



THE SALVATION ARMY WORLD SERVICE OFFICE

**SINGLE AUDIT FINANCIAL REPORT
UNDER UNIFORM GUIDANCE**

SEPTEMBER 30, 2016 AND 2015

THE SALVATION ARMY WORLD SERVICE OFFICE

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SEPTEMBER 30, 2016 AND 2015

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Independent Auditors' Report

To the Board of Trustees
The Salvation Army World Service Office
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of The Salvation Army World Service Office (SAWSO), a nonprofit organization, which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to SAWSO's preparation and fair presentation of the 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 SAWSO's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Salvation Army World Service Office as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
The Salvation Army World Service Office

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of indirect cost rate calculation is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2017, on our consideration of The Salvation Army World Service Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Salvation Army World Service Office's internal control over financial reporting and compliance.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
February 27, 2017

Certified Public Accountants

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENT OF FINANCIAL POSITION
 SEPTEMBER 30, 2016
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2015)

	2016					2015 Total
	Unrestricted		Total	Temporarily Restricted	Total	
	Operating	Board Designated				
Assets						
Cash and Cash Equivalents	\$ 802,741	\$ -	\$ 802,741	\$ 188,427	\$ 991,168	\$ 2,750,334
Investments	28,120,647	500,000	28,620,647	26,500,000	55,120,647	52,019,214
Grants Receivable	157,945	-	157,945	-	157,945	144,779
Beneficial Interest in Remainder Trust	-	-	-	32,081	32,081	32,081
Other Receivables	220,640	-	220,640	-	220,640	239,032
Prepaid Expenses	-	-	-	-	-	27,750
Project Advances	2,115,562	-	2,115,562	-	2,115,562	3,391,907
Total Assets	\$ 31,417,535	\$ 500,000	\$ 31,917,535	\$ 26,720,508	\$ 58,638,043	\$ 58,605,097
Liabilities and Net Assets						
Liabilities						
Accounts Payable and Accrued Expenses	\$ 369,004	\$ -	\$ 369,004	\$ -	\$ 369,004	\$ 403,671
Amounts Due to Projects	129,362	-	129,362	-	129,362	81,042
Deferred Revenue	78,589	-	78,589	-	78,589	201,651
Total Liabilities	576,955	-	576,955	-	576,955	686,364
Net Assets						
Unrestricted	30,840,580	500,000	31,340,580	-	31,340,580	27,707,386
Temporarily Restricted	-	-	-	26,720,508	26,720,508	30,211,347
Total Net Assets	30,840,580	500,000	31,340,580	26,720,508	58,061,088	57,918,733
Total Liabilities and Net Assets	\$ 31,417,535	\$ 500,000	\$ 31,917,535	\$ 26,720,508	\$ 58,638,043	\$ 58,605,097

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2015

	Unrestricted			Temporarily Restricted	Total
	Operating	Board Designated	Total		
Assets					
Cash and Cash Equivalents	\$ 2,571,068	\$ -	\$ 2,571,068	\$ 179,266	\$ 2,750,334
Investments	21,519,214	500,000	22,019,214	30,000,000	52,019,214
Grants Receivable	144,779	-	144,779	-	144,779
Beneficial Interest in Remainder Trust	-	-	-	32,081	32,081
Other Receivables	239,032	-	239,032	-	239,032
Prepaid Expenses	27,750	-	27,750	-	27,750
Project Advances	3,391,907	-	3,391,907	-	3,391,907
Total Assets	\$ 27,893,750	\$ 500,000	\$ 28,393,750	\$ 30,211,347	\$ 58,605,097
Liabilities and Net Assets					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 403,671	\$ -	\$ 403,671	\$ -	\$ 403,671
Amounts Due to Projects	81,042	-	81,042	-	81,042
Deferred Revenue	201,651	-	201,651	-	201,651
Total Liabilities	686,364	-	686,364	-	686,364
Net Assets					
Unrestricted	27,207,386	500,000	27,707,386	-	27,707,386
Temporarily Restricted	-	-	-	30,211,347	30,211,347
Total Net Assets	27,207,386	500,000	27,707,386	30,211,347	57,918,733
Total Liabilities and Net Assets	\$ 27,893,750	\$ 500,000	\$ 28,393,750	\$ 30,211,347	\$ 58,605,097

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2015)

