

THE SALVATION ARMY WORLD SERVICE OFFICE

ALEXANDRIA, VIRGINIA

OMB CIRCULAR A-133 FINANCIAL REPORT

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

The Salvation Army World Service Office
OMB Circular A-133 Financial Report
For the Years Ended September 30, 2014 and 2013

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Independent Auditors' Report

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, 2014 and 2013, 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.

Report on the Financial Statements (Continued)

Opinion

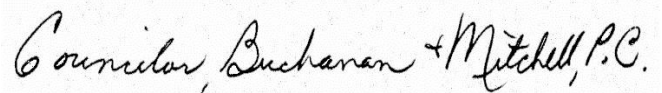
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Salvation Army World Service Office as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary 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 of SAWSO. The accompanying supplementary schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 20, 2015, 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.



Bethesda, Maryland
February 20, 2015

Certified Public Accountants

The Salvation Army World Service Office

Statement of Financial Position
September 30, 2014
(With Comparative Totals as of September 30, 2013)

	2014					2013 Total
	Unrestricted			Temporarily Restricted	Total	
	Operating	Board Designated	Total			
Assets						
Cash and Cash Equivalents	\$ 1,326,525	\$ -	\$ 1,326,525	\$ 520,212	\$ 1,846,737	\$ 2,129,223
Investments	25,288,231	500,000	25,788,231	32,000,000	57,788,231	51,515,606
Grants Receivable	90,018	-	90,018	-	90,018	146,241
Beneficial Interest in Remainder Trust	-	-	-	32,081	32,081	32,081
Other Receivables	174,006	-	174,006	-	174,006	189,612
Prepaid Expenses	5,592	-	5,592	-	5,592	-
Project Advances	1,813,646	-	1,813,646	-	1,813,646	964,704
Total Assets	\$28,698,018	\$ 500,000	\$29,198,018	\$32,552,293	\$61,750,311	\$54,977,467
Liabilities and Net Assets						
Liabilities						
Accounts Payable and Accrued Expenses	\$ 317,350	\$ -	\$ 317,350	\$ -	\$ 317,350	\$ 409,243
Amounts Due to Projects	354,786	-	354,786	-	354,786	311,221
Deferred Revenue	137,266	-	137,266	-	137,266	134,118
Total Liabilities	809,402	-	809,402	-	809,402	854,582
Net Assets						
Unrestricted	27,888,616	500,000	28,388,616	-	28,388,616	24,537,740
Temporarily Restricted	-	-	-	32,552,293	32,552,293	29,585,145
Total Net Assets	27,888,616	500,000	28,388,616	32,552,293	60,940,909	54,122,885
Total Liabilities and Net Assets	\$28,698,018	\$ 500,000	\$29,198,018	\$32,552,293	\$61,750,311	\$54,977,467

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Financial Position
September 30, 2013

	Unrestricted			Temporarily Restricted	Total
	Operating	Board Designated	Total		
Assets					
Cash and Cash Equivalents	\$ 1,576,159	\$ -	\$ 1,576,159	\$ 553,064	\$ 2,129,223
Investments	22,015,606	500,000	22,515,606	29,000,000	51,515,606
Grants Receivable	146,241	-	146,241	-	146,241
Beneficial Interest in Remainder Trust	-	-	-	32,081	32,081
Other Receivables	189,612	-	189,612	-	189,612
Project Advances	964,704	-	964,704	-	964,704
Total Assets	\$ 24,892,322	\$ 500,000	\$ 25,392,322	\$ 29,585,145	\$ 54,977,467
Liabilities and Net Assets					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 409,243	\$ -	\$ 409,243	\$ -	\$ 409,243
Amounts Due to Projects	311,221	-	311,221	-	311,221
Deferred Revenue	134,118	-	134,118	-	134,118
Total Liabilities	854,582	-	854,582	-	854,582
Net Assets					
Unrestricted	24,037,740	500,000	24,537,740	-	24,537,740
Temporarily Restricted	-	-	-	29,585,145	29,585,145
Total Net Assets	24,037,740	500,000	24,537,740	29,585,145	54,122,885
Total Liabilities and Net Assets	\$ 24,892,322	\$ 500,000	\$ 25,392,322	\$ 29,585,145	\$ 54,977,467

