CONSOLIDATED FINANCIAL STATEMENTS OF

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

YEAR ENDED MARCH 31, 2012

THE SALVATION ARMY

Giving
Hope
Today

Over 1.8 million people were helped by The Salvation Army in Canada and Bermuda last year.

Addictions, Recovery and Shelter

- **6,340** shelter, addictions, detox and mental health beds provided each night for vulnerable men, women and families
- **2,040** people completed addictions and rehabilitation programs
- **2.8 million** meals served

Community Churches

- **314** community churches

Community and Family Services

- **1, 340,000** persons assisted with food, clothing or practical assistance
- **4,506** children went to Salvation Army camps
- **18** daycare centres provide a total of **1,008** available spaces

Emergency Disaster Services

- **20,835** people helped when disaster struck

Hospice, Health and Long-Term Care

- **200** hospital beds provided
- **1,130** long-term care and supportive housing beds provided
- **40** hospice beds provided

Work in Developing Countries

- **147** projects in **28** countries
- **39** Salvation Army officers and lay personnel serving outside Canada

Personnel

- **817** active Salvation Army officers
- **929** retired Salvation Army officers
- **9,217** employees
- **1.1 million** volunteer hours provided

CONTENTS	PAGE
Management Commentary	i
Auditors' Report	vii
Balance Sheet	1
Statements of Operations	2
Statements of Changes in Fund Balances	3
Statement of Cash Flows	4
Notes to Financial Statements	5

Consolidated Financial Statements
of

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Year ended March 31, 2012

Management Commentary

About The Salvation Army

The Salvation Army in Canada and Bermuda (“the Army”) is an international Christian organization that began its work in Canada in 1882 and has grown to become the largest non-governmental direct provider of social services in the country. The Salvation Army gives hope and support to vulnerable people today and every day in 400 communities across Canada and more than 120 countries around the world. The Salvation Army offers practical assistance for children and families, often tending to the basic necessities of life, providing shelter for homeless people and rehabilitation for people who have lost control of their lives to an addiction. When you give to The Salvation Army, you are investing in the future of marginalized and overlooked people in your community.

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

The Salvation Army is an international Christian Church. Its message is based on the Bible; its ministry is motivated by love for God.

Mission Statement

The Salvation Army exists to share the love of Jesus Christ, meet human needs and be a transforming influence in the communities of our world.

About the Financial Statements

These financial statements present the assets, liabilities, fund balances, revenues and expenses of the Governing Council and each of its controlled entities, both incorporated and unincorporated.

In addition to these consolidated statements, many of the controlled entities produce separate financial statements for presentation to local stakeholders, including government agencies, donors, members, and others.

Financial highlights for the year ended March 31, 2012

Overall operations were stable in the current year, and the results achieved are very similar to those achieved in the prior year. During the year, the Army realized an excess of revenue over expenses of $12.7 million, compared with $35.3 million in the prior year. The key factor contributing to the decrease was lower investment income which, while modest, was in line with general market conditions.

Charitable donations decreased slightly from $182.6 million last year to $180.2 million, as $1.5 million was received in the prior year to support Hurricane Igor relief efforts in Newfoundland, with no similar major disaster relief campaign undertaken in the current year. In addition, the Army experienced a slight decline in major gifts received during the past year. Offsetting this was an increase of $1.3 million in the National Red Shield Appeal.

The operating fund, which represents the general operations of all Salvation Army units in Canada and Bermuda, reflects a deficit of $31 million, compared with a deficit of $8.2 million in the prior year. The drop is directly related to the decline in investment income. Total operating expenses increased by only 2%, in line with general inflationary pressures. In both years, these deficits are more than offset by transfers from reserves.

As of March 31, 2012, the Army's total assets were $1.5 billion, which is the same as in the prior year.

Operating fund balances stood at $104.2 million, compared to $91.9 million in the prior year, or on average, about $225,000 per unit. The Army has set a policy of expecting each unit to maintain an operating reserve sufficient to fund at least three months' expenses. As of March 31, 2012, approximately 52% of units have achieved the target reserve level, and efforts are underway to build reserves in the remaining units within the next five years.

Investments

Investments are centralized in the General Investment Fund, which holds in trust the surplus operating funds, endowments, and long-term donor restricted funds of all units. Interest is paid to units based on prevailing market rates for similar financial instruments. Net profits from the Fund are used to offset costs of administration, as well as to make allocations to programs and services.

Allocations from investment income are based on a spending policy tied to long-term average rates of return, which helps mitigate volatility in the capital markets. In the year ended March 31, 2012, the Fund earned $20.4 million, incurred expenses of $2.7 million and paid interest on constituent accounts of $6.4 million, for a net income of $11.3 million. In accordance with the spending policy, $11.4 million was allocated to the operations of territorial and divisional headquarters, meaning a small amount was withdrawn from the reserve to fund operations in the current year.

The General Investment Fund is managed by external investment managers in accordance with statements of investment beliefs and policy, which establish quality constraints, as well as prohibiting investment in companies whose primary business is the manufacture, distribution or promotion of alcohol, tobacco, pornography, gaming, gaming facilities, or armaments, as well as companies who are known to disregard environmental concerns. An investment advisory committee assists the Army by regularly reviewing both the investment policy, as well as individual manager's performance compared to market benchmarks. Copies of the statements of investment policy and beliefs are available on the Army's website, **www.SalvationArmy.ca**.

