



**THE SALVATION ARMY WORLD SERVICE OFFICE**

**SINGLE AUDIT FINANCIAL REPORT  
UNDER UNIFORM GUIDANCE**

**SEPTEMBER 30, 2020 AND 2019**

THE SALVATION ARMY WORLD SERVICE OFFICE

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SEPTEMBER 30, 2020 AND 2019

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## Independent Auditors' Report

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, 2020 and 2019, 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, 2020 and 2019, 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.

***Other Matters***

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of indirect cost rate calculation and the 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*, are presented for purposes of additional analysis and are 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 March 16, 2021, on our consideration of The Salvation Army World Service Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SAWSO's 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.*

Bethesda, Maryland  
March 16, 2021

Certified Public Accountants

THE SALVATION ARMY WORLD SERVICE OFFICE

STATEMENT OF FINANCIAL POSITION  
 SEPTEMBER 30, 2020  
 (WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Assets</b>				
Cash and Cash Equivalents	\$ 1,624,608	\$ 117,315	\$ 1,741,923	\$ 3,352,070
Investments	42,714,869	20,800,000	63,514,869	57,172,633
Grants Receivable	7,560	-	7,560	133,029
Beneficial Interest in Remainder Trust	-	32,081	32,081	32,081
Other Receivables	155,812	-	155,812	155,041
Project Advances	2,888,103	-	2,888,103	2,794,787
Prepaid Expenses	-	-	-	357
<b>Total Assets</b>	<b>\$ 47,390,952</b>	<b>\$ 20,949,396</b>	<b>\$ 68,340,348</b>	<b>\$ 63,639,998</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts Payable and Accrued Expenses	\$ 1,364,788	\$ -	\$ 1,364,788	\$ 1,737,797
Amounts Due to Projects	923,881	-	923,881	29,132
Refundable Advances	1,578,026	-	1,578,026	1,641,211
<b>Total Liabilities</b>	<b>3,866,695</b>	<b>-</b>	<b>3,866,695</b>	<b>3,408,140</b>
<b>Net Assets</b>				
Without Donor Restrictions				
Undesignated Operating Funds	4,566,055	-	4,566,055	39,179,608
Board Designated for IES Projects	7,240,661	-	7,240,661	-
Board Designated for Program Reserve	7,141,330	-	7,141,330	-
Board Designated for Operating Endowment	24,576,211	-	24,576,211	-
<b>Total Without Donor Restrictions</b>	<b>43,524,257</b>	<b>-</b>	<b>43,524,257</b>	<b>39,179,608</b>
With Donor Restrictions	-	20,949,396	20,949,396	21,052,250
<b>Total Net Assets</b>	<b>43,524,257</b>	<b>20,949,396</b>	<b>64,473,653</b>	<b>60,231,858</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 47,390,952</b>	<b>\$ 20,949,396</b>	<b>\$ 68,340,348</b>	<b>\$ 63,639,998</b>

See accompanying Notes to Financial Statements.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 3,334,438	\$ 17,632	\$ 3,352,070
Investments	36,170,096	21,002,537	57,172,633
Grants Receivable	133,029	-	133,029
Beneficial Interest in Remainder Trust	-	32,081	32,081
Other Receivables	155,041	-	155,041
Project Advances	2,794,787	-	2,794,787
Prepaid Expenses	357	-	357
<b>Total Assets</b>	<b><u>\$ 42,587,748</u></b>	<b><u>\$ 21,052,250</u></b>	<b><u>\$ 63,639,998</u></b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts Payable and Accrued Expenses	\$ 1,737,797	\$ -	\$ 1,737,797
Amounts Due to Projects	29,132	-	29,132
Refundable Advances	1,641,211	-	1,641,211
<b>Total Liabilities</b>	<b><u>3,408,140</u></b>	<b><u>-</u></b>	<b><u>3,408,140</u></b>
<b>Net Assets</b>			
Without Donor Restrictions	39,179,608	-	39,179,608
With Donor Restrictions	-	21,052,250	21,052,250
<b>Total Net Assets</b>	<b><u>39,179,608</u></b>	<b><u>21,052,250</u></b>	<b><u>60,231,858</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 42,587,748</u></b>	<b><u>\$ 21,052,250</u></b>	<b><u>\$ 63,639,998</u></b>