	2016					2015 Total
	Unrestricted			Temporarily Restricted	Total	
	Operating	Board Designated	Total			
Support and Revenues						
Public Support						
Received Directly						
Contributions	\$ 959,793	\$ -	\$ 959,793	\$ 82,412	\$ 1,042,205	\$ 1,850,780
Legacies and Bequests	636,502	-	636,502	-	636,502	143,145
Received Indirectly						
Allocated by Federated Fundraising Organizations	213,816	-	213,816	-	213,816	249,273
Contributions from The Salvation Army Territories	15,202,771	-	15,202,771	292,170	15,494,941	14,711,327
Total Public Support	<u>17,012,882</u>	<u>-</u>	<u>17,012,882</u>	<u>374,582</u>	<u>17,387,464</u>	<u>16,954,525</u>
Grants from Governmental Agencies	<u>303,066</u>	<u>-</u>	<u>303,066</u>	<u>-</u>	<u>303,066</u>	<u>342,239</u>
Investment Income						
Dividends and Interest	983,240	-	983,240	8,285	991,525	1,018,301
Realized Gains on Sales of Investments	3,189,913	-	3,189,913	26,886	3,216,799	3,450,694
Unrealized Gains (Losses) in Values of Investments	1,868,488	-	1,868,488	15,748	1,884,236	(4,230,375)
Net Investment Income	<u>6,041,641</u>	<u>-</u>	<u>6,041,641</u>	<u>50,919</u>	<u>6,092,560</u>	<u>238,620</u>
Total Support and Revenues	<u>23,357,589</u>	<u>-</u>	<u>23,357,589</u>	<u>425,501</u>	<u>23,783,090</u>	<u>17,535,384</u>
Net Assets Released from Restrictions	<u>3,916,340</u>	<u>-</u>	<u>3,916,340</u>	<u>(3,916,340)</u>	<u>-</u>	<u>-</u>
Total Support and Revenues	<u>27,273,929</u>	<u>-</u>	<u>27,273,929</u>	<u>(3,490,839)</u>	<u>23,783,090</u>	<u>17,535,384</u>
Expenses						
Program Services						
Health Programs	888,553	-	888,553	-	888,553	953,043
Empowerment and Livelihood Programs	1,855,851	-	1,855,851	-	1,855,851	825,686
Relief and Reconstruction Services	19,812,765	-	19,812,765	-	19,812,765	17,687,287
Total Program Services	<u>22,557,169</u>	<u>-</u>	<u>22,557,169</u>	<u>-</u>	<u>22,557,169</u>	<u>19,466,016</u>
Supporting Services						
Strategy and Fundraising	494,118	-	494,118	-	494,118	492,052
Management and General	589,448	-	589,448	-	589,448	599,492
Total Supporting Services	<u>1,083,566</u>	<u>-</u>	<u>1,083,566</u>	<u>-</u>	<u>1,083,566</u>	<u>1,091,544</u>
Total Expenses	<u>23,640,735</u>	<u>-</u>	<u>23,640,735</u>	<u>-</u>	<u>23,640,735</u>	<u>20,557,560</u>
Changes in Net Assets	3,633,194	-	3,633,194	(3,490,839)	142,355	(3,022,176)
Net Assets, Beginning of Year	27,207,386	500,000	27,707,386	30,211,347	57,918,733	60,940,909
Net Assets, End of Year	<u>\$ 30,840,580</u>	<u>\$ 500,000</u>	<u>\$ 31,340,580</u>	<u>\$ 26,720,508</u>	<u>\$ 58,061,088</u>	<u>\$ 57,918,733</u>

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	Unrestricted			Temporarily Restricted	Total
	Operating	Board Designated	Total		
Support and Revenues					
Public Support					
Received Directly					
Contributions	\$ 1,408,837	\$ -	\$ 1,408,837	\$ 441,943	\$ 1,850,780
Legacies and Bequests	143,145	-	143,145	-	143,145
Received Indirectly					
Allocated by Federated Fundraising Organizations	249,273	-	249,273	-	249,273
Contributions from The Salvation Army Territories	13,861,970	-	13,861,970	849,357	14,711,327
Total Public Support	<u>15,663,225</u>	<u>-</u>	<u>15,663,225</u>	<u>1,291,300</u>	<u>16,954,525</u>
Grants from Governmental Agencies	<u>342,239</u>	<u>-</u>	<u>342,239</u>	<u>-</u>	<u>342,239</u>
Investment Income					
Dividends and Interest	1,009,999	-	1,009,999	8,302	1,018,301
Realized Gains on Sales of Investments	3,422,547	-	3,422,547	28,147	3,450,694
Unrealized Losses in Values of Investments	<u>(4,195,868)</u>	<u>-</u>	<u>(4,195,868)</u>	<u>(34,507)</u>	<u>(4,230,375)</u>
Net Investment Income	<u>236,678</u>	<u>-</u>	<u>236,678</u>	<u>1,942</u>	<u>238,620</u>
Total Support and Revenues	<u>16,242,142</u>	<u>-</u>	<u>16,242,142</u>	<u>1,293,242</u>	<u>17,535,384</u>
Net Assets Released from Restrictions	<u>3,634,188</u>	<u>-</u>	<u>3,634,188</u>	<u>(3,634,188)</u>	<u>-</u>
Total Support and Revenues	<u>19,876,330</u>	<u>-</u>	<u>19,876,330</u>	<u>(2,340,946)</u>	<u>17,535,384</u>
Expenses					
Program Services					
Health Programs	953,043	-	953,043	-	953,043
Empowerment and Livelihood Programs	825,686	-	825,686	-	825,686
Relief and Reconstruction Services	<u>17,687,287</u>	<u>-</u>	<u>17,687,287</u>	<u>-</u>	<u>17,687,287</u>
Total Program Services	<u>19,466,016</u>	<u>-</u>	<u>19,466,016</u>	<u>-</u>	<u>19,466,016</u>
Supporting Services					
Strategy and Fundraising	492,052	-	492,052	-	492,052
Management and General	<u>599,492</u>	<u>-</u>	<u>599,492</u>	<u>-</u>	<u>599,492</u>
Total Supporting Services	<u>1,091,544</u>	<u>-</u>	<u>1,091,544</u>	<u>-</u>	<u>1,091,544</u>
Total Expenses	<u>20,557,560</u>	<u>-</u>	<u>20,557,560</u>	<u>-</u>	<u>20,557,560</u>
Changes in Net Assets	<u>(681,230)</u>	<u>-</u>	<u>(681,230)</u>	<u>(2,340,946)</u>	<u>(3,022,176)</u>
Net Assets, Beginning of Year	<u>27,888,616</u>	<u>500,000</u>	<u>28,388,616</u>	<u>32,552,293</u>	<u>60,940,909</u>
Net Assets, End of Year	<u>\$ 27,207,386</u>	<u>\$ 500,000</u>	<u>\$ 27,707,386</u>	<u>\$ 30,211,347</u>	<u>\$ 57,918,733</u>

