

THE SALVATION ARMY WORLD SERVICE OFFICE

ALEXANDRIA, VIRGINIA

OMB CIRCULAR A-133 FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

The Salvation Army World Service Office
OMB Circular A-133 Financial Report
For the Years Ended December 31, 2010 and 2009

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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of The Salvation Army World Service Office (SAWSO), a nonprofit organization, as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of SAWSO's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SAWSO as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2011, on our consideration of SAWSO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Board of Trustees
The Salvation Army World Service Office

Our audits were conducted for the purpose of forming an opinion on the financial statements of The Salvation Army World Service Office as a whole. The accompanying supplementary schedule of indirect cost rate calculation is presented for purposes of additional analysis and is not a required part of the financial statements of SAWSO. The accompanying supplementary schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of SAWSO. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
June 29, 2011

Certified Public Accountants

The Salvation Army World Service Office

Statement of Financial Position

December 31, 2010

(With Comparative Totals as of December 31, 2009)

	Unrestricted			Temporarily Restricted	2010 Total	2009 Total
	Operating	Board Designated	Total			
Assets						
Cash and Cash Equivalents	\$ 2,668,408	\$ -	\$ 2,668,408	\$ 888,605	\$ 3,557,013	\$ 1,388,435
Investments	10,687,065	500,000	11,187,065	28,000,000	39,187,065	21,053,332
Grants Receivable	636,701	-	636,701	-	636,701	1,201,714
Assets Held Under Split-Interest Agreement	-	-	-	32,082	32,082	32,082
Other Receivables	678,560	-	678,560	-	678,560	531,365
Project Advances	890,886	-	890,886	-	890,886	1,212,129
Prepaid Expenses	6,270	-	6,270	-	6,270	7,734
Total Assets	\$ 15,567,890	\$ 500,000	\$ 16,067,890	\$ 28,920,687	\$ 44,988,577	\$ 25,426,791
Liabilities and Net Assets						
Liabilities						
Accounts Payable and Accrued Expenses	\$ 1,170,011	\$ -	\$ 1,170,011	\$ -	\$ 1,170,011	\$ 229,571
Amounts Due to Projects	271,921	-	271,921	-	271,921	2,719,637
Deferred Revenue	36,973	-	36,973	-	36,973	238,224
Total Liabilities	1,478,905	-	1,478,905	-	1,478,905	3,187,432
Net Assets						
Unrestricted	14,088,985	500,000	14,588,985	-	14,588,985	10,381,368
Temporarily Restricted	-	-	-	28,920,687	28,920,687	11,857,991
Total Net Assets	14,088,985	500,000	14,588,985	28,920,687	43,509,672	22,239,359
Total Liabilities and Net Assets	\$ 15,567,890	\$ 500,000	\$ 16,067,890	\$ 28,920,687	\$ 44,988,577	\$ 25,426,791

The Salvation Army World Service Office

Statement of Financial Position

December 31, 2009

	Unrestricted			Temporarily Restricted	2009 Total
	Operating	Board Designated	Total		
Assets					
Cash and Cash Equivalents	\$ 1,062,526	\$ -	\$ 1,062,526	\$ 325,909	\$ 1,388,435
Investments	9,053,332	500,000	9,553,332	11,500,000	21,053,332
Grants Receivable	1,201,714	-	1,201,714	-	1,201,714
Assets Held Under Split-Interest Agreement	-	-	-	32,082	32,082
Other Receivables	531,365	-	531,365	-	531,365
Project Advances	1,212,129	-	1,212,129	-	1,212,129
Prepaid Expenses	7,734	-	7,734	-	7,734
Total Assets	\$ 13,068,800	\$ 500,000	\$ 13,568,800	\$ 11,857,991	\$ 25,426,791
Liabilities and Net Assets					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 229,571	\$ -	\$ 229,571	\$ -	\$ 229,571
Amounts Due to Projects	2,719,637	-	2,719,637	-	2,719,637
Deferred Revenue	238,224	-	238,224	-	238,224
Total Liabilities	3,187,432	-	3,187,432	-	3,187,432
Net Assets					
Unrestricted	9,881,368	500,000	10,381,368	-	10,381,368
Temporarily Restricted	-	-	-	11,857,991	11,857,991
Total Net Assets	9,881,368	500,000	10,381,368	11,857,991	22,239,359
Total Liabilities and Net Assets	\$ 13,068,800	\$ 500,000	\$ 13,568,800	\$ 11,857,991	\$ 25,426,791

