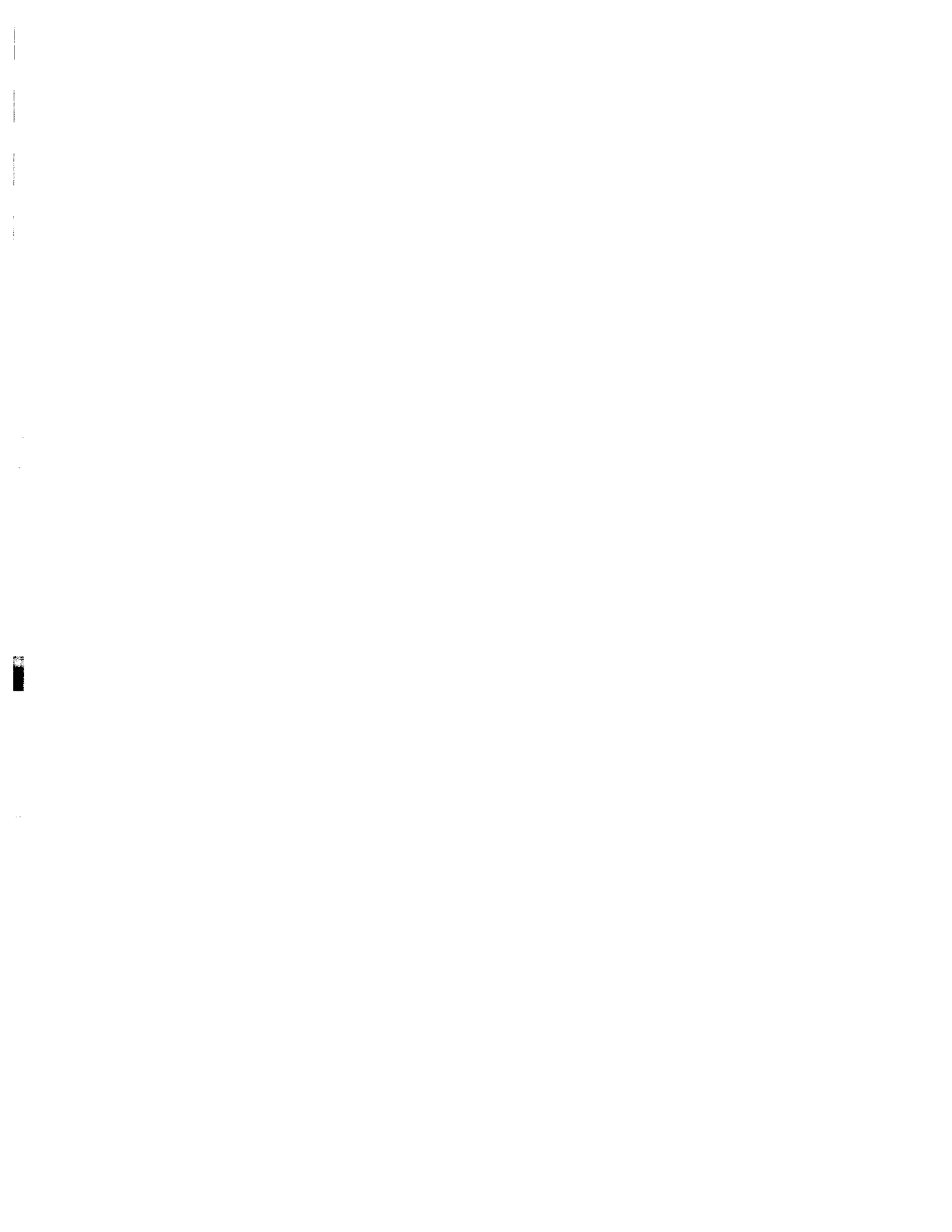


**THE SALVATION ARMY WORLD SERVICE OFFICE
ALEXANDRIA, VIRGINIA**

**OMB CIRCULAR A-133 FINANCIAL REPORT
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**



The Salvation Army World Service Office

OBM Circular A-133 Financial Report

For the Years Ended December 31, 2005 and 2004

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**Independent Auditors' Report on Basic Financial Statements and
Supplementary Schedules of Indirect Cost Rate Calculation and
Expenditures of Federal Awards**

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, 2005 and 2004, 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, 2005 and 2004, 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 May 30, 2006, 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 should be considered in assessing the results of our audit.