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Program Services			Supporting Services			2016 Total Expenses	
	Health Programs	Empowerment and Livelihood Programs	Relief and Reconstruction Services	Total Program Services	Strategy and Fundraising	Management and General		Total Supporting Services
Salaries	\$ 395,904	\$ 545,822	\$ 776,445	\$ 1,718,171	\$ 69,506	\$ 237,992	\$ 307,498	\$ 2,025,669
Employee Benefits and Payroll Taxes	52,642	90,627	125,066	268,335	25,578	96,776	122,354	390,689
Professional Fees	9,817	74,223	377,444	461,484	326,976	81,329	408,305	869,789
Travel, Meals, and Transportation	106,383	132,283	272,497	511,163	18,614	8,187	26,801	537,964
Occupancy	13,998	39,218	18,014	71,230	-	133,560	133,560	204,790
Printing and Publications	571	75,662	4,808	81,041	30,640	4,557	35,197	116,238
Telephone	10,961	9,021	2,815	22,797	2,488	5,266	7,754	30,551
Postage and Shipping	40	761	5,209	6,010	5,814	282	6,096	12,106
Equipment	11,469	4,643	261,733	277,845	55	5,116	5,171	283,016
Office Expense	28,479	30,354	116,118	174,951	2,128	7,290	9,418	184,369
Construction Supplies	-	28,349	2,605,013	2,633,362	-	-	-	2,633,362
Other Supplies	156,277	59,402	211,876	427,555	5,696	2,664	8,360	435,915
Conference and Meetings	83,801	155,033	301,233	540,067	6,623	6,429	13,052	553,119
Support to Individuals	-	31,975	19,166	51,141	-	-	-	51,141
Foreign Currency Exchange (Gain) Loss	15,011	2,834	(14,971)	2,874	-	-	-	2,874
Grants to Affiliates	3,200	575,644	14,730,299	15,309,143	-	-	-	15,309,143
Total Expenses	\$ 888,553	\$ 1,855,851	\$ 19,812,765	\$ 22,557,169	\$ 494,118	\$ 589,448	\$ 1,083,566	\$ 23,640,735

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	Program Services			Supporting Services			2015 Total Expenses	
	Health Programs	Empowerment and Livelihood Programs	Relief and Reconstruction Services	Total Program Services	Strategy and Fundraising	Management and General		Total Supporting Services
Salaries	\$ 405,387	\$ 334,226	\$ 621,116	\$ 1,360,729	\$ 133,382	\$ 237,083	\$ 370,465	\$ 1,731,194
Employee Benefits and Payroll Taxes	43,419	66,961	123,580	233,960	40,123	101,174	141,297	375,257
Professional Fees	16,521	37,778	169,272	223,571	282,947	71,546	354,493	578,064
Travel, Meals, and Transportation	109,013	89,757	297,580	496,350	7,048	12,333	19,381	515,731
Occupancy	19,812	27,255	22,776	69,843	-	133,560	133,560	203,403
Printing and Publications	150	6,437	3,037	9,624	21,715	2,451	24,166	33,790
Telephone	16,882	9,312	14,752	40,946	2,330	6,213	8,543	49,489
Postage and Shipping	148	1,445	74,612	76,205	1,111	2,546	3,657	79,862
Equipment	7,251	1,673	25,853	34,777	1,845	11,740	13,585	48,362
Office Expense	20,500	14,113	154,226	188,839	1,551	8,199	9,750	198,589
Construction Supplies	-	4,320	2,629,248	2,633,568	-	-	-	2,633,568
Other Supplies	108,660	53,938	456,204	618,802	-	1,288	1,288	620,090
Conference and Meetings	85,040	72,199	299,638	456,877	-	11,359	11,359	468,236
Support to Individuals	-	12,053	433,504	445,557	-	-	-	445,557
Foreign Currency Exchange (Gain) Loss	12,260	280	(6,166)	6,374	-	-	-	6,374
Grants to Affiliates	108,000	93,939	12,368,055	12,569,994	-	-	-	12,569,994
Total Expenses	\$ 953,043	\$ 825,686	\$ 17,687,287	\$ 19,466,016	\$ 492,052	\$ 599,492	\$ 1,091,544	\$ 20,557,560