*See accompanying Notes to Financial Statements.*

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019)**

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Support and Revenues</b>				
Public Support				
Received Directly				
Contributions	\$ 2,213,639	\$ 241,772	\$ 2,455,411	\$ 1,644,744
Legacies and Bequests	760,282	-	760,282	807,982
Received Indirectly				
Allocated by Federated Fundraising Organizations	150,288	-	150,288	207,082
Contributions from The Salvation Army Territories	15,993,395	4,494,999	20,488,394	17,232,533
Total Public Support	<u>19,117,604</u>	<u>4,736,771</u>	<u>23,854,375</u>	<u>19,892,341</u>
Grants from Governmental Agencies	<u>165,545</u>	-	<u>165,545</u>	<u>374,524</u>
Investment Income				
Dividends and Interest	1,083,852	14,190	1,098,042	998,301
Realized Gains on Sales of Investments	1,600,263	20,950	1,621,213	2,164,951
Unrealized Gains in Values of Investments	4,566,056	59,778	4,625,834	1,036,266
Net Investment Income	<u>7,250,171</u>	<u>94,918</u>	<u>7,345,089</u>	<u>4,199,518</u>
Total Support and Revenues	<u>26,533,320</u>	<u>4,831,689</u>	<u>31,365,009</u>	<u>24,466,383</u>
Net Assets Released from Restrictions	<u>4,934,543</u>	<u>(4,934,543)</u>	-	-
Total Support and Revenues	<u>31,467,863</u>	<u>(102,854)</u>	<u>31,365,009</u>	<u>24,466,383</u>
<b>Expenses</b>				
Program Services				
Health Programs	2,192,202	-	2,192,202	2,737,472
Empowerment and Livelihood Programs	1,350,627	-	1,350,627	1,194,716
Business and Economic Development	473,480	-	473,480	979,875
Anti-Human Trafficking	654,758	-	654,758	897,162
Education Programs	593,333	-	593,333	424,035
Relief and Reconstruction Services	20,999,239	-	20,999,239	18,816,921
Total Program Services	<u>26,263,639</u>	-	<u>26,263,639</u>	<u>25,050,181</u>
Supporting Services				
Fundraising and Development	317,123	-	317,123	287,888
Management and General	542,452	-	542,452	571,024
Total Supporting Services	<u>859,575</u>	-	<u>859,575</u>	<u>858,912</u>
Total Expenses	<u>27,123,214</u>	-	<u>27,123,214</u>	<u>25,909,093</u>
<b>Changes in Net Assets from Operations</b>	<u>4,344,649</u>	<u>(102,854)</u>	<u>4,241,795</u>	<u>(1,442,710)</u>
<b>Changes in Net Assets</b>	<u>4,344,649</u>	<u>(102,854)</u>	<u>4,241,795</u>	<u>(1,442,710)</u>
Net Assets, Beginning of Year	<u>39,179,608</u>	<u>21,052,250</u>	<u>60,231,858</u>	<u>61,674,568</u>
Net Assets, End of Year	<u>\$ 43,524,257</u>	<u>\$ 20,949,396</u>	<u>\$ 64,473,653</u>	<u>\$ 60,231,858</u>

*See accompanying Notes to Financial Statements.*

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>Support and Revenues</b>			
Public Support			
Received Directly			
Contributions	\$ 1,438,942	\$ 205,802	\$ 1,644,744
Legacies and Bequests	438,513	369,469	807,982
Received Indirectly			
Allocated by Federated Fundraising Organizations			
Contributions from The Salvation Army Territories	207,082	-	207,082
The Salvation Army Territories	15,400,724	1,831,809	17,232,533
Total Public Support	17,485,261	2,407,080	19,892,341
Grants from Governmental Agencies	374,524	-	374,524
Investment Income			
Dividends and Interest	985,414	12,887	998,301
Realized Gains on Sales of Investments	2,137,003	27,948	2,164,951
Unrealized Gains in Values of Investments	1,022,888	13,378	1,036,266
Net Investment Income	4,145,305	54,213	4,199,518
Total Support and Revenues	22,005,090	2,461,293	24,466,383
Net Assets Released from Restrictions	5,516,345	(5,516,345)	-
Total Support and Revenues	27,521,435	(3,055,052)	24,466,383
<b>Expenses</b>			
Program Services			
Health Programs	2,737,472	-	2,737,472
Empowerment and Livelihood Programs	1,194,716	-	1,194,716
Business and Economic Development	979,875	-	979,875
Anti-Human Trafficking	897,162	-	897,162
Education Programs	424,035	-	424,035
Relief and Reconstruction Services	18,816,921	-	18,816,921
Total Program Services	25,050,181	-	25,050,181
Supporting Services			
Fundraising and Development	287,888	-	287,888
Management and General	571,024	-	571,024
Total Supporting Services	858,912	-	858,912
Total Expenses	25,909,093	-	25,909,093
<b>Changes in Net Assets from Operations</b>	1,612,342	(3,055,052)	(1,442,710)
<b>Changes in Net Assets</b>	1,612,342	(3,055,052)	(1,442,710)
Net Assets, Beginning of Year	37,567,266	24,107,302	61,674,568
Net Assets, End of Year	<u>\$ 39,179,608</u>	<u>\$ 21,052,250</u>	<u>\$ 60,231,858</u>

