



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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2014
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 - Houston, Texas Area Command, which comprise the statement of financial position as of September 30, 2014, 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.



To the Board of Trustees of The Salvation Army,
a Georgia Corporation
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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 - Houston, Texas Area Command as of September 30, 2014, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 - Houston, Texas Area Command and do not purport to, and do not, present fairly the financial position of The Salvation Army - Houston, Texas Area Command as a whole or The Salvation Army, a Georgia corporation, as of September 30, 2014, 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.

To the Board of Trustees of The Salvation Army,
a Georgia Corporation
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2015, on our consideration of the Operating Fund of The Salvation Army - Houston, 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 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 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 - Houston, Texas Area Command's internal control over financial reporting and compliance.

BKHM, P.A.

Winter Park, Florida
February 6, 2015

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

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,828,632
Contributions receivable	478,184
Due from Territorial Headquarters	26,426
Due from other Salvation Army units	251,245
Other receivables	449,841
Other current assets	<u>214,710</u>
Total current assets	<u>3,249,038</u>

Equipment:

Vehicles and equipment	2,264,166
Accumulated depreciation	<u>(1,700,351)</u>
Total equipment, net	<u>563,815</u>
Total assets	<u><u>\$ 3,812,853</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:

Due to Divisional Headquarters	\$ 182,507
Accounts payable and accrued expenses	170,435
Deferred revenue	<u>11,815</u>
Total current liabilities	<u>364,757</u>

Net assets:

Unrestricted	2,533,011
Temporarily restricted	<u>915,085</u>
Total net assets	<u>3,448,096</u>
Total liabilities and net assets	<u><u>\$ 3,812,853</u></u>

See accompanying notes to financial statements.

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions	\$ 13,265,524	\$ 1,000	\$ 13,266,524
United Way	1,277,835	478,184	1,756,019
Fees and grants from government agencies	4,362,644	-	4,362,644
Other income	1,785,325	256,875	2,042,200
Net assets released from restrictions:			
Satisfaction of program restrictions	108,704	(108,704)	-
Satisfaction of time restrictions	450,389	(450,389)	-
Total support, revenue and net assets released from restrictions	<u>21,250,421</u>	<u>176,966</u>	<u>21,427,387</u>
Expenses:			
Program services:			
Boys and girls clubs	887,277	-	887,277
Harbor Light Center	2,891,081	-	2,891,081
Family residence	1,375,083	-	1,375,083
Social services	6,451,525	-	6,451,525
Sally's House	1,038,854	-	1,038,854
Aldine/Westfield Corps	1,023,612	-	1,023,612
Conroe Corps	1,358,200	-	1,358,200
Houston Temple Corps	946,004	-	946,004
Pasadena Corps	1,025,846	-	1,025,846
Northwest Corps	915,645	-	915,645
International Corps	610,313	-	610,313
Total program services	<u>18,523,440</u>	<u>-</u>	<u>18,523,440</u>
Supporting services:			
Management and general	1,182,334	-	1,182,334
Fund raising	1,671,170	-	1,671,170
Total supporting services	<u>2,853,504</u>	<u>-</u>	<u>2,853,504</u>
Total expenses	<u>21,376,944</u>	<u>-</u>	<u>21,376,944</u>
Change in net assets	(126,523)	176,966	50,443
Net assets at beginning of year	<u>2,659,534</u>	<u>738,119</u>	<u>3,397,653</u>
Net assets at end of year	<u>\$ 2,533,011</u>	<u>\$ 915,085</u>	<u>\$ 3,448,096</u>