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 142,355	\$ (3,022,176)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Gains on Sales of Investments	(3,216,798)	(3,450,694)
Unrealized (Gains) Losses in Values of Investments	(1,884,236)	4,230,375
<u>(Increase) Decrease in Operating Assets</u>		
Grants Receivable	(13,166)	(54,761)
Other Receivables	18,392	(65,026)
Prepaid Expenses	27,750	(22,158)
Project Advances	1,276,345	(1,578,261)
<u>Increase (Decrease) in Operating Liabilities</u>		
Accounts Payable and Accrued Expenses	(34,667)	86,321
Amounts Due to Projects	48,320	(273,744)
Deferred Revenue	(123,062)	64,385
Net Cash Used in Operating Activities	<u>(3,758,767)</u>	<u>(4,085,739)</u>
Cash Flows from Investing Activities		
Sale of Investments and Return of Principal	21,120,285	29,212,783
Purchases of Investments	<u>(19,120,684)</u>	<u>(24,223,447)</u>
Net Cash Provided by Investing Activities	<u>1,999,601</u>	<u>4,989,336</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,759,166)	903,597
Cash and Cash Equivalents, Beginning of Year	<u>2,750,334</u>	<u>1,846,737</u>
Cash and Cash Equivalents, End of Year	<u>\$ 991,168</u>	<u>\$ 2,750,334</u>

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

1. PURPOSE AND ORGANIZATION

The Salvation Army World Service Office (SAWSO) provides technical assistance and project funding to the International Salvation Army in diverse areas of economic development around the world. SAWSO's multi-disciplinary team of development professionals works with Salvation Army personnel to promote community-based programming in primary health care, HIV/AIDS, anti-human trafficking and livelihood programs, and disaster relief and recovery services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Financial statements are reported in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the financial statement presentation, SAWSO considers all highly liquid instruments purchased with maturity dates of three months or less to be cash equivalents. Funds held in brokerage accounts are not considered cash equivalents.

Investments

Investments in debt and equity securities are carried at fair value. Accordingly, the changes in net unrealized appreciation or depreciation of debt and equity securities for the years ended September 30, 2016 and 2015, are reported in the statements of activities. SAWSO would recognize any transfers of investments between levels in the fair value hierarchy at the end of the reporting period.

Beneficial Interest in Remainder Trust

A donor has established and funded a trust, held by a third-party trustee, under which specified distributions are to be made to designated beneficiaries over the Trust's term. Upon termination of the Trust, SAWSO receives a partial amount of the assets remaining in the Trust. The Trust has been recorded as a receivable and an increase in temporarily restricted net assets at the last available fair value of SAWSO's share of the Trust's assets. The estimated future distributions expected to be received are discounted to present value at a rate of 4.2%.

Grants and Other Receivables

Grants and other receivables are reported at their outstanding balances, reduced by an allowance for doubtful accounts, if any.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Other Receivables (Continued)

Management periodically evaluates the adequacy of the allowance for doubtful accounts by considering SAWSO's past receivables loss experience, known and inherent risks in the receivables population, adverse situations that may affect an organization's ability to pay, and current economic conditions.

The allowance for doubtful accounts is increased by charges to bad debts expense and decreased by charge offs of the receivables balances. Receivables are considered past due based on management's determination. Receivables are charged off based on management's case-by-case determination that they are uncollectible.

As of September 30, 2016 and 2015, management has determined that no allowance for doubtful accounts is necessary.

Project Advances and Amounts Due to Projects

To expedite the development of SAWSO projects, funds are provided to developing countries in advance of incurred expenses. The related expenses are recorded as incurred by projects, at which time the projects' advance accounts are reduced. Expenses incurred in excess of the advances provided are recognized as amounts due to projects until paid.

Deferred Revenue

Pursuant to the terms of certain grants, revenues from grants deferred when funds are advanced to SAWSO. Revenue for these grants is recognized in amounts equal to direct costs incurred and related recoverable indirect costs.

