

THE SALVATION ARMY WORLD SERVICE OFFICE

ALEXANDRIA, VIRGINIA

OMB CIRCULAR A-133 FINANCIAL REPORT

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The Salvation Army World Service Office
OMB Circular A-133 Financial Report
For the Years Ended December 31, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 9, 2010, 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 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
June 9, 2010

Certified Public Accountants

The Salvation Army World Service Office

Statement of Financial Position
December 31, 2009
(With Comparative Totals As of December 31, 2008)

	Unrestricted			Temporarily Restricted	2009 Total	2008 Total
	Operating	Board Designated	Total			
Assets						
Cash and Cash Equivalents	\$ 1,062,526	\$ -	\$ 1,062,526	\$ 325,909	\$ 1,388,435	\$ 838,864
Investments	9,053,332	500,000	9,553,332	11,500,000	21,053,332	18,692,565
Grants Receivable	1,201,714	-	1,201,714	-	1,201,714	1,239,400
Assets Held Under Split-Interest Agreement	-	-	-	32,082	32,082	32,082
Other Receivables	531,365	-	531,365	-	531,365	785,713
Project Advances	1,212,129	-	1,212,129	-	1,212,129	1,093,168
Prepaid Expenses	7,734	-	7,734	-	7,734	-
Total Assets	\$ 13,068,800	\$ 500,000	\$ 13,568,800	\$ 11,857,991	\$ 25,426,791	\$ 22,681,792
Liabilities and Net Assets						
Liabilities						
Accounts Payable and Accrued Expenses	\$ 229,571	\$ -	\$ 229,571	\$ -	\$ 229,571	\$ 236,699
Amounts Due to Projects	2,719,637	-	2,719,637	-	2,719,637	2,476,578
Deferred Revenue	238,224	-	238,224	-	238,224	129,001
Total Liabilities	3,187,432	-	3,187,432	-	3,187,432	2,842,278
Net Assets						
Unrestricted	9,881,368	500,000	10,381,368	-	10,381,368	7,341,844
Temporarily Restricted	-	-	-	11,857,991	11,857,991	12,497,670
Total Net Assets	9,881,368	500,000	10,381,368	11,857,991	22,239,359	19,839,514
Total Liabilities and Net Assets	\$ 13,068,800	\$ 500,000	\$ 13,568,800	\$ 11,857,991	\$ 25,426,791	\$ 22,681,792

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Financial Position
December 31, 2008

	Unrestricted			Temporarily Restricted	2008 Total
	Operating	Board Designated	Total		
Assets					
Cash and Cash Equivalents	\$ 773,276	\$ -	\$ 773,276	\$ 65,588	\$ 838,864
Investments	5,792,565	500,000	6,292,565	12,400,000	18,692,565
Grants Receivable	1,239,400	-	1,239,400	-	1,239,400
Assets Held Under Split-Interest Agreement	-	-	-	32,082	32,082
Other Receivables	785,713	-	785,713	-	785,713
Project Advances	1,093,168	-	1,093,168	-	1,093,168
Total Assets	\$ 9,684,122	\$ 500,000	\$ 10,184,122	\$ 12,497,670	\$ 22,681,792
Liabilities and Net Assets					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 236,699	\$ -	\$ 236,699	\$ -	\$ 236,699
Amounts Due to Projects	2,476,578	-	2,476,578	-	2,476,578
Deferred Revenue	129,001	-	129,001	-	129,001
Total Liabilities	2,842,278	-	2,842,278	-	2,842,278
Net Assets					
Unrestricted	6,841,844	500,000	7,341,844	-	7,341,844
Temporarily Restricted	-	-	-	12,497,670	12,497,670
Total Net Assets	6,841,844	500,000	7,341,844	12,497,670	19,839,514
Total Liabilities and Net Assets	\$ 9,684,122	\$ 500,000	\$ 10,184,122	\$ 12,497,670	\$ 22,681,792

