



THE SALVATION ARMY WORLD SERVICE OFFICE

**SINGLE AUDIT FINANCIAL REPORT
UNDER UNIFORM GUIDANCE**

SEPTEMBER 30, 2018 AND 2017

THE SALVATION ARMY WORLD SERVICE OFFICE

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SEPTEMBER 30, 2018 AND 2017

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Salvation Army World Service Office (SAWSO), a nonprofit organization, which comprise the statements of financial position as of September 30, 2018 and 2017, 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 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
The Salvation Army World Service Office

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2019, 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 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 SAWSO's internal control over financial reporting and compliance.

Councilor, Buchanan & Mitchell, P.C.

Certified Public Accountants

Bethesda, Maryland
January 9, 2019

THE SALVATION ARMY WORLD SERVICE OFFICE
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2017)

	2018			2017 Total	
	Operating	Temporarily Restricted	Permanently Restricted		Total
Assets					
Cash and Cash Equivalents	\$ 855,779	\$ 22,685	\$ -	\$ 878,464	\$ 2,844,731
Investments	35,839,501	23,750,000	302,536	59,892,037	55,755,252
Grants Receivable	227,036	-	-	227,036	-
Beneficial Interest in Remainder Trust	-	32,081	-	32,081	32,081
Other Receivables	123,788	-	-	123,788	118,002
Project Advances	2,207,766	-	-	2,207,766	3,497,312
Total Assets	\$ 39,253,870	\$ 23,804,766	\$ 302,536	\$ 63,361,172	\$ 62,247,378
Liabilities and Net Assets					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 1,036,986	\$ -	\$ -	1,036,986	\$ 954,577
Amounts Due to Projects	195,505	-	-	195,505	53,215
Deferred Revenue	454,113	-	-	454,113	88,787
Total Liabilities	1,686,604	-	-	1,686,604	1,096,579
Net Assets					
Unrestricted	37,567,266	-	-	37,567,266	35,773,014
Temporarily Restricted	-	23,804,766	-	23,804,766	25,075,249
Permanently Restricted	-	-	302,536	302,536	302,536
Total Net Assets	37,567,266	23,804,766	302,536	61,674,568	61,150,799
Total Liabilities and Net Assets	\$ 39,253,870	\$ 23,804,766	\$ 302,536	\$ 63,361,172	\$ 62,247,378

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

**STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2017**

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total	
	Operating	Board Designated				Total
Assets						
Cash and Cash Equivalents	\$ 2,801,563	\$ -	\$ 2,801,563	\$ 43,168	\$ -	\$ 2,844,731
Investments	29,952,716	500,000	30,452,716	25,000,000	302,536	55,755,252
Grants Receivable	-	-	-	-	-	-
Beneficial Interest in Remainder Trust	-	-	-	32,081	-	32,081
Other Receivables	118,002	-	118,002	-	-	118,002
Project Advances	3,497,312	-	3,497,312	-	-	3,497,312
Total Assets	\$ 36,369,593	\$ 500,000	\$ 36,869,593	\$ 25,075,249	\$ 302,536	\$ 62,247,378
Liabilities and Net Assets						
Liabilities						
Accounts Payable and Accrued Expenses	\$ 954,577	\$ -	\$ 954,577	\$ -	\$ -	\$ 954,577
Amounts Due to Projects	53,215	-	53,215	-	-	53,215
Deferred Revenue	88,787	-	88,787	-	-	88,787
Total Liabilities	1,096,579	-	1,096,579	-	-	1,096,579
Net Assets						
Unrestricted	35,273,014	500,000	35,773,014	-	-	35,773,014
Temporarily Restricted	-	-	-	25,075,249	-	25,075,249
Permanently Restricted	-	-	-	-	302,536	302,536
Total Net Assets	35,273,014	500,000	35,773,014	25,075,249	302,536	61,150,799
Total Liabilities and Net Assets	\$ 36,369,593	\$ 500,000	\$ 36,869,593	\$ 25,075,249	\$ 302,536	\$ 62,247,378

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2017)