Net Asset Classifications

All contributions are considered to be available for unrestricted use unless specifically restricted by the donors. Amounts received that are restricted by the donors for specific purposes or times are reported as temporarily restricted or permanently restricted contributions that increase the respective net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Board designated net assets represent funds designated to maintain SAWSO operations in the case of severe cash flow difficulties while awaiting grant receipts.

As donor restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

For the years ended September 30, 2016 and 2015, SAWSO did not maintain or receive assets required to be reported as permanently restricted net assets.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support Recognition for Tsunami, Earthquake, and Typhoon Relief Programs

Funding for the tsunami, earthquake, and typhoon relief efforts is generated in two forms: (1) contributions from the public, and (2) reimbursements of program expenses incurred under donor partner memorandums of understanding with various territories of The Salvation Army around the world.

The contributions received from the public are recorded as temporarily restricted contributions when received, and the entire amount received is spent directly on the tsunami, earthquake, and typhoon relief efforts.

Support from program expense reimbursements from donor partners is recorded as the donor partners are billed for their shares of the expenses incurred to date on the projects for which the partners have agreed to provide shares of estimated total project costs.

Indirect Expenses

Pursuant to the terms of certain grants from applicable government agencies, indirect expenses have been allocated from management and general to grant expense based on an indirect cost rate.

Functional Expenses

The costs of providing the various programs and other activities have been reported on a functional basis consistent with internal reporting practices. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. The following three sections summarize the key program services provided.

Health Programs

SAWSO's health programs are designed to help end poverty and improve quality of life. SAWSO supported health initiatives at the community level through approximately 15,000 Salvation Army corps (churches). The Salvation Army serves the poor and vulnerable by initiating programs that increase access to community-based services and enhance health service quality at Salvation Army hospitals and clinics. Program focus areas are: maternal, child, and adolescent health; HIV care and prevention; non-communicable diseases; and community health and health facilities.

In **Nigeria**, SAWSO supported vulnerable communities in Lagos State to help reduce the rate of new HIV infections, to provide equitable care and support for those infected and affected by HIV, and to reduce the stigmatization and discrimination against people living with HIV.

In **Sri Lanka**, SAWSO continues to support Salvation Army staff doing community outreach in an area beset with deadly kidney disease, identifying cases early, and referring them for life-saving treatment.

In **Angola**, The Salvation Army has been an esteemed partner in a high-profile project to eliminate polio by increasing immunization and conducting surveillance.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Health Programs (Continued)

In Eastern **Uganda**, the two-year, SAWSO-supported SAIFaP (Salvation Army Integrated Family Planning) project is being extended into 2017. This project, serving rural communities in six districts in Eastern Uganda, was designed to meet the needs of beneficiaries and staff of the recently-concluded SCORE project by adding community-based family planning services and education.

In **Zambia**, SAWSO assisted The Salvation Army in providing primary health care to the rural poor through outreach programs in underserved Southern Province. SAWSO is beginning to work with an historic mission station there, which includes a large hospital, to plan for comprehensive upgrading of the aging infrastructure throughout the property.

Livelihood and Anti-Human Trafficking Programs

SAWSO seeks to improve economic conditions of families through economic, spiritual, and social support of individuals and their families, by helping them acquire the skills and assets needed to be free from oppressive labor, recover from setbacks, and create a better future for the next generation.

In 2016, SAWSO continued the WORTH project in **Kenya**, which supports women through literacy training, business training, access to savings and lending services, insurance, and workshops that address harmful social conditions including human trafficking, HIV, and other health issues. In partnership with The Salvation Army **Pakistan**, SAWSO continues to support family sustainable livelihood development through literacy training and vocational or small business training skills and is working to expand this program.

SAWSO remains committed to freeing individuals from the chains of human trafficking with projects that support The Salvation Army's established centers in the heart of the red light districts around the world. Through skills building, vocational training, and income generation, women are given a path to return home, attend school, or earn a living in other ways. SAWSO supports women in self-help groups in **India** through micro-loans, and savings and health awareness.

SAWSO's livelihood programs in **Haiti** include vocational education, micro-loans, and agriculture training.

Relief and Reconstruction Services

In 2016, SAWSO continued to provide support to those affected by the 7.8 earthquake that devastated **Nepal** in April, 2015. SAWSO is supporting a team that is working on the ground to implement long-term recovery projects focused on providing health, education, and livelihood support.

Assistance to the area of **Japan** affected by the March 2011 earthquake and tsunami continued. Following a comprehensive needs assessment, Japan is now implementing more than 10 long-term projects focused on serving children, intellectually disabled, and the elderly in the impacted areas, as well as preparedness for future disasters.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Relief and Reconstruction Services (Continued)

In January 2010, a devastating 7.0 magnitude earthquake rocked the country of **Haiti**, causing massive damage and loss of life to one of the poorest countries in the Americas. In the nine months of the initial emergency response phase, approximately \$12 million was used to feed and house and provide medical services, clean water, and security to hundreds of thousands of individuals and families.