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Activities
For the Year Ended December 31, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	Unrestricted			Temporarily Restricted	2009 Total	2008 Total
	Operating	Board Designated	Total			
Support and Revenue						
Public Support						
Received Directly						
Contributions	\$ 912,229	\$ -	\$ 912,229	\$ 5,023	\$ 917,252	\$ 739,450
Legacies and Bequests	20,000	-	20,000	-	20,000	-
Contributed Services/Office Space	62,058	-	62,058	-	62,058	82,744
Total Received Directly	994,287	-	994,287	5,023	999,310	822,194
Received Indirectly						
Allocated by Federated Fund-Raising Organizations	564,987	-	564,987	-	564,987	655,291
Contributions from Salvation Army Territories	18,021,017	-	18,021,017	222,678	18,243,695	25,467,986
Total Public Support	19,580,291	-	19,580,291	227,701	19,807,992	26,945,471
Grants from Governmental Agencies	3,990,361	-	3,990,361	-	3,990,361	4,050,363
Investment Income						
Dividends and Interest, Net of Fees	664,411	-	664,411	9,164	673,575	912,498
Realized Losses on Sales of Investments	(2,759,508)	-	(2,759,508)	(38,061)	(2,797,569)	(724,131)
Unrealized Gains (Losses) on Value of Investments	5,027,501	-	5,027,501	69,343	5,096,844	(5,257,917)
Total Investment Income (Loss)	2,932,404	-	2,932,404	40,446	2,972,850	(5,069,550)
Total Support and Revenue	26,503,056	-	26,503,056	268,147	26,771,203	25,926,284
Net Assets Released from Restrictions	907,826	-	907,826	(907,826)	-	-
Total	27,410,882	-	27,410,882	(639,679)	26,771,203	25,926,284
Expenses						
Program Services						
Health Services	3,829,470	-	3,829,470	-	3,829,470	4,015,202
Community Development	478,641	-	478,641	-	478,641	564,170
Micro Enterprise	266,267	-	266,267	-	266,267	292,114
Relief and Reconstruction Services	18,944,498	-	18,944,498	-	18,944,498	30,264,043
Total Program Services	23,518,876	-	23,518,876	-	23,518,876	35,135,529
Management and General	852,482	-	852,482	-	852,482	828,154
Total Expenses	24,371,358	-	24,371,358	-	24,371,358	35,963,683
Changes in Net Assets	3,039,524	-	3,039,524	(639,679)	2,399,845	(10,037,399)
Net Assets, Beginning of Year	6,841,844	500,000	7,341,844	12,497,670	19,839,514	29,876,913
Net Assets, End of Year	<u>\$ 9,881,368</u>	<u>\$ 500,000</u>	<u>\$ 10,381,368</u>	<u>\$ 11,857,991</u>	<u>\$ 22,239,359</u>	<u>\$ 19,839,514</u>

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Statement of Activities
For the Year Ended December 31, 2008

	Unrestricted			Temporarily Restricted	2008 Total
	Operating	Board Designated	Total		
Support and Revenue					
Public Support					
Received Directly					
Contributions	\$ 437,165	\$ -	\$ 437,165	\$ 302,285	\$ 739,450
Legacies and Bequests	-	-	-	-	-
Contributed Services/Office Space	82,744	-	82,744	-	82,744
Total Received Directly	519,909	-	519,909	302,285	822,194
Received Indirectly					
Allocated by Federated Fund-Raising Organizations	655,291	-	655,291	-	655,291
Contributions from Salvation Army Territories	25,018,088	-	25,018,088	449,898	25,467,986
Total Public Support	26,193,288	-	26,193,288	752,183	26,945,471
Grants from Governmental Agencies	4,050,363	-	4,050,363	-	4,050,363
Investment Income					
Dividends and Interest, Net of Fees	900,816	-	900,816	11,682	912,498
Realized Gains on Sales of Investments	(714,860)	-	(714,860)	(9,271)	(724,131)
Unrealized Gains on Value of Investments	(5,190,604)	-	(5,190,604)	(67,313)	(5,257,917)
Total Investment Income	(5,004,648)	-	(5,004,648)	(64,902)	(5,069,550)
Total Support and Revenue	25,239,003	-	25,239,003	687,281	25,926,284
Net Assets Released from Restrictions	5,331,098	-	5,331,098	(5,331,098)	-
Total	30,570,101	-	30,570,101	(4,643,817)	25,926,284
Expenses					
Program Services					
Health Services	4,015,202	-	4,015,202	-	4,015,202
Community Development	564,170	-	564,170	-	564,170
Micro Enterprise	292,114	-	292,114	-	292,114
Relief and Reconstruction Services	30,264,043	-	30,264,043	-	30,264,043
Total Program Services	35,135,529	-	35,135,529	-	35,135,529
Management and General	828,154	-	828,154	-	828,154
Total Expenses	35,963,683	-	35,963,683	-	35,963,683
Changes in Net Assets	(5,393,582)	-	(5,393,582)	(4,643,817)	(10,037,399)
Net Assets, Beginning of Year	12,235,426	500,000	12,735,426	17,141,487	29,876,913
Net Assets, End of Year	\$ 6,841,844	\$ 500,000	\$ 7,341,844	\$ 12,497,670	\$ 19,839,514