*See accompanying Notes to Financial Statements.*



**THE SALVATION ARMY WORLD SERVICE OFFICE**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Program Services						Supporting Services			2020 Total Expenses	
	Health Programs	Empowerment and Livelihood Programs	Business and Economic Development	Anti-Human Trafficking	Education Programs	Relief and Reconstruction Services	Total Program Services	Fundraising and Development	Management and General		Total Supporting Services
Salaries	\$ 249,905	\$ 392,111	\$ 139,125	\$ 245,050	\$ 271,393	\$ 654,723	\$ 1,952,307	\$ 227,084	\$ 193,958	\$ 421,042	\$ 2,373,349
Employee Benefits and											
Payroll Taxes	39,842	81,652	33,704	71,953	77,474	143,939	448,564	59,458	82,018	141,476	590,040
Professional Fees	75,408	39,946	80,416	30,570	7,453	165,019	398,812	21,873	71,902	93,775	492,587
Travel, Meals, and Transportation	61,601	50,675	19,263	53,430	28,332	237,876	451,177	1,804	1,854	3,658	454,835
Occupancy	1,798	12,851	8,302	1,233	2,301	47,634	74,119	-	163,456	163,456	237,575
Printing and Publications	1,491	71,632	-	1,360	3,020	5,819	83,322	4,173	929	5,102	88,424
Telephone	3,567	7,258	925	1,109	3,610	13,566	30,035	1,180	6,714	7,894	37,929
Postage and Shipping	6	275	146	37	187	1,689	2,340	758	1,719	2,477	4,817
Equipment	431,743	11,227	65,631	118	2,271	246,240	757,230	165	12,548	12,713	769,943
Office Expense	13,807	7,257	1,382	16,634	1,578	38,796	79,454	628	2,234	2,862	82,316
Construction Supplies	909,051	86,162	123,960	-	-	2,879,815	3,998,988	-	-	-	3,998,988
Medical Supplies	97,191	-	-	-	-	12,206	109,397	-	-	-	109,397
Other Supplies	99,642	31,858	626	14,235	4,700	570,894	721,955	-	162	162	722,117
Conference and Meetings	18,824	66,240	-	9,263	3,300	59,841	157,468	-	4,958	4,958	162,426
Support to Individuals	23,578	17,997	-	-	4,009	1,594,476	1,640,060	-	-	-	1,640,060
Foreign Currency											
Exchange Loss (Gain)	(19,090)	1,278	-	2,183	1,887	9,411	(4,331)	-	-	-	(4,331)
Grants to Affiliates	183,838	472,208	-	47,019	181,818	14,317,295	15,202,178	-	-	-	15,202,178
Sub-Grants	-	-	-	160,564	-	-	160,564	-	-	-	160,564
<b>Total Expenses</b>	<b>\$ 2,192,202</b>	<b>\$ 1,350,627</b>	<b>\$ 473,480</b>	<b>\$ 654,758</b>	<b>\$ 593,333</b>	<b>\$ 20,999,239</b>	<b>\$ 26,263,639</b>	<b>\$ 317,123</b>	<b>\$ 542,452</b>	<b>\$ 859,575</b>	<b>\$ 27,123,214</b>

See accompanying Notes to Financial Statements.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Program Services						Supporting Services			2019 Total Expenses	
	Health Programs	Empowerment and Livelihood Programs	Business and Economic Development	Anti-Human Trafficking	Education Programs	Relief and Reconstruction Services	Total Program Services	Fundraising and Development	Management and General		Total Supporting Services
Salaries	\$ 211,709	\$ 289,863	\$ 74,905	\$ 189,730	\$ 257,153	\$ 942,487	\$ 1,965,847	\$ 196,500	\$ 215,152	\$ 411,652	\$ 2,377,499
Employee Benefits and											
Payroll Taxes	25,811	59,233	13,147	45,534	58,716	159,435	361,876	52,806	99,728	152,534	514,410
Professional Fees	71,164	23,049	54,954	39,525	12,427	254,768	455,887	21,453	83,920	105,373	561,260
Travel, Meals, and											
Transportation	34,016	68,690	58,415	77,353	43,418	318,167	600,059	3,339	6,984	10,323	610,382
Occupancy	4,093	8,914	-	79,884	2,988	93,198	189,077	-	129,108	129,108	318,185
Printing and Publications	177	63,505	346	355	1,222	181	65,786	2,438	1,263	3,701	69,487
Telephone	2,512	13,877	812	1,505	5,391	3,672	27,769	1,027	6,896	7,923	35,692
Postage and Shipping	2	352	-	23	6	55	438	946	1,736	2,682	3,120
Equipment	462,833	49,102	2,029	6,016	5,162	169,131	694,273	-	16,769	16,769	711,042
Office Expense	11,014	6,784	621	9,633	7,331	42,961	78,344	1,066	3,271	4,337	82,681
Construction Supplies	1,155,248	37,394	169,822	-	-	2,206,923	3,569,387	-	-	-	3,569,387
Other Supplies	50,490	39,447	330	26,072	68	493,595	610,002	1,809	583	2,392	612,394
Conference and Meetings	44,973	46,946	800	11,748	20,453	60,465	185,385	6,504	5,614	12,118	197,503
Support to Individuals	2,061	27,402	7,288	-	4,767	87,182	128,700	-	-	-	128,700
Foreign Currency											
Exchange Loss (Gain)	8,413	1,859	-	(1,313)	1,933	782	11,674	-	-	-	11,674
Grants to Affiliates	652,956	458,299	596,406	95,060	3,000	13,983,919	15,789,640	-	-	-	15,789,640
Sub-Grants	-	-	-	316,037	-	-	316,037	-	-	-	316,037
<b>Total Expenses</b>	<b>\$ 2,737,472</b>	<b>\$ 1,194,716</b>	<b>\$ 979,875</b>	<b>\$ 897,162</b>	<b>\$ 424,035</b>	<b>\$ 18,816,921</b>	<b>\$ 25,050,181</b>	<b>\$ 287,888</b>	<b>\$ 571,024</b>	<b>\$ 858,912</b>	<b>\$ 25,909,093</b>

See accompanying Notes to Financial Statements.

