

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2021
WITH INDEPENDENT AUDITOR'S REPORTS**



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of The Salvation Army,
a Georgia Corporation

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Operating Fund of The Salvation Army - Waco, Texas Area Command, which comprise the statement of financial position as of September 30, 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Operating Fund of The Salvation Army - Waco, Texas Area Command as of September 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit 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.

As discussed in Note 1, the financial statements present only the Operating Fund of The Salvation Army - Waco, Texas Area Command and do not purport to, and do not, present fairly the financial position of The Salvation Army - Waco, Texas Area Command as a whole or The Salvation Army, a Georgia corporation, as of September 30, 2021, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, on our consideration of the Operating Fund of The Salvation Army - Waco, Texas Area Command'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Operating Fund of The Salvation Army - Waco, Texas Area Command's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Operating Fund of The Salvation Army - Waco, Texas Area Command's internal control over financial reporting and compliance.

BKHM, P.A.

Winter Park, Florida
March 29, 2022

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2021

ASSETS

Current assets:

Cash and cash equivalents	\$ 570,569
Receivables	431,401
Inventory	19,536
Prepays and other current assets	<u>6,275</u>
Total current assets	<u>1,027,781</u>

Equipment:

Vehicles	456,229
Accumulated depreciation	<u>(373,552)</u>
Total equipment, net	<u>82,677</u>
Total assets	<u><u>\$ 1,110,458</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Due to Divisional and Territorial Headquarters	\$ 776,446
Accounts payable and accrued expenses	<u>86,049</u>
Total liabilities	<u>862,495</u>

Net assets:

Without donor restrictions:

Undesignated	203,188
Board designated	<u>1,795</u>
Total without donor restrictions	204,983

With donor restrictions	<u>42,980</u>
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Total net assets	<u>247,963</u>
Total liabilities and net assets	<u><u>\$ 1,110,458</u></u>

See accompanying notes to financial statements.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 2,626,746	\$ 42,980	\$ 2,669,726
United Way	2,129	-	2,129
Fees and grants from government agencies	2,450,233	-	2,450,233
Thrift store sales	477,535	-	477,535
Other income	106,942	-	106,942
Net assets released from restrictions:			
Satisfaction of program restrictions	39,633	(39,633)	-
Total support, revenue and net assets released from restrictions	5,703,218	3,347	5,706,565
Expenses:			
Program services:			
Corps community center services	1,357,000	-	1,357,000
Residential services	2,024,884	-	2,024,884
Other social services	614,381	-	614,381
Thrift store	500,407	-	500,407
Total program services	4,496,672	-	4,496,672
Supporting services:			
Management and general	221,935	-	221,935
Fund raising	357,473	-	357,473
Total supporting services	579,408	-	579,408
Total expenses	5,076,080	-	5,076,080
Change in net assets	627,138	3,347	630,485
Net assets at beginning of year	(422,155)	39,633	(382,522)
Net assets at end of year	<u>\$ 204,983</u>	<u>\$ 42,980</u>	<u>\$ 247,963</u>

See accompanying notes to financial statements.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Program Services				Supporting Services		
	Corps Community Center Services	Residential Services	Other Social Services	Thrift Store	Management and General	Fund Raising	Total
Officers' allowances, employee salaries and benefits	\$ 548,643	\$ 964,958	\$ 144,784	\$ 220,183	\$ 98,172	\$ 239,463	\$ 2,216,203
Contract and professional services	41,785	62,714	2,347	98,676	96,061	10,038	311,621
Supplies	61,978	147,401	7,916	17,947	6,671	8,038	249,951
Telecommunications	16,566	17,818	98	3,222	4,699	2,594	44,997
Postage and shipping	1,110	61	-	-	1,691	26,168	29,030
Occupancy and equipment	136,673	122,584	5,005	51,362	9,470	948	326,042
Printing and publications	3,773	1,484	-	114	1,252	67,469	74,092
Travel and meals	47,940	9,948	35	23,244	3,262	2,545	86,974
Conferences and meetings	1,529	-	-	-	362	-	1,891
Specific assistance to individuals	334,068	465,766	453,922	13,374	-	-	1,267,130
Support services	148,942	230,156	-	68,549	-	-	447,647
Depreciation expense	12,253	-	-	2,968	-	-	15,221
Miscellaneous	1,740	1,994	274	768	295	210	5,281
Total expenses	\$ 1,357,000	\$ 2,024,884	\$ 614,381	\$ 500,407	\$ 221,935	\$ 357,473	\$ 5,076,080