The target, operating ranges and actual asset mix of the Fund as at March 31, 2012, was as follows:

Asset Class	Target	Range	Actual
Cash	0	0-10%	4.4%
Fixed Income	40%	35-45%	37.1%
Canadian Equities	30%	25-32.5%	29.7%
Foreign Equities	30%	25-32.5%	28.8%
	100%	100%	100%

As of March 31, 2012, all asset classes were within the targeted range.

Executive compensation

The compensation package for all commissioned officers of The Salvation Army includes housing accommodation, with furnishings and utilities provided by the Army, a leased vehicle or vehicle allowance, and a cash allowance based on years of service. The cost of compensation provided to senior officers is comparatively lower than that paid to executives in other similar organizations. The employment income for tax purposes reported in 2011 for the five most senior commissioned officers of The Salvation Army in Canada, ranged from $32,041 to $38,638, with an average of $36,696.

The size and scope of the Army's operations creates a level of complexity that requires the hiring of highly skilled professional and technical staff to supplement the skill sets found in its commissioned officer ranks. While these salaries are typically less than comparable positions in the for-profit sector, there is increased competition for professional staff, and as a result, compensation for executives in the sector has increased in recent years.

In 2011, 39 non-officer staff was positioned in professional and technical roles at the Army whose total employment income for tax purposes was above $100,000. Their income for tax purposes ranged from $100,049 to $248,765 with an average of $135,283.

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

Public accountability

The Salvation Army recognizes its accountability for the financial resources placed at its disposal by its contributors for the furtherance of its mission to serve the most vulnerable in our society. Donations from the public at large, which includes money from individuals, foundations, corporations and all levels of government, are used for our community and social service programs.

Ethical Fundraising and Financial Accountability Code

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

How Efficient is our Fundraising and Administration?

Much attention is focused today on fundraising and administrative costs that charities incur, with the message carried in the media being that the lower these costs are, the better the charity is at delivering its programs and services.

The Army agrees the more efficient an organization is; the lower will be its overall costs of fundraising and administration, and as a result more funds will be available for charitable programs.

These financial statements reveal that in the year ended March 31, 2012, the Army's total administration costs incurred at its territorial and divisional headquarters amount to $46.4 million, compared to $45.8 million in the prior year, an increase of 1.3%. As a proportion of total funding sources (see Exhibit A), headquarters operations represented 8.9% this year and 8.5% in the prior year.

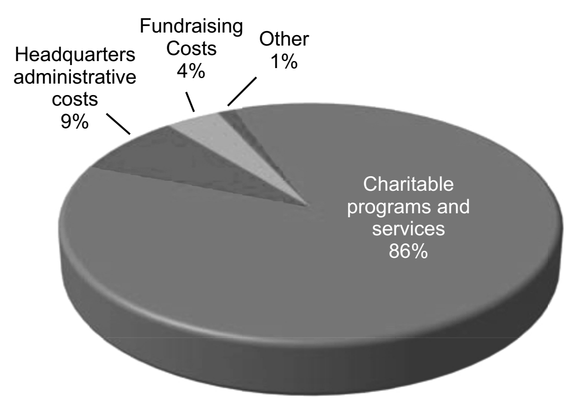
Public relations and development costs totalled $21 million, compared with $21.6 million in the prior year. As a proportion of charitable donations, these costs represented 11.7%, compared with 11.8% in the prior year. This compares favourably with the upper limit of 35% set by the Canada Revenue Agency.

The Salvation Army believes that this is the best measure to use at the present time, recognizing that it does have some limitations. First, no donations of materials or services are included in these financial statements, even though costs are incurred in obtaining these donations. Second, as the name implies, some of the activity these costs represent relates to general marketing and communications functions, rather than fundraising activities. Given our holistic approach, it is not possible at present to provide any further breakdown.

Combined, fundraising and administration costs equal $67.4 million, which is exactly the same as the prior year. As a proportion of total funding sources (see Exhibit A), these costs amount to 13% in the current year and 12.5% in the prior year.

The Salvation Army believes that it is managing its administrative and fundraising costs in a reasonable manner given the size and scope of the organization, and that it is ensuring the maximum possible return on that investment in order to provide the best possible programs and services that result in transformative outcomes for the people we serve.

How Each Dollar Received is Allocated



Management responsibility for financial reporting

These financial statements are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations as established by the Accounting Standards Board of the Canadian Institute of Chartered Accountants.

The preparation of financial information is an integral part of the ongoing management of the Army. Management has established internal control systems to ensure that all financial details are objective and reliable, and that the organization's assets are safeguarded.

The Governing Council has overall responsibility for the financial statements, assisted by the Territorial Finance Council, which meets regularly with management as well as internal and external auditors to ensure the adequacy of internal controls, and to review the financial statements and auditors' report. The Governing Council appoints the auditors and approves the financial statements, based on a recommendation from the Territorial Finance Council.