**THE SALVATION ARMY WORLD SERVICE OFFICE**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 4,241,795	\$ (1,442,710)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Gains on Sales of Investments	(1,621,213)	(2,164,951)
Unrealized Gains in Values of Investments	(4,625,834)	(1,036,266)
<u>(Increase) Decrease in Operating Assets</u>		
Grants Receivable	125,469	94,007
Other Receivables	(771)	(31,253)
Prepaid Expenses	357	(357)
Project Advances	(93,316)	(587,021)
<u>Increase (Decrease) in Operating Liabilities</u>		
Accounts Payable and Accrued Expenses	(373,009)	700,811
Amounts Due to Projects	894,749	(166,373)
Deferred Revenue	(63,185)	1,187,098
Net Cash Used in Operating Activities	<u>(1,514,958)</u>	<u>(3,447,015)</u>
<b>Cash Flows from Investing Activities</b>		
Sale of Investments and Return of Principal	16,512,297	22,403,972
Purchases of Investments	<u>(16,607,486)</u>	<u>(16,483,351)</u>
Net Cash (Used in) Provided by Investing Activities	<u>(95,189)</u>	<u>5,920,621</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,610,147)	2,473,606
Cash and Cash Equivalents, Beginning of Year	<u>3,352,070</u>	<u>878,464</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,741,923</u></u>	<u><u>\$ 3,352,070</u></u>

*See accompanying Notes to Financial Statements.*

# THE SALVATION ARMY WORLD SERVICE OFFICE

## NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2020 AND 2019

---

### 1. PURPOSE OF ORGANIZATION AND PROGRAMS

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.

The following sections summarize the key program services provided.

#### *Health Programs*

Although COVID-19 dominated the health headlines in 2020 - and SAWSO remained actively engaged throughout the year battling the deadly pandemic - other issues regarding health and access to medicine around the world remained. The Salvation Army serves the poor and vulnerable by implementing programs that enhance health service quality and increase access to community-based services at Salvation Army-operated hospitals and clinics. Program focus areas are maternal, child and adolescent health, non-communicable diseases, community health, and health facilities.

Throughout every part of the world SAWSO serves, The Salvation Army worked hard to distribute protective equipment and educational materials among some of the most impoverished communities on Earth, helping those most at-risk survive the COVID-19 virus. Routine provision of health services continued, sometimes with SAWSO-approved modifications to meet the challenges of the pandemic.

A grant from a private foundation to SAWSO funded outreach visits by staff from Chikankata Mission Hospital to small, isolated clinics in this impoverished rural area in Southern **Zambia**. A second grant from the same private foundation is being used to upgrade the Mission's aging, inefficient electrical system.

#### *Empowerment and Livelihood Programs*

Among the most effective ways to help those in need is to empower them to help themselves, and that is the primary aim of SAWSO's livelihoods programs. By teaching literacy, finance, and basic marketable skills, those who might otherwise struggle are given opportunities to lift themselves and their families out of poverty and, in some cases, become leaders in their communities, well-positioned to pass on what they have learned to others.

In **Haiti**, The Salvation Army runs a program that helps communities to form community level savings groups. The savings group members then take loans out from the pooled savings, providing them with credit needed to invest in their businesses or to use for major expenses such as weddings and funerals. This means that they do not have to liquidate any of their assets such as livestock, which they keep for emergencies or to trade. Alongside the savings groups, The Salvation Army runs an agriculture development program, to help farming families improve their agricultural practices. This will help both increase their yields and sustain the nutrients in the soil for generations to come.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019

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1. PURPOSE AND ORGANIZATION AND PROGRAMS (CONTINUED)

*Empowerment and Livelihood Programs (Continued)*

In western **Kenya**, SAWSO continues to support a women's empowerment program through savings groups, income generation training, and literacy training. In many cases, this work is spreading spontaneously, without The Salvation Army's initiation because the community sees the value of the program and the positive impacts that it has within the community.

SAWSO has been working in **Nepal** since the 2015 earthquake, which devastated the country. The Salvation Mission (as The Salvation Army is known in Nepal) has been mobilizing communities to respond to future disasters by providing training in disaster risk reduction and first aid training. They have also funded hundreds of youth to attend vocational training schools to be electricians, computer technicians, or veterinarian technicians. As livestock is an important part of the Nepali economy, SAWSO has supported a livestock distribution to vulnerable community members so that they can restore financial stability lost following the earthquake. Though many of the trainings have been disrupted by the onset of COVID-19, there is still community participation and enthusiasm for activities to resume once shut-down restrictions are lifted.