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office
Statement of Activities
For the Year Ended September 30, 2014
(With Comparative Totals for the Year Ended September 30, 2013)

	2014					2013 Total
	Unrestricted			Temporarily Restricted	Total	
	Operating	Board Designated	Total			
Support and Revenues						
Public Support						
Received Directly						
Contributions	\$ 1,257,303	\$ -	\$ 1,257,303	\$ 2,600,823	\$ 3,858,126	\$ 963,444
Legacies and Bequests	208,818	-	208,818	-	208,818	72,254
Received Indirectly						
Allocated by Federated Fund-Raising Organizations	325,898	-	325,898	-	325,898	428,842
Contributions from The Salvation Army Territories	13,797,971	-	13,797,971	3,124,130	16,922,101	11,332,106
Total Public Support	<u>15,589,990</u>	<u>-</u>	<u>15,589,990</u>	<u>5,724,953</u>	<u>21,314,943</u>	<u>12,796,646</u>
Grants from Governmental Agencies	<u>230,534</u>	<u>-</u>	<u>230,534</u>	<u>-</u>	<u>230,534</u>	<u>1,074,794</u>
Investment Income						
Dividends and Interest	896,960	-	896,960	-	896,960	945,104
Realized Gains on Sales of Investments	3,276,082	-	3,276,082	-	3,276,082	1,966,811
Unrealized Gains in Values of Investments	1,096,246	-	1,096,246	-	1,096,246	2,955,156
Net Investment Income	<u>5,269,288</u>	<u>-</u>	<u>5,269,288</u>	<u>-</u>	<u>5,269,288</u>	<u>5,867,071</u>
Total Support and Revenues	<u>21,089,812</u>	<u>-</u>	<u>21,089,812</u>	<u>5,724,953</u>	<u>26,814,765</u>	<u>19,738,511</u>
Net Assets Released from Restrictions	<u>2,757,805</u>	<u>-</u>	<u>2,757,805</u>	<u>(2,757,805)</u>	<u>-</u>	<u>-</u>
Total	<u>23,847,617</u>	<u>-</u>	<u>23,847,617</u>	<u>2,967,148</u>	<u>26,814,765</u>	<u>19,738,511</u>
Expenses						
Program Services						
Health Programs	827,084	-	827,084	-	827,084	1,334,073
Anti-Human Trafficking and Livelihood Programs	737,624	-	737,624	-	737,624	771,183
Disaster Relief and Recovery Services	17,166,379	-	17,166,379	-	17,166,379	14,863,492
Total Program Services	<u>18,731,087</u>	<u>-</u>	<u>18,731,087</u>	<u>-</u>	<u>18,731,087</u>	<u>16,968,748</u>
Supporting Services						
Strategy and Fund-Raising	613,472	-	613,472	-	613,472	470,148
Management and General	652,182	-	652,182	-	652,182	633,527
Total Supporting Services	<u>1,265,654</u>	<u>-</u>	<u>1,265,654</u>	<u>-</u>	<u>1,265,654</u>	<u>1,103,675</u>
Total Expenses	<u>19,996,741</u>	<u>-</u>	<u>19,996,741</u>	<u>-</u>	<u>19,996,741</u>	<u>18,072,423</u>
Changes in Net Assets	3,850,876	-	3,850,876	2,967,148	6,818,024	1,666,088
Net Assets, Beginning of Year	24,037,740	500,000	24,537,740	29,585,145	54,122,885	52,456,797
Net Assets, End 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>	<u>\$ 54,122,885</u>

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Activities
For the Year Ended September 30, 2013