The Salvation Army World Service Office

Statement of Activities
For the Year Ended December 31, 2010
(With Comparative Totals for the Year Ended December 31, 2009)

	Unrestricted			Temporarily Restricted	2010 Total	2009 Total
	Operating	Board Designated	Total			
Support and Revenues						
Public Support						
Received Directly						
Contributions	\$ 6,534,956	\$ -	\$ 6,534,956	\$ 794,622	\$ 7,329,578	\$ 917,252
Legacies and Bequests	-	-	-	-	-	20,000
Contributed Office Space	-	-	-	-	-	62,058
Total Received Directly	6,534,956	-	6,534,956	794,622	7,329,578	999,310
Received Indirectly						
Allocated by Federated Fund-Raising Organizations	572,871	-	572,871	-	572,871	564,987
Contributions from The Salvation Army Territories	24,259,433	-	24,259,433	16,940,465	41,199,898	18,243,695
Total Public Support	31,367,260	-	31,367,260	17,735,087	49,102,347	19,807,992
Grants from Governmental Agencies	1,871,566	-	1,871,566	-	1,871,566	3,990,361
Investment Income						
Dividends and Interest	677,314	-	677,314	10,354	687,668	673,575
Realized Gains (Losses) on Sales of Investments	267,375	-	267,375	4,108	271,483	(2,797,569)
Unrealized Gains on Value of Investments	1,825,020	-	1,825,020	28,043	1,853,063	5,096,844
Net Investment Income	2,769,709	-	2,769,709	42,505	2,812,214	2,972,850
Total Support and Revenues	36,008,535	-	36,008,535	17,777,592	53,786,127	26,771,203
Net Assets Released from Restrictions	714,896	-	714,896	(714,896)	-	-
Total	36,723,431	-	36,723,431	17,062,696	53,786,127	26,771,203
Expenses						
Program Services						
Health Services	2,285,982	-	2,285,982	-	2,285,982	3,829,470
Community Development	396,905	-	396,905	-	396,905	478,641
Micro Enterprise	24,118	-	24,118	-	24,118	266,267
Relief and Reconstruction Services	28,868,645	-	28,868,645	-	28,868,645	18,944,498
Total Program Services	31,575,650	-	31,575,650	-	31,575,650	23,518,876
Management and General	940,164	-	940,164	-	940,164	852,482
Total Expenses	32,515,814	-	32,515,814	-	32,515,814	24,371,358
Changes in Net Assets	4,207,617	-	4,207,617	17,062,696	21,270,313	2,399,845
Net Assets, Beginning of Year	9,881,368	500,000	10,381,368	11,857,991	22,239,359	19,839,514
Net Assets, End of Year	\$ 14,088,985	\$ 500,000	\$ 14,588,985	\$ 28,920,687	\$ 43,509,672	\$ 22,239,359

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Activities
For the Year Ended December 31, 2009