*Business and Economic Development*

The global pandemic in 2020 tested the limits of Salvation Army commands around the world to continue providing critical services and support in the face of dwindling or constrained financial resources. The future goal of establishing local sources of funding was suddenly thrust into a more immediate focus and SAWSO's Capacity Building Partnership Initiative rushed to respond and scale up its activities. Many larger projects had to be put on hold due to local country restrictions on construction or business operations, but smaller initiatives were started quickly, and many months of planning have been completed and are ready with new projects for 2021.

In many parts of the world, The Salvation Army is well-respected and well-established in the local community as a primary service provider for the most vulnerable, but they do not receive local donations simply from a lack of proper promotional marketing and compelling invitations to participate through giving.

In **Chile**, SAWSO funded the expansion of the local Salvation Army fundraising office with new staff, new systems, and new campaigns to collect new levels of donations that were immediately used to assist local communities.

In **South Africa**, SAWSO funded new positions to help with their online outreach efforts to new demographics of givers and trained existing staff in best-practice fundraising methods both for current and legacy giving.

And in **Brazil**, SAWSO coordinated and supported the purchase of a new warehouse in Rio de Janeiro that will allow the local thrift store network of SalvaShopping to expand their operations from Sao Paulo and serve an entirely new area of need.

## THE SALVATION ARMY WORLD SERVICE OFFICE

### NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2020 AND 2019

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#### 1. PURPOSE AND ORGANIZATION AND PROGRAMS (CONTINUED)

##### *Anti-Human Trafficking Programs*

Among the most important of all human rights is the right to be free, and sadly, there are those who seek to deprive others of that right for their own personal or financial gain. De facto slavery still exists around the world, with vulnerable individuals forced into labor and prostitution by those who exploit them. SAWSO seeks to restore dignity to the victims of human trafficking by providing the counseling and resources they need to escape their bonds and live their lives in freedom.

In the **Philippines**, a specific form of sex trafficking - Online Sexual Exploitation of Children or OSEC - is all too common. Children are forced, in some cases by their own families, to perform inappropriate sexual acts on a webcam for clients around the world, often under the deception that it is all “just a game.” Often exploited by those they most trust, these children struggle to return to normalcy. SAWSO’s PAVE program seeks to provide them with the care and counseling they need to overcome their trauma, providing a safe temporary home and training social workers to address their unique needs.

In **India**, The Salvation Army worked together with the local authorities to distribute food and hygiene items to families in the red-light areas of Mumbai. These families had no source of income and were extremely vulnerable. The Salvation Army was able to provide spiritual and emotional support as well. In **Oman**, The Salvation Army assisted 10 exploited women to return to their home country of **Uganda**. They were met by an organization who is providing them long term care and opportunities to return to a community where they can find a livelihood and social support.

##### *Education Programs*

Education, of course, is foundational. Ensuring that the next generation has access to quality schooling is among the best ways to break the cycle of poverty once and for all. SAWSO seeks to address educational needs at all levels, assuring that children in some of the world’s neediest communities have access to safe spaces and quality materials from which to learn. In addition, SAWSO develops systems of professional development for educators in their communities, giving them the skills they need to best serve their students.

In **Indonesia**, some of the poorest communities are also the most isolated, which creates challenges to providing educational professionals with the latest training. With SAWSO’s support, Salvation Army schools - sometimes the only schools serving rural Indonesian communities - have developed a coaching program to assist teachers in their professional development. SAWSO also is supporting child reading programs in schools.

In both **Haiti** and **Guatemala**, SAWSO is supporting the strengthening of school quality through professional development of teachers and provision of instructional materials.

In **India**, SAWSO also supported schools with human capacity to enable distance learning. To that effect teachers were supported to continue providing learning activities to students in rural communities.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019

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1. PURPOSE AND ORGANIZATION AND PROGRAMS (CONTINUED)

*Relief and Reconstruction Services*

The Salvation Army responded immediately to the needs of those communities overseas affected by the COVID-19 pandemic. SAWSO supported these communities by providing funds for awareness campaigns, distributing hand washing materials and hiring health agents to inform and teach preventive measures primarily in markets where people still gather in mass. In addition, communities were provided food parcels and soap and hygiene and protective items. Gift cards were provided for the purchase of food items and hygiene supplies. In **India West**, they were able to purchase a ventilator and other medical equipment and PPE materials and supplies for the local hospital. In **Zimbabwe**, they were able to purchase specialized equipment and PPE consumables needed to treat the influx of patients who needed emergency treatment.

In **Australia** resources were provided in support of the devastating rash of wildfires, providing initial emergency response and long-term recovery work to respond to weeks and weeks of the wildfires that affected large areas of the country. In addition, The Salvation Army supported the activities initially involved servicing the fire fighters at various forward command centers and relief the next five years.

Following a devastating tropical cyclone which caused severe flooding in multiple districts, The Salvation Army in **Malawi** worked to provide relocation packages consisting of food and NFI's to many families to higher areas, much less likely to be affected by severe flooding in the future.

Response to victims of tropical storm Laura in the Dominican Republic, The Salvation Army in **Latin America North** provided food packages and personal hygiene kits along with bedding and other essential supplies to the affected families.