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

**Statement of Functional Expenses
For the Year Ended December 31, 2008**

	Program Services				Total Program Services	Management and General	2008 Total Expenses
	Health Services	Community Development	Micro Enterprise	Relief and Reconstruction Services			
Salaries	\$ 925,418	\$ 190,664	\$ 26,912	\$ 674,315	\$ 1,817,309	\$ 191,331	\$ 2,008,640
Employee Benefits and Payroll Taxes	259,456	43,424	4,683	102,756	410,319	79,360	489,679
Professional Fees	242,981	29,116	77,263	125,541	474,901	326,976	801,877
Travel, Meals, and Transportation	461,294	85,289	15,866	233,331	795,780	21,234	817,014
Occupancy	70,250	7,872	624	83,764	162,510	115,994	278,504
Printing and Publications	107,468	40,542	1,676	12,913	162,599	6,674	169,273
Telephone	54,813	4,253	4,191	17,703	80,960	4,357	85,317
Postage and Shipping	7,631	8,048	1,093	69,063	85,835	4,536	90,371
Equipment	116,727	11,843	31,520	101,476	261,566	16,547	278,113
Office Expense	89,605	14,505	7,777	119,544	231,431	50,363	281,794
Construction Supplies	-	-	-	5,293,654	5,293,654	-	5,293,654
Other Supplies	80,766	79	68,336	14,949	164,130	-	164,130
Conference and Meetings	1,518,374	44,571	34,102	125,952	1,722,999	-	1,722,999
Food and Support	385	-	2,863	240,820	244,068	10,782	254,850
Exchange Loss (Gain)	51,958	2,685	15,208	75,773	145,624	-	145,624
Grants to Affiliates	28,076	81,279	-	22,972,489	23,081,844	-	23,081,844
Total Expenses	\$ 4,015,202	\$ 564,170	\$ 292,114	\$ 30,264,043	\$ 35,135,529	\$ 828,154	\$ 35,963,683

The Salvation Army World Service Office

**Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008**

	2009	2008
Cash Flows from Operating Activities		
Change in Net Assets	\$ 2,399,845	\$ (10,037,399)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
(Gains) Losses on Sales of Investments	2,797,569	724,131
Unrealized (Gains) Losses on Value of Investments	(5,096,844)	5,257,917
<u>(Increase) Decrease in Operating Assets</u>		
Grants Receivable	37,686	(40,399)
Other Receivables	254,348	(379,493)
Project Advances	(118,961)	322,486
Prepaid Expenses	(7,734)	-
<u>Increase (Decrease) in Operating Liabilities</u>		
Accounts Payable and Accrued Expenses	(7,128)	(78,007)
Amounts Due to Projects	243,059	1,090,361
Deferred Revenue	109,223	(682,434)
	611,063	(3,822,837)
Net Cash Provided by (Used in) Operating Activities		
Cash Flows from Investing Activities		
Sales of Investments	12,645,356	10,306,426
Purchases of Investments	(12,706,848)	(8,128,219)
	(61,492)	2,178,207
Net Cash Provided by (Used in) Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	549,571	(1,644,630)
Cash and Cash Equivalents, Beginning of Year	838,864	2,483,494
Cash and Cash Equivalents, End of Year	\$ 1,388,435	\$ 838,864

See accompanying Notes to Financial Statements.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2009 and 2008

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.

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, 2009 and 2008, repurchase agreements amounted to \$1,232,000 and \$1,008,000, respectively.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2009 and 2008

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 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%.

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, 2009 and 2008, 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, 2009 and 2008

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, 2009 and 2008, 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.

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2009 and 2008

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 \$610,000 and \$2,122,000 for the years ended December 31, 2009 and 2008, respectively, are included on the statements of activities under the caption "Contributions from Salvation Army Territories." Costs of these contracts of approximately \$1,476,000 and \$4,339,000 for the years ended December 31, 2009 and 2008, 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.

Office Space

Contributed rent is recorded as revenue and expense in the period rendered based upon their current market values. Contributed rent had a market value of approximately \$62,000 and \$83,000 during the years ended December 31, 2009 and 2008, respectively, and 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.

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, 2009 and 2008

3. CONCENTRATION OF CREDIT RISK

SAWSO maintains its cash in accounts in banks that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Funds held by these banks in excess of the FDIC limit were approximately \$-0- as of December 31, 2009, and \$40,000 as of December 31, 2008.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

SAWSO has categorized its financial instruments based on a three-level fair value hierarchy as follows:

Level 1 - Values are based on quoted prices for identical assets in an active market.