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

Neil Watt, *Lt-Colonel*
Territorial Secretary for Business Administration
and Treasurer of The Governing Council

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

EXHIBIT A - FINANCIAL SUMMARY
(in thousands of dollars)

Fiscal Year Ending March 31	**2012**	**2011**
Donations	180,230	182,561
Government funding	210,476	204,825
Fees for service	80,781	79,514
Investment income	20,377	47,383
Thrift Stores – Net Profit[1]	13,325	12,103
Other	15,459	13,380
Funding Sources[2]	520,648	539,766
Charitable programs and services	412,902	410,148
Headquarters' Adminstrative costs	46,388	45,752
Fundraising costs	21,040	21,633
Other	6,695	6,015
Operating Expenses[3]	487,025	483,548

[1] This is the net operating profits from Thrift Stores, as the profit generated is used to fund programs.
[2] Excludes gain on disposal of capital assets as this is not a funding source for charitable programs or operations.
[3] Excludes amortization, as this is not an operating cost.

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

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

INDEPENDENT AUDITORS' REPORT

To The Governing Council of
The Salvation Army in Canada

We have audited the accompanying consolidated financial statements of The Governing Council of The Salvation Army in Canada, which comprise the consolidated balance sheet as at March 31, 2012, the consolidated statements of operations, changes in fund balances and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

… 2

Basis for Qualified Opinion

In common with many charitable organizations, The Governing Council of The Salvation Army in Canada derives revenue from charitable donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of this revenue was limited to the amounts recorded in the records of The Governing Council of The Salvation Army in Canada. Therefore, we were not able to determine whether as at and for the years ended March 31, 2012 and March 31, 2011, any adjustments might be necessary to charitable donations and excess (deficiency) of revenue over expenses reported in the consolidated statements of operations, excess (deficiency) of revenue over expenses reported in the consolidated statements of cash flows and assets and fund balances reported in the consolidated balance sheets. This caused us to qualify our audit opinion on the consolidated financial statements as at and for the year ended March 31, 2011.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Governing Council of The Salvation Army in Canada as at March 31, 2012, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

June 28, 2012
Toronto, Canada

THE GOVERNING COUNCIL OF
THE SALVATION ARMY IN CANADA

Consolidated Balance Sheet
(In thousands of dollars)

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 46,109	$ 45,935
Receivables and other current assets	26,529	24,034
	72,638	69,969
Securities (note 4)	682,847	678,003
Capital assets (note 6)	701,925	710,034
Accrued pension asset (note 7(a))	16,816	13,592
Other assets (note 8)	5,539	5,305
	$ 1,479,765	$ 1,476,903
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable and accrued liabilities	$ 44,228	$ 45,191
Deferred revenue	16,765	16,086
Current portion of loans and mortgages payable (note 9)	7,159	11,838
	68,152	73,115
Long-term liabilities:		
Other post-retirement benefits (note 7(a))	40,626	37,061
Loans and mortgages payable (note 9)	127,608	128,032
Deposits on life leases (note 10)	13,558	13,884
Other liabilities (notes 5(b), 7(b) and 8)	26,044	24,723
	207,836	203,700
Fund balances:		
Operating	104,180	91,940
Net unrealized gains on securities (note 4(b))	47,632	56,638
Endowment (note 12(a))	71,577	72,278
Other Restricted (note 12(b))	407,623	405,755
Capital	572,765	573,477
	1,203,777	1,200,088
Contingencies and commitments (notes 16 and 17)		
	$ 1,479,765	$ 1,476,903

See accompanying notes to consolidated financial statements.

Approved by The Governing Council:

______________________ Member ______________________ Member

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Operations
(In thousands of dollars)

Year ended March 31, 2012, with comparative figures for 2011

	Operating Fund	Restricted Funds Endowment	Restricted Funds Other	Restricted Funds Capital	2012 Total	Operating Fund	Restricted Funds Endowment	Restricted Funds Other	Restricted Funds Capital	2011 Total
Revenue:										
Charitable donations	$ 106,788	$ 51	$ 73,091	$ 300	$ 180,230	$ 108,293	$ 248	$ 73,462	$ 558	$ 182,561
Government funding	206,077	–	438	3,961	210,476	200,833	–	2,052	1,940	204,825
Fees for service	80,781	–	–	–	80,781	79,514	–	–	–	79,514
Investment (note 13)	18,783	–	1,594	–	20,377	45,667	–	1,716	–	47,383
Thrift stores	124,107	–	–	–	124,107	118,215	–	–	–	118,215
Gain on disposal of capital assets	–	–	–	5,171	5,171	–	–	–	4,097	4,097
Other	13,647	–	1,498	314	15,459	9,083	–	1,587	2,710	13,380
	550,183	51	76,621	9,746	636,601	561,605	248	78,817	9,305	649,975
Expenses (note 21):										
Charitable programs and services:										
Addictions, corrections and residential	159,295	–	–	–	159,295	159,829	–	–	–	159,829
Health care	120,167	–	–	–	120,167	115,241	–	–	–	115,241
Community and family services	54,396	–	–	–	54,396	51,326	–	–	–	51,326
Congregational ministries	44,538	–	–	–	44,538	45,609	–	–	–	45,609
Children and youth	14,521	–	–	–	14,521	15,279	–	–	–	15,279
Educational	5,117	–	–	–	5,117	5,204	–	–	–	5,204
Overseas development and missions	286	–	4,056	–	4,342	336	–	5,136	–	5,472
Other programs and services	10,526	–	–	–	10,526	12,189	–	–	–	12,189
	408,846	–	4,056	–	412,902	405,013	–	5,136	–	410,149
Thrift stores	110,782	–	–	–	110,782	106,112	–	–	–	106,112
Headquarters' operating	46,388	–	–	–	46,388	45,751	–	–	–	45,751
Public relations and development (note 20)	9,022	–	12,018	–	21,040	8,791	–	12,841	–	21,632
Amortization	–	–	–	26,099	26,099	–	–	–	25,040	25,040
Other	6,156	–	–	539	6,695	4,144	–	–	1,872	6,016
	581,194	–	16,074	26,638	623,906	569,811	–	17,977	26,912	614,700
Excess (deficiency) of revenue over expenses	$ (31,011)	$ 51	$ 60,547	$ (16,892)	$ 12,695	$ (8,206)	$ 248	$ 60,840	$ (17,607)	$ 35,275