The Board of Trustees
The Salvation Army World Service Office

Our audits were made for the purpose of forming an opinion on the basic financial statements of SAWSO taken 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 basic 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 basic financial statements of SAWSO. The information in these schedules has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
May 30, 2006

Certified Public Accountants

The Salvation Army World Service Office

Statement of Financial Position
 December 31, 2005
 (With Comparative Totals As of December 31, 2004)

	Unrestricted		Temporarily Restricted	2005 Total	2004 Total
	Operating	Board Designated Total			
Assets					
Cash and Cash Equivalents	\$ 493,863	\$ -	\$ 881,318	\$ 1,375,181	\$ 124,667
Investments	6,061,466	500,000	21,500,000	28,061,466	6,198,377
Grants Receivable	721,326	-	-	721,326	66,413
Assets Held Under Split-Interest Agreement	-	-	28,567	28,567	29,809
Other Receivables	808,998	-	-	808,998	73,032
Prepaid Expenses	7,825	-	-	7,825	5,907
Project Advances	919,817	-	-	919,817	259,270
Total Assets	\$ 9,013,295	\$ 500,000	\$ 22,409,885	\$ 31,923,180	\$ 6,757,475
Liabilities and Net Assets					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 292,181	\$ -	\$ -	\$ 292,181	\$ 169,627
Amounts Due to Projects	1,542,153	-	-	1,542,153	50,475
Deferred Revenue	866,875	-	-	866,875	109,624
Total Liabilities	2,701,209	-	-	2,701,209	329,726
Net Assets					
Unrestricted	6,312,086	500,000	-	6,812,086	5,852,873
Temporarily Restricted	-	-	22,409,885	22,409,885	574,876
Total Net Assets	6,312,086	500,000	22,409,885	29,221,971	6,427,749
Total Liabilities and Net Assets	\$ 9,013,295	\$ 500,000	\$ 22,409,885	\$ 31,923,180	\$ 6,757,475

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Financial Position
December 31, 2004

	Unrestricted			Temporarily Restricted	2004 Total
	Operating	Board Designated	Total		
Assets					
Cash and Cash Equivalents	\$ 23,450	\$ -	\$ 23,450	\$ 101,217	\$ 124,667
Investments	5,148,377	500,000	5,648,377	550,000	6,198,377
Grants Receivable	66,413	-	66,413	-	66,413
Assets Held Under Split-Interest Agreement	-	-	-	29,809	29,809
Other Receivables	73,032	-	73,032	-	73,032
Prepaid Expenses	5,907	-	5,907	-	5,907
Project Advances	259,270	-	259,270	-	259,270
Total Assets	\$ 5,576,449	\$ 500,000	\$ 6,076,449	\$ 681,026	\$ 6,757,475
Liabilities and Net Assets					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 63,477	\$ -	\$ 63,477	\$ 106,150	\$ 169,627
Amounts Due to Projects	50,475	-	50,475	-	50,475
Deferred Revenue	109,624	-	109,624	-	109,624
Total Liabilities	223,576	-	223,576	106,150	329,726
Net Assets					
Unrestricted	5,352,873	500,000	5,852,873	-	5,852,873
Temporarily Restricted	-	-	-	574,876	574,876
Total Net Assets	5,352,873	500,000	5,852,873	574,876	6,427,749
Total Liabilities and Net Assets	\$ 5,576,449	\$ 500,000	\$ 6,076,449	\$ 681,026	\$ 6,757,475