	Operating	Unrestricted Board Designated	Total	Temporarily Restricted	2009 Total
Support and Revenues					
Public Support					
Received Directly					
Contributions	\$ 912,229	\$ -	\$ 912,229	\$ 5,023	\$ 917,252
Legacies and Bequests	20,000	-	20,000	-	20,000
Contributed Office Space	62,058	-	62,058	-	62,058
Total Received Directly	994,287	-	994,287	5,023	999,310
Received Indirectly					
Allocated by Federated Fund-Raising Organizations	564,987	-	564,987	-	564,987
Contributions from The Salvation Army Territories	18,021,017	-	18,021,017	222,678	18,243,695
Total Public Support	19,580,291	-	19,580,291	227,701	19,807,992
Grants from Governmental Agencies	3,990,361	-	3,990,361	-	3,990,361
Investment Income					
Dividends and Interest	664,411	-	664,411	9,164	673,575
Realized Losses on Sales of Investments	(2,759,508)	-	(2,759,508)	(38,061)	(2,797,569)
Unrealized Gains on Value of Investments	5,027,501	-	5,027,501	69,343	5,096,844
Net Investment Income	2,932,404	-	2,932,404	40,446	2,972,850
Total Support and Revenues	26,503,056	-	26,503,056	268,147	26,771,203
Net Assets Released from Restrictions	907,826	-	907,826	(907,826)	-
Total	27,410,882	-	27,410,882	(639,679)	26,771,203
Expenses					
Program Services					
Health Services	3,829,470	-	3,829,470	-	3,829,470
Community Development	478,641	-	478,641	-	478,641
Micro Enterprise	266,267	-	266,267	-	266,267
Relief and Reconstruction Services	18,944,498	-	18,944,498	-	18,944,498
Total Program Services	23,518,876	-	23,518,876	-	23,518,876
Management and General	852,482	-	852,482	-	852,482
Total Expenses	24,371,358	-	24,371,358	-	24,371,358
Changes in Net Assets	3,039,524	-	3,039,524	(639,679)	2,399,845
Net Assets, Beginning of Year	6,841,844	500,000	7,341,844	12,497,670	19,839,514
Net Assets, End of Year	\$ 9,881,368	\$ 500,000	\$ 10,381,368	\$ 11,857,991	\$ 22,239,359

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

**Statement of Functional Expenses
For the Year Ended December 31, 2010**

	Program Services						
	Health Services	Community Development	Micro Enterprise	Relief and Reconstruction Services	Total Program Services	Management and General	2010 Total Expenses
Salaries	\$ 671,257	\$ 133,889	\$ 8,310	\$ 347,752	\$ 1,161,208	\$ 250,056	\$ 1,411,264
Employee Benefits and Payroll Taxes	241,411	35,261	2,703	79,354	358,729	122,265	480,994
Professional Fees	170,883	29,558	8,676	1,143,484	1,352,601	284,415	1,637,016
Travel, Meals, and Transportation	214,509	61,566	793	959,961	1,236,829	41,525	1,278,354
Occupancy	43,349	4,191	-	150,624	198,164	133,124	331,288
Printing and Publications	7,809	17,777	26	13,850	39,462	7,631	47,093
Telephone	25,772	2,277	4	49,152	77,205	5,479	82,684
Postage and Shipping	1,042	1,109	29	27,652	29,832	5,682	35,514
Equipment	92,647	16,600	-	399,356	508,603	17,988	526,591
Office Expense	150,746	16,097	-	127,971	294,814	53,575	348,389
Construction Supplies	-	-	-	1,292,950	1,292,950	-	1,292,950
Medical Supplies	-	-	-	2,429	2,429	-	2,429
Other Supplies	11,199	3,452	-	160,095	174,746	5,628	180,374
Food and Relief Supplies	-	-	-	7,177,349	7,177,349	-	7,177,349
Conference and Meetings	551,085	28,496	3,277	66,720	649,578	12,796	662,374
Support to Individuals	9,696	6,208	-	-	15,904	-	15,904
Exchange Loss (Gain)	31,868	2	-	(13,148)	18,722	-	18,722
Grants to Affiliates	62,709	40,422	300	16,883,094	16,986,525	-	16,986,525
Total Expenses	\$ 2,285,982	\$ 396,905	\$ 24,118	\$ 28,868,645	\$ 31,575,650	\$ 940,164	\$ 32,515,814