In the **Bahamas** following Hurricane Dorian, The Salvation Army provided emergency relief and recovery materials to the hurricane affected areas in the Bahamas. Cots were provided at shelters in Nassau and Abaco where residents were housed and cared for along with temporary assistance to families in Freeport. Vouchers were provided to allow families to purchase specific materials to begin making repairs to their hurricane damaged homes, and vouchers were provided for the purchase of furnishings for their damaged homes as well.

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.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*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, 2020 and 2019, 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 net assets with donor restrictions 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.

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, 2020 and 2019, 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.



THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Net Asset Classifications*

The financial statements of SAWSO have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which requires SAWSO to report information regarding its financial position and activities according to the following asset classifications:

*Net Assets Without Donor Restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of SAWSO. These net assets may be used at the discretion of SAWSO's management and the Board of Trustees.

*Board Designated Net Assets:* For the year ended September 30, 2020, the Board of Trustees of SAWSO created Board Designated Funds. By creating these funds, some of the net assets without donor restrictions have been designated by the Board of Trustees for specific purposes:

- International Emergency Services (IES) - These funds will be utilized for relief and reconstruction projects in areas impacted by major disasters.
- Program Reserve - These funds will be utilized for sector specific projects.
- Operational Endowment - The goal of the endowment is to build annually until its individual earnings are sufficient to cover any potential operating gap.

*Net Assets With Donor Restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of SAWSO or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. 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.

*Revenue Recognition*

Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as a contribution without donor restrictions.

Conditional promises to give are recognized as revenue only when the conditions on which they depend are substantially met and the promises become unconditional.

Revenue from federal grants are recognized when the conditions are met, and they become unconditional on the basis of allowable costs.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019

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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 contributions with donor restrictions 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. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, taxes, and benefits which are allocated on the basis of time and effort by employees; other expenses are based on direct costs. Expenses directly identifiable to specific programs and supporting activities are allocated accordingly.

*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, 2020 and 2019, 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

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Uncertain Tax Positions (Continued)*

September 30, 2020 and 2019, there were no matters that would have resulted in an accrual for interest and/or penalties.

The three prior tax years are subject to examination by taxing authorities; there are no examinations currently being conducted.

*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.

**3. ADOPTION OF ACCOUNTING STANDARDS UPDATE 2018-08**

For the year ended September 30, 2020, SAWSO adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides additional guidance in (1) evaluating whether transactions should be accounted for as contributions (within the scope of ASC 958) or as exchange (reciprocal) transactions (subject to ASC 606); and (2) distinguishing between conditional and unconditional contributions. Management believes that the adoption of this ASU enhances the comparability of financial information among not-for-profit entities. This change in accounting principle was adopted on a modified prospective basis in 2020. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of October 1, 2019. The impact of adoption was not material to the financial statements.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019**

**4. LIQUIDITY AND AVAILABILITY OF RESOURCES**

SAWSO regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. SAWSO has various sources of liquidity at its disposal, including cash and investments, which are available for general expenditures, liabilities, and other obligations as they come due. In addition, SAWSO has board-designated reserve funds in the amount of \$38,958,202 which can be used for the designated purposes. As of September 30, 2020 and 2019, the following financial assets and liquidity sources were available for general operating expenditures in the years ending September 30, 2021 and 2020:

	2020	2019
<i>Financial Assets</i>		
Cash	\$ 1,741,923	\$ 3,352,070
Investments	63,514,869	57,172,633
Grants Receivable	7,560	133,029
Other Receivables	155,812	155,041
Total	65,420,164	60,812,773
<i>Less Net Assets With Donor Restrictions</i>	(20,917,315)	(21,020,169)
<i>Less Board Designated Funds</i>		
IES Projects	(7,240,661)	-
Program Reserve	(7,141,330)	-
Operational Endowment	(24,576,211)	-
Total Board Designated Funds	(38,958,202)	-
Total Financial Assets and Resources Available within One Year	\$ 5,544,647	\$ 39,792,604

**5. CONCENTRATIONS AND FINANCIAL RISK**

SAWSO maintains cash in accounts that are covered by the Federal Deposit Insurance Corporation (FDIC) up to the maximum amount of \$250,000 allowed by law. While the amounts, at times, exceed the amount insured by federal agencies and, therefore, bear some risk, SAWSO has not experienced, nor does it anticipate, any loss of funds.

SAWSO maintains its investments at one financial institution. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amount reported in the financial statements.

**6. 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, 2020 and 2019. 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.

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**NOTES TO FINANCIAL STATEMENTS  
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**6. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

*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, 2020:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Funds	\$ 4,093,982	\$ 4,093,982	\$ -	\$ -
U.S. Government Securities	5,791,647	-	5,791,647	-
Mutual Funds - Fixed Income	7,047,861	7,047,861	-	-
Mutual Funds - Equities	514,069	514,069	-	-
Mutual Funds - Non-Traditional	673,955	673,955	-	-
Exchange Traded Funds - Equities	329,532	329,532	-	-
Corporate Bonds and Notes	7,234,506	-	7,234,506	-
Asset-Backed Securities	1,427,649	-	1,427,649	-
Equities	36,401,668	36,401,668	-	-
<b>Total</b>	<b>\$ 63,514,869</b>	<b>\$ 49,061,067</b>	<b>\$ 14,453,802</b>	<b>\$ -</b>