	2018						2017 Total
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	Operating	Board Designated	Total				
Support and Revenues							
Public Support							
Received Directly							
Contributions	\$ 1,554,040	\$ -	\$ 1,554,040	\$ 127,951	\$ -	\$ 1,681,991	\$ 2,314,137
Legacies and Bequests	135,771	-	135,771	58,154	-	193,925	176,926
Received Indirectly							
Allocated by Federated Fundraising Organizations	205,477	-	205,477	-	-	205,477	246,557
Contributions from The Salvation Army Territories	13,726,560	-	13,726,560	1,003,306	-	14,729,866	13,558,044
Total Public Support	15,621,848	-	15,621,848	1,189,411	-	16,811,259	16,295,664
Grants from Governmental Agencies	259,931	-	259,931	-	-	259,931	-
Investment Income							
Dividends and Interest	964,461	-	964,461	12,693	-	977,154	1,000,460
Realized Gains on Sales of Investments	6,876,890	-	6,876,890	90,508	-	6,967,398	1,345,950
Unrealized (Losses) Gains in Values of Investments	(3,267,493)	-	(3,267,493)	(43,004)	-	(3,310,497)	4,293,955
Net Investment Income	4,573,858	-	4,573,858	60,197	-	4,634,055	6,640,365
Total Support and Revenues	20,455,637	-	20,455,637	1,249,608	-	21,705,245	22,936,029
Net Assets Released from Restrictions	2,520,091	-	2,520,091	(2,520,091)	-	-	-
Total Support and Revenues	22,975,728	-	22,975,728	(1,270,483)	-	21,705,245	22,936,029
Expenses							
Program Services							
Health Programs	1,661,990	-	1,661,990	-	-	1,661,990	1,028,598
Empowerment and Livelihood Programs	1,750,230	-	1,750,230	-	-	1,750,230	2,549,683
Anti-Human Trafficking	698,589	-	698,589	-	-	698,589	313,152
Education Programs	768,561	-	768,561	-	-	768,561	678,594
Relief and Reconstruction Services	15,028,367	-	15,028,367	-	-	15,028,367	14,536,008
Total Program Services	19,907,737	-	19,907,737	-	-	19,907,737	19,106,035
Supporting Services							
Fundraising	251,984	-	251,984	-	-	251,984	228,498
Management and General	521,755	-	521,755	-	-	521,755	511,785
Total Supporting Services	773,739	-	773,739	-	-	773,739	740,283
Total Expenses	20,681,476	-	20,681,476	-	-	20,681,476	19,846,318
Changes in Net Assets from Operations	2,294,252	-	2,294,252	(1,270,483)	-	1,023,769	3,089,711
Non-Operating Items							
Contribution of Board Designated Net Assets to Territories	-	(500,000)	(500,000)	-	-	(500,000)	-
Changes in Net Assets	2,294,252	(500,000)	1,794,252	(1,270,483)	-	523,769	3,089,711
Net Assets, Beginning of Year	35,273,014	500,000	35,773,014	25,075,249	302,536	61,150,799	58,061,088
Net Assets, End of Year	\$ 37,567,266	\$ -	\$ 37,567,266	\$ 23,804,766	\$ 302,536	\$ 61,674,568	\$ 61,150,799

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Operating	Board Designated	Total			
Support and Revenues						
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	<u>14,726,883</u>	<u>-</u>	<u>14,726,883</u>	<u>1,266,245</u>	<u>302,536</u>	<u>16,295,664</u>
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	<u>6,556,478</u>	<u>-</u>	<u>6,556,478</u>	<u>83,887</u>	<u>-</u>	<u>6,640,365</u>
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	<u>24,278,752</u>	<u>-</u>	<u>24,278,752</u>	<u>(1,645,259)</u>	<u>302,536</u>	<u>22,936,029</u>
Expenses						
Program Services						
Health Programs	1,028,598	-	1,028,598	-	-	1,028,598
Empowerment and Livelihood Programs	2,549,683	-	2,549,683	-	-	2,549,683
Anti-Human Trafficking	313,152	-	313,152	-	-	313,152
Education Programs	678,594	-	678,594	-	-	678,594
Relief and Reconstruction Services	14,536,008	-	14,536,008	-	-	14,536,008
Total Program Services	<u>19,106,035</u>	<u>-</u>	<u>19,106,035</u>	<u>-</u>	<u>-</u>	<u>19,106,035</u>
Supporting Services						
Fundraising	228,498	-	228,498	-	-	228,498
Management and General	511,785	-	511,785	-	-	511,785
Total Supporting Services	<u>740,283</u>	<u>-</u>	<u>740,283</u>	<u>-</u>	<u>-</u>	<u>740,283</u>
Total Expenses	<u>19,846,318</u>	<u>-</u>	<u>19,846,318</u>	<u>-</u>	<u>-</u>	<u>19,846,318</u>
Changes in Net Assets	4,432,434	-	4,432,434	(1,645,259)	302,536	3,089,711
Net Assets, Beginning of Year	30,840,580	500,000	31,340,580	26,720,508	-	58,061,088
Net Assets, End of Year	<u>\$ 35,273,014</u>	<u>\$ 500,000</u>	<u>\$ 35,773,014</u>	<u>\$ 25,075,249</u>	<u>\$ 302,536</u>	<u>\$ 61,150,799</u>