See accompanying notes to financial statements.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 630,485
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation expense	15,221
Changes in assets and liabilities:	
Receivables	(30,679)
Inventory	(3,181)
Prepays and other current assets	6,525
Due to Divisional and Territorial Headquarters	(66,960)
Accounts payable and accrued expenses	<u>43,331</u>
Net cash provided by operating activities	<u>594,742</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of equipment	<u>(63,318)</u>
Net cash used for investing activities	<u>(63,318)</u>
Net increase in cash and cash equivalents	531,424
Cash and cash equivalents at beginning of year	<u>39,145</u>
Cash and cash equivalents at end of year	<u><u>\$ 570,569</u></u>

See accompanying notes to financial statements.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

1 PURPOSE AND ORGANIZATION

The Salvation Army, founded in 1865, is a not-for-profit international religious organization and charitable movement organized and operated on a quasi-military pattern and is a branch of the Christian Church. Its memberships include officers (clergy), soldiers and adherents (laity), members of varied activity groups and volunteers who serve as advisors, associates and committed participants in its service functions.

The Salvation Army is an organization exempt from income taxation under Section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended and is exempt from state income taxes under related state provisions.

The accompanying financial statements are summaries of the financial position, results of operations, net asset classifications and sources and applications of cash of the Operating Fund (the "Fund") of The Salvation Army - Waco, Texas Area Command, an operating unit of the Southern Territory of The Salvation Army.

The Fund operates under the direction of The Salvation Army - Texas Divisional Headquarters in Dallas, Texas, and The Salvation Army - Southern Territorial Headquarters in Atlanta, Georgia. The Fund is used to record the day-to-day operations of the operating unit, including the receipt and use of funds with no external restrictions. The Fund does not include land and buildings and certain other interest-earning assets which are under the legal control and discretion of The Salvation Army, a Georgia corporation.

The Fund's program services include spiritual and social programs for young people and adults, group activities, pastoral counseling, homemaking classes, institutional and family visitation, sports and recreation facilities and educational and music classes. In addition, the Fund's social services center provides emergency financial assistance and counseling to the needy and shelter for local and transient indigent persons and families. The Fund also provides job counseling, pre-trial and pre-release transitional housing and supervision for individuals under the control of the Federal Bureau of Prisons.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the national accounting policies of The Salvation Army. These policies are consistent with accounting principles generally accepted in the United States of America.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

In order to observe restrictions which donors place on grants and other gifts, as well as designations made by the Board of Trustees/Directors, all assets, liabilities and support and revenue are accounted for in the following net asset classifications:

- Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be designated for specific purposes or locations by actions of the Board of Trustees/Directors.
- Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed restrictions that will be fulfilled either by actions of the Fund or the passage of time or that include a stipulation that assets provided be retained and invested permanently while permitting the Fund to use all or part of the investment return on these assets for specified or unspecified purposes.

Cash and Cash Equivalents

For purposes of these statements, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and having original maturities of three months or less.

Cash and cash equivalents in the accompanying statement of financial position include restricted cash of \$42,980 as of September 30, 2021, which must be used as follows:

Utility assistance	\$ 42,980
Total restricted cash	<u>\$ 42,980</u>

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows and are discounted using a credit-adjusted discount rate applicable to the year in which the pledge was made. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is based on management's judgment, including such factors as prior collection history, subsequent collections, creditworthiness of the donor and the nature of the fundraising activity. Contributions receivable are written off when determined to be uncollectible.

Inventory

Inventory for goods purchased for resale is stated at the lower of weighted average cost or net realizable value. Inventory for goods donated for resale, or for program use, is based on estimated fair value.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Property, Equipment, Depreciation and Reserves

All land and buildings used by the Fund, as well as any contributions or reserves established for purchase or replacement of land or buildings, are held in separate funds which are under the legal control and discretion of The Salvation Army, a Georgia corporation. Consequently, these assets are not included in the accompanying financial statements. The Fund has not been assessed a specific fee or rent charge for utilization of these facilities. Rent charges may be assessed for utilization of other facilities from third parties.

Equipment is stated at cost or, if donated, at fair market value at the date of donation. Equipment is capitalized based upon actual cost and depreciated on a straight line basis over three to ten years. As a matter of Salvation Army policy, items costing \$10,000 or more are capitalized and all other items are expensed to occupancy and equipment costs.

Provision is made for estimated major future costs of property maintenance and replacement of vehicles and some equipment by transfer of operating net assets to board designated unrestricted net assets. As of September 30, 2021, cash and cash equivalents include the following, which is board designated to be used for a certain purpose:

Property maintenance reserve	\$ 1,795
	<u>\$ 1,795</u>

The Fund is subject to the provisions of FASB ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*. This standard requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and when the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses. No impairment losses were recognized in fiscal year 2021.

