



**THE SALVATION ARMY WORLD SERVICE OFFICE**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2017 AND 2016**

THE SALVATION ARMY WORLD SERVICE OFFICE

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SEPTEMBER 30, 2017 AND 2016

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## **Independent Auditors' Report**

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

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, 2017 and 2016, 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. 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 the entity'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 the entity'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, 2017 and 2016, 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

### **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. 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.

*Councilor, Buchanan + Mitchell, P.C.*

Bethesda, Maryland  
February 7, 2018

Certified Public Accountants

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENT OF FINANCIAL POSITION  
 SEPTEMBER 30, 2017  
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2016)

	2017						2016 Total
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	Operating	Board Designated	Total				
<b>Assets</b>							
Cash and Cash Equivalents	\$ 2,801,563	\$ -	\$ 2,801,563	\$ 43,168	\$ -	\$ 2,844,731	\$ 991,168
Investments	29,952,716	500,000	30,452,716	25,000,000	302,536	55,755,252	55,120,647
Grants Receivable	-	-	-	-	-	-	157,945
Beneficial Interest in Remainder Trust	-	-	-	32,081	-	32,081	32,081
Other Receivables	118,002	-	118,002	-	-	118,002	220,640
Project Advances	3,497,312	-	3,497,312	-	-	3,497,312	2,115,562
<b>Total Assets</b>	<b>\$ 36,369,593</b>	<b>\$ 500,000</b>	<b>\$ 36,869,593</b>	<b>\$ 25,075,249</b>	<b>\$ 302,536</b>	<b>\$ 62,247,378</b>	<b>\$ 58,638,043</b>
<b>Liabilities and Net Assets</b>							
<b>Liabilities</b>							
Accounts Payable and Accrued Expenses	\$ 954,577	\$ -	\$ 954,577	\$ -	\$ -	\$ 954,577	\$ 369,004
Amounts Due to Projects	53,215	-	53,215	-	-	53,215	129,362
Deferred Revenue	88,787	-	88,787	-	-	88,787	78,589
<b>Total Liabilities</b>	<b>1,096,579</b>	<b>-</b>	<b>1,096,579</b>	<b>-</b>	<b>-</b>	<b>1,096,579</b>	<b>576,955</b>
<b>Net Assets</b>							
Unrestricted	35,273,014	500,000	35,773,014	-	-	35,773,014	31,340,580
Temporarily Restricted	-	-	-	25,075,249	-	25,075,249	26,720,508
Permanently Restricted	-	-	-	-	302,536	302,536	-
<b>Total Net Assets</b>	<b>35,273,014</b>	<b>500,000</b>	<b>35,773,014</b>	<b>25,075,249</b>	<b>302,536</b>	<b>61,150,799</b>	<b>58,061,088</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 36,369,593</b>	<b>\$ 500,000</b>	<b>\$ 36,869,593</b>	<b>\$ 25,075,249</b>	<b>\$ 302,536</b>	<b>\$ 62,247,378</b>	<b>\$ 58,638,043</b>

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2016

	Unrestricted			Temporarily Restricted	Total
	Operating	Board Designated	Total		
<b>Assets</b>					
Cash and Cash Equivalents	\$ 802,741	\$ -	\$ 802,741	\$ 188,427	\$ 991,168
Investments	28,120,647	500,000	28,620,647	26,500,000	55,120,647
Grants Receivable	157,945	-	157,945	-	157,945
Beneficial Interest in Remainder Trust	-	-	-	32,081	32,081
Other Receivables	220,640	-	220,640	-	220,640
Project Advances	2,115,562	-	2,115,562	-	2,115,562
<b>Total Assets</b>	<b>\$ 31,417,535</b>	<b>\$ 500,000</b>	<b>\$ 31,917,535</b>	<b>\$ 26,720,508</b>	<b>\$ 58,638,043</b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts Payable and Accrued Expenses	\$ 369,004	\$ -	\$ 369,004	\$ -	\$ 369,004
Amounts Due to Projects	129,362	-	129,362	-	129,362
Deferred Revenue	78,589	-	78,589	-	78,589
Total Liabilities	576,955	-	576,955	-	576,955
<b>Net Assets</b>					
Unrestricted	30,840,580	500,000	31,340,580	-	31,340,580
Temporarily Restricted	-	-	-	26,720,508	26,720,508
Total Net Assets	30,840,580	500,000	31,340,580	26,720,508	58,061,088
<b>Total Liabilities and Net Assets</b>	<b>\$ 31,417,535</b>	<b>\$ 500,000</b>	<b>\$ 31,917,535</b>	<b>\$ 26,720,508</b>	<b>\$ 58,638,043</b>