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

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

Year ended March 31, 2012, with comparative figures for 2011

2012	Operating Fund	Net unrealized gains on securities	Restricted Funds: Endowment (note 12(a))	Restricted Funds: Other (note 12(b))	Restricted Funds: Capital	Total
Fund balances, beginning of year	$ 91,940	$ 56,638	$ 72,278	$ 405,755	$ 573,477	$ 1,200,088
Excess (deficiency) of revenue over expenses	(31,011)	–	51	60,547	(16,892)	12,695
Change in net unrealized gains	–	(9,006)	–	–	–	(9,006)
Net interfund transfers (note 14)	43,251	–	(752)	(58,679)	16,180	–
Fund balances, end of year	$ 104,180	$ 47,632	$ 71,577	$ 407,623	$ 572,765	$ 1,203,777

2011	Operating Fund	Net unrealized gains on securities	Restricted Funds: Endowment (note 12(a))	Restricted Funds: Other (note 12(b))	Restricted Funds: Capital	Total
Fund balances, beginning of year	$ 82,431	$ 41,446	$ 72,499	$ 386,054	$ 567,191	$ 1,149,621
Excess (deficiency) of revenue over expenses	(8,206)	–	248	60,840	(17,607)	35,275
Change in net unrealized gains	–	15,192	–	–	–	15,192
Net interfund transfers (note 14)	17,715	–	(469)	(41,139)	23,893	–
Fund balances, end of year	$ 91,940	$ 56,638	$ 72,278	$ 405,755	$ 573,477	$ 1,200,088

See accompanying notes to consolidated financial statements.

THE GOVERNING COUNCIL OF THE SALVATION ARMY IN CANADA

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 12,695	$ 35,275
Items not affecting cash (note 15(a))	34,629	5,585
Change in non-cash operating working capital (note 15(b))	(2,779)	(3,871)
Contributions to other post-retirement benefits	(4,336)	(3,464)
Contributions to defined benefit and supplemental pension plans	(5,432)	(7,104)
	34,777	26,421
Financing activities:		
Increase in other assets	(234)	(887)
Repayment of loans and mortgages	(6,420)	(8,149)
Increase in loans and mortgages	1,317	40,365
Decrease in other liabilities	(1,718)	(1,174)
Decrease in deposits on life leases	(326)	(487)
	(7,381)	29,668
Investing activities:		
Purchase of securities, net	(14,403)	(38,110)
Additions to capital assets	(24,448)	(22,452)
Proceeds on disposal of capital assets	11,629	7,272
	(27,222)	(53,290)
Increase in cash and cash equivalents	174	2,799
Cash and cash equivalents, beginning of year	45,935	43,136
Cash and cash equivalents, end of year	$ 46,109	$ 45,935
Supplemental cash flow information:		
Interest paid	$ 5,825	$ 4,556

See accompanying notes to consolidated financial statements.

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

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

The Salvation Army in Canada and Bermuda (the "Organization" or the "Army") comprises almost 500 ministry units, scattered throughout the 10 Canadian provinces and three territories, as well as in Bermuda.

The Army's operations include corps (churches), community centres, long-term care facilities, hospices and hospitals, transitional housing and shelters, addiction and rehabilitation centres, Thrift Stores and other social programs.

1. Basis of presentation:

These consolidated financial statements present, in accordance with Canadian generally accepted accounting principles, the assets, liabilities, revenue, expenses and cash flows of The Governing Council and its controlled entities.

(a) Operating Fund:

The purpose of the Operating Fund is to record the administrative and operating activities of the Organization. This includes the operations of all divisional headquarters ("DHQ"), National Recycling Operations ("NRO"), colleges, Grace Communities Corporation ("GCC") and all programs operated at ministry units.

1. Basis of presentation (continued):

(b) Restricted Funds:

(i) Endowment Fund:

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

External restrictions refer to any conditions or specific uses that have been requested or required by the donors in making a gift to the Army. Internal restrictions refer to those funds which management has earmarked for specific purposes, where the donors have not placed any restrictions on their use.

(ii) Other Restricted Funds:

The Other Restricted Funds record the receipt and use of funds for the World Services Appeal campaigns, the receipt of funds for the National Red Shield Appeal campaigns, the donations and legacies with external restrictions other than endowments and transactions impacting internally restricted reserves. Funds raised through the World Services Appeal campaign are used to support the work of The Salvation Army internationally. Funds raised through the National Red Shield Appeal campaigns are used to support the social and community services work of the Organization.

(iii) Capital Fund:

The purpose of the Capital Fund is to record all capital transactions, related debt and the net investment of the Organization in such assets.

2. Significant accounting policies:

(a) Cash and cash equivalents:

The Organization 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. Inventories are included on the consolidated balance sheet as other current assets. Donated inventory is not reflected in these consolidated financial statements.