The Salvation Army World Service Office

Statement of Activities
For the Year Ended December 31, 2005
(With Comparative Totals For the Year Ended December 31, 2004)

	Unrestricted Net Assets		Temporarily Restricted Net Assets	2005 Total	2004 Total
	Operating	Board Designated			
Support and Revenue					
Public Support					
Received Directly					
Contributions	\$ 1,036,179	\$ -	\$ 1,036,179	\$ 9,825,491	\$ 1,114,709
Legacies and Bequests	-	-	-	-	22,213
Change in Value of Split-Interest Agreement	-	-	-	-	-
Contributed Services/Office Space	169,639	-	169,639	(1,242)	1,526
Total Received Directly	1,205,818	-	1,205,818	9,993,888	1,557,479
Received Indirectly					
Allocated by Federated Fund-Raising Organizations	587,594	-	587,594	587,594	554,033
Contributions from Salvation Army Territories	9,585,349	-	9,585,349	28,105,662	8,149,005
Total Public Support	11,378,761	-	11,378,761	38,687,144	10,260,517
Grants from Governmental Agencies	1,952,139	-	1,952,139	1,952,139	1,830,001
Investment Income					
Dividends and Interest, Net of Fees	782,760	-	782,760	782,760	128,685
Realized Gains on Sales of Investments	129,090	-	129,090	129,090	117,143
Unrealized Gains on Value of Investments	55,616	-	55,616	55,616	272,271
Total Investment Income	967,466	-	967,466	967,466	518,099
Total Support and Revenue	14,298,366	-	14,298,366	41,606,749	12,608,617
Net Assets Released from Restrictions	5,473,374	-	5,473,374	-	-
Total	19,771,740	-	19,771,740	41,606,749	12,608,617
Expenses					
Program Services					
Health Services	1,906,251	-	1,906,251	1,906,251	1,134,521
Community Development	183,004	-	183,004	183,004	150,122
Micro Enterprise	47,065	-	47,065	47,065	67,406
Relief and Reconstruction Services	16,097,358	-	16,097,358	16,097,358	11,074,894
Total Program Services	18,233,678	-	18,233,678	18,233,678	12,426,943
Management and General	578,849	-	578,849	578,849	476,569
Total Expenses	18,812,527	-	18,812,527	18,812,527	12,903,512
Change in Net Assets					
Net Assets, Beginning of Year	959,213	-	959,213	22,794,222	(294,895)
Net Assets, End of Year	5,352,873	500,000	5,852,873	6,427,749	6,722,644
	\$ 6,312,086	\$ 500,000	\$ 6,812,086	\$ 29,221,971	\$ 6,427,749

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Activities
For the Year Ended December 31, 2004

	Unrestricted Net Assets		Temporarily Restricted Net Assets	2004 Total
	Operating	Board Designated		
Support and Revenue				
Public Support				
Received Directly				
Contributions	\$ 509,947	-	\$ 604,762	\$ 1,114,709
Legacies and Bequests	22,213	-	-	22,213
Change in Value of Split-Interest Agreement	-	-	1,526	1,526
Contributed Services/Office Space	419,031	-	-	419,031
Total Received Directly	951,191	-	606,288	1,557,479
Received Indirectly				
Allocated by Federated Fund-Raising Organizations	554,033	-	-	554,033
Contributions from Salvation Army Territories	8,149,005	-	-	8,149,005
Total Public Support	9,654,229	-	606,288	10,260,517
Grants from Governmental Agencies	1,830,001	-	-	1,830,001
Investment Income				
Dividends and Interest, Net of Fees	128,685	-	-	128,685
Realized Gains (Losses) on Sales of Investments	117,143	-	-	117,143
Unrealized Gains on Value of Investments	272,271	-	-	272,271
Total Investment Income	518,099	-	-	518,099
Total Support and Revenue	12,002,329	-	606,288	12,608,617
Net Assets Released from Restrictions	513,554	-	(513,554)	-
Other Transfers	292,679	(292,679)	-	-
Total	12,808,562	(292,679)	92,734	12,608,617
Expenses				
Program Services				
Health Services	1,134,521	-	-	1,134,521
Community Development	150,122	-	-	150,122
Micro Enterprise	67,406	-	-	67,406
Relief and Reconstruction Services	11,074,894	-	-	11,074,894
Total Program Services	12,426,943	-	-	12,426,943
Management and General	476,569	-	-	476,569
Total Expenses	12,903,512	-	-	12,903,512
Change in Net Assets	(94,950)	(292,679)	92,734	(294,895)
Net Assets, Beginning of Year	5,447,823	792,679	482,142	6,722,644
Net Assets, End of Year	\$ 5,352,873	\$ 500,000	\$ 574,876	\$ 6,427,749