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

**Statement of Functional Expenses
For the Year Ended December 31, 2009**

	Program Services				Total Program Services	Management and General	2009 Total Expenses
	Health Services	Community Development	Micro Enterprise	Relief and Reconstruction Services			
Salaries	\$ 932,671	\$ 159,122	\$ 39,447	\$ 337,585	\$ 1,468,825	\$ 257,926	\$ 1,726,751
Employee Benefits and Payroll Taxes	251,445	37,523	8,803	111,750	409,521	105,752	515,273
Professional Fees	217,481	37,086	7,051	47,915	309,533	269,957	579,490
Travel, Meals, and Transportation	422,322	76,467	10,487	88,690	597,966	19,795	617,761
Occupancy	64,540	3,666	694	7,967	76,867	120,089	196,956
Printing and Publications	57,136	19,057	21,656	2,454	100,303	4,569	104,872
Telephone	46,677	4,423	2,287	3,594	56,981	7,162	64,143
Postage and Shipping	6,302	3,038	1,401	11,505	22,246	4,144	26,390
Equipment	76,788	28,549	7,675	73,658	186,670	6,973	193,643
Office Expense	107,160	12,470	18,223	2,658	140,511	43,832	184,343
Construction Supplies	-	-	67,488	1,055,989	1,123,477	-	1,123,477
Other Supplies	26,274	1,622	13,567	5,111	46,574	-	46,574
Conference and Meetings	1,606,594	41,031	28,990	85,877	1,762,492	479	1,762,971
Food and Support	-	2,443	-	-	2,443	11,804	14,247
Exchange Loss (Gain)	(11,719)	2,614	5,057	(42,920)	(46,968)	-	(46,968)
Grants to Affiliates	25,799	49,530	33,441	17,152,665	17,261,435	-	17,261,435
Total Expenses	\$ 3,829,470	\$ 478,641	\$ 266,267	\$ 18,944,498	\$ 23,518,876	\$ 852,482	\$ 24,371,358

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

**Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009**

	2010	2009
Cash Flows from Operating Activities		
Change in Net Assets	\$ 21,270,313	\$ 2,399,845
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
(Gains) Losses on Sales of Investments	(271,483)	2,797,569
Unrealized Gains on Value of Investments	(1,853,063)	(5,096,844)
<u>(Increase) Decrease in Operating Assets</u>		
Grants Receivable	565,013	37,686
Other Receivables	(147,195)	254,348
Project Advances	321,243	(118,961)
Prepaid Expenses	1,464	(7,734)
<u>Increase (Decrease) in Operating Liabilities</u>		
Accounts Payable and Accrued Expenses	940,440	(7,128)
Amounts Due to Projects	(2,447,716)	243,059
Deferred Revenue	(201,251)	109,223
Net Cash Provided by Operating Activities	18,177,765	611,063
Cash Flows from Investing Activities		
Sales of Investments	15,722,720	12,645,356
Purchases of Investments	(31,731,907)	(12,706,848)
Net Cash Used in Investing Activities	(16,009,187)	(61,492)
Net Increase in Cash and Cash Equivalents	2,168,578	549,571
Cash and Cash Equivalents, Beginning of Year	1,388,435	838,864
Cash and Cash Equivalents, End of Year	\$ 3,557,013	\$ 1,388,435

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2010 and 2009

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 community 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, micro-enterprise credit, literacy, and relief.

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 and Cash Equivalents

Cash and cash equivalents include standard bank accounts and repurchase agreements backed, but not collateralized, by federal securities with maturities of three months or less. At December 31, 2010 and 2009, repurchase agreements amounted to \$2,673,000 and \$1,232,000, respectively.

Assets Held Under Split-Interest Agreement

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 to 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 December 31, 2010 and 2009

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.

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 December 31, 2010 and 2009, management determined that an allowance for doubtful accounts was not necessary.

Project Advances and Amounts Due to Projects

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

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.

Deferred Revenue

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

The Salvation Army World Service Office

**Notes to Financial Statements
December 31, 2010 and 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classifications

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for a specific purpose or time 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.

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

At and for the years ended December 31, 2010 and 2009, SAWSO did not maintain or receive assets required to be reported as permanently restricted net assets.

Support Recognition for Tsunami Relief Programs

Funding for the Tsunami 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 relief effort.

Support from program expense reimbursements from donor partners is recorded as financial reports of program expenses incurred are received from the program project managers and requests for program expense reimbursements are made to the donor partners. Support related to these reimbursements of approximately \$122,000 and \$610,000 for the years ended December 31, 2010 and 2009, respectively, are included on the statements of activities with the caption "Contributions from The Salvation Army Territories." Costs of these contracts of approximately \$383,000 and \$1,476,000 for the years ended December 31, 2010 and 2009, respectively, are included on the statements of activities with the caption "Relief and Reconstruction Services."