(c) Securities:

Securities are classified as available-for-sale and stated at fair value. 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 consolidated 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.

(d) Financial instruments other than securities:

The Organization designates its cash and cash equivalents as held-for-trading, which is measured at fair value. Receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and loans and mortgages payable are classified as other financial liabilities, which are measured at amortized cost.

2. Significant accounting policies (continued):

The Organization uses interest rate swaps to manage fluctuations in interest rates on long-term mortgages. The interest rate swaps are used for risk management purposes only and the Organization did not elect 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 consolidated statement of operations. The Organization’s policy is not to utilize derivative financial instruments for investment purposes.

The Organization has adopted CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation. In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation, the Organization has elected not to adopt these standards in its consolidated financial statements.

(e) Capital assets:

Land is carried at cost or fair market value, if donated, at the date of acquisition and is not amortized.

Land improvements, buildings and vehicles are stated at cost, less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives of 15 years, 40 years and five years, respectively.

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.

2. Significant accounting policies (continued):

(f) Contributions of materials and services:

Contributions of materials and services are not recognized in these consolidated 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 Organization 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.

Charitable donations include donations and legacies which are recorded when received.

Government funding and fees for service are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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

Thrift stores revenue includes sales of used clothing and other donated goods to NRO, and ministry unit-operated Thrift Stores. Sales revenue is recognized as revenue at the point of sale.

2. Significant accounting policies (continued):

(h) Employee future benefits:

(i) Officers' retirement benefits:

The Organization 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 Organization 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 Organization also provides other post-retirement benefits to eligible officers. Other post-retirement benefits include supplementary allowances and medical and dental benefits. The Organization uses actuarial reports prepared by independent actuaries for funding and accounting purposes.

The Organization 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 related to the pension plan is 10.4 years and 13.8 years for the other post-retirement benefits; 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 Army makes regular contributions to a group Registered Retirement Savings Plan, administered by a third party, on behalf of each eligible employee. All permanent full-time and part-time employees are eligible for enrolment in the plan following completion of three months of continuous service.

(i) 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 consolidated statement of operations.

(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.

2. Significant accounting policies (continued):

(ii) Non-guaranteed:

Life leases for which the resident is not guaranteed any portion of their purchase price on vacating the unit are recognized as sales of the unit when the resident takes possession. Prior to possession, cash deposits and instalments paid are recorded as deposits on life leases.

(k) Allocation of expenses:

The Organization classifies expenses on the consolidated statement of operations by function. The Organization does not allocate expenses between functions on the consolidated statement of operations.

(l) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, accrued liabilities, and assets and obligations related to employee future benefits. Actual results could differ from those estimates.

3. Credit facilities:

The Organization has Canadian dollar demand, revolving operating facilities (lines of credit) with two Canadian banks for up to $7,000 (2011 – $7,000). The facilities are to cover Canadian and U.S. dollar overdrafts, as well as standby letters of credit. These lines of credit bear interest at the prime rate. At year end, the Organization had not drawn on these lines of credit, other than to issue standby letters of credit in the amount of $297 (2011 – $256) (note 17(a)).

(In thousands of dollars)

4. Securities:

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

	Remaining term to maturity: Within 3 months	Within 3 to 12 months	Within 1 to 5 years	Over 5 years	No specific maturity	2012 Fair value	2011 Fair value
Available-for-sale securities:							
Cash and cash equivalents	$ 29,784	$ –	$ –	$ –	$ –	$ 29,784	$ 20,083
Fixed income:							
Domestic	762	4,595	25,855	80,603	200	112,015	98,952
Foreign	–	1,025	821	548	–	2,394	9,391
Pooled funds:							
Fixed income:							
Domestic	–	–	–	–	136,378	136,378	128,983
Foreign	–	–	–	–	2,213	2,213	2,837
Equities	–	–	–	–	59,240	59,240	128,182
Equities:							
Domestic	–	–	–	–	143,854	143,854	98,456
Foreign	–	–	–	–	196,969	196,969	191,119
	$ 30,546	$ 5,620	$ 26,676	$ 81,151	$ 538,854	$ 682,847	$ 678,003
2012:							
Weighted average effective interest rate on fixed income securities		4.85%	4.95%	3.82%	4.84%		
2011:							
Weighted average effective interest rate on fixed income securities		5.69%	4.42%	4.49%	5.46%		

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

	2012 Cost	2012 Net unrealized gains	2012 Fair value	2011 Cost	2011 Net unrealized gains (losses)	2011 Fair value
Cash and cash equivalents	$ 29,784	$ –	$ 29,784	$ 20,083	$ –	$ 20,083
Fixed income	108,997	5,412	114,409	106,379	1,964	108,343
Pooled funds - fixed income	138,140	451	138,591	136,910	(5,090)	131,820
Pooled funds - equities	54,296	4,944	59,240	113,082	15,100	128,182
Equities	303,998	36,825	340,823	244,911	44,664	289,575
	$ 635,215	$ 47,632	$ 682,847	$ 621,365	$ 56,638	$ 678,003

5. Financial instruments:

(a) Investment risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the Organization and the associated operating environment. Investments are primarily exposed to interest rate, market and foreign currency risks. 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.