See accompanying Notes to Financial Statements.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016)**

	2017					2016 Total
	Unrestricted		Total	Temporarily Restricted	Permanently Restricted	
	Operating	Board Designated				
<b>Support and Revenues</b>						
Public Support						
Received Directly						
Contributions	\$ 892,856	\$ -	\$ 892,856	\$ 1,118,745	\$ 302,536	\$ 2,314,137
Legacies and Bequests	176,926	-	176,926	-	-	176,926
Received Indirectly						
Allocated by Federated Fundraising Organizations	246,557	-	246,557	-	-	246,557
Contributions from The Salvation Army Territories	13,410,544	-	13,410,544	147,500	-	13,558,044
Total Public Support	14,726,883	-	14,726,883	1,266,245	302,536	16,295,664
Grants from Governmental Agencies	-	-	-	-	-	-
Investment Income						
Dividends and Interest	987,821	-	987,821	12,639	-	1,000,460
Realized Gains on Sales of Investments	1,328,947	-	1,328,947	17,003	-	1,345,950
Unrealized Gains in Values of Investments	4,239,710	-	4,239,710	54,245	-	4,293,955
Net Investment Income	6,556,478	-	6,556,478	83,887	-	6,640,365
Total Support and Revenues	21,283,361	-	21,283,361	1,350,132	302,536	22,936,029
Net Assets Released from Restrictions	2,995,391	-	2,995,391	(2,995,391)	-	-
Total Support and Revenues	24,278,752	-	24,278,752	(1,645,259)	302,536	22,936,029
<b>Expenses</b>						
Program Services						
Health Programs	1,028,598	-	1,028,598	-	-	1,028,598
Empowerment and Livelihood Programs	2,862,835	-	2,862,835	-	-	2,862,835
Education Programs	678,594	-	678,594	-	-	678,594
Relief and Reconstruction Services	14,536,008	-	14,536,008	-	-	14,536,008
Total Program Services	19,106,035	-	19,106,035	-	-	19,106,035
Supporting Services						
Strategy and Fundraising	228,498	-	228,498	-	-	228,498
Management and General	511,785	-	511,785	-	-	511,785
Total Supporting Services	740,283	-	740,283	-	-	740,283
Total Expenses	19,846,318	-	19,846,318	-	-	19,846,318
<b>Changes in Net Assets</b>						
Net Assets, Beginning of Year	4,432,434	-	4,432,434	(1,645,259)	302,536	3,089,711
Net Assets, End of Year	30,840,580	500,000	31,340,580	26,720,508	-	58,061,088
Net Assets, End of Year	\$ 35,273,014	\$ 500,000	\$ 35,773,014	\$ 25,075,249	\$ 302,536	\$ 61,150,799