Revenue Recognition

All items of support and revenue are stated on the accrual basis. Support and revenue are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions that are not fulfilled in the accounting period. All expenses are reported as decreases in net assets without donor restrictions.

Contributions subject to donor-imposed restrictions are recorded as revenue with donor restrictions. When the donor-imposed restriction has been fulfilled or the stipulated time period has elapsed, the net assets are reclassified as net assets without donor restrictions and reported as net assets released from restrictions. Contributions with restrictions that are met during the fiscal year in which they are received are recorded as revenue without donor restrictions. Conditional promises to give and intentions to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received for fundraising events are recorded as deferred revenue until the event is held.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

In addition to contributions from the public at large, the Fund also receives certain amounts which are earned or otherwise released from funds held in trust by Southern Territorial Headquarters. These amounts are included in contributions in the accompanying financial statements.

The Fund recognizes revenue from grants and contracts in accordance with Accounting Standards Update 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In accordance with ASU 2018-08, the Fund evaluates whether a transfer of assets is 1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or 2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Fund applies guidance under ASC Topic 606, *Revenue from Contracts with Customers*. If the transfer of assets is determined to be a contribution, the Fund evaluates whether the contribution is conditional based upon whether the agreement includes both 1) one or more barriers that must be overcome before the Fund is entitled to the assets transferred and promised and 2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

Donations-in-kind and Contributed Services

Material donations-in-kind items used in the Fund's programs and services (e.g., vehicle, free rent, equipment, etc.) and donated goods distributed (e.g., clothing, furniture, foodstuffs, etc.) are recorded at their estimated fair value as revenue and expense at the time the items are placed into service or distributed.

Goods donated for sale in Salvation Army adult rehabilitation centers and thrift stores are recorded as contributions and processed donations in kind on the basis of a percentage of sales income determined by appraisal studies.

Contributed services are reported as contributions at their fair value if such services 1) create or enhance non-financial assets, or 2) would typically need to be purchased if not provided by contribution, require specialized skills and are provided by individuals possessing such specialized skills. In addition, the appropriate value of donated services of individuals is recorded as an expense when such services qualify for cost reimbursement from third-party providers.

The Fund has a significant number of volunteers who contribute meaningful amounts of time in furtherance of the Fund's mission. Such contributions do not meet generally accepted accounting criteria for recognition as contributed services and, accordingly, are not recorded in the statement of activities and changes in net assets.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Expenses

All expenses are stated on the accrual basis and presented in the statement of activities and changes in net assets and the statement of functional expenses. Expenses directly attributable to a specific functional category are reported as expenses of those functional categories. Expenses attributable to more than one functional category are allocated across program services and supporting services based on personnel time and actual expenses incurred for the related activities.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Recently Issued Accounting Pronouncement

In September 2020, the FASB issued Accounting Standards Update 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The new standard is effective for the fiscal year ending September 30, 2022 and must be applied retrospectively. Implementation of the new standard will not affect the Fund's financial position, changes in net assets or cash flows.

3 RECEIVABLES

Receivables consist primarily of amounts due under various government grants and contracts. Based on the collectibility of funds from these sources, management believes that an allowance for doubtful accounts is not considered necessary.

4 PENSION, RETIREMENT AND POST-RETIREMENT BENEFIT PLANS

Employee Retirement Program

Eligible employees participate in The Salvation Army's retirement program (the "Program") with other Salvation Army territories which provides for death, disability and retirement benefits. The Program includes a defined benefit plan and a defined contribution, money purchase plan. Annual contributions to the Program are based on a stipulated percentage of employees' salaries. The Fund incurred \$63,711 of expense under this Program in fiscal year 2021.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Officers' Retirement Provision

The Salvation Army has a noncontributory retirement provision for officers, which provides retirement benefits and certain health care and death benefits to retired officers, as defined by Salvation Army policy governing such benefits. The corporate headquarters has total responsibility for the administration of retirement benefits. Retirement allowances are determined based upon active officer allowances and length of service. Provision for these benefits is made principally by annual assessments to all centers of operation, by designated portions of legacy income, by earnings on assets designated for retirement benefits and by special appropriations. Amounts charged to the Fund and included in expenses for this provision were \$8,280 in fiscal year 2021.

5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of September 30, 2021:

Utility assistance	\$ 42,980
Total net assets with donor restrictions	<u>\$ 42,980</u>

6 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors during the fiscal year.