Investments are stated at fair value and consisted of the following at September 30, 2019:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Funds	\$ 4,028,462	\$ 4,028,462	\$ -	\$ -
U.S. Government Securities	5,442,254	-	5,442,254	-
Mutual Funds - Fixed Income	6,995,123	6,995,123	-	-
Mutual Funds - Equities	1,509,551	1,509,551	-	-
Mutual Funds - Non-Traditional	1,035,714	1,035,714	-	-
Exchange Traded Funds - Equities	292,022	292,022	-	-
Corporate Bonds and Notes	5,573,409	-	5,573,409	-
Asset-Backed Securities	1,615,086	-	1,615,086	-
Equities	30,681,012	30,681,012	-	-
<b>Total</b>	<b>\$ 57,172,633</b>	<b>\$ 44,541,884</b>	<b>\$ 12,630,749</b>	<b>\$ -</b>

Investment income consisted of the following:

	2020	2019
Dividends and Interest Revenue	\$ 1,098,042	\$ 998,301
Net Realized and Unrealized Gains	6,247,047	3,201,217
<b>Net</b>	<b>\$ 7,345,089</b>	<b>\$ 4,199,518</b>

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019

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

For the years ended September 30, 2020 and 2019, investment fees netted against dividends and interest revenues were \$312,611 and \$306,002, respectively.

**7. 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, 2020 and 2019, of approximately \$20,488,000 and \$17,233,000, 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 Grants to Affiliates on the statements of functional expenses. The affiliates are various The Salvation Army territories around the world. Unexpended funds are included in net assets with donor restrictions 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 and development 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, 2020 and 2019, SAWSO recognized pension expense of approximately \$88,000 and \$80,000, 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, 2020 and 2019, rental expense was approximately \$163,000 and \$129,000, respectively.

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
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8. NET ASSETS WITH DONOR RESTRICTIONS

As of September 30, 2020, SAWSO's net assets with donor restrictions consisted of the following:

<b><u>Relief and Reconstruction Services</u></b>	
Western Hemisphere Hurricane Relief (Incl. Bahamas Hurricane Dorian)	\$ 4,634,434
Other International Disaster Relief/Relief Efforts	4,081,219
Philippines Typhoon Haiyan Relief	3,662,878
Haiti Earthquake Relief	2,837,492
South East Asia Tsunami Relief	2,432,619
Mexico Reserve	636,918
Nepal EQ Relief	598,914
COVID-19 Relief	571,503
Papua New Guinea Relief	462,577
Mexico Earthquake relief	281,977
Ecuador Earthquake Relief	139,200
Myanmar Cyclone Relief	111,631
China Earthquake Relief	69,777
African Refugee Relief	<u>52,369</u>
Total Net Assets Restricted for Relief and Reconstruction Services	20,573,508
Assets Held under Split-Interest Agreements	32,081
Donor Restricted Endowments	<u>343,807</u>
Total Net Assets With Donor Restrictions	<u><u>\$ 20,949,396</u></u>

Net assets were released from donor restrictions by incurring expenses or otherwise satisfying the restricted purposes as follows for the year ended September 30, 2020:

Haiti Earthquake Relief	\$ 1,728,880
South East Asia Tsunami Relief	1,654,544
Japan Earthquake Tsunami Relief	414,359
African Refugee Relief	386,970
China Earthquake Relief	293,246
Philippines Typhoon Haiyan Relief	208,512
Papua New Guinea Relief	151,013
Myanmar Cyclone Relief	75,931
Nepal Earthquake Relief	<u>21,089</u>
Total Net Assets Released from Donor Restrictions	<u><u>\$ 4,934,543</u></u>

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019**

**8. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)**

As of September 30, 2019, SAWSO's net assets with donor restrictions consisted of the following:

<u>Relief and Reconstruction Services</u>	
Haiti Earthquake Relief	\$ 4,566,369
South East Asia Tsunami Relief	4,087,163
Philippines Typhoon Haiyan Relief	3,871,390
Other International Disaster Relief	2,753,146
Western Hemisphere Hurricane Relief	1,798,643
Nepal Earthquake Relief	620,003
Papua New Guinea Relief	613,590
Mexico Reserve	567,805
African Refugee Relief	439,340
Japan Earthquake Tsunami Relief	414,359
China Earthquake Relief	363,023
Mexico Earthquake Relief	281,462
Myanmar Cyclone Relief	187,562
Ecuador Earthquake Relief	138,312
	<hr/>
Total Net Assets Restricted for Relief and Reconstruction Services	20,702,167
Assets Held under Split-Interest Agreements	32,081
Donor Restricted Endowments	318,002
	<hr/>
Total Net Assets With Donor Restrictions	<u>\$ 21,052,250</u>

Net assets were released from donor restrictions by incurring expenses or otherwise satisfying the restricted purposes as follows for the year ended September 30, 2019:

Japan Earthquake Tsunami Relief	\$ 2,059,445
South East Asia Tsunami Relief	1,838,741
Haiti Earthquake Relief	518,831
Papua New Guinea Relief	401,410
Philippines Typhoon Haiyan Relief	384,915
African Refugee Relief	94,542
Nepal Earthquake Relief	57,044
China Earthquake Relief	54,086
Appropriation of Endowment Assets for Expenditure	41,613
East Africa Famine Relief	35,638
Mexico Reserve	22,000
Myanmar Cyclone Relief	7,878
Ecuador Earthquake Relief	202
	<hr/>
Total Net Assets Released from Donor Restrictions	<u>\$ 5,516,345</u>

**9. 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.



**THE SALVATION ARMY WORLD SERVICE OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
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**9. ENDOWMENT FUNDS (CONTINUED)**

*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 unappropriated endowment 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 net assets with donor restrictions. Investment income is allocated to the endowment fund proportionally to the investments as a whole.