The Salvation Army World Service Office

Statement of Functional Expenses
For the Year Ended December 31, 2005

	Health Services	Program Services				Relief and Reconstruction	Total	Management and General	2005 Total Expenses
		Community Development	Micro Enterprise	Enterprise	Reconstruction				
Salaries	\$ 662,401	\$ 49,683	\$ 16,919	\$ 344,654	\$ 1,073,657	\$ 123,328	\$ 1,196,985		
Employee Benefits and Payroll Taxes	98,998	14,943	3,618	45,785	163,344	64,562	227,906		
Professional Fees	119,196	33,471	1,023	287,221	440,911	216,191	657,102		
Travel, Meals, and Transportation	243,939	32,286	2,588	261,029	539,842	13,960	553,802		
Occupancy	43,645	-	131	39,837	83,613	104,198	187,811		
Printing and Publications	67,139	30,539	16,860	49,678	164,216	5,772	169,988		
Telephone	27,206	2,021	1,339	47,467	78,033	10,716	88,749		
Postage and Shipping	2,785	2,236	72	40,327	45,420	5,075	50,495		
Equipment	117,951	270	238	120,602	239,061	8,928	247,989		
Office Expense	38,828	5,967	715	117,571	163,081	8,934	172,015		
Construction Supplies	-	-	-	3,297,233	3,297,233	-	3,297,233		
Medical Supplies	6,569	-	-	13,215	19,784	-	19,784		
Other Supplies	7,518	523	196	373,504	381,741	-	381,741		
Conference and Meetings	438,870	11,065	3,028	186,470	639,433	17,185	656,618		
Food and Support	16,855	-	-	341,227	358,082	-	358,082		
Exchange Loss (Gain)	14,351	-	338	59,346	74,035	-	74,035		
Grants to Affiliates	-	-	-	10,472,192	10,472,192	-	10,472,192		
Total Expenses	\$ 1,906,251	\$ 183,004	\$ 47,065	\$ 16,097,358	\$ 18,233,678	\$ 578,849	\$ 18,812,527		

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Functional Expenses
For the Year Ended December 31, 2004