Purpose restriction accomplished:	
Sally's House operations	\$ 27,500
Utility assistance	<u>12,133</u>
Total net assets released from restrictions	<u>\$ 39,633</u>

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

7 LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Fund's financial assets as of September 30, 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of September 30, 2021.

Financial assets at year-end:	
Cash and cash equivalents	\$ 570,569
Receivables	<u>431,401</u>
Total financial assets	<u>1,001,970</u>
Less those unavailable for general expenditures within one year:	
Board designated net assets	(1,795)
Net assets with donor restrictions	<u>(42,980)</u>
Total financial assets unavailable for general expenditures within one year	<u>(44,775)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 957,195</u>

The Fund is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Fund must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year. As part of the Fund's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Fund invests cash in excess of daily requirements in short-term investments. Occasionally, the Board of Trustees/Directors designates a portion of any operating surplus to its liquidity reserve. There is also a fund established by the Board of Trustees/Directors that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the Fund also could draw upon available lines of credit or its quasi-endowment fund.

8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents, receivables, due to Divisional and Territorial Headquarters and accounts payable and accrued expenses. These financial instruments are all stated either at cost or net realizable value, which approximates fair value.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Financial instruments that potentially expose the Fund to concentrations of credit and market risk consist primarily of cash and cash equivalents and receivables. Cash and cash equivalents are maintained at federally insured financial institutions and credit exposure is limited to the amount of deposits at any one institution in excess of the federally insured limit. As of September 30, 2021, the Fund had deposits in a financial institution that exceeded federally insured limits by approximately \$360,000. The Fund has not historically experienced losses as a result of these uninsured balances. Receivables may be due from various government agencies, the United Way, other entities and individuals, therefore, diversifying the related concentration of credit risk. Losses due to collectibility of these receivables have historically been negligible.

9 CONTINGENCIES

Legal Proceedings

The Fund, in the normal course of its operations, is or could become a party to various legal proceedings and complaints, the majority of which are covered by insurance. While it is not feasible to predict the ultimate outcomes of such matters, management is not aware of any claims or contingencies, which are not covered by insurance, that would have a material adverse effect on the financial position, changes in net assets and cash flows of the Fund.

Government Grants and Contracts

Cost-reimbursement grant programs are subject to review by grantor agencies. This review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, management believes that any costs ultimately disallowed would not materially affect the Fund's financial position.

Sick Pay Accrual

Employees of the Fund are entitled to paid sick days depending on length of service and other factors. Unused sick time may roll over to the next year and can be accumulated to a maximum of sixty days; however, unused sick time is not paid upon termination. It is not practicable for the Fund to estimate the amount of compensation for future sick absences; accordingly, no liability has been recorded in the accompanying financial statements. The Fund's policy is to recognize the costs of compensated sick absences when actually paid to employees.

Uncertainty

The extent of the impact and effects of the outbreak of the coronavirus on the Fund's operations will depend on future developments, including the duration and spread of the outbreak, related travel advisories and restrictions and the recovery time of disrupted contributors, all of which are highly uncertain and cannot be predicted. While the Fund's operations have not been significantly impacted due to the virus to date, if the virus causes significant negative impacts to economic conditions, the Fund's operations may be adversely affected.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

10 RELATED PARTY TRANSACTIONS

The Fund, Texas Divisional Headquarters, Southern Territorial Headquarters and other Salvation Army units may hold funds or may pay operating costs on behalf of each other. The balances receivable or payable are presented as amounts due from or due to the related party in the accompanying statement of financial position.

During fiscal year 2021, the Fund recorded income of \$71,466 from trust accounts maintained by and under the legal control and discretion of Southern Territorial Headquarters to assist in the operations of the Fund, including the payment of various liabilities to Texas Divisional Headquarters. This amount is included in the accompanying financial statements as contributions.

During fiscal year 2021, the Fund recorded income of \$30,250 and \$21,750 from Texas Divisional Headquarters and Southern Territorial Headquarters, respectively, in the form of grants. These amounts are included in the accompanying financial statements as other income.

The Fund has HUD-approved management agreements with The Salvation Army - Waco, Texas William Booth Garden Apartments and The Salvation Army - Waco, Texas Catherine Booth Garden Apartments, HUD-subsidized apartment facilities for the elderly. The management fees are computed based on 5% of income of the apartment projects. During fiscal year 2021, the Fund recorded income of \$54,328 from these HUD facilities. This amount is included in the accompanying financial statements as other income.

