to construction in progress.

The Capital Fund balance is comprised of:

	2008	2007
Current assets	$ 10,086	$ 3,632
Current liabilities	(6,898)	(4,149)
Long-term liabilities:		
Deposits on life leases	(15,122)	(16,357)
Derivatives liability	(1,054)	–
Net assets invested in capital assets:		
Net book value of capital assets	807,399	825,176
Less mortgages payable	(108,902)	(97,925)
	698,497	727,251
	$ 685,509	$ 710,377

(In thousands of dollars)

11. Mortgages payable:

Mortgages payable bear interest at rates from 2.00% to 9.63% with an average interest rate of approximately 5.81% (2007 - 6.04%) and extend for terms of up to 34 years from March 31, 2008. 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:

2009	$ 14,974
2010	8,824
2011	8,681
2012	8,189
2013	21,628
Thereafter	46,606
	108,902
Less current portion	14,974
	$ 93,928

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

12. Deposits on life leases:

	2008	2007
Balance, beginning of year	$ 16,357	$ 16,909
Amounts reclassified from deposits on life lease upon occupancy	1,188	1,450
Less current portion:		
Refunds	(2,309)	(1,489)
Amounts recognized as revenue	(114)	(513)
Balance, end of year	$ 15,122	$ 16,357

(In thousands of dollars)

12. 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.

13. Internally Restricted Fund balances:

Internally restricted funds are as follows:

	2008	2007
Divisional reserves	$ 16,721	$ 16,972
Investment earnings and legacies held for future operations	122,818	90,994
Self insurance	7,144	7,447
Property maintenance and development	963	2,497
Other	17,406	24,933
	$ 165,052	$ 142,843

(In thousands of dollars)

14. Other Restricted Fund balances:

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

			2008			2007
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Corps and community churches	$ 3,332	$ 130	$ 3,462	$ 3,925	$ 130	$ 4,055
Institutions	6,732	1,398	8,130	6,700	1,398	8,098
Hospitals	1,382	–	1,382	1,382	–	1,382
DHQ	7,516	4,377	11,893	3,132	4,376	7,508
THQ (i)	17,645	25,703	43,348	17,472	15,202	32,674
	$ 36,607	$ 31,608	$ 68,215	$ 32,611	$ 21,106	$ 53,717

(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:

	2008	2007
Operating Fund	$ 608	$ 756
Other Restricted Funds	935	770
	$ 1,543	$ 1,526

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

			2008			2007
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Corps and community churches	$ 383	$ 1	$ 384	$ (136)	$ 1	$ (135)
Institutions	1,702	49	1,751	3,267	47	3,314
Hospitals	261	–	261	230	–	230
DHQ	53,298	253	53,551	57,278	199	57,477
THQ (i)	46,257	995	47,252	43,832	768	44,600
	$ 101,901	$ 1,298	$ 103,199	$ 104,471	$ 1,015	$ 105,486

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

(In thousands of dollars)

15. Investment income:

	2008	2007
Dividends	$ 8,191	$ 6,875
Income from pooled funds	108	135
Interest	7,502	5,174
Net realized gains on sale of securities	27,146	28,061
	$ 42,947	$ 40,245

16. Net loss on disposal of capital assets:

Effective April 1, 2008, The Salvation Army transferred all rights, title and interest in the assets owned by it in respect of the Winnipeg Grace Hospital to the Winnipeg Regional Health Authority, as a result of provincial governments across Canada moving toward a regional model of hospital governance. Due to the timing of this transfer, the net loss on the disposal has been reflected in these financial statements. This transfer resulted in a net loss on disposal of $34,825. The net gain on disposal of all other properties of $3,890 resulted in an overall net loss of $30,935.

17. Net interfund transfers:

	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of fundraising costs to Campaign Fund	$ (697)	$ –	$ 697	$ –
Capital projects (from reserves)	(7,515)	–	–	7,515
Property-related transfers to Capital Fund from units	(4,713)	–	–	4,713
Withdrawal of Endowment Fund for future capital project (a)	–	(391)	391	–
Funds allocated to endowments	(9,260)	13,635	–	(4,375)
Other	18	6	(24)	–
	$ (22,167)	$ 13,250	$ 1,064	$ 7,853

(a) Funds have been withdrawn from an endowment in accordance with the terms established by the donor.

(In thousands of dollars)

18. Statement of cash flows:

(a) Items not affecting cash:

	2008	2007
Loss (gain) on disposal of capital assets	$ 30,935	$ (6,992)
Amortization	14,397	13,722
Other post-retirement benefits expense	7,818	7,673
Defined benefit pension expense	1,973	1,553
	$ 55,123	$ 15,956

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

	2008	2007
Receivables, principally from Salvation Army entities	$ (113)	$ 681
Other current assets	(584)	48
Accounts payable and accrued liabilities	9,108	2,305
Deferred revenue	(1,517)	(3,083)
	$ 6,894	$ (49)

19. 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 311 corps and community churches and 181 community and social-service 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)

20. Lease obligations:

The Governing Council has lease commitments for 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:

2009	$ 16,123
2010	11,958
2011	7,818
2012	4,666
2013	2,704
Thereafter	6,447
	$ 49,716

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

21. 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 CICA 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, 2008, the maximum potential amount of future (undiscounted) payments under significant guarantees provided to third parties approximated $2,067 (2007 - $1,934), 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.

21. Contingencies and commitments (continued):

As of March 31, 2008, The Salvation Army had issued Letters of Credit totalling $732 (2007 - $599). 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 $31,607 (2007 - $26,536) 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)

21. 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.

22. Fair values of financial assets and financial liabilities:

The carrying values of cash and cash equivalents, receivables, principally from Salvation Army entities, 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 6.

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

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Loans receivable, principally from Salvation Army entities	$ 16,410	$ 25,189	$ 17,605	$ 22,371
Financial liabilities:				
Current portion of mortgages payable	14,974	14,974	13,000	13,000
Long-term portion of mortgages payable	93,928	86,436	84,924	82,735

22. 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.

23. Comparative figures:

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

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