	Unrestricted			Temporarily Restricted	Total
	Operating	Board Designated	Total		
Support and Revenues					
Public Support					
Received Directly					
Contributions	\$ 940,061	\$ -	\$ 940,061	\$ 23,383	\$ 963,444
Legacies and Bequests	72,254	-	72,254	-	72,254
Received Indirectly					
Allocated by Federated Fund-Raising Organizations	428,842	-	428,842	-	428,842
Contributions from The Salvation Army Territories	11,321,362	-	11,321,362	10,744	11,332,106
Total Public Support	12,762,519	-	12,762,519	34,127	12,796,646
Grants from Governmental Agencies	1,074,794	-	1,074,794	-	1,074,794
Investment Income					
Dividends and Interest	936,887	-	936,887	8,217	945,104
Realized Gains on Sales of Investments	1,944,168	-	1,944,168	22,643	1,966,811
Unrealized Gains in Values of Investments	2,934,995	-	2,934,995	20,161	2,955,156
Net Investment Income	5,816,050	-	5,816,050	51,021	5,867,071
Total Support and Revenues	19,653,363	-	19,653,363	85,148	19,738,511
Net Assets Released from Restrictions	3,764,370	-	3,764,370	(3,764,370)	-
Total	23,417,733	-	23,417,733	(3,679,222)	19,738,511
Expenses					
Program Services					
Health Programs	1,334,073	-	1,334,073	-	1,334,073
Anti-Human Trafficking and Livelihood Programs	771,183	-	771,183	-	771,183
Disaster Relief and Recovery Services	14,863,492	-	14,863,492	-	14,863,492
Total Program Services	16,968,748	-	16,968,748	-	16,968,748
Supporting Services					
Strategy and Fund-Raising	470,148	-	470,148	-	470,148
Management and General	633,527	-	633,527	-	633,527
Total Supporting Services	1,103,675	-	1,103,675	-	1,103,675
Total Expenses	18,072,423	-	18,072,423	-	18,072,423
Changes in Net Assets	5,345,310	-	5,345,310	(3,679,222)	1,666,088
Net Assets, Beginning of Year	18,692,430	500,000	19,192,430	33,264,367	52,456,797
Net Assets, End of Year	\$ 24,037,740	\$ 500,000	\$ 24,537,740	\$ 29,585,145	\$ 54,122,885

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Functional Expenses
For the Year Ended September 30, 2014

	Program Services				Supporting Services			2014 Total Expenses
	Health Programs	Anti-Human Trafficking and Livelihood Programs	Disaster Relief and Recovery Services	Total Program Services	Strategy and Fund-Raising	Management and General	Total Supporting Services	
Salaries	\$ 418,851	\$ 258,125	\$ 456,702	\$ 1,133,678	\$ 438,242	\$ 265,558	\$ 703,800	\$ 1,837,478
Employee Benefits and Payroll Taxes	49,873	59,475	104,260	213,608	72,926	81,508	154,434	368,042
Professional Fees	23,588	49,485	548,029	621,102	62,187	101,489	163,676	784,778
Travel, Meals, and Transportation	65,694	84,844	167,256	317,794	18,242	14,333	32,575	350,369
Occupancy	15,567	25,351	24,412	65,330	-	144,691	144,691	210,021
Printing and Publications	80	6,446	1,263	7,789	9,485	1,876	11,361	19,150
Telephone	8,431	7,775	11,320	27,526	2,521	9,232	11,753	39,279
Postage and Shipping	37	61	26,302	26,400	2,003	1,817	3,820	30,220
Equipment	6,176	6,612	221,839	234,627	-	14,446	14,446	249,073
Office Expense	10,275	14,671	64,665	89,611	701	10,723	11,424	101,035
Construction Supplies	-	14,804	1,362,212	1,377,016	-	-	-	1,377,016
Other Supplies	41,473	24,216	197,838	263,527	873	739	1,612	265,139
Conference and Meetings	23,848	123,554	8,597	155,999	6,292	5,770	12,062	168,061
Support to Individuals	19,565	31,462	1,436,266	1,487,293	-	-	-	1,487,293
Foreign Currency Exchange (Gain) Loss	(2,844)	(3,941)	(1,016)	(7,801)	-	-	-	(7,801)
Grants to Affiliates	146,470	34,684	12,536,434	12,717,588	-	-	-	12,717,588
Total Expenses	<u>\$ 827,084</u>	<u>\$ 737,624</u>	<u>\$ 17,166,379</u>	<u>\$ 18,731,087</u>	<u>\$ 613,472</u>	<u>\$ 652,182</u>	<u>\$ 1,265,654</u>	<u>\$ 19,996,741</u>