The Organization is exposed to interest rate risk on the financing of 11 (2011 – 11) of its properties. The Organization has entered into interest rate swaps with major Canadian banks to exchange the variable interest payments on all its variable rate mortgages for fixed interest rates, ranging from 3.82% to 6.27% (2011 – 3.82% to 6.27%). As of March 31, 2012, the swaps had a notional amount totalling $54,112 (2011 – $57,849) that reduces on a basis consistent with the principal value of the underlying debt. The swaps mature on dates ranging from February 24, 2016 to November 1, 2023. By effectively converting the interest rates from variable to fixed, the Organization has eliminated the volatility, consistent with its interest rate risk management objectives.

The market value of the interest rate swaps at March 31, 2012, results in a loss of $5,242 (2011 – $2,404), which is included in other liabilities. This loss occurs because the interest rates on the Organization's swaps are higher than market interest rates on March 31, 2012. The loss would only be realized if the Organization were to have sold its swaps on March 31, 2012.

(In thousands of dollars)

5. Financial instruments (continued):

(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, 2012, 30% (2011 – 30%) of the securities are invested in non-Canadian equities, bonds and debentures. 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 securities. The philosophy of the Organization and its global investment management service provider is that since the portfolio is managed such that 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.

6. Capital assets:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Land and land improvements	$ 133,497	$ 94	$ 133,403	$ 131,397
Buildings	811,083	286,512	524,571	503,953
Furniture and equipment	38,455	25,544	12,911	14,943
Vehicles	9,223	6,033	3,190	3,162
Construction in progress	27,850	–	27,850	56,579
	$ 1,020,108	$ 318,183	$ 701,925	$ 710,034

During the year, $32 (2011 – $161) of interest was capitalized to construction in progress.

(In thousands of dollars)

7. Employee future benefits:

(a) Officers' retirement benefits:

	2012			2011		
	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans
Accrued benefit obligation	$ 172,276	$ 20,225	$ 81,418	$ 142,477	$ 16,873	$ 70,073
Fair value of plan assets	149,708	–	–	152,650	–	–
Funded status - plan surplus (deficit)	(22,568)	(20,225)	(81,418)	10,173	(16,873)	(70,073)
Unamortized net actuarial loss	54,052	7,932	33,147	19,530	4,805	23,934
Unamortized transitional asset	(6,132)	–	–	(8,176)	–	–
Unamortized past service costs	3,757	–	7,645	4,133	–	9,078
Accrued benefit asset (liability)	$ 29,109	$ (12,293)	$ (40,626)	$ 25,660	$ (12,068)	$ (37,061)

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

	2012	2011
Cash	–	1%
Short-term notes and treasury bills	4%	2%
Canadian equities	23%	14%
Canadian bonds and debentures	16%	15%
Canadian pooled funds	27%	38%
Foreign equities	29%	28%
Foreign bonds and debentures	1%	2%
	100%	100%

(In thousands of dollars)

7. Employee future benefits (continued):

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

The significant assumptions used are as follows:

	2012			2011		
	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans
Accrued benefit obligation as of March 31:						
Discount rate	4.20%	4.20%	4.40%	5.25%	5.25%	5.25%
Rate of compensation increase	2.00%	2.00%	–	2.00%	2.00%	–
Benefit costs for years ended March 31:						
Discount rate	4.20%	4.20%	4.40%	5.25%	5.25%	5.25%
Expected long-term rate of return on plan assets	5.90%	–	–	6.50%	–	–
Rate of compensation increase	2.00%	2.00%	–	2.00%	2.00%	–

Assumed health care cost trend rates at March 31:

	2012	2011
Initial health care cost trend rate for prescription drugs	7.40%	9.00%
Cost trend rate declines to	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2014	2014
Assumed increase in other benefit costs per annum	5.00%	5.00%

(In thousands of dollars)

7. Employee future benefits (continued):

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

	2012			2011		
	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans	Defined benefit pension plan	Supplemental pension	Other post-retirement benefit plans
Current service cost	$ 3,616	$ –	$ 1,550	$ 3,436	$ –	$ 1,473
Interest cost	7,459	833	3,691	7,584	891	3,558
Expected return on plan assets	(9,772)	–	–	(9,722)	–	–
Amortization of transitional asset	(2,044)	–	–	(2,044)	–	–
Amortization of past service costs	376	1,250	1,433	376	–	1,433
Amortization of net actuarial loss	315	175	1,227	1,289	175	1,275
	$ (50)	$ 2,258	$ 7,901	$ 919	$ 1,066	$ 7,739

Additional expenses for officers' benefits, consisting of cash payments made by the Organization directly to beneficiaries for its unfunded other post-retirement benefit plans and other current benefits for the active officers, were $2,677 (2011 – $2,857).

The Organization measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation for funding purposes of the pension plan and other post-retirement benefit plans was as of March 31, 2011 and March 31, 2009, respectively. The next required valuations will be as of March 31, 2014 and March 31, 2012, respectively.

(b) Pre-retirement benefits:

Included in other liabilities is accrued pre-retirement benefits of $3,040 (2011 – $2,839), representing health and sick leave future payments for several ministry units.

7. Employee future benefits (continued):

(c) Employees' retirement benefits:

The contributions paid and expensed by the Organization for the year amounted to $10,495 (2011 – $10,024). The assets of the employees' retirement benefits plan are held separately from those of the Organization in an independently administered fund.