See accompanying notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	PROGRAM SERVICES						
	BOYS AND GIRLS CLUBS	HARBOR LIGHT CENTER	FAMILY RESIDENCE	SOCIAL SERVICES	SALLY'S HOUSE	ALDINE/ WESTFIELD CORPS	CONROE CORPS
Officers' allowances, employee salaries and benefits	\$ 381,009	\$ 1,192,143	\$ 777,733	\$ 1,581,234	\$ 592,030	\$ 510,167	\$ 417,046
Contract and professional services	18,432	10,355	6,530	24,170	6,388	27,728	8,477
Supplies	46,237	98,951	123,792	36,992	99,357	61,598	54,399
Telecommunications	10,566	24,090	25,685	18,354	14,760	16,483	14,619
Postage and shipping	2,745	2,253	1,166	1,609	1,160	241	21,063
Occupancy and equipment	74,593	480,872	253,045	434,610	181,187	161,843	139,773
Printing and publications	1,951	3,535	2,505	5,841	1,435	1,396	47,096
Travel and meals	35,234	103,002	7,099	18,855	5,813	76,227	42,073
Conferences and meetings	128,461	9,826	467	23,882	187	28,843	8,935
Specific assistance to individuals	84,506	579,294	60,511	3,843,076	22,262	23,599	403,935
Support services	96,346	363,844	115,035	461,042	110,490	104,269	185,665
Miscellaneous	4,552	1,633	1,515	1,860	1,140	2,873	1,020
Depreciation expense	2,645	21,283	-	-	2,645	8,345	14,099
Total expenses	\$ 887,277	\$ 2,891,081	\$ 1,375,083	\$ 6,451,525	\$ 1,038,854	\$ 1,023,612	\$ 1,358,200

See accompanying notes to financial statements.

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

**STATEMENT OF FUNCTIONAL EXPENSES
(continued)**

	PROGRAM SERVICES				SUPPORTING SERVICES		TOTAL
	HOUSTON TEMPLE CORPS	PASADENA CORPS	NORTHWEST CORPS	INTER- NATIONAL CORPS	MANAGEMENT AND GENERAL	FUND RAISING	
Officers' allowances, employee salaries and benefits	\$ 517,445	\$ 443,941	\$ 462,325	\$ 256,888	\$ 766,596	\$ 218,692	\$ 8,117,249
Contract and professional services	10,178	11,459	15,613	3,848	33,253	15,766	192,197
Supplies	67,657	121,133	49,506	40,601	65,754	57,187	923,164
Telecommunications	16,626	17,092	15,379	9,858	42,728	8,572	234,812
Postage and shipping	725	1,887	2,242	1,787	4,896	285,698	327,472
Occupancy and equipment	109,659	148,055	162,569	139,188	128,564	27,630	2,441,588
Printing and publications	1,433	2,033	5,647	2,714	3,985	930,814	1,010,385
Travel and meals	82,975	75,621	40,433	36,486	68,318	2,910	595,046
Conferences and meetings	9,929	8,334	36,600	13,340	27,333	112,316	408,453
Specific assistance to individuals	23,212	85,905	33,962	30,375	-	-	5,190,637
Support services	100,350	98,275	81,066	68,019	-	-	1,784,401
Miscellaneous	3,170	11,026	10,303	4,046	12,515	11,585	67,238
Depreciation expense	2,645	1,085	-	3,163	28,392	-	84,302
Total expenses	\$ 946,004	\$ 1,025,846	\$ 915,645	\$ 610,313	\$ 1,182,334	\$ 1,671,170	\$ 21,376,944

See accompanying notes to financial statements.

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 50,443
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation expense	84,302
Gain on disposal of equipment	(32,557)
Changes in assets and liabilities:	
Contributions receivable	(27,795)
Due from Territorial Headquarters	(26,426)
Due from other Salvation Army units	(251,245)
Other receivables	392,855
Other assets	20,296
Due to Divisional Headquarters	128,729
Accounts payable and accrued expenses	33,318
Deferred revenue	11,815
Net cash provided by operating activities	<u>383,735</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of equipment	45,198
Purchase of vehicles	<u>(462,818)</u>
Net cash used for investing activities	<u>(417,620)</u>
Net decrease in cash and cash equivalents	(33,885)
Cash and cash equivalents at beginning of year	<u>1,862,517</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,828,632</u></u>

See accompanying notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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 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 - Houston, Texas Area Command (the "Command"). The Command is a local unit of The Salvation Army, a Georgia corporation. The Command 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 Command, 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 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. Accordingly, no provision for federal or state income taxes is included in the accompanying financial statements.

The Command's program services include the following:

Social Services - Provides emergency financial assistance and counseling to families and individuals in need who, because of illness, unemployment or disaster, are temporarily unable to meet their own needs.

Aldine/Westfield, Conroe, Pasadena and Temple Corps/Community Centers and International and Northwest Community Centers - Operating units providing spiritual and social programs for young people and adults, group activities, pastoral counseling, homemaking classes, institutional and family visitation, sports and recreation facilities, educational and music classes and meals for senior citizens.