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Program Services					Supporting Services				2018 Total Expenses
	Health Programs	Empowerment and Livelihood Programs	Anti-Human Trafficking	Education Programs	Relief and Reconstruction Services	Total Program Services	Strategy and Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 213,803	\$ 323,408	\$ 172,477	\$ 227,070	\$ 733,687	\$ 1,670,445	\$ 170,971	\$ 179,521	\$ 350,492	\$ 2,020,937
Employee Benefits and Payroll Taxes	31,730	52,743	44,249	66,434	121,975	317,131	40,649	90,555	131,204	448,335
Professional Fees	97,242	93,578	29,398	25,597	70,090	315,905	27,000	91,075	118,075	433,980
Travel, Meals, and Transportation	37,599	153,381	38,368	50,829	198,085	478,262	1,141	7,958	9,099	487,361
Occupancy	4,341	5,196	41,482	1,822	26,670	79,511	-	131,334	131,334	210,845
Printing and Publications	-	95,674	150	496	614	96,934	815	1,258	2,073	99,007
Telephone	4,207	7,104	1,405	4,908	2,010	19,634	1,445	6,217	7,662	27,296
Postage and Shipping	150	303	82	20	172	727	1,130	1,884	3,014	3,741
Equipment	136,636	6,590	-	23,548	123,908	290,682	2,422	4,367	6,789	297,471
Office Expense	11,764	11,348	6,221	2,218	178,186	209,737	1,437	2,454	3,891	213,628
Construction Supplies	416,481	482,582	-	6,641	1,116,957	2,022,661	-	-	-	2,022,661
Other Supplies	66,442	18,365	6,634	5,206	272,900	369,547	38	1,069	1,107	370,654
Conference and Meetings	6,761	55,047	11,452	6,734	9,289	89,283	4,936	4,063	8,999	98,282
Support to Individuals	3,995	85,478	-	6,335	100,355	196,163	-	-	-	196,163
Foreign Currency Exchange (Gain) Loss	30,922	(474)	7,058	576	8,105	46,187	-	-	-	46,187
Grants to Affiliates	599,917	359,907	70,400	340,127	12,065,364	13,435,715	-	-	-	13,435,715
Sub-Grants	-	-	269,213	-	-	269,213	-	-	-	269,213
Total Expenses	\$ 1,661,990	\$ 1,750,230	\$ 698,589	\$ 768,561	\$ 15,028,367	\$ 19,907,737	\$ 251,984	\$ 521,755	\$ 773,739	\$ 20,681,476