See accompanying Notes to Financial Statements.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Unrestricted			Temporarily Restricted	Total
	Operating	Board Designated	Total		
<b>Support and Revenues</b>					
Public Support					
Received Directly					
Contributions	\$ 959,793	\$ -	\$ 959,793	\$ 82,412	\$ 1,042,205
Legacies and Bequests	636,502	-	636,502	-	636,502
Received Indirectly					
Allocated by Federated Fundraising Organizations	213,816	-	213,816	-	213,816
Contributions from The Salvation Army Territories	15,202,771	-	15,202,771	292,170	15,494,941
Total Public Support	<u>17,012,882</u>	<u>-</u>	<u>17,012,882</u>	<u>374,582</u>	<u>17,387,464</u>
Grants from Governmental Agencies	<u>303,066</u>	<u>-</u>	<u>303,066</u>	<u>-</u>	<u>303,066</u>
Investment Income					
Dividends and Interest	983,240	-	983,240	8,285	991,525
Realized Gains on Sales of Investments	3,189,913	-	3,189,913	26,886	3,216,799
Unrealized Gains in Values of Investments	1,868,488	-	1,868,488	15,748	1,884,236
Net Investment Income	<u>6,041,641</u>	<u>-</u>	<u>6,041,641</u>	<u>50,919</u>	<u>6,092,560</u>
Total Support and Revenues	23,357,589	-	23,357,589	425,501	23,783,090
Net Assets Released from Restrictions	<u>3,916,340</u>	<u>-</u>	<u>3,916,340</u>	<u>(3,916,340)</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>
<b>Expenses</b>					
Program Services					
Health Programs	1,168,095	-	1,168,095	-	1,168,095
Empowerment and Livelihood Programs	1,594,806	-	1,594,806	-	1,594,806
Education Programs	558,326	-	558,326	-	558,326
Relief and Reconstruction Services	19,235,942	-	19,235,942	-	19,235,942
Total Program Services	<u>22,557,169</u>	<u>-</u>	<u>22,557,169</u>	<u>-</u>	<u>22,557,169</u>
Supporting Services					
Strategy and Fundraising	494,118	-	494,118	-	494,118
Management and General	589,448	-	589,448	-	589,448
Total Supporting Services	<u>1,083,566</u>	<u>-</u>	<u>1,083,566</u>	<u>-</u>	<u>1,083,566</u>
Total Expenses	<u>23,640,735</u>	<u>-</u>	<u>23,640,735</u>	<u>-</u>	<u>23,640,735</u>
<b>Changes in Net Assets</b>	3,633,194	-	3,633,194	(3,490,839)	142,355
Net Assets, Beginning 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>
<b>Net Assets, End of Year</b>	<u>\$ 30,840,580</u>	<u>\$ 500,000</u>	<u>\$ 31,340,580</u>	<u>\$ 26,720,508</u>	<u>\$ 58,061,088</u>

*See accompanying Notes to Financial Statements.*



**THE SALVATION ARMY WORLD SERVICE OFFICE**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Program Services					Supporting Services			2017 Total Expenses
	Health Programs	Empowerment and Livelihood Programs	Education Programs	Relief and Reconstruction Services	Total Program Services	Strategy and Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 247,362	\$ 404,377	\$ 192,413	\$ 1,050,518	\$ 1,894,670	\$ 102,164	\$ 188,378	\$ 290,542	\$ 2,185,212
Employee Benefits and Payroll Taxes	36,453	78,749	56,688	114,935	286,825	25,419	92,064	117,483	404,308
Professional Fees	31,412	152,504	18,120	142,661	344,697	73,654	69,948	143,602	488,299
Travel, Meals, and Transportation	45,164	145,254	42,483	446,219	679,120	5,111	6,248	11,359	690,479
Occupancy	4,660	38,924	-	30,266	73,850	-	126,688	126,688	200,538
Printing and Publications	86	88,279	8,677	1,584	98,626	15,689	2,947	18,636	117,262
Telephone	3,984	7,040	3,826	3,820	18,670	1,478	6,922	8,400	27,070
Postage and Shipping	-	359	17	104	480	896	1,897	2,793	3,273
Equipment	1,313	17,870	805	102,142	122,130	1,445	5,175	6,620	128,750
Office Expense	6,856	20,160	977	149,763	177,756	2,354	3,577	5,931	183,687
Construction Supplies	-	889,638	30,080	1,031,208	1,950,926	-	-	-	1,950,926
Other Supplies	49,731	54,378	-	260,933	365,042	99	839	938	365,980
Conference and Meetings	12,354	52,739	44,696	396,292	506,081	189	7,102	7,291	513,372
Support to Individuals	4,863	35,310	1,622	139,593	181,388	-	-	-	181,388
Foreign Currency Exchange (Gain) Loss	2,529	60,884	123	6,275	69,811	-	-	-	69,811
Grants to Affiliates	581,831	816,370	278,067	10,659,695	12,335,963	-	-	-	12,335,963
<b>Total Expenses</b>	<b>\$ 1,028,598</b>	<b>\$ 2,862,835</b>	<b>\$ 678,594</b>	<b>\$ 14,536,008</b>	<b>\$ 19,106,035</b>	<b>\$ 228,498</b>	<b>\$ 511,785</b>	<b>\$ 740,283</b>	<b>\$ 19,846,318</b>