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Office Space

Contributed office space is recorded as revenue and expense in the period received based upon its current market value. During 2010, SAWSO did not receive any contributed office space. In 2009, contributed office space had a market value of approximately \$62,000, and it was recorded in management and general expenses.

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 summarizes the key program services provided:

Health Services

Health services support primary healthcare programs designed to treat and prevent disease. Education and immunizations are vital links to improved health conditions.

Community Development

Community development includes such services as counseling, literary education, and women's support groups.

Relief and Reconstruction Services

Relief and reconstruction services provide material assistance (food, clothing, and medical care) in the immediate aftermath of a disaster. This program also promotes and supports longer-term assistance such as housing reconstruction and income generation for those affected by disasters.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses (Continued)

Relief and Reconstruction Services (Continued)

A large portion of support and corresponding expenses for relief and reconstruction services for 2010 relates to the catastrophic earthquake that hit Haiti. SAWSO responded immediately supplying food, water, shelter, and medical services. This included primary responsibility for 20,000 people in an internally displaced refugee (IDP) camp. This responsibility incorporated: coordination of registration and internal governance; provision of security, clean water, and sanitation; clinic-based medical care including medical exams, lab testing, the provision of drugs, and disease monitoring. All of this was achieved through the funding from SAWSO and various Salvation Army Territories.

SAWSO provided meals and built transitional shelters. These shelters were built through a SAWSO-led cash for work program. SAWSO also helped serve patients and provided meals to students; provided oversight and financial support for a camp of IDPs, including the provision of mosquito nets, tarps, cots, and tents. Work continues, in cooperation with personnel in Haiti, to develop, fund, and implement ongoing programs and services.

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).

Information returns open for examination as of December 31, 2010, include returns filed with the Internal Revenue Service for tax years 2009-2007.

Contingency

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

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2010 and 2009

3. CONCENTRATION OF CREDIT RISK

SAWSO maintains its cash accounts in banks that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and noninterest-bearing accounts are fully insured. At December 31, 2010 and 2009, SAWSO's deposits were fully insured.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

SAWSO's investments are its only assets or liabilities measured at fair value on a recurring basis at December 31, 2010 and 2009. SAWSO has categorized its investments based on a three-level fair value hierarchy 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 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 December 31, 2010:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>
Money Funds	\$ 7,034,338	\$ 7,034,338
U.S. Government Securities	5,558,638	5,558,638
Assets Backed Securities	1,340,013	1,340,013
Mutual Funds - Fixed Income	2,444,748	2,444,748
Corporate Bonds and Notes	2,988,214	2,988,214
Equities	<u>19,821,114</u>	<u>19,821,114</u>
Total	<u>\$ 39,187,065</u>	<u>\$ 39,187,065</u>

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2010 and 2009

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investments are stated at fair value and consisted of the following at December 31, 2009:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>
Money Funds	\$ 3,194,979	\$ 3,194,979
U.S. Government Securities	2,220,362	2,220,362
Mutual Funds - Fixed Income	1,244,874	1,244,874
Corporate Bonds and Notes	2,776,244	2,776,244
Equities	<u>11,616,873</u>	<u>11,616,873</u>
Total	<u>\$ 21,053,332</u>	<u>\$ 21,053,332</u>

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

Investment income consisted of the following for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Dividends and Interest Revenue	\$ 687,668	\$ 673,575
Net Realized and Unrealized Gains	<u>2,124,546</u>	<u>2,299,275</u>
Total	<u>\$ 2,812,214</u>	<u>\$ 2,972,850</u>

5. RELATED PARTY TRANSACTIONS

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

The four territorial headquarters of The Salvation Army in the United States of America made contributions to SAWSO during 2010 and 2009 of approximately \$41,200,000 and \$18,244,000, respectively. These funds were used in part in the year received to provide project funding to the international programs of The Salvation Army and are included in SAWSO's program services expenses with the caption on the statements of functional expenses "Grants to Affiliates," and amounted to approximately \$16,987,000 and \$17,261,000 during 2010 and 2009, respectively. The affiliates are various The Salvation Army territories around the world. Unexpended funds are included in unrestricted and temporarily restricted net assets at year-end. SAWSO has been granted the variance power to redirect contributions received from the four The Salvation Army Territories in the United States of America that are restricted for international projects. Fund-raising expenses for international projects are incurred by The Salvation Army's four territorial headquarters.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2010 and 2009

5. RELATED PARTY TRANSACTIONS (CONTINUED)

Employees of SAWSO may participate in a money purchase defined contribution pension plan with The Salvation Army corporations. SAWSO recognized pension expense of approximately \$45,000 and \$23,000 during 2010 and 2009, respectively. Such employer contributions are based upon compensation and are paid by SAWSO to The Salvation Army - USA Eastern Territory.