Endowment funds consisted of the following at September 30, 2020:

	Without Donor Restrictions	With Donor Restrictions		
		Unappropriated Endowment	Invested in Perpetuity	Total
<b>Donor-Restricted Endowment Fund</b>	<b>\$ -</b>	<b>\$ 41,271</b>	<b>\$ 302,536</b>	<b>\$ 343,807</b>

Endowment funds consisted of the following at September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions		
		Unappropriated Endowment	Invested in Perpetuity	Total
Donor-Restricted Endowment Fund	\$ -	\$ 15,466	\$ 302,536	\$ 318,002

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019

9. ENDOWMENT FUNDS (CONTINUED)

*Investment Policy (Continued)*

For the year ended September 30, 2020, changes in endowment net assets were as follows:

	Without Donor Restrictions	With Donor Restrictions		
		Unappropriated Endowment	Invested in Perpetuity	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ 15,466	\$ 302,536	\$ 318,002
Investment Return	-	25,805	-	25,805
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 41,271</u>	<u>\$ 302,536</u>	<u>\$ 343,807</u>

For the year ended September 30, 2019, changes in endowment net assets were as follows:

	Without Donor Restrictions	With Donor Restrictions		
		Unappropriated Endowment	Invested in Perpetuity	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ 41,613	\$ 302,536	\$ 344,149
Investment Return	-	15,466	-	15,466
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(41,613)	-	(41,613)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 15,466</u>	<u>\$ 302,536</u>	<u>\$ 318,002</u>

10. CONTINGENCIES

*Government Contracts and Grants*

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.

*Impact of COVID-19*

The spread of COVID-19 has had a disruptive impact on the daily life and operations of individuals, businesses, and nonprofits around the world. There is uncertainty about financial and economic impacts in all sectors of the economy. The financial markets have experienced significant volatility, and this may continue for an extended period of time. In light of these circumstances, management continues to assess how best to adapt to changed circumstances.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020 AND 2019**

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**11. SUBSEQUENT EVENTS**

SAWSO has evaluated subsequent events through March 16, 2021, 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, 2020**

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Total Management and General Expenses per Financial Statements	<u>\$ 542,452</u>
<b>Total Indirect Costs</b>	<b>(“A”) <u>\$ 542,452</u></b>
Total Program Services Expenses per Financial Statements	\$ 26,263,639
Less Grants to Affiliates	(15,202,178)
Less Construction Supplies - Relief Projects	(3,998,988)
Less Sub-Grants (PAVE)	(160,564)
Add Fundraising and Development Expenses	<u>317,123</u>
<b>Total Allowable Expenses</b>	<b>(“B”) <u>\$ 7,219,032</u></b>
<b>Indirect Cost Rate (“A” Divided by “B”)</b>	<u>7.51%</u>

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

<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>
<b>U.S. Department of State</b>			
International Programs to Combat Human Trafficking Protecting At-Risk Children Vulnerable to Exploitation	19.019	\$ 98,479	\$ 165,545
Total U.S. Department of State		<u>98,479</u>	<u>165,545</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 98,479</u>	<u>\$ 165,545</u>

THE SALVATION ARMY WORLD SERVICE OFFICE

NOTES TO SUPPLEMENTARY SCHEDULES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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**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, 2020. 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.

**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***

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, 2020, 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 March 16, 2021.

***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*.



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.*

Certified Public Accountants

Bethesda, Maryland  
March 16, 2021

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

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, 2020. 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, 2020.

## 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  
March 16, 2021

Certified Public Accountants

THE SALVATION ARMY WORLD SERVICE OFFICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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**Section I - Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u>  </u> yes	<u>  </u> X	no
Significant deficiencies identified?	<u>  </u> yes	<u>  </u> X	no
Noncompliance material to financial statements noted?	<u>  </u> yes	<u>  </u> X	no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u>  </u> yes	<u>  </u> X	no
Significant deficiencies identified?	<u>  </u> yes	<u>  </u> 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)?

	<u>  </u> yes	<u>  </u> X	no
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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?	<u>  </u> yes	<u>  </u> X	no
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**Section II - Financial Statement Audit Findings**

None were reported.

**Section III - Federal Award Findings and Questioned Costs**

None were reported.

**THE SALVATION ARMY WORLD SERVICE OFFICE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**Status of Prior Financial Statement Audit Findings**

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

**Status of Prior Federal Award Findings**

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