	Health Services	Program Services				Total	Management and General	2004 Total Expenses
		Community Development	Micro Enterprise	Relief and Reconstruction	Total			
Salaries	\$ 447,481	\$ 44,338	\$ 25,604	\$ 307,751	\$ 825,174	\$ 141,234	\$ 966,408	
Employee Benefits and Payroll Taxes	70,478	12,861	4,820	39,741	127,900	56,160	184,060	
Professional Fees	166,087	46,134	19,622	498,904	730,747	146,997	877,744	
Travel, Meals, and Transportation	152,299	11,892	5,164	63,147	232,502	2,710	235,212	
Occupancy	28,725	-	-	26,279	55,004	94,368	149,372	
Printing and Publications	9,032	17,372	113	1,930	28,447	1,823	30,270	
Telephone	20,998	459	732	17,166	39,355	11,733	51,088	
Postage and Shipping	2,520	1,475	141	6,752	10,888	3,855	14,743	
Equipment	74,444	2,307	-	7,220	83,971	3,838	87,809	
Office Expense	23,920	2,208	144	13,747	40,019	6,745	46,764	
Construction Supplies	-	-	-	974,118	974,118	-	974,118	
Medical Supplies	17,290	-	13	-	17,303	-	17,303	
Other Supplies	1,020	255	135	25	1,435	-	1,435	
Conference and Meetings	170,033	10,821	11,217	5,330	197,401	7,106	204,507	
Food and Support	-	-	-	425,424	425,424	-	425,424	
Exchange Loss (Gain)	(49,806)	-	(299)	20,076	(30,029)	-	(30,029)	
Grants to Affiliates	-	-	-	8,667,284	8,667,284	-	8,667,284	
Total Expenses	\$ 1,134,521	\$ 150,122	\$ 67,406	\$ 11,074,894	\$ 12,426,943	\$ 476,569	\$ 12,903,512	

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

**Statements of Cash Flows
For the Years Ended December 31, 2005 and 2004**

	2005	2004
Cash Flows from Operating Activities		
Change in Net Assets	\$ 22,794,222	\$ (294,895)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Change in Value of Split-Interest Agreement	1,242	(1,526)
Realized (Gains) Losses on Sales of Investments	(129,090)	(117,143)
Unrealized (Gains) Losses on Value of Investments	(55,616)	(272,271)
<u>(Increase) Decrease in Operating Assets</u>		
Grants Receivable	(654,913)	26,443
Other Receivables	(735,966)	109,313
Prepaid Expenses	(1,918)	(2,600)
Project Advances	(660,547)	169,272
<u>Increase (Decrease) in Operating Liabilities</u>		
Accounts Payable and Accrued Expenses	122,554	(64,579)
Amounts Due to Projects	1,491,678	19,424
Deferred Revenue	757,251	(2,069)
	22,928,897	(430,631)
Net Cash Provided by (Used in) Operating Activities		
Cash Flows from Investing Activities		
Proceeds from Sales of Investments	6,848,575	6,347,308
Purchases of Investments	(28,526,958)	(6,220,564)
	(21,678,383)	126,744
Net Cash Provided by (Used in) Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	1,250,514	(303,887)
Cash and Cash Equivalents, Beginning of Year	124,667	428,554
Cash and Cash Equivalents, End of Year	\$ 1,375,181	\$ 124,667

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2005 and 2004

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.

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).

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.

Management 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from these 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, 2005 and 2004, repurchase agreements amounted to \$1,270,000 and \$4,000, respectively.

The Salvation Army World Service Office

**Notes to Financial Statements
December 31, 2005 and 2004**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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%.

Other Receivables

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, 2005 and 2004, 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.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2005 and 2004, SAWSO did not maintain or receive assets required to be reported as permanently restricted net assets.

Income Recognition on Tsunami Relief Contracts

Funding for the Tsunami relief effort is generated in two forms: (1) contributions from the public, and (2) fixed-price contracts with various Salvation Army territories 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. SAWSO incurs all of the overhead.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Recognition on Tsunami Relief Contracts (Continued)

Revenues on fixed-price Tsunami relief contracts are recorded using the percentage-of-completion method, measured by the percentage of cost incurred to date to estimated total costs for each contract. Revenues related to these contracts of approximately \$2,330,000 and \$-0- for the years ended December 31, 2005 and 2004, respectively, are included on the statements of activities under the caption "Contributions from Salvation Army Territories." Costs of these contracts of approximately \$2,330,000 and \$-0- for the years ended December 31, 2005 and 2004, respectively, are included on the statements of activities under the caption "Relief and Reconstruction Services."

Estimated losses on fixed-price contracts are recorded as they become known, and, in the opinion of management, adequate provisions for such losses have been recorded. Any losses on fixed-price contracts will be covered by SAWSO's unrestricted net assets. Changes in job performances, job conditions, and estimated profitability may result in revisions to costs and revenues in the near term.