(d) Multi-employer defined benefit plans:

Several ministry units are part of multi-employer defined benefit plans in which the costs are not allocated to individual units. During the year, contributions to these plans were $3,077 (2011 – $2,951) and are included in charitable programs and services.

8. Other assets and liabilities:

(a) Other assets:

Other assets include interest-bearing loans to external parties and charitable remainder trusts. Interest-bearing loans to external parties total $299 (2011 – $375). These loans bear interest from 0% to 7% (2011 – 0% to 7%) and are to be repaid in fixed amounts over various terms. A charitable remainder trust is an arrangement in which property or money is donated to a charity, but the donor continues to use the property and/or receive income from it while living. Charitable remainder trusts amounted to $4,250 (2011 – $4,250).

(b) Other liabilities:

Other liabilities include gift annuities, which are planned giving arrangements in the amount of $16,398 (2011 – $18,004).

9. Loans and mortgages payable:

Loans and mortgages payable, which are secured by either the investments or properties, bear interest at rates ranging from 0% to 9.63% (2011 – 2% to 9.63%) with an average interest rate of approximately 4.17% (2011 – 5.33%) and extend for terms of up to 31 years from March 31, 2012. Some of these mortgages are subsidized by governments so that the effective interest rate to the Organization is reduced.

(In thousands of dollars)

9. Loans and mortgages payable (continued):

Interest expensed on loans and mortgages totals $5,793 (2011 – $4,395).

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

2013	$ 7,159
2014	8,907
2015	13,228
2016	28,276
2017	11,412
Thereafter	65,785
	134,767
Less current portion	7,159
	$ 127,608

10. Deposits on life leases:

	2012	2011
Balance, beginning of year	$ 13,884	$ 14,371
Amounts reclassified from deposits on life lease upon occupancy	940	512
Current year activity:		
Refunds	(1,174)	(874)
Amounts recognized as revenue	(92)	(125)
Balance, end of year	$ 13,558	$ 13,884

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

(In thousands of dollars)

11. Management of capital:

The Organization defines its capital as the amounts included in its fund balances. The Organization's objective when managing its capital is to safeguard the Organization's ability to continue as a going concern so that it can continue to provide the appropriate level of benefits and services to the public.

A portion of the Organization's capital is restricted in that the Organization is required to meet certain requirements in order to utilize its externally restricted funds, as described in note 1(b). The Organization sets the amount of internally restricted funds in proportion to risk, manages the net asset structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

12. Restricted Fund balances:

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

			2012			2011
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Ministry units	$ 11,832	$ 1,528	$ 13,360	$ 11,837	$ 1,528	$ 13,365
DHQ	8,165	4,060	12,225	8,363	4,061	12,424
THQ	18,379	27,613	45,992	18,288	28,201	46,489
	$ 38,376	$ 33,201	$ 71,577	$ 38,488	$ 33,790	$ 72,278

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

			2012			2011
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Ministry units	$ 3,158	$ 93,255	$ 96,413	$ 3,840	$ 96,447	$ 100,287
DHQ	61,809	35,629	97,438	57,745	30,295	88,040
THQ	62,421	151,351	213,772	57,855	159,573	217,428
	$ 127,388	$ 280,235	$ 407,623	$ 119,440	$ 286,315	$ 405,755

(In thousands of dollars)

13. Investment income:

	2012	2011
Interest	$ 11,487	$ 12,004
Dividends	9,443	9,545
Net realized gains (losses) on sale of securities	(553)	25,834
	$ 20,377	$ 47,383

14. Net interfund transfers:

2012	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	$ 89,340	$ –	$ (89,340)	$ –
Funding of capital purchases from operations and reserves	(7,395)	–	(17,978)	25,373
Transfers from internally restricted endowment to operations and reserves	664	(764)	100	–
Transfer of property sale proceeds	116	–	9,077	(9,193)
Transfers for future property repairs/maintenance	(6,675)	–	6,675	–
Net investment gain transferred to reserve for future operations	(15,016)	–	15,016	–
Unrestricted legacies transferred to reserve for future operations	(18,268)	–	18,268	–
Other	485	12	(497)	–
	$ 43,251	$ (752)	$ (58,679)	$ 16,180

(In thousands of dollars)

14. Net interfund transfers (continued):

2011	Operating Fund	Endowment Fund	Other Restricted Funds	Capital Fund
Funding of operations from reserves	$ 90,173	$ –	$ (90,173)	$ –
Funding of capital purchases from operations and reserves	(3,703)	–	(25,894)	29,597
Transfers from internally restricted endowment to reserves	–	(751)	751	–
Transfers to internally restricted reserves	(500)	–	500	–
Transfer of property sale proceeds	638	–	5,066	(5,704)
Transfers for future property repairs/maintenance	(5,986)	–	5,986	–
Net investment gain transferred to reserve for future operations	(45,472)	–	45,472	–
Unrestricted legacies transferred to reserve for future operations	(17,273)	–	17,273	–
Other	(162)	282	(120)	–
	$ 17,715	$ (469)	$ (41,139)	$ 23,893

15. Consolidated statement of cash flows:

(a) Items not affecting cash:

	2012	2011
Gain on disposal of capital assets	$ (5,171)	$ (4,097)
Amortization	26,099	25,040
Change in unrealized loss on derivative liability	2,838	576
Increase in pre-retirement benefits	201	176
Other post-retirement benefits expense	7,901	7,739
Defined benefit and supplemental pension plan expense	2,208	1,985
Net realized losses (gains) on sale of securities	553	(25,834)
	$ 34,629	$ 5,585