SAWSO leases its office space under a year-to-year lease with the USA National Headquarters of The Salvation Army (NHQ). Total rental expense for 2010 and 2009 was approximately \$133,000 and \$33,000, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets, other than those related to assets held under split-interest agreements, were available for the following purposes at December 31:

	<u>2010</u>	<u>2009</u>
Relief and Reconstruction Activities		
Haiti Earthquake	\$ 17,003,644	\$ -
Tsunami Relief	9,348,899	9,932,359
International Disaster Relief	568,857	1,380,544
Pakistan Earthquake Relief	481,162	-
China Earthquake	423,007	104,206
Chile Earthquake Relief	375,150	-
Mexico	361,827	319,322
Myanmar Cyclone Relief	206,113	9,862
Western Hemisphere	79,191	79,191
Indonesia Earthquake	<u>40,755</u>	<u>425</u>
Total	<u>\$ 28,888,605</u>	<u>\$ 11,825,909</u>

7. SUBSEQUENT EVENTS

SAWSO has evaluated subsequent events through June 29, 2011, 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 December 31, 2010**

Management and General Supporting Services per Financial Statements	("A")	\$ <u>940,164</u>
Total Program Services Expenses per Financial Statements		\$ 31,575,650
Less Grants to Affiliates		(16,986,525)
Less Construction Supplies - Tsunami Projects		(1,292,950)
Less Haiti Emergency Support		<u>(7,177,349)</u>
Net Program Services Expenses	("B")	\$ <u>6,118,826</u>
Indirect Cost Rate ("A" Divided by "B")		<u>15.37%</u>

See accompanying Notes to Supplementary Schedules.

The Salvation Army World Service Office

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Agreement Number</u>	<u>Total Federal Expenditures</u>
Major Programs Awards		
U.S. Agency for International Development Tanzania/Uganda PEPFAR	98.GPO-A-00-05-00018-00	\$ 753,365
U.S. Agency for International Development Pass-Through from World Vision Zambia Steps OVC	98.611-A-00-10-00001-004	305,130
U.S. Agency for International Development Zambia Child Survival Program	98.GHS-A-00-05-00033-00	<u>303,189</u>
Total Major Programs Awards		<u>1,361,684</u>
Other Federal Awards		
U.S. Agency for International Development Pass-Through from World Vision Zambia - RAPIDS	98.690-A-00-04-00251-03	135,796
U.S. Agency for International Development Pass-Through from Food for Peace Malawi DAP	98.AS-00-04-00066-00	389
U.S. Agency for International Development Haiti OVC/Palliative Care	98.GPO-A-00-04-00023-00	34,730
U.S. Agency for International Development Haiti/Nigeria ABY	98.GPO-A-00-05-00008-00	4,455
U.S. Agency for International Development Pass-Through from World Vision Angola Polio Awareness	98.HRN-A-00-98-00053-19	134,509
U.S. Agency for International Development Haiti Champs	98.521-A-00-06-00019-00	167,022
U.S. Agency for International Development Zambia ZPCT II	98.GHH-I-01-07-00043-00	19,685
U.S. Department of State Pass-Through from World Hope Liberia Anti-Trafficking	19.S-LMAQM-07-GR-223	<u>13,296</u>
Total Other Federal Awards		<u>509,882</u>
Total Expenditures of Federal Awards		<u>\$ 1,871,566</u>

See accompanying Notes to Supplementary Schedules.

The Salvation Army World Service Office

**Notes to Supplementary Schedules
For the Year Ended December 31, 2010**

1. BASIS OF ACCOUNTING

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 December 31, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of SAWSO, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SAWSO.