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	Anti-Human Trafficking	Education Programs	Relief and Reconstruction Services	Total Program Services	Strategy and Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 247,362	\$ 287,243	\$ 117,134	\$ 192,413	\$ 1,050,518	\$ 1,894,670	\$ 102,164	\$ 188,378	\$ 290,542	\$ 2,185,212
Employee Benefits and Payroll Taxes	36,453	54,579	24,170	56,688	114,935	286,825	25,419	92,064	117,483	404,308
Professional Fees	31,412	130,518	21,986	18,120	142,661	344,697	73,654	69,948	143,602	488,299
Travel, Meals, and Transportation	45,164	109,365	35,889	42,483	446,219	679,120	5,111	6,248	11,359	690,479
Occupancy	4,660	9,491	29,433	-	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	4,417	2,623	3,826	3,820	18,670	1,478	6,922	8,400	27,070
Postage and Shipping	-	311	48	17	104	480	896	1,897	2,793	3,273
Equipment	1,313	1,382	16,488	805	102,142	122,130	1,445	5,175	6,620	128,750
Office Expense	6,856	13,707	6,453	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	11,605	41,134	44,696	396,292	506,081	189	7,102	7,291	513,372
Support to Individuals	4,863	18,839	16,471	1,622	139,593	181,388	-	-	-	181,388
Foreign Currency Exchange (Gain) Loss	2,529	63,857	(2,973)	123	6,275	69,811	-	-	-	69,811
Grants to Affiliates	581,831	812,074	4,296	278,067	10,659,695	12,335,963	-	-	-	12,335,963
Total Expenses	\$ 1,028,598	\$ 2,549,683	\$ 313,152	\$ 678,594	\$ 14,536,008	\$ 19,106,035	\$ 228,498	\$ 511,785	\$ 740,283	\$ 19,846,318

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 523,769	\$ 3,089,711
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Gains on Sales of Investments	(6,967,398)	(1,345,950)
Permanently Restricted Contribution	-	(302,536)
Unrealized Losses (Gains) in Values of Investments	3,310,497	(4,293,955)
<u>(Increase) Decrease in Operating Assets</u>		
Grants Receivable	(227,036)	157,945
Other Receivables	(5,786)	102,638
Prepaid Expenses	-	-
Project Advances	1,289,546	(1,381,750)
<u>Increase (Decrease) in Operating Liabilities</u>		
Accounts Payable and Accrued Expenses	82,409	585,573
Amounts Due to Projects	142,290	(76,147)
Deferred Revenue	365,326	10,198
Net Cash Used in Operating Activities	<u>(1,486,383)</u>	<u>(3,454,273)</u>
Cash Flows from Investing Activities		
Sale of Investments and Return of Principal	31,886,392	20,840,954
Purchases of Investments	<u>(32,366,276)</u>	<u>(15,835,654)</u>
Net Cash (Used in) Provided by Investing Activities	<u>(479,884)</u>	<u>5,005,300</u>
Cash Flows from Financing Activities		
Permanently Restricted Contribution	<u>-</u>	<u>302,536</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(1,966,267)</u>	1,853,563
Cash and Cash Equivalents, Beginning of Year	<u>2,844,731</u>	<u>991,168</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 878,464</u></u>	<u><u>\$ 2,844,731</u></u>

See accompanying Notes to Financial Statements.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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, education, 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, 2018 and 2017, 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, 2018 AND 2017

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, 2018 and 2017, 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 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. 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.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classifications (Continued)

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.

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 sections summarize the key program services provided.

Health Programs

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

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. The project conducts mobile clinic sessions in rural areas each year, screening individuals annually for the disease. Those who test positive are referred to Ministry of Health for follow up, which can include dialysis at a government hospital.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Health Programs (Continued)

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, where plans are underway to rebuild a small Salvation Army hospital.

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 Programs

SAWSO has begun working with women in **Congo Brazzaville** to set up a savings group program in a remote region without financial institutions. The savings groups will help the women to save money so that they are financially stable during the dry season when they cannot harvest. SAWSO is also working to train the women in new agricultural techniques to increase their yields.

Additionally, SAWSO is supporting a livestock and savings group program in **Tanzania** for women who are at risk or have already been affected by female genital mutilation (FGM). The program aims to educate the community about the physical and psychological dangers of FGM, while empowering at-risk girls with a means of earning a livelihood through a goat rotation project.

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.

Anti-Human Trafficking Programs

The Salvation Army has been working in **Tijuana** with women and children who have been deported. 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 what they had in the USA. This is 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 that 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.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Anti-Human Trafficking Programs (Continued)

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.

In the **Philippines**, SAWSO is the lead on a State Department funded project that supports children who have experienced online sexual exploitation. By working with sub-grantees and the local Salvation Army program, SAWSO is supporting the clinical care of children, finding families to return them to a community and supporting their safe reintegration.