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

**Statement of Functional Expenses
For the Year Ended September 30, 2013**

	Program Services				Supporting Services			2013 Total Expenses
	Health Programs	Anti-Human Trafficking and Livelihood Programs	Disaster Relief and Recovery Services	Total Program Services	Strategy and Fund-Raising	Management and General	Total Supporting Services	
Salaries	\$ 505,288	\$ 316,632	\$ 520,671	\$ 1,342,591	\$ 231,377	\$ 259,672	\$ 491,049	\$ 1,833,640
Employee Benefits and Payroll Taxes	121,618	57,933	118,490	298,041	36,129	81,461	117,590	415,631
Professional Fees	36,147	12,408	276,171	324,726	178,135	129,307	307,442	632,168
Travel, Meals, and Transportation	108,222	41,329	120,803	270,354	10,560	6,489	17,049	287,403
Occupancy	27,166	31,789	116,383	175,338	-	133,504	133,504	308,842
Printing and Publications	2,359	13,111	-	15,470	1,739	1,613	3,352	18,822
Telephone	12,828	5,921	9,769	28,518	983	2,288	3,271	31,789
Postage and Shipping	1,211	278	28,432	29,921	151	3,235	3,386	33,307
Equipment	4,697	7,466	31,422	43,585	5,817	2,836	8,653	52,238
Office Expense	56,017	5,969	116,361	178,347	324	6,976	7,300	185,647
Construction Supplies	-	3,520	2,522,564	2,526,084	-	-	-	2,526,084
Other Supplies	144,576	17,560	150,448	312,584	123	1,204	1,327	313,911
Conference and Meetings	29,156	241,581	15,996	286,733	4,810	5,336	10,146	296,879
Support to Individuals	258,042	-	51,605	309,647	-	-	-	309,647
Foreign Currency Exchange (Gain) Loss	1,933	(10,302)	5,133	(3,236)	-	(394)	(394)	(3,630)
Grants to Affiliates	24,813	25,988	10,779,244	10,830,045	-	-	-	10,830,045
Total Expenses	<u>\$ 1,334,073</u>	<u>\$ 771,183</u>	<u>\$ 14,863,492</u>	<u>\$ 16,968,748</u>	<u>\$ 470,148</u>	<u>\$ 633,527</u>	<u>\$ 1,103,675</u>	<u>\$ 18,072,423</u>

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

**Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013**

	2014	2013
Cash Flows from Operating Activities		
Change in Net Assets	\$ 6,818,024	\$ 1,666,088
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Gains on Sales of Investments	(3,276,082)	(1,966,811)
Unrealized Gains in Values of Investments	(1,096,246)	(2,955,156)
<u>(Increase) Decrease in Operating Assets</u>		
Grants Receivable	56,223	85,036
Other Receivables	15,606	(95,185)
Prepaid Expenses	(5,592)	-
Project Advances	(848,942)	(74,516)
<u>Increase (Decrease) in Operating Liabilities</u>		
Accounts Payable and Accrued Expenses	(91,893)	(386,781)
Amounts Due to Projects	43,565	(14,426)
Deferred Revenue	3,148	121,362
	1,617,811	(3,620,389)
 Cash Flows from Investing Activities		
Sales of Investments	18,704,776	15,061,499
Purchases of Investments	(20,605,073)	(12,009,078)
	(1,900,297)	3,052,421
 Net Cash Provided by (Used in) Investing Activities		
	(282,486)	(567,968)
 Net Decrease in Cash and Cash Equivalents		
	2,129,223	2,697,191
 Cash and Cash Equivalents, Beginning of Year		
	\$ 1,846,737	\$ 2,129,223

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Notes to Financial Statements September 30, 2014 and 2013

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, 2014 and 2013, 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%.