The Fund is assessed an administrative charge by The Salvation Army - Texas Divisional Headquarters and Southern Territorial Headquarters for support services provided. Support services provided by Divisional and Territorial Headquarters include program, personnel, business and social services. Expenses reflected for these services were \$447,647 in fiscal year 2021.

The Salvation Army provides certain health care and death benefits for active Salvation Army officers and auxiliary-captains through Officers' and Auxiliary-Captain's Sick Benefit and Burial Funds, as defined by the national Salvation Army policy. All active Salvation Army officers and auxiliary-captains and their eligible dependents are eligible for these benefits. Amounts charged to the Fund and included in expenses for this provision were \$17,758 in fiscal year 2021.

Employees of The Salvation Army are provided health benefits under a self-insured program which is administered by a third-party claims administrator. Amounts charged to the Fund and included in expenses for this provision were \$356,215 in fiscal year 2021.

The Salvation Army maintains self-insurance programs for general liability, automobile, workers compensation and property coverage. The programs, which are administered by the Southern Territorial Headquarters, are intended to provide coverage for claims arising in all centers of operation. Amounts charged to the Fund and included in expenses were \$105,508 in fiscal year 2021.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The Fund is assessed an administrative charge by Texas Divisional Headquarters for financial and accounting services provided. Amounts charged to the Fund and included in expenses were \$68,004 in fiscal year 2021. This amount is included in the accompanying financial statements as a component of contract and professional services expense.

11 SUBSEQUENT EVENTS

The Fund has evaluated the need for disclosures and/or adjustments resulting from subsequent events through March 29, 2022, the date the financial statements were available to be issued. During this period, there were no subsequent events that required recognition and/or disclosure in the accompanying financial statements.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Grant Period	Expenditures
United States Department of Justice / Federal Bureau of Prisons / Care and Custody of Federal Inmates Program (contract number 15BRRC19D00000142)	N/A	8/1/19 - 7/31/24	<u>\$ 1,556,513</u>
United States Department of Housing and Urban Development / Continuum of Care Program (Rapid Re-Housing Program)	14.267	12/1/20 - 11/1/21	43,059
United States Department of Housing and Urban Development / Continuum of Care Program (Coordinated Entry Program)	14.267	12/1/20 - 11/1/21	<u>87,792</u>
Total Continuum of Care Programs			<u>130,851</u>
United States Department of Housing and Urban Development / Texas Department of Housing and Community Affairs / Emergency Solutions Grant Program	14.231	11/1/20 - 10/31/21 5/19/20 - 1/31/22 1/14/21 - 3/31/22	131,575 137,094 <u>246,761</u>
Total Emergency Solutions Grant Programs			<u>515,430</u>
United States Department of Housing and Urban Development / City of Waco, Texas / Community Development Block Grant (part of the CDBG - Entitlement Grants Cluster)	14.218	5/1/21 - 9/30/22	<u>35,529</u>
United States Department of Homeland Security / Emergency Food and Shelter National Board Program	97.024	1/1/20 - 10/31/21 1/27/20 - 5/31/21	24,165 <u>10,216</u>
Total Emergency Food and Shelter Programs			<u>34,381</u>
Total expenditures			<u><u>\$ 2,272,704</u></u>

* Represents COVID-19 funds

See accompanying note to schedule of expenditures of federal awards
and independent auditor's report.

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fund and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

For the year ended September 30, 2021, the Fund did not elect to use the 10% de minimis indirect cost rate.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Trustees of The Salvation Army,
a Georgia Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Operating Fund of The Salvation Army - Waco, Texas Area Command (the "Fund"), which comprise the statement of financial position as of September 30, 2021, the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2022.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

PURPOSE OF THIS REPORT

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



Winter Park, Florida
March 29, 2022

**Independent Auditor's Report on Compliance for the Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Trustees of The Salvation Army,
a Georgia Corporation

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM

We have audited the Operating Fund of The Salvation Army - Waco, Texas Area Command's (the "Fund") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended September 30, 2021. The Fund's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on the Major Federal Program

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2021.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

To the Board of Trustees of The Salvation Army,
a Georgia Corporation
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PURPOSE OF THIS REPORT

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

BKM, P.A.

Winter Park, Florida
March 29, 2022

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over the major program:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal program:

<u>Assistance Listing Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
N/A	8/1/19 - 7/31/24	United States Department of Justice / Federal Bureau of Prisons / Care and Custody of Federal Inmates Program

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

Auditee qualified as a low-risk auditee? Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

None

**THE SALVATION ARMY - WACO, TEXAS AREA COMMAND
OPERATING FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV - STATUS OF PRIOR YEAR AUDIT FINDINGS

There were no prior year audit findings.