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	Education Programs	Relief and Reconstruction Services	Total Program Services	Strategy and Fundraising	Management and General		Total Supporting Services
Salaries	\$ 395,904	\$ 433,351	\$ 112,471	\$ 776,445	\$ 1,718,171	\$ 69,506	\$ 237,992	\$ 307,498	\$ 2,025,669
Employee Benefits and Payroll Taxes	52,642	64,924	25,703	125,066	268,335	25,578	96,776	122,354	390,689
Professional Fees	9,817	33,666	40,557	377,444	461,484	326,976	81,329	408,305	869,789
Travel, Meals, and Transportation	106,383	115,495	16,788	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	61,187	14,475	4,808	81,041	30,640	4,557	35,197	116,238
Telephone	10,961	6,555	2,466	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	1,420	3,223	261,733	277,845	55	5,116	5,171	283,016
Office Expense	28,479	28,140	2,214	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	116,239	38,794	301,233	540,067	6,623	6,429	13,052	553,119
Support to Individuals	-	24,878	7,097	19,166	51,141	-	-	-	51,141
Foreign Currency Exchange (Gain) Loss	15,011	2,874	(40)	(14,971)	2,874	-	-	-	2,874
Grants to Affiliates	282,742	578,347	294,578	14,153,476	15,309,143	-	-	-	15,309,143
<b>Total Expenses</b>	<b>\$ 1,168,095</b>	<b>\$ 1,594,806</b>	<b>\$ 558,326</b>	<b>\$ 19,235,942</b>	<b>\$ 22,557,169</b>	<b>\$ 494,118</b>	<b>\$ 589,448</b>	<b>\$ 1,083,566</b>	<b>\$ 23,640,735</b>

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 3,089,711	\$ 142,355
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Gains on Sales of Investments	(1,345,950)	(3,216,798)
Permanently Restricted Contribution	(302,536)	-
Unrealized Gains in Values of Investments	(4,293,955)	(1,884,236)
<u>(Increase) Decrease in Operating Assets</u>		
Grants Receivable	157,945	(13,166)
Other Receivables	102,638	18,392
Prepaid Expenses	-	27,750
Project Advances	(1,381,750)	1,276,345
<u>Increase (Decrease) in Operating Liabilities</u>		
Accounts Payable and Accrued Expenses	585,573	(34,667)
Amounts Due to Projects	(76,147)	48,320
Deferred Revenue	10,198	(123,062)
Net Cash Used in Operating Activities	<u>(3,454,273)</u>	<u>(3,758,767)</u>
<b>Cash Flows from Investing Activities</b>		
Sale of Investments and Return of Principal	20,840,954	21,120,285
Purchases of Investments	<u>(15,835,654)</u>	<u>(19,120,684)</u>
Net Cash Provided by Investing Activities	<u>5,005,300</u>	<u>1,999,601</u>
<b>Cash Flows from Financing Activities</b>		
Permanently Restricted Contribution	<u>302,536</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,853,563	(1,759,166)
Cash and Cash Equivalents, Beginning of Year	<u>991,168</u>	<u>2,750,334</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 2,844,731</u></u>	<u><u>\$ 991,168</u></u>

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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**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, 2017 and 2016, 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, 2017 AND 2016

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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, 2017 and 2016, 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. In October of 2017, the Board released the funds in full based on SAWSO's unrestricted net assets.

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.

Permanently restricted net assets represent funds contributed to SAWSO whereby principal may not be used and income or capital gains from these funds are to be used for purposes specified by the donor.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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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 four 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 over 14,000 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 include maternal, child, and adolescent health; HIV care and prevention; non-communicable diseases; 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 **Haiti**, SAWSO helps to support an outpatient clinic in a Port-au-Prince slum and also funds an HIV prevention and care project in the south of the country.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Health Programs (Continued)*

In eastern **Uganda**, the SAWSO-supported SAIFaP (Salvation Army Integrated Family Planning) project has transitioned to local funding and technical support. It will continue to serve rural communities in six districts with community-based family planning services and education through trained village health team (VHT) members.