Boys and Girls Clubs - Five operating clubs, which provide recreational facilities, senior citizens feeding programs and related services.

Harbor Light Center - A shelter for local and transient indigent men and a home and recovery center for individuals with alcohol and drug abuse problems. The center also offers job counseling to program participants.

**THE SALVATION ARMY - HOUSTON, TEXAS AREA COMMAND
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Family Residence - Provides transitional housing and a total care program for women, children and families during emergencies such as fire, eviction, illness, unemployment, spouse abuse or desertion.

Sally's House - Provides transitional housing and total care for women during emergencies such as fire, eviction, illness, unemployment, spouse abuse or desertion.

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 has adopted the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-605, *Contributions Received* ("ASC 958-605"), and FASB ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements* ("ASC 958-205"). ASC 958-605 requires that contributions received, including unconditional promises to give, be recognized as increases in net assets in the period received at their fair value. ASC 958-205 establishes the standards for external financial reporting for not-for-profit organizations, which includes a statement of financial position, a statement of activities, a statement of functional expenses and a statement of cash flows. It requires the classification of resources into three classes of net assets based on the absence or existence of donor-imposed restrictions.

In order to observe restrictions which donors place on contributions 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:

- Unrestricted net assets - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Trustees/Directors.
- Temporarily restricted net assets - subject to donor-imposed stipulations that may be fulfilled by actions of The Salvation Army to meet the stipulations or become unrestricted at the date specified by the donor.
- Permanently restricted net assets - subject to donor-imposed stipulations that they be retained and invested permanently by The Salvation Army. The donors require the Fund to use all or part of the investment return on these net assets for specified or unspecified purposes.

**THE SALVATION ARMY - HOUSTON, TEXAS AREA COMMAND
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

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 have original maturities of three months or less.

Cash and cash equivalents in the accompanying statement of financial position include restricted cash in the amount of \$180,026 that must be used for Boys and Girls Club scholarships.

Contributions receivable

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 fair value based on the present value of their estimated future cash flows and are discounted at the rate applicable to the year in which the contribution was made. Conditional contributions receivable are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Property, equipment, depreciation and reserves

All land and buildings used by the Command, 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, 2014, cash and cash equivalents include the following, which are board designated to be used for certain purposes:

Vehicle replacement reserve	\$ 104,576
	<u>\$ 104,576</u>

**THE SALVATION ARMY - HOUSTON, TEXAS AREA COMMAND
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

The Command is subject to the provisions of ASC 360-10-35, *Impairment or Disposal of Long-Lived Assets*. The 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 during the year ended September 30, 2014.

Support and revenue

All items of support and revenue are stated on the accrual basis. Contributions subject to donor-imposed restrictions are recorded as temporarily restricted support and are reclassified as unrestricted when the donor-imposed restriction has been fulfilled or the stipulated time period has elapsed. Contributions with restrictions that are met during the fiscal year are recorded as unrestricted support. Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions that are not fulfilled in the accounting period. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. All expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, that is, the expiration of the donor-imposed stipulated purpose or the elapsing of the specified time period, are reported as net assets released from restrictions.

Contributions receivable that are scheduled to be received after the end of the reporting period are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restriction is met. Contributions receivable subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

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.

Donations-in-kind and contributed services

Material donations-in-kind items used in The Salvation Army 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.

Contributed equipment is recorded at fair value at the date of donation as unrestricted support and revenue unless the use of such contributed assets is restricted by a donor-imposed restriction.

**THE SALVATION ARMY - HOUSTON, TEXAS AREA COMMAND
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

Contributed services are reported as contributions at their fair value if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. 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.

Unpaid volunteers have made significant contributions of time to the Command. The value of this contributed time is not reflected in the accompanying statements since it does not create or enhance non-financial assets or require specialized skills.

Expenses

All expenses are stated on the accrual basis and are presented in the statement of activities and changes in net assets and the statement of functional expenses. Allocations of expenses to program services and supporting services are estimated 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.