2. SIGNIFICANT ACCOUNTING POLICY

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures include a portion of costs associated with general activities (indirect costs), which are allocated to federal awards under negotiated indirect cost rates and are adjusted to actual rates at year-end.



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

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

We have audited the financial statements of The Salvation Army World Service Office (SAWSO) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 29, 2011. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Salvation Army World Service Office's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Salvation Army World Service Office's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Internal Control over Financial Reporting (Continued)

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Finding 2010-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Salvation Army World Service Office's financial statements are free of 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*.

SAWSO's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit SAWSO's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees, management, others within the organization, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
June 29, 2011

Certified Public Accountants



**Independent Auditors' Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and
on Internal Control over Compliance in Accordance with
OMB Circular A-133**

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

Compliance

We have audited The Salvation Army World Service Office's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The Salvation Army World Service Office's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Salvation Army World Service Office's management. Our responsibility is to express an opinion on The Salvation Army World Service Office's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Salvation Army World Service Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Salvation Army World Service Office's compliance with those requirements.

Compliance (Continued)

In our opinion, The Salvation Army World Service Office complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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 requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Salvation Army World Service Office's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Salvation Army World Service Office's internal control over compliance.

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

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of trustees, management, others within the organization, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Counitor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
June 29, 2011

Certified Public Accountants

The Salvation Army World Service Office

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010**

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of The Salvation Army World Service Office.
2. The audit disclosed significant deficiencies in internal control over financial reporting that are reported in the 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*. These conditions are reported as material weaknesses.
3. The audit disclosed no instances of noncompliance material to the financial statements of The Salvation Army World Service Office.
4. The auditors' report on compliance for the major federal award programs for The Salvation Army World Service Office expresses an unqualified opinion on all major federal programs.
5. There were no audit findings relative to the major federal award programs for The Salvation Army World Service Office that are required to be reported in accordance with OMB Circular A-133, Section 510(a).

6. Identification of major programs:

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Agreement Number</u>	<u>Total Federal Expenditures</u>
U.S. Agency for International Development Tanzania/Uganda PEPFAR	98.GPO-A-00-05-00018-00	\$ 753,365
U.S. Agency for International Development Pass-Through from World Vision Zambia Steps OVC	98.611-A-00-10-00001-004	\$ 305,130
U.S. Agency for International Development Zambia Child Survival Program	98.GHS-A-00-05-00033-00	\$ 303,189

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

The Salvation Army World Service Office

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010**

Findings - Financial Statements Audit

Material Weaknesses

Finding 2010-1

Criteria: Accepted practices for internal control over financial reporting require that internal control policies and procedures be in place that provide reasonable assurance that all significant expenses reflected in the financial statements are adequately documented and that organization personnel be trained in and adhere to those internal control policies and procedures.

Condition: Expenditures of funds provided to an overseas location were not supported by adequate documentation.

Cause: Failure to establish adequate policies and procedures regarding maintaining adequate documentation.

Effect: The lack of appropriate documentation caused The Salvation Army World Service Office to fail in providing adequate support for overseas expenditures. This failure in maintaining adequate documentation could have enabled expenditures to be charged for items not consistent with The Salvation Army World Service Office's objectives.

Auditors' Recommendation: We recommend that The Salvation Army World Service Office review its policies and procedures for obtaining properly approved documentation for overseas expenses, and that employees of The Salvation Army World Service Office and the overseas locations be trained in the policies and procedures to obtain or prepare, review, and approve such documentation.

The Salvation Army World Service Office

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2010**

Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

Finding 2010-1 (Continued)

Grantee's Response: The structure of internal controls of SAWSO's recipients within the Tanzania Territory made it possible for local staff members to perpetrate a potential fraud in the organization, and resulted in the inability of SAWSO to adequately receive support for a number of expenditures in that country. Steps have been taken to strengthen the SAWSO controls sent to other countries, like Tanzania. These steps include the requirement to open a local bank account for all projects sponsored by SAWSO and for SAWSO to be authorized to receive monthly bank statements directly from the bank, along with appropriate documentation. Additionally, steps are being taken to increase internal auditing functions for major projects to verify all relevant accounting transactions and procedures.