In **Zambia**, SAWSO assisted The Salvation Army in providing primary health care to the rural poor through outreach programs in underserved Southern Province. SAWSO, in partnership with Engineering Ministries International, is working with an historic mission station there, which includes a large hospital, to upgrade the aging infrastructure throughout the property.

*Livelihood and Anti-Human Trafficking Programs*

SAWSO is continuing to support the WORTH project in **Kenya**, which assists women through literacy programs, business training, savings groups, and lending services. Workshops for the women also address harmful social and health concerns within the community, such as HIV/AIDS and child marriage. Members report success in substantially increasing their financial status and sense of worth in their communities.

SAWSO's livelihood programs in **Haiti** include vocational education, micro-loans, and agricultural training. Communities received training in faith-based community development, and Community Action (CAT) Teams were formed to empower communities to identify and address their own needs. The CAT teams received small grants to support them in this effort.

The Salvation Army has been working in **Tijuana** through its hostel for Migrant Men. However, the greater risk for this community are women and children. Existing social services do not cover all of the women and children who are deported to Tijuana. Women who are not covered become easy prey for Human Trafficking and abductions as soon as they cross the border. SAWSO provides funding to rent a property and implements a program which provides a safe and secure place where these women and their children can stay for a short period until they can return to their places of origin in **Mexico**. The intention of this program is to provide a place where deported women and children will come through as a step towards a new life that they will have in Mexico after losing whatever they had in the USA. This will be a place and program of new beginnings in their life journey.

In the **Middle East**, The Salvation Army supports a home for foreign-born women who have been trafficked under the premise of receiving good jobs. Many of these women come from Ethiopia and have had their passports and other vital documents taken. The Salvation Army helps them recover their travel documents and return home.

Drop-in centers in **India's** red-light district provide self-help groups for the mothers of the youth served by these centers. In addition, partnerships have been developed with the local community to provide vocational training opportunities for the mothers, which will help them move out of the red-light district.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Relief and Reconstruction Services*

*Hurricane Responses*

A recurring theme for SAWSO's Disaster Sector in 2017 was hurricanes. SAWSO began the year continuing to respond to **Hurricane Matthew** with projects including agriculture recovery projects, touching families and communities devastated across **Haiti**. Additional projects included a large-scale program to mitigate the spread of cholera and various projects targeting repairs to community centers and schools throughout the island nation. Later in the year, SAWSO responded to **Hurricanes Irma** and **Maria** with both immediate relief projects and longer-term recovery programs in the Caribbean nations of **Turks and Caicos, Dominica, and Cuba**.

*Flooding and Landslide Responses*

Severe flooding and destructive landslides plagued communities around the world in 2017. Homes, schools, and other important infrastructure were destroyed, putting thousands of families and individuals at extreme risk. SAWSO provided funds to distribute emergency food, drinking water, and personal hygiene items to families suffering from these sudden onset emergencies. Other forms of assistance included mattresses, blankets and pillows, clothing, diapers, kitchen sets, and other necessities. Throughout the year, SAWSO responded to floods and landslides with projects in **Peru, Mozambique, Bangladesh, and multiple communities in Pakistan, India, and Jamaica**.

*Assistance to Refugees and Internally Displaced Persons*

Political strife, terrorist activities, and other ongoing violence, often targeting civilians and vulnerable populations, has caused thousands of families to flee for their lives across international borders (refugees) or to other regions of their own country (Internally Displaced Persons or IDPs). SAWSO has provided support to emergency deliveries of food, water, and other relief materials to families who have found themselves victimized by these heinous crimes. SAWSO and its partners provided emergency relief supplies via separate projects to displaced families in **Congo Brazzaville** and northern **Nigeria** in 2017.

Refugees from **South Sudan** continue to cross the border to **Uganda** to escape the violence and illness that affect their native land. SAWSO provided funding for some modest emergency projects before receiving a large donation, allowing significant work among the refugee population in northern Uganda. In 2017, SAWSO funded a program helping to sustainably meet fresh water and sanitation needs for South Sudanese refugees in the Adjumani District. SAWSO's partner has provided boreholes, wells with a hand pump, and has constructed latrines to provide family sanitation requirements. In addition, SAWSO and its partners have provided kitchen sets including jerry cans, plates and bowls, and other necessities to families who had arrived in the settlements without these basic necessities.



THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Relief and Reconstruction Services (Continued)*

*Refugee Resettlement Services in Italy and Greece*

The Salvation Army in **Italy** and **Greece** have been working to help with the crisis that began when thousands of refugees poured into Greece from throughout the **Middle East** and **Africa**. SAWSO supported multiple projects to help The Salvation Army provide a variety of social services to refugees transiting through Greece toward other destinations in Europe. Recently, SAWSO funded a new office in Rome to assist the Greece Command with public relations and fundraising, providing sustainable income for continuing refugee services into the foreseeable future.

*Earthquake Relief in Mexico*

Emergency funding from SAWSO supports a project to provide house repair materials to families whose houses were severely damaged by a recent earthquake in **Mexico**. While the government and several NGOs are helping to support the rebuilding of houses totally destroyed by the earthquake, many poor families in communities outside of Mexico City whose homes were severely damaged, but not destroyed, remain homeless due to their inability to afford repair materials. The Salvation Army is coordinating with government and community leaders to identify the neediest families struggling to repair their homes. The Salvation Army will provide vouchers with which families can purchase specific supplies they need to restore their home.

*Education*

By developing the capacity of primary and secondary schools to provide high-quality, holistic, faith-based, and family-focused education, The Salvation Army World Service Office seeks to improve education outcomes for children and young people. To this end, SAWSO has developed and implemented a needs-assessment field activity in **Indonesia** to better understand gaps in education, gather information on the educational landscape, and identify teaching and learning needs in local schools. The assessment tool kit efficiently and effectively collects and tracks school quality data at Salvation Army primary and secondary schools, and informs intervention strategies that will lead to improved outcomes for students.

The Salvation Army also supports afterschool programs in the Eastern European nation of **Georgia**, providing healthy nutrition programs, academic tutoring, and emotional and spiritual support to school-age children. The afterschool programs seek to boost academic performance of students, promote health through nutrition, and provide safe, structured environments for children of working parents.

In **India**, The Salvation Army conducted an extensive needs-assessment to determine and address the educational gaps of schools in India Central Territory. Through a thorough understanding of the challenges and opportunities, this assessment led to the development of a financially sustainable education program in various villages.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Education (Continued)*

Also in **India**, The Salvation Army conducted human capacity training and created a space for participants to discuss how gender is reflected in culture. The training aimed to create an understanding of how to address issues in schools, marginalized communities, and disadvantaged groups as they pertain to gender.

*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, 2017 and 2016, 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, 2017 and 2016, there were no matters that would have resulted in an accrual for interest and/or penalties.

As of September 30, 2017, SAWSO's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended September 30, 2016, 2015, and 2014 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.

*Contingency*

SAWSO occasionally 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.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Reclassifications*

Certain amounts in the September 30, 2016, financial statements have been reclassified to conform to the September 30, 2017, presentation. Such reclassifications had no effect on reported changes in net assets.

**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, 2017 and 2016, SAWSO's uninsured deposits were approximately \$2,818,000 and \$794,000, 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, 2017 and 2016. 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, 2017:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Funds	\$ 1,796,025	\$ 1,796,025	\$ -	\$ -
U.S. Government Securities	4,132,547	-	4,132,547	-
Mutual Funds - Fixed Income	6,067,981	6,067,981	-	-
Mutual Funds - Equities	2,914,434	2,914,434	-	-
Mutual Funds - Non-Traditional	752,221	752,221	-	-
Exchange Traded Funds - Equities	905,009	905,009	-	-
Corporate Bonds and Notes	4,229,235	-	4,229,235	-
Asset-Backed Securities	1,358,610	-	1,358,610	-
Preferred Securities	44,095	44,095	-	-
Equities	33,555,095	33,555,095	-	-
<b>Total</b>	<b>\$ 55,755,252</b>	<b>\$ 46,034,860</b>	<b>\$ 9,720,392</b>	<b>\$ -</b>

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

**4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

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	-	-
<b>Total</b>	<b>\$ 55,120,647</b>	<b>\$ 45,844,951</b>	<b>\$ 9,275,696</b>	<b>\$ -</b>