Relief and Reconstruction Services

International Hurricane Recovery

Following the devastating 2017 hurricane season, SAWSO provided funding for several projects to follow up earlier relief projects with support for building and recovery programs in the **Caribbean** and **Latin America North Territories**. SAWSO provided technical assistance to these areas as it worked to develop a project to address some significant needs in the **Turks and Caicos** regarding getting children back to school.

Floods in India and Jamaica

SAWSO provides funding for multiple projects in **India** and in **Jamaica** following extreme flooding. SAWSO funding provided emergency food and water provisions, which were distributed to families and individuals who had fled their homes to escape the flood waters. Also provided were various relief items ranging from personal hygiene supplies to bedding and household supplies.

Cholera Outbreak in Zambia

A severe outbreak of cholera in the Zambian city of Lusaka was made worse by the extreme price increases for chlorine, which the local population uses to disinfect their drinking water. While families in the more affluent neighborhoods could afford to purchase chlorine, people living in many of the poorer areas could not, and the cholera outbreak was especially serious in these areas. SAWSO funded a project whereby local Salvation Army units were able to purchase large quantities of chlorine to distribute to families in the poorer neighborhoods to help ensure safe drinking water would be available and the spread of cholera could be slowed and eventually stopped. Since chlorine is also commonly used as a disinfectant for surfaces, its availability, especially in the poorer neighborhoods where The Salvation Army is present, is critical to ending the outbreak.

Earthquake in Highlands Region of Papua New Guinea

Following a devastating earthquake that registered 7.5 on the Richter scale, several remote and isolated communities in the Highlands region of **Papua New Guinea** found themselves in dire circumstances. With many people killed and injured, homes destroyed, and much of the local

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Relief and Reconstruction Services (Continued)

Earthquake in Highlands Region of Papua New Guinea (Continued)

infrastructure (including health clinics and other essential community services) damaged, SAWSO has been able to offer support in rebuilding the areas affected.

Sendai Corps Community Development Project in Japan

In April 2015, several communities in **Japan** were affected by a complex disaster initially triggered by an earthquake and tsunami that ultimately led to a nuclear emergency. More than three years later, the communities are still recovering and The Salvation Army is still actively engaged in assisting in the recovery process. The Sendai Community Development Project is being implemented to ensure that the most vulnerable people (including the elderly, those living in poverty, etc.) are having their various needs met and being included as the long recovery process continues.

Community Services for Refugees in Greece

The Salvation Army in **Athens, Greece** has taken the lead in offering a comprehensive package of assistance to families and individuals who have arrived in Greece as refugees, but have since been registered as Asylum Applicants. Assistance being offered includes supportive case management, relationship building, referrals and follow-up, and other practical assistance.

Rohingya Refugee Relief in Bangladesh

SAWSO is helping to support an ambitious project that is providing solar-powered lights to some of the most vulnerable Rohingya refugee families who have fled mass violence in their native **Myanmar**. Currently encamped at Cox's Bazaar in Bangladesh, the solar lights are providing a sustainable solution to families struggling to regain some sense of safety and normalcy during the nighttime hours within their camps.

Volcano Relief in Guatemala

Responding to the recent eruption of the **Fuego Volcano**, which caused a major displacement crisis in nearby villages and the destruction of crops and local businesses in addition to multiple deaths and serious injuries, The Salvation Army Latin America North Territory provided relief supplies to families fleeing the destruction. Relief items including drinking water, parcels of food, and various non-food items, including hygiene kits, were given to families to help sustain them as arrangements for longer-term assistance was being organized. Additionally, teams of Salvation Army counselors were present to assist with spiritual counseling and psycho-social support of people who were traumatized by the eruption and the need to so quickly flee their villages and homes.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Relief and Reconstruction Services (Continued)

Venezuela Refugee Crisis in Brazil

Due to a deepening economic and humanitarian crisis in **Venezuela**, people fleeing from harsh and dangerous conditions are streaming across the border into Brazil. Concerned about the plight of families and individuals arriving daily in Brazil from Venezuela, The Salvation Army sent a small team to Roraima to investigate any gaps in services for the refugees and to identify if there were any needs that could be addressed. The refugees, specifically the women and children, also needed to learn about how to report abuse and report these crimes to the appropriate authorities.