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 market 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
Corporate Bonds and Notes	2,776,244	2,776,244
Mutual Funds - Fixed Income	1,244,874	1,244,874
Equities	<u>11,616,873</u>	<u>11,616,873</u>
Total	<u>\$ 21,053,332</u>	<u>\$ 21,053,332</u>

The Salvation Army World Service Office

**Notes to Financial Statements
December 31, 2009 and 2008**

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investments are stated at market value and consisted of the following at December 31, 2008:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>
Money Funds	\$ 881,109	\$ 881,109
U.S. Government Securities	1,889,723	1,889,723
Corporate Bonds and Notes	3,141,187	3,141,187
Mutual Funds - Equities	2,875,318	2,875,318
Mutual Funds - Bonds	422,500	422,500
Equities	<u>9,482,728</u>	<u>9,482,728</u>
Total	<u>\$ 18,692,565</u>	<u>\$ 18,692,565</u>

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

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

	<u>2009</u>	<u>2008</u>
Dividends and Interest Revenue	\$ 673,575	\$ 912,498
Net Realized and Unrealized Gains (Losses)	<u>2,299,275</u>	<u>(5,982,048)</u>
Total	<u>\$ 2,972,850</u>	<u>\$ (5,069,550)</u>

The Salvation Army World Service Office

Notes to Financial Statements December 31, 2009 and 2008

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 2009 and 2008 of approximately \$18,244,000 and \$25,467,000, 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 \$17,261,000 and \$23,082,000 during 2009 and 2008, 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. Fund-raising expenses for international projects are incurred by The Salvation Army's four territorial headquarters.

Employees of SAWSO may participate in a money purchase defined contribution pension plan with Salvation Army corporations. SAWSO recognized pension expense of approximately \$23,000 and \$32,000 during 2009 and 2008, 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 routine services during 2009 and 2008. At December 31, 2009 and 2008, SAWSO owed NHQ \$-0- and \$1,100, respectively, for the services provided in the normal course of operations. SAWSO expects to continue to use NHQ services for an indefinite period of time.

The Salvation Army World Service Office

Notes to Financial Statements
December 31, 2009 and 2008

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>2009</u>	<u>2008</u>
Relief and Reconstruction Activities		
Tsunami Relief	\$ 9,932,359	\$ 10,840,185
International Relief	1,380,544	1,267,336
Mexico	319,322	278,876
China Earthquake	104,206	-
Western Hemisphere	79,191	79,191
Myanmar Cyclone	9,862	-
Indonesia Earthquake	<u>425</u>	<u>-</u>
Total	<u>\$ 11,825,909</u>	<u>\$ 12,465,588</u>

7. SUBSEQUENT EVENTS

SAWSO has evaluated subsequent events through June 9, 2010, 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, 2009**

Management and General Supporting Services per Financial Statements	\$ 852,482
Less Contributed Services/Office Space	<u>(62,058)</u>
Allocable Management and General Supporting Services	("A") \$ <u>790,424</u>
Total Program Services Expenses per Financial Statements	\$ 23,518,876
Less Grants to Affiliates	(17,261,435)
Less Construction Supplies - Tsunami Projects	<u>(1,123,477)</u>
Net Program Services Expenses	("B") \$ <u>5,133,964</u>
Indirect Cost Rate ("A" Divided by "B")	<u>15.40%</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, 2009**

<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	\$ 2,016,010
U.S. Agency for International Development Pass-Through from World Vision Zambia - RAPIDS	98.690-A-00-04-00251-03	<u>1,069,820</u>
Total Major Programs Awards Expenditures		<u>3,085,830</u>
Other Federal Awards		
U.S. Agency for International Development Pass-Through from Food for Peace Malawi DAP	98.AS-00-04-00066-00	136,976
U.S. Agency for International Development Zambia Child Survival Program	98.GHS-A-00-05-00033-00	235,544
U.S. Agency for International Development Haiti OVC/Palliative Care	98.GPO-A-00-04-00023-00	208,694
U.S. Agency for International Development Haiti/Nigeria ABY	98.GPO-A-00-05-00008-00	88,940
U.S. Agency for International Development Pass-Through from World Vision Angola Polio Awareness	98.HRN-A-00-98-00053-19	151,953
U.S. Agency for International Development DRC IFRP	98.FFP-6-00-07-00098-00	13,447
U.S. Agency for International Development Haiti Champs	98.521-A-00-06-00019-00	22,365
U.S. State Department Pass-Through from World Hope Liberia Anti-Trafficking	19.S-LMAQM-07-GR-223	<u>46,612</u>
Total Other Federal Awards Expenditures		<u>904,531</u>
Total Federal Awards Expenditures		<u>\$ 3,990,361</u>

See accompanying Note to Supplementary Schedules.

The Salvation Army World Service Office

Note to Supplementary Schedules For the Year Ended December 31, 2009

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, 2009, and have issued our report thereon dated June 9, 2010. 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.

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.

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting 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 financial reporting that we consider to be material weaknesses, as defined above.

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*.

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 9, 2010

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, 2009. 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, 2009.

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, 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.

Councilor, Buchanan + Mitchell, P.C.

Bethesda, Maryland
June 9, 2010

Certified Public Accountants

The Salvation Army World Service Office

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009**

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 Tanzania/Uganda PEPFAR	98.GPO-A-00-05-00018-00	\$ 2,016,010
U.S. Agency for International Development Pass-Through from World Vision Zambia - RAPIDS	98.690-A-00-04-00251-03	\$ 1,069,820

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.