In 2016, The Salvation Army continued its focus on the recovery and reconstruction phase with Salvationists and Haitians working to restore vitality to their damaged communities. Rebuilding efforts have focused on three areas:

- Long-term housing reconstruction projects for displaced families, which also include programs for vocational training, income generation, and capacity building.
- Primary Health Care focused on Port-au-Prince and Fond-de-Negre.
- Integrated community development programs implemented in 50 communities throughout **Haiti**. This initiative is helping communities address concerns such as clean water, income generation, access to education, and food security. It is also helping to develop infrastructure to mitigate future disasters.

The Salvation Army continues to build its response to the European refugee crisis and provided assistance to refugees from **Syria** and **North Africa** in 14 countries. Committed to providing a long-term response, The Salvation Army is transitioning to efforts that include building relationships, helping asylum seekers integrate into their new surroundings, and adapt to new cultures. Immediate needs such as food, clothing, and emotional and spiritual support are provided, while language classes and parent-and-baby groups support assimilation among participants.

Funding from SAWSO supported efforts in **Italy**, **Greece**, and **Germany**. SAWSO funding for Greece supported the development of a day center that offers toilets, shower facilities, basic medical care, and communications services for refugees arriving at the port of Piraeus in Athens.

SAWSO also provided funding to **Italy** and **Greece** to gain expertise to access European Union and government funds available.

In April 2016, The Salvation Army in **Ecuador** responded to the 7.8 magnitude earthquake that struck the country's northwest coast. The Salvation Army focused its support at the epicenter - the city of Pedernales and in the city of Manta. In Pedernales, the Army set up feeding stations, each providing meals to survivors and rescue workers. In Manta, temporary housing was provided for families until the government was able to find a more permanent housing arrangement. The Army is also helping to rebuild beach front businesses that were destroyed. Pedernales is dependent on its tourist industry which was devastated by the earthquake.

In addition to responding to disasters, SAWSO continues to help Salvation Army units around the world prepare for disasters and work on strategies to mitigate the impact of disasters.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Education

The Salvation Army seeks to improve learning outcomes of children and youths by developing the capacity of primary and secondary schools to provide high-quality, holistic, faith-based and family-focused education. To this effect, SAWSO developed and implemented a needs assessment field activity in **Indonesia** to understand the education gaps, gather information on the educational landscape, and identify teaching and learning needs in local schools. The assessment tool kit seeks to efficiently and effectively collect and track school quality data at Salvation Army primary and secondary schools that will subsequently inform intervention strategies that would lead to improved learning outcomes for children and youth.

The Salvation Army also supported after school programs in the country of **Georgia**, providing healthy feeding programs to communities, academic tutoring, and help with emotional and spiritual support to school age children. The afterschool program seeks to boost academic performance of students, promote health through the feeding program, and provide safe, structured environments for the children of working parents.

Income Taxes

SAWSO was incorporated in the District of Columbia (the District), USA, pursuant to the District's Nonprofit Corporation Act and began operations on October 1, 1977. SAWSO is a charitable corporation exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and is not classified as a private foundation under Section 509(a).

Uncertain Tax Positions

SAWSO follows the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. As of September 30, 2016 and 2015, SAWSO had no unrecognized tax benefits related to uncertain tax positions in its information returns that qualified for either recognition or disclosure in its financial statements.

SAWSO's policy would be to recognize interest and penalties on tax positions related to its unrecognized tax benefits in income tax expense in the financial statements. For the years ended September 30, 2016 and 2015, there were no matters that would have resulted in an accrual for interest and/or penalties.

As of September 30, 2016, SAWSO's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended September 30, 2015, 2014, and 2013 were subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Foreign Currency Translation

Certain expenses were reported by foreign affiliates of The Salvation Army in local currencies and translated into U.S. dollars at the average exchange rate during the period in which the expenses were incurred. Amounts advanced to projects were adjusted for foreign currency fluctuations occurring between the time the funds were disbursed by SAWSO and the time funds were spent by foreign affiliates.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingency

SAWSO receives a portion of its revenue from government grants. The ultimate determination of amounts received under these programs generally is based upon allowable costs that are subject to audit under government audit requirements. Management is of the opinion that no material amount will be disallowed by granting agencies, and no provision for disallowed amounts has been made.

3. CONCENTRATION OF CREDIT RISK

SAWSO maintains its cash accounts in banks that are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits are insured up to \$250,000 per institution. At September 30, 2016 and 2015, SAWSO's uninsured deposits were approximately \$794,000 and \$2,537,000, respectively.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

SAWSO's investments are its only assets or liabilities measured at fair value on a recurring basis at September 30, 2016 and 2015. SAWSO has categorized its investments based on a three-level fair value hierarchy of inputs as follows:

Level 1 - values are based on quoted prices for identical assets in active markets.

Level 2 - values are based on quoted prices for similar assets in active or inactive markets.