Humanitarian Assistance to Nicaraguan Families

SAWSO is providing funding to the Latin America North Territory to enable them to provide food assistance for vulnerable families in **Nicaragua**, who are suffering from the increasingly severe conditions resulting from socio-economic collapse and increasing violence stemming from a worsening political crisis.

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 school quality data at Salvation Army primary and secondary schools and informs intervention strategies that will lead to improved outcomes for students. Furthermore, SAWSO has developed teacher professional development programs in Indonesia for schools and hired several education staff to locally manage the education programs providing teachers with ongoing monitoring and coaching support.

In **Southern Africa**, an evaluation of early childhood centers was conducted to develop a comprehensive understanding of the educational needs in the region as they pertain to infrastructure, program, and human capacity. The overall goal would be to develop quality sustainable education programs for the region.

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 the nutrition programs, 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 financially-sustainable education programs.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Education (Continued)

Capacity Building Partnership Initiative

Pompeya and Don Torcauto are the biggest and most important thrift stores in **South America East** for The Salvation Army. These two thrift stores and their distribution centers provide products to various Salvation Army thrift stores in Argentina. This has been a successful income generating activity for the territory - helping to offset its dependency on external funding - in support of the work of the Territory. SAWSO provided funds for the purchase of these two thrift stores and distribution centers, including the remodeling of Don Torcauto. In addition, SAWSO is providing ongoing technical support to strengthen The Salvation Army's ability to be self-supporting.

Also in **South America East**, SAWSO provided support and financial resources to complete a comprehensive Camp & Conference Center Master Plan for their Parque Carpenter Center north of Buenos Aires. This too was done in an effort to provide guidance to the territory on the journey toward financial independence.

In **Nigeria**, SAWSO provided support and financial resources for the start-up of a printing business at the Territorial Headquarters in Lagos. In addition to providing important services for the ongoing needs of The Salvation Army, they will be selling services to the public with the intention of raising desperately needed unrestricted funds for their operations. Once more, this was done in an effort to provide guidance on the journey toward financial independence.

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, 2018 and 2017, 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, 2018 and 2017, there were no matters that would have resulted in an accrual for interest and/or penalties.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncertain Tax Positions (Continued)

As of September 30, 2018, SAWSO's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended September 30, 2017, 2016, and 2015 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.

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, 2018 and 2017, SAWSO's uninsured deposits were approximately \$640,000 and \$2,818,000, 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, 2018 and 2017. 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, 2018 AND 2017**

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investments are stated at fair value and consisted of the following at September 30, 2018:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Funds	\$ 2,630,221	\$ 2,630,221	\$ -	\$ -
U.S. Treasury Bills	338,668	-	338,668	-
U.S. Government Securities	2,502,234	-	2,502,234	-
Mutual Funds - Fixed Income	8,621,475	8,621,475	-	-
Mutual Funds - Equities	1,577,339	1,577,339	-	-
Mutual Funds - Non-Traditional	2,680,851	2,680,851	-	-
Exchange Traded Funds - Equities	726,800	726,800	-	-
Corporate Bonds and Notes	3,637,047	-	3,637,047	-
Asset-Backed Securities	1,591,443	-	1,591,443	-
Preferred Securities	24,962	24,962	-	-
Equities	35,560,997	35,560,997	-	-
Total	\$ 59,892,037	\$ 51,822,645	\$ 8,069,392	\$ -

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	-	-
Total	\$ 55,755,252	\$ 46,034,860	\$ 9,720,392	\$ -

Investment income consisted of the following:

	2018	2017
Dividends and Interest Revenue	\$ 977,154	\$ 1,000,460
Net Realized and Unrealized Gains	3,656,901	5,639,905
Net	\$ 4,634,055	\$ 6,640,365

For the years ended September 30, 2018 and 2017, investment fees netted against dividends and interest revenues were \$318,992 and \$344,868, 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, 2018 and 2017, of approximately \$14,730,000 and \$13,558,000, respectively. These funds were used in part to provide project