(In thousands of dollars)

15. Consolidated statement of cash flows (continued):

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

	2012	2011
Receivables and other current assets	$ (2,495)	$ 682
Accounts payable and accrued liabilities	(963)	(6,029)
Deferred revenue	679	1,476
	$ (2,779)	$ (3,871)

16. Lease obligations:

The Organization has lease commitments for premises used in its operations. These leases expire on or before 2057. The lease payments are due as follows:

2013	$ 15,853
2014	11,993
2015	8,726
2016	4,783
2017	2,642
Thereafter	1,954
	$ 45,951

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

17. Contingencies and commitments:

(a) Letters of credit and letters of comfort:

The Organization 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 ministry units have been guaranteed by The Governing Council. No material loss is anticipated by reason of such agreements and guarantees.

In prior years, life lease loans were advanced by a Canadian bank in connection with the purchase of guaranteed life lease units. GCC and the Organization guaranteed the life lease loans to a maximum of $1,335 (2011 – $1,335). At March 31, 2012, the remaining outstanding accumulated balance of the life lease loans is not significant to these consolidated financial statements and no future life lease loans will be advanced.

As of March 31, 2012, the Organization had issued letters of credit totalling $297 (2011 - $256). These are primarily irrevocable standby letters of credit issued in favour of municipalities and other entities requiring performance guarantees on projects undertaken by the Organization.

(b) Government funding for capital projects:

The Organization receives funding for certain capital projects from the federal and provincial governments' various programs. This funding is considered a grant as long as the Organization continues to meet the terms of the agreements. In the case of default, the funding is repayable to the government. At year end, the Organization had $19,205 (2011 - $18,356) of such funding. Management believes that it is currently in compliance with all such agreements and, accordingly, no amounts are recorded as a liability in these consolidated financial statements related to this funding.

17. Contingencies and commitments (continued):

(c) Government capital contribution for a program:

In fiscal 2010, the Organization acquired title to a property in Milton, Ontario, from the Province of Ontario as part of an agreement to operate a program for young offenders. Under the agreement, the province retains the right to reacquire the property, valued at $4,440 at the time of acquisition, under certain conditions, such as if the Organization ceases to operate the program. The Organization intends to operate the program for the foreseeable future and to meet all conditions set by the province for its operations; as a result, the property has been reflected in these consolidated financial statements as a capital asset.

(d) Legal actions:

The Organization 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 Organization.

(e) Indemnification of directors and officers:

The Organization 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 Organization. The nature of the indemnity prevents the Organization from reasonably estimating the maximum exposure. The Organization has purchased directors' and officers' liability insurance with respect to this indemnification.

(In thousands of dollars)

18. Fair values of financial assets and financial liabilities:

The carrying values of cash and cash equivalents, receivables and accounts payable and accrued liabilities 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 and mortgages payable are as follows:

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Current portion of loans and mortgages payable	$ 7,159	$ 7,159	$ 11,838	$ 11,838
Long-term portion of loans and mortgages payable	127,608	119,698	128,032	111,738

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.

19. East Africa drought:

During the year, the Organization collected funds to provide financial support and relief to Eastern Africa for drought relief in affected areas. The Government of Canada, via the Canadian International Development Agency (“CIDA”) created an East Africa Drought Relief Fund to contribute the equivalent amount of aid as collected by the Organization.

Between July 6, 2011 and September 16, 2011, The Salvation Army collected $314 from individual Canadians, as declared in the declaration form provided to CIDA dated November 25, 2011.

(In thousands of dollars)

20. Fundraising remuneration:

Public relations and development expenses include remuneration paid to employees whose principal duties involve fundraising totalling $2,308 (2011 – $2,298).

21. Expenses by category:

The expenses comprise the following categories:

	2012	2011
Salaries and benefits	$ 378,922	$ 365,547
Operating	127,672	130,197
Occupancy	91,213	93,916
Amortization	26,099	25,040
	$ 623,906	$ 614,700

22. Comparative figures:

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

The Salvation Army in Canada and Bermuda

Territorial Headquarters:

2 Overlea Boulevard, Toronto, ON M4H 1P4

Divisional Headquarters:

Alberta and Northern Territories
(including: Yukon, NWT, and Nunavut)
9618 101A Avenue NW, Edmonton, AB T5H 0C7

Bermuda
76 Roberts Avenue, Devonshire HM 15, Bermuda

British Columbia
103 – 3833 Henning Drive, Burnaby, BC V5C 6N5

Maritime
(New Brunswick, Nova Scotia and Prince Edward Island)
282 – 7071 Bayers Road, Halifax, NS B3L 2C2

Newfoundland and Labrador
21 Adams Avenue, St. John's, NL A1C 4Z1

Ontario Central-East
1645 Warden Avenue, Scarborough, ON M1R 5B3

Ontario Great Lakes
371 King Street, London, ON N6B 1S4

Prairie
(Manitoba, Saskatchewan and Northwest Ontario)
204 – 290 Vaughan Street, Winnipeg, MB R3B 2N8

Québec
1655, rue Richardson, Montréal, QC H3K 3J7

Reports and Data: Territorial Finance Department
Booklet Design: Public Relations and Development 07/12

Giving
Hope
Today

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

Imagine Canada Ethical Code