Level 3 - values are based on unobservable inputs to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The fair value measurement objective is to determine an exit price from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs would reflect SAWSO's judgment about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances, which might include SAWSO's own data.

Investments are stated at fair value and consisted of the following at September 30, 2016:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Funds	\$ 1,777,248	\$ 1,777,248	\$ -	\$ -
U.S. Government Securities	4,655,177	-	4,655,177	-
Mutual Funds - Fixed Income	5,344,896	5,344,896	-	-
Mutual Funds - Equities	2,551,112	2,551,112	-	-
Mutual Funds - Non-Traditional	3,408,072	3,408,072	-	-
Exchange Traded Funds - Equities	765,006	765,006	-	-
Corporate Bonds and Notes	3,661,137	-	3,661,137	-
Asset-Backed Securities	959,382	-	959,382	-
Preferred Securities	47,762	47,762	-	-
Equities	31,950,855	31,950,855	-	-
Total	<u>\$ 55,120,647</u>	<u>\$ 45,844,951</u>	<u>\$ 9,275,696</u>	<u>\$ -</u>

THE SALVATION ARMY WORLD SERVICE OFFICE

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investments are stated at fair value and consisted of the following at September 30, 2015:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Funds	\$ 1,355,932	\$ 1,355,932	\$ -	\$ -
U.S. Government Securities	4,228,175	-	4,228,175	-
Mutual Funds - Fixed Income	5,386,177	5,386,177	-	-
Mutual Funds - Non-Traditional	3,573,164	3,573,164	-	-
Exchange Traded Funds - Equities	2,383,352	2,383,352	-	-
Corporate Bonds and Notes	4,071,565	-	4,071,565	-
Asset-Backed Securities	944,381	-	944,381	-
Preferred Securities	39,588	39,588	-	-
Equities	30,036,880	30,036,880	-	-
Total	<u>\$ 52,019,214</u>	<u>\$ 42,775,093</u>	<u>\$ 9,244,121</u>	<u>\$ -</u>

Investment income consisted of the following:

	2016	2015
Dividends and Interest Revenue	\$ 991,525	\$ 1,018,301
Net Realized and Unrealized Gains (Losses)	<u>5,101,035</u>	<u>(779,681)</u>
Net	<u>\$ 6,092,560</u>	<u>\$ 238,620</u>

For the years ended September 30, 2016 and 2015, investment fees netted against dividends and interest revenues were \$342,684 and \$399,362, respectively.

5. RELATED PARTY TRANSACTIONS

Members of SAWSO's Board of Trustees are also officers in The Salvation Army in the United States of America.

The four territorial headquarters of The Salvation Army in the United States of America made contributions to SAWSO during the years ended September 30, 2016 and 2015, of approximately \$15,495,000 and \$14,711,000, respectively. These funds were used in part to provide project funding to the international programs of The Salvation Army and most are included in SAWSO's program services expenses with the caption on the statements of functional expenses, "Grants to Affiliates." The affiliates are various The Salvation Army territories around the world. Unexpended funds are included in unrestricted and temporarily restricted net assets at year end. SAWSO has been granted the variance power to redirect contributions received from the four The Salvation Army Territories in the United States of America that are restricted for international projects. Fundraising expenses for international projects are partly incurred by The Salvation Army's four territorial headquarters.

Employees of SAWSO may participate in a money purchase defined contribution pension plan with The Salvation Army corporations. For the years ended September 30, 2016 and 2015, SAWSO recognized pension expense of approximately \$58,000 and \$56,000, respectively. Such employer contributions are based upon compensation and are paid by SAWSO to The Salvation Army - USA Eastern Territory.

THE SALVATION ARMY WORLD SERVICE OFFICE

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

5. RELATED PARTY TRANSACTIONS (CONTINUED)

SAWSO leases its office space under a year-to-year lease with the USA National Corporation of The Salvation Army. For each of the years ended September 30, 2016 and 2015, rental expense was approximately \$134,000.

6. TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2016, temporarily restricted net assets, other than those related to assets held under split-interest agreements, were available for the following purposes:

Relief and Reconstruction Services

South East Asia Tsunami Relief	\$ 7,023,725
Haiti Earthquake Relief	6,702,398
Philippines Typhoon Haiyan Relief	5,154,341
Japan Earthquake/Tsunami Relief	3,714,663
Other International Disaster Relief	1,458,841
Nepal Earthquake Relief	777,726
Mexico Reserve	498,648
China Earthquake Relief	417,109
Ecuador Earthquake Relief	225,392
Pakistan Earthquake/Flood Relief	211,336
Myanmar Cyclone Relief	195,439
Chile Earthquake Relief	148,942
Western Hemisphere	89,624
Indonesia Earthquake Relief	40,755
East Africa Famine Relief	29,488
	<hr/>
Total	<u>\$ 26,688,427</u>

As of September 30, 2015, temporarily restricted net assets, other than those related to assets held under split-interest agreements, were available for the following purposes:

Relief and Reconstruction Services

Haiti Earthquake Relief	\$ 8,762,680
South East Asia Tsunami Relief	7,291,615
Philippines Typhoon Haiyan Relief	5,742,761
Japan Earthquake/Tsunami Relief	4,152,126
Other International Disaster Relief	1,315,039
Nepal Earthquake Relief	1,001,437
Pakistan Earthquake/Flood Relief	507,390
Mexico Reserve	447,729
China Earthquake Relief	417,109
Myanmar Cyclone Relief	195,439
Chile Earthquake Relief	191,461
Western Hemisphere	84,283
Indonesia Earthquake Relief	40,755
East Africa Famine Relief	29,440
	<hr/>
Total	<u>\$ 30,179,264</u>

7. SUBSEQUENT EVENTS

SAWSO has evaluated subsequent events through February 27, 2017, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE SALVATION ARMY WORLD SERVICE OFFICE
SCHEDULE OF INDIRECT COST RATE CALCULATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Total Management and General Expenses per Financial Statements	\$ 589,448
Total Indirect Costs	(“A”) <u>\$ 589,448</u>
Total Program Services Expenses per Financial Statements	\$ 22,557,169
Less Grants to Affiliates	(15,309,143)
Less Construction Supplies - Relief Projects	(2,633,362)
Add Strategy and Fundraising Expenses	<u>494,118</u>
Total Allowable Expenses	(“B”) <u>\$ 5,108,782</u>
Indirect Cost Rate (“A” Divided by “B”)	<u>11.54%</u>

THE SALVATION ARMY WORLD SERVICE OFFICE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Agreement Number</u>	<u>Federal Expenditures</u>
<u>Major Programs Awards</u>		
U.S. Agency for International Development Pass-Through from World Vision Angola Polio Awareness	AID-OAA-A-12-00031-SAWSO	\$ 200,676
Total Major Programs Awards		<u>200,676</u>
<u>Other Federal Awards</u>		
U.S. Agency for International Development Pass-Through from APC Uganda Integrating Family Planning into OVC	APC-GM-0046	102,390
Total Other Federal Awards		<u>102,390</u>
Total Expenditures of Federal Awards		<u>\$ 303,066</u>

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO SUPPLEMENTARY SCHEDULES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of The Salvation Army World Service Office (SAWSO) under programs of the federal government for the year ended September 30, 2016. The information in this schedule is presented in accordance with the requirements of OMB Uniform Guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of SAWSO, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SAWSO.

2. SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Uniform Guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures include a portion of costs associated with general activities (indirect costs), which are allocated to federal awards under negotiated indirect cost rates and are adjusted to actual rates at year end.



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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
The Salvation Army World Service Office
Alexandria, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Salvation Army World Service Office (a nonprofit organization), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Salvation Army World Service Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Salvation Army World Service Office's internal control. Accordingly, we do not express an opinion on the effectiveness of The Salvation Army World Service Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Salvation Army World Service Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Board of Trustees
The Salvation Army World Service Office

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Salvation Army World Service Office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Salvation Army World Service Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
February 27, 2017

Certified Public Accountants



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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees
The Salvation Army World Service Office
Alexandria, Virginia

Report on Compliance for Each Major Federal Program

We have audited The Salvation Army World Service Office's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on The Salvation Army World Service Office's major federal program for the year ended September 30, 2016. The Salvation Army World Service Office's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for The Salvation Army World Service Office's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Salvation Army World Service Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The Salvation Army World Service Office's compliance.

Opinion on Each Major Federal Program

In our opinion, The Salvation Army World Service Office complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2016.



Report on Internal Control over Compliance

Management of The Salvation Army World Service Office is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Salvation Army World Service Office's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Salvation Army World Service Office's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
February 27, 2017

Certified Public Accountants

THE SALVATION ARMY WORLD SERVICE OFFICE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of The Salvation Army World Service Office.
2. The audit disclosed no instances of noncompliance material to the financial statements of The Salvation Army World Service Office.
3. The auditors' report on compliance for the major federal award programs for The Salvation Army World Service Office expresses an unmodified opinion on all major federal programs.
4. There were no audit findings relative to the major federal award programs for The Salvation Army World Service Office that are required to be reported in accordance with the Uniform Guidance.
5. Identification of major programs:

Federal Grantor/Pass-Through Grantor/Program Title	Agreement Number	Federal Expenditures
<u>Major Programs Awards</u>		
U.S. Agency for International Development		
Pass-Through from World Vision		
Angola Polio Awareness	AID-OAA-A-12-00031-SAWSO	\$ 200,676

6. The threshold for distinguishing Type A and Type B programs was \$750,000.
7. The Salvation Army World Service Office did not qualify as a low-risk auditee.

THE SALVATION ARMY WORLD SERVICE OFFICE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Financial Statement Audit Findings

There are no prior financial statement audit findings required to be reported.

Federal Award Findings

There are no prior federal award findings required to be reported.