The Salvation Army World Service Office

Notes to Financial Statements September 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Other Receivables

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

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, 2014 and 2013, 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 less developed 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 from applicable government agencies are 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.

The Salvation Army World Service Office

Notes to Financial Statements September 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classifications (Continued)

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, 2014 and 2013, SAWSO did not maintain or receive assets required to be reported as permanently restricted net assets.

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 work at the community level through 15,000 Salvation Army corps serving the poor and vulnerable, increased access to health care by strengthening Salvation Army health facilities' community-based services, and enhanced health service quality at Salvation Army hospitals and clinics. Program focus areas are: maternal child and

The Salvation Army World Service Office

Notes to Financial Statements September 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Health Programs (Continued)

adolescent health; HIV care and prevention; non-communicable diseases; and community health and health facilities. In Sri Lanka, SAWSO supports 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 (TSA) is an esteemed partner in a high-profile project to eliminate polio by increasing immunization and conducting surveillance. In Eastern Uganda, the SCORE Project provides services to vulnerable children and families – many affected by HIV and AIDS. In Nigeria, SAWSO responded to the needs of the Lagos State Community 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 in that area.

Anti-human Trafficking and Livelihood Programs

SAWSO seeks to improve economic conditions of families through economic, spiritual, and social support of women and children. In 2014, 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. This project has grown to include 17,000 members. 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 in over 50 communities. SAWSO supports over 15,000 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.

Disaster Relief and Recovery Services

A large portion of support and corresponding expenses for relief, recovery, and reconstruction services for the years ended September 30, 2014 and 2013, related to Super Typhoon Haiyan that hit the Philippines in November 2013. SAWSO responded immediately supplying food, water, shelter repair materials, and medical services. Following the immediate response, the main agriculture recovery project in the Philippines has been the replacement of the estimated 3 million coconut trees that fell during the storm's high winds. Coconut farmers are provided with seedlings and fertilizer according to the amount of land they have and the number of their trees that were damaged.

Assistance to the area of Japan affected by the March 2011 earthquake and tsunami continued in the upgrade of the Portal Center, which is used as a community meeting space for Minamisanriku. The interior of the building was upgraded to make the building usable for concerts and children's activities.

The Salvation Army World Service Office

Notes to Financial Statements September 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disaster Relief and Recovery Services (Continued)

In January 2010, a devastating 7.0 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. Nearly 8 million meals were provided to families in need, medical care was provided for more than 30,000 patients, and shelter and hygiene support was provided for 20,000 homeless people living in Place de la Paix Square. In 2013-2014, the response has focused on a recovery and reconstruction phase. SAWSO's focus is in three primary areas:

- Long-term housing reconstruction projects for displaced families, which include vocational training, income generation, and capacity building, strategically located in the North, South, and West areas of Haiti.
- Primary Health Care focused in Port-au-Prince and Fond-de-Nègres.
- Integrated community development programs implemented in 50 communities throughout Haiti. The integrated community development programs are helping community programs address concerns such as clean water, income generation, access to education, and food security. In addition, these programs also help develop an infrastructure to mitigate future disasters.

In Indonesia, The Salvation Army has spent the last year serving the needs of more than 10,000 farmers and their families who were displaced by the eruption of the Sinabung Volcano. The three phase relocation plan will build a school, build a primary health clinic, and provide a community outreach program with income generation programs focusing on developing the agricultural sector. SAWSO has committed approximately \$500,000 to date and more is anticipated.

The conflict in Eastern Ukraine continues to cause thousands of people to flee their homes. SAWSO provided support for the internally displaced persons with three types of food packages distributed. The first type of food package was for people who were not in transit, which included dry food that would support a family for a week. The second food package was ready-to-eat food for individuals in transit, and the third food package was dry baby food for families with infants.

The conflict in the Central African Republic has sent many fleeing to safety in neighboring countries. As of May 31, 2014, the UN High Commission for Refugees had reported 11,407 refugees living in the Republic of Congo. The Salvation Army assisted 1,051 women and babies with canned food, hygiene items, mosquito nets, clothing, and blankets in coordination with the other humanitarian agencies present.