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

5. RELATED PARTY TRANSACTIONS (CONTINUED)

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, 2018 and 2017, SAWSO recognized pension expense of approximately \$73,000 and \$59,000, 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 Corporation of The Salvation Army. For the years ended September 30, 2018 and 2017, rental expense was approximately \$131,000 and \$127,000, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2018, 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	\$ 5,925,903
Haiti Earthquake Relief	5,085,203
Philippines Typhoon Haiyan Relief	4,256,305
Japan Earthquake/Tsunami Relief	2,473,804
Other International Disaster Relief	1,661,252
Papua New Guinea Relief	1,015,000
Nepal Earthquake Relief	677,047
Western Hemisphere Hurricane Relief	614,119
Mexico Reserve	551,057
African Refugee Relief	533,882
China Earthquake Relief	417,109
Myanmar Cyclone Relief	195,439
Mexico Earthquake Relief	150,800
Ecuador Earthquake Relief	138,514
East Africa Famine Relief	35,638
Total	<u>\$ 23,731,072</u>

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

6. TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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 Hurricane Relief	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
Total	<u>\$ 25,019,009</u>

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.

THE SALVATION ARMY WORLD SERVICE OFFICE

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

7. ENDOWMENT FUNDS (CONTINUED)

Investment Policy (Continued)

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, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Fund	\$ -	\$ 41,613	\$ 302,536	\$ 344,149

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

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

For the year ended September 30, 2018, changes in endowment net assets were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets,				
Beginning of Year	\$ -	\$ 24,159	\$ 302,536	\$ 326,695
Investment Return	-	17,454	-	17,454
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
Endowment Net Assets, End of Year	\$ -	\$ 41,613	\$ 302,536	\$ 344,149

For the year ended September 30, 2017, changes in endowment net assets were as follows:

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

8. SUBSEQUENT EVENTS

SAWSO has evaluated subsequent events through January 9, 2019, 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, 2018

Total Management and General Expenses per Financial Statements	<u>\$ 521,755</u>
Total Indirect Costs	(“A”) <u>\$ 521,755</u>
Total Program Services Expenses per Financial Statements	\$ 19,907,737
Less Grants to Affiliates	(13,435,715)
Less Construction Supplies - Relief Projects	(2,022,661)
Add Fundraising Expenses	<u>251,984</u>
Total Allowable Expenses	(“B”) <u>\$ 4,701,345</u>
Indirect Cost Rate (“A” Divided by “B”)	<u>11.10%</u>

THE SALVATION ARMY WORLD SERVICE OFFICE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Awards Expended</u>
U.S. Department of State			
International Programs to Combat Human Trafficking Protecting At-Risk Children Vulnerable to Exploitation	19.019	<u>\$ 237,705</u>	<u>\$ 259,931</u>
Total U.S. Department of State		<u>237,705</u>	<u>259,931</u>
Total Expenditures of Federal Awards		<u><u>\$ 237,705</u></u>	<u><u>\$ 259,931</u></u>

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO SUPPLEMENTARY SCHEDULES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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, 2018. The information in this schedule is presented in accordance with the requirements Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Uniform Guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

SAWSO has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Salvation Army World Service Office (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, 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 January 9, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

To the Board of Trustees
The Salvation Army World Service Office

Purpose of this Report

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

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
January 9, 2019

Certified Public Accountants



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

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

Report on Compliance for Each Major Federal Program

We have audited The Salvation Army World Service Office's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on The Salvation Army World Service Office's major federal program for the year ended September 30, 2018. The Salvation Army World Service Office's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, The Salvation Army World Service Office complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Report on Internal Control over Compliance

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

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

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

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

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
January 9, 2019

Certified Public Accountants

THE SALVATION ARMY WORLD SERVICE OFFICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes X no

Significant deficiencies identified? ___ yes X no

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___ yes X no

Significant deficiencies identified? ___ yes X no

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? ___ yes X no

Major Programs

Federal CFDA No.

Federal Grantor

19.019

U.S. Department of State

International Programs to Combat Human Trafficking
Protecting At-Risk Children Vulnerable to Exploitation

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ___ yes X no

THE SALVATION ARMY WORLD SERVICE OFFICE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Financial Statement Audit Findings

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

Federal Award Findings

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