Contributed Services and Office Space

Contributed services and rent are recorded as revenue and expense in the period rendered based upon their current market values. Donated services consisted of professional fees with a market value of approximately \$84,000 and \$81,000 during 2005 and 2004, respectively, and donated rent with a market value of approximately \$85,000 and \$75,000 during 2005 and 2004, respectively, which were used in management and general expenses.

Contributed services/office space/land also includes contributed land and labor provided by El Salvadorans as part of the United States Agency for International Development's El Salvador Housing Program. The contributed land and labor are valued at approximately \$-0- and \$263,000 during 2005 and 2004, respectively.

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.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingency

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

3. CONCENTRATION OF CASH BALANCES

SAWSO maintains its cash in accounts with financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$100,000 each. At December 31, 2005 and 2004, deposits exceeded the insured limit by approximately \$34,000 and \$26,000, respectively.

4. INVESTMENTS

Investments are stated at market value and consisted of the following at December 31:

	<u>2005</u>	<u>2004</u>
Investments		
Money Funds	\$ 549,779	\$ 236,866
U.S. Government Securities	1,034,726	983,165
Corporate Bonds and Notes	12,421,162	457,619
Mutual Funds - Fixed Income	379,553	364,941
Equities	<u>13,676,246</u>	<u>4,155,786</u>
	<u>\$ 28,061,466</u>	<u>\$ 6,198,377</u>

The total cost basis of investments at December 31, 2005 and 2004 is \$26,621,588 and \$5,372,632, respectively.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2005 and 2004

5. RELATED PARTY TRANSACTIONS

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

SAWSO commingles its investments in an investment account with The Salvation Army - National Headquarters. Realized and unrealized gains and losses, interest and dividends, and investment fees are allocated monthly to SAWSO based on the initial investment made by SAWSO and adjusted for additions to and withdrawals from the account. The allocation of investments in Note 4 is based on the initial investment percentage of the commingled account made by SAWSO.

The four territorial headquarters of The Salvation Army in the United States of America made contributions to SAWSO during 2005 and 2004 of approximately \$28,106,000 and \$8,149,000, 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 under the caption "Grants to Affiliates," and amounted to approximately \$10,472,000 and \$8,149,000 during 2005 and 2004, respectively. The affiliates are various 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 Salvation Army Territories in the United States of America that are restricted for international projects.

Employees of SAWSO may participate in a money purchase defined contribution pension plan with Salvation Army corporations. SAWSO recognized pension expense of approximately \$27,800 and \$29,800 during 2005 and 2004, respectively. Such employer contributions are based upon compensation and are paid by SAWSO to The Salvation Army-USA Eastern territory.

The USA National Headquarters of The Salvation Army (NHQ) provided SAWSO with managerial and accounting services for which SAWSO was billed approximately \$4,000 in both 2005 and 2004. SAWSO leased office space from NHQ during 2005 and 2004 for approximately \$19,000 each year. At December 31, 2005 and 2004, SAWSO owed NHQ approximately \$3,800 and \$6,300, respectively, for the above services plus certain other routine services provided in the normal course of operations. SAWSO expects to continue to use NHQ services and office space for an indefinite period of time.

The Salvation Army World Service Office

Notes to Financial Statements
December 31, 2005 and 2004

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>2005</u>	<u>2004</u>
Relief and Reconstruction Activities		
Tsunami Relief	\$ 21,743,676	\$ -
Western Hemisphere	171,694	201,289
Mexico	343,778	343,778
Pakistan Earthquake	<u>122,170</u>	<u>-</u>
Total	<u>\$ 22,381,318</u>	<u>\$ 545,067</u>

All of the contributions received that were restricted to the Tsunami relief effort are maintained as temporarily restricted net assets until they are directly expensed for the Tsunami relief.