The Salvation Army World Service Office

Notes to Financial Statements September 30, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disaster Relief and Recovery Services (Continued)

In February 2010, regions of Chile were affected by the earthquake and tsunami. SAWSO assisted the communities affected by providing new homes and materials to repair homes to 40 families in the Dichalo, Hualpencillo, and Talca areas of Chile. These families now have a safe place to live, in addition to a better quality of life and an improved home and equipment.

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, 2014 and 2013, 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, 2014 and 2013, there were no matters that would have resulted in an accrual for interest and/or penalties.

As of September 30, 2014, SAWSO's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended September 30, 2013 and 2012, and the nine months ended September 30, 2011, 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, 2014 and 2013**

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, 2014 and 2013, SAWSO's uninsured deposits were approximately \$1,721,000, and \$1,913,000, 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, 2014 and 2013. 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.

The Salvation Army World Service Office

**Notes to Financial Statements
September 30, 2014 and 2013**

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investments are stated at fair value and consisted of the following at September 30, 2014:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>
Money Funds	\$ 2,668,351	\$ 2,668,351
U.S. Government Securities	5,616,379	5,616,379
Mutual Funds - Fixed Income	5,363,037	5,363,037
Mutual Funds - Equities	1,559,653	1,559,653
Mutual Funds - Non-Traditional	1,586,592	1,586,592
Exchange Traded Funds - Equities	3,545,868	3,545,868
Corporate Bonds and Notes	2,968,764	2,968,764
Asset Backed Securities	1,050,731	1,050,731
Preferred Equities	50,162	50,162
Equities	<u>33,378,694</u>	<u>33,378,694</u>
Total	<u>\$ 57,788,231</u>	<u>\$ 57,788,231</u>

Investments are stated at fair value and consisted of the following at September 30, 2013:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>
Money Funds	\$ 2,534,039	\$ 2,534,039
U.S. Government Securities	6,159,704	6,159,704
Mutual Funds - Fixed Income	3,066,189	3,066,189
Exchange Traded Funds - Equities	3,163,537	3,163,537
Corporate Bonds and Notes	3,099,940	3,099,940
Asset Backed Securities	1,491,310	1,491,310
Preferred Equities	61,263	61,263
Equities	<u>31,939,624</u>	<u>31,939,624</u>
Total	<u>\$ 51,515,606</u>	<u>\$ 51,515,606</u>

None of SAWSO's investments are valued using Level 2 or Level 3 inputs.

The Salvation Army World Service Office

Notes to Financial Statements September 30, 2014 and 2013

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investment income consisted of the following:

	<u>2014</u>	<u>2013</u>
Dividends and Interest Revenue	\$ 896,960	\$ 945,104
Net Realized and Unrealized Gain	<u>4,372,328</u>	<u>4,921,967</u>
Net	<u>\$ 5,269,288</u>	<u>\$ 5,867,071</u>

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, 2014 and 2013, of approximately \$16,922,000 and \$11,332,000, 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. Fund-raising expenses for international projects are 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, 2014 and 2013, SAWSO recognized pension expense of approximately \$50,000 and \$47,000, respectively. Such employer contributions are based upon compensation and are paid by SAWSO to The Salvation Army - USA Eastern Territory.

SAWSO leases its office space under a year-to-year lease with the USA National Headquarters of The Salvation Army (NHQ). For the years ended September 30, 2014 and 2013, rental expense was approximately \$145,000 and \$137,000, respectively.