Investment income consisted of the following:

	2017	2016
Dividends and Interest Revenue	<b>\$ 1,000,460</b>	\$ 991,525
Net Realized and Unrealized Gains	<b>5,639,905</b>	5,101,035
<b>Net</b>	<b>\$ 6,640,365</b>	<b>\$ 6,092,560</b>

For the years ended September 30, 2017 and 2016, investment fees netted against dividends and interest revenues were \$344,868 and \$342,684, 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, 2017 and 2016, of approximately \$13,558,000 and \$15,495,000, 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, 2017 and 2016, SAWSO recognized pension expense of approximately \$59,000 and \$58,000, 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, 2017 AND 2016**

**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 the years ended September 30, 2017 and 2016, rental expense was approximately \$127,000 and \$134,000, respectively.

**6. TEMPORARILY RESTRICTED NET ASSETS**

As of September 30, 2017, temporarily restricted net assets, other than those related to assets held under split-interest agreements or donor-restricted endowments, were available for the following purposes:

<u>Relief and Reconstruction Services</u>	
South East Asia Tsunami Relief	\$ 6,843,873
Haiti Earthquake Relief	5,787,549
Philippines Typhoon Haiyan Relief	4,502,822
Japan Earthquake/Tsunami Relief	2,844,994
Other International Disaster Relief	1,600,292
Nepal Earthquake Relief	676,773
Western Hemisphere	636,538
Mexico Reserve	558,376
African Refugee Relief	510,000
China Earthquake Relief	417,109
Myanmar Cyclone Relief	195,439
Pakistan Earthquake/Flood Relief	192,770
Ecuador Earthquake Relief	138,289
Mexico Earthquake Relief	61,730
East Africa Famine Relief	35,638
Chile Earthquake Relief	16,817
	<hr/>
Total	<u><u>\$ 25,019,009</u></u>

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

<u>Relief and Reconstruction Services</u>	
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
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Total	<u><u>\$ 26,688,427</u></u>

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

7. ENDOWMENT FUNDS

SAWSO's endowment consists of two gifts, established as a donor-restricted endowment fund. Net assets associated with this endowment fund are classified and reported based on the existence of donor-imposed restrictions.

*Interpretation of Relevant Law*

SAWSO has interpreted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SAWSO classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by SAWSO in a manner consistent with the standard prudent prescribed by UPMIFA.

*Investment Policy*

SAWSO invests the endowment with the objective of prudently managing the investments to protect the principal from decrease in actual terms. Recognizing the impact of inflation, the asset portfolio manager shall make every effort to protect the purchasing power of these assets. The general philosophy for the management of the funds is to maximize returns while minimizing risk.

Investment return earned by the endowment fund is recorded as increase or decrease to temporarily restricted net assets. Investment income is allocated to the endowment fund proportionally to the investments as a whole.

Endowment funds consisted of the following at September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Donor-Restricted Endowment Fund</b>	<u>\$ -</u>	<u>\$ 24,159</u>	<u>\$ 302,536</u>	<u>\$ 326,695</u>

Changes in endowment net assets for the year ended September 30, 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment Net Assets,</b>				
Beginning of Year	\$ -	\$ -	\$ -	\$ -
Investment Return	-	24,159	-	24,159
Contributions	-	-	302,536	302,536
<b>Appropriation of Endowment Assets for Expenditure</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 24,159</u>	<u>\$ 302,536</u>	<u>\$ 326,695</u>

There were no endowment funds at September 30, 2016.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

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**8. SUBSEQUENT EVENTS**

SAWSO has evaluated subsequent events through February 7, 2018, 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, 2017**

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Total Management and General Expenses per Financial Statements	\$ 511,785
<b>Total Indirect Costs</b>	(“A”) <u>\$ 511,785</u>
Total Program Services Expenses per Financial Statements	\$ 19,106,035
Less Grants to Affiliates	(12,335,963)
Less Construction Supplies - Relief Projects	(1,950,926)
Add Strategy and Fundraising Expenses	<u>228,498</u>
<b>Total Allowable Expenses</b>	(“B”) <u>\$ 5,047,644</u>
<b>Indirect Cost Rate (“A” Divided by “B”)</b>	<u>10.14%</u>