Supplementary Information

The Salvation Army World Service Office

**Schedule of Indirect Cost Rate Calculation
For the Year Ended December 31, 2005**

Management and General Supporting Services per Financial Statements	\$	578,849
Less Contributed Services/Office Space		<u>(169,639)</u>
Allocable Management and General Supporting Services	("A") \$	<u>409,210</u>
Total Program Services Expenses per Financial Statements	\$	18,233,678
Less Grants to Affiliates		(10,472,192)
Less Construction Supplies - Tsunami Projects		<u>(3,297,233)</u>
Net Program Services Expenses	("B") \$	<u>4,464,253</u>
Indirect Cost Rate ("A" Divided by "B")		<u>9.17%</u>

See accompanying Note to Supplementary Schedules.

The Salvation Army World Service Office

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2005**

<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 Pass-Through from World Vision Zambia - RAPIDS	690-A-00-04-00251-03	\$ 342,622
U.S. Agency for International Development Tanzania/Uganda PEPFAR	GPO-A-00-05-00018-00	<u>379,015</u>
Total Major Programs Awards Expenditures		721,637
Other Federal Awards		
U.S. Agency for International Development Child Survival - South Africa	HFP-A-100-000-1206	743,451
U.S. Agency for International Development Pass - Through from Pact Headquarters HIV/AIDS – Malawi	GPH-A-00-01-00007-00	78,119
U.S. Agency for International Development Haiti – OVC	GPO-A-00-04-00023-00	49,982
U.S. Agency for International Development Child Survival – Zambia	GHS-A-00-05-00033-00	23,385
U.S. Agency for International Development Malawi DAP	AS-00-04-00066-00	201,221
U.S. Agency for International Development Pass-Through from World Vision Angola Polio Awareness	HRN-A-00-98-00053-19	42,519
U.S. Agency for International Development Malawi IFRP	FFP-G-00-05-00090-00	54,585
U.S. Agency for International Development Haiti/Nigeria ABY	GPO-A-00-05-00008-00	<u>37,240</u>
Total Expenditures of Federal Awards		\$ <u>1,952,139</u>

See accompanying Note to Supplementary Schedules.

The Salvation Army World Service Office

Note to Supplementary Schedules For the Year Ended December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Federal Awards

The Salvation Army World Service Office (SAWSO) is required to comply with the provisions of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (the "Circular"). In accordance with the Circular, SAWSO is required to prepare a schedule of expenditures of federal awards either directly or indirectly through other organizations. All expenditures of federal awards identified by SAWSO have been included in the accompanying schedules, and the related awards were received from the federal grantor or pass-through grantor as indicated.

Basis of Accounting

The accompanying supplementary schedules were prepared using the accrual basis of accounting. Expenses are recognized as incurred using the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*. Under those cost principles, certain types of expenses are not allowable or limited as to reimbursement. Moreover, expenses include a portion of costs associated with general activities (indirect costs) that are allocated to federal awards under negotiated formulas referred to as indirect cost rates. Revenue is recognized in amounts equal to direct costs incurred and related recoverable indirect costs.



**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 as of and for the year ended December 31, 2005, and have issued our report thereon dated May 30, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*.

The Board of Trustees
The Salvation Army World Service Office

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
May 30, 2006

Certified Public Accountants



**Report on Compliance With Requirements Applicable to 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 compliance of The Salvation Army World Service Office with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. 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.

In our opinion, The Salvation Army World Service Office complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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
May 30, 2006

Certified Public Accountants

The Salvation Army World Service Office

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2005**

Summary of Auditors' Results

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

5. Identification of major programs:

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Agreement Number</u>	<u>Total Federal Expenditures</u>
U.S. Agency for International Development Pass-Through from World Vision Zambia - RAPIDS	690-A-00-04-00251-03	\$ 342,622
U.S. Agency for International Development Tanzania/Uganda PEPFAR	GPO-A-00-05-00018-00	379,015

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