The Salvation Army World Service Office

Notes to Financial Statements September 30, 2014 and 2013

6. TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2014, 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	\$ 11,601,409
South East Asia Tsunami Relief	7,722,201
PHL Typhoon Haiyan	5,719,752
Japan Earthquake/Tsunami Relief	4,263,834
Other International Disaster Relief	1,132,731
Pakistan Earthquake/Flood Relief	480,730
Mexico	445,787
China Earthquake Relief	423,007
Chile Earthquake Relief	313,302
Myanmar Cyclone Relief	206,113
East Africa Famine	170,591
Indonesia Earthquake Relief	40,755
Total	\$ 32,520,212

As of September 30, 2013, 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	\$ 13,931,886
South East Asia Tsunami Relief	7,849,879
Japan Earthquake/Tsunami Relief	4,354,670
Other International Disaster Relief	1,130,794
Pakistan Earthquake/Flood Relief	548,234
Mexico	517,329
China Earthquake Relief	423,007
Chile Earthquake Relief	381,739
Myanmar Cyclone Relief	206,113
East Africa Famine	168,658
Indonesia Earthquake Relief	40,755
Total	\$ 29,553,064

7. SUBSEQUENT EVENTS

SAWSO has evaluated subsequent events through February 20, 2015, the date on which the financial statements were available to be issued.

Supplementary Information

**Schedule of Indirect Cost Rate Calculation
For the Year Ended September 30, 2014**

Total Management and General Expenses per Financial Statements	<u>\$ 652,182</u>
Total Indirect Costs	("A") <u>\$ 652,182</u>
Total Program Services Expenses per Financial Statements	\$ 18,731,087
Less Grants to Affiliates	(12,717,588)
Less Construction Supplies - Tsunami/Earthquake Projects	(1,377,016)
Add Strategy and Fund-Raising Expenses	<u>613,472</u>
Total Allowable Expenses	("B") <u>\$ 5,249,955</u>
Indirect Cost Rate ("A" Divided by "B")	<u>12.42%</u>

See accompanying Notes to Supplementary Schedules.

**Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2014**

Federal Grantor/Pass-Through Grantor/ Program Title	Agreement Number	Federal Expenditures
Major Programs Awards		
U.S. Agency for International Development Pass-Through from World Vision Angola Polio Awareness - Total Major Programs Awards	AID-OAA-A-12-00031-SAWSO	\$ 212,026
Other Federal Awards		
U.S. Agency for International Development Pass-Through from APC Uganda Integrating Family Planning into OVC	APC-GM-0046	3,938
U.S. Agency for International Development Pass-Through from FHI 360 Zambia ZPCT II	FHI FCO/IDA400255/04060013	14,570
Total Other Federal Awards		18,508
Total Expenditures of Federal Awards		\$ 230,534

See accompanying Notes to Supplementary Schedules.

The Salvation Army World Service Office

Notes to Supplementary Schedules For the Year Ended September 30, 2014

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, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 Circular A-122, *Cost Principles for Non-Profit Organizations*, 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*

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, 2014, 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 20, 2015.

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.

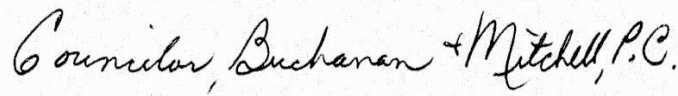
The Board of Trustees
The Salvation Army World Service Office

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*.

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.

A handwritten signature in black ink that reads "Councilor, Buchanan + Mitchell, P.C." The signature is written in a cursive style and is positioned above a light gray rectangular background.

Bethesda, Maryland
February 20, 2015

Certified Public Accountants



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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Salvation Army World Service Office's major federal programs for the year ended September 30, 2014. The Salvation Army World Service Office's major federal programs are 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Salvation Army World Service Office's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

Report on Compliance for Each Major Federal Program (Continued)

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 each of its major federal programs for the year ended September 30, 2014.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
February 20, 2015

Certified Public Accountants

The Salvation Army World Service Office

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014**

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 OMB Circular A-133, Section 510(a).
5. Identification of major programs:

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Agreement Number</u>	<u>Federal Expenditures</u>
Major Programs Awards		
U.S. Agency for International Development Pass-Through from World Vision Angola Polio Awareness	AID-OAA-A-12-00031-SAWSO	<u>\$ 212,026</u>

6. The threshold for distinguishing Type A and Type B programs was \$300,000.
7. The Salvation Army World Service Office was determined to be a low-risk auditee.