3 CONTRIBUTIONS RECEIVABLE AND OTHER RECEIVABLES

Contributions receivable are recorded at net realizable value in the accompanying financial statements since they are expected to be collected within one year. Total contributions receivable of \$478,184 from the United Way have been included in the accompanying statement of financial position.

Other 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.

**THE SALVATION ARMY - HOUSTON, TEXAS AREA COMMAND
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

4 PENSION, RETIREMENT AND POST-RETIREMENT BENEFIT PLANS

Employee pension plan

Eligible employees of the Command participate in The Salvation Army Pension Plan (the "Plan") with other Salvation Army territories, which provides for death, disability and retirement benefits. The Plan is a defined contribution, money purchase plan. Annual contributions to the Plan are based on a stipulated percentage (5.25% in fiscal year 2014) of eligible employees' salaries. The Fund incurred \$203,133 of expense under the Plan in fiscal year 2014.

Officers' retirement and other post-retirement benefits provisions

The Salvation Army has a noncontributory retirement provision for officers, which provides retirement benefits, as defined by Salvation Army policy governing such benefits. Retirement allowances are determined based upon active officer allowances and length of service. Amounts charged to the Fund and included in expenses for this plan were \$41,500 in fiscal year 2014.

The Salvation Army also provides certain health care and death benefits for retired Salvation Army officers as part of the retirement provision for officers. The Salvation Army also provides a housing and furnishings allowance at the time of retirement. All Salvation Army officers and their eligible dependents are eligible for these benefits, as defined by Salvation Army policy. Provision for these benefits is made in a manner similar to that for officers' retirement benefits. Amounts charged to the Fund and included in expenses for this plan were \$99,124 in fiscal year 2014.

5 EMPLOYEE MEDICAL PLAN

Employees of The Salvation Army are provided health benefits under a self-insured program which is administered by a third-party claims administrator. The employee medical plan is funded by assessments made to all centers of operation which in turn assess the programs of the unit based on premium rates for all employees eligible for participation and by earnings on the designated assets of the plan maintained by the Southern Territorial Headquarters of The Salvation Army. Amounts charged to the Fund and included in expenses for this plan were \$981,930 in fiscal year 2014.

**THE SALVATION ARMY - HOUSTON, TEXAS AREA COMMAND
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**NOTES TO FINANCIAL STATEMENTS
(continued)**

6 INSURANCE

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 of The Salvation Army are intended to provide coverage for claims arising in all centers of operation. Funding for these programs is obtained through assessments to all centers of operation which in turn assess the programs of the unit for each line of coverage and through earnings on assets designated by the Southern Territorial Headquarters of The Salvation Army to pay claims. Amounts charged to the Fund and included in expenses were \$486,942 in fiscal year 2014.

7 NET ASSET CLASSIFICATIONS

Temporarily restricted net assets are available for the following purposes or periods:

Periods after September 30, 2014:	
General operating support	\$ 478,184
Angel Tree distribution center	200,000
Boys and Girls Club scholarships	180,026
Angel Tree toys	40,000
Youth camp scholarships	<u>16,875</u>
Total temporarily restricted net assets	<u>\$ 915,085</u>

8 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:	
Purchase of a canteen	\$ 100,000
Youth program salary assistance	8,704
Time restriction elapsed:	
United Way allocation	<u>450,389</u>
Total net assets released from restrictions	<u>\$ 559,093</u>

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

9 RELATED PARTY TRANSACTIONS

The Fund is assessed an administrative charge by Texas Divisional Headquarters for support services provided by Texas Divisional Headquarters and Southern Territorial Headquarters to the Fund. Support services provided include program, personnel, business and social services. These charges are reflected as support services in the accompanying statement of functional expenses.

Due from Territorial Headquarters included in the accompanying financial statements represent trust account withdrawals approved prior to year-end. These amounts totaled approximately \$43,000 and are offset by approximately \$17,000 in insurance costs and other fees due to Territorial Headquarters.

Due from other Salvation Army units included in the accompanying financial statements represent grants from The Salvation Army Women's Auxiliary to be used in various programs of the Command, including Christmas toys, Christmas distribution center and youth camp scholarships.

During the year ended September 30, 2014, the Command recorded income of approximately \$840,000 from trust accounts maintained by and under the legal control and discretion of Southern Territorial Headquarters to assist in the payment of various liabilities to Divisional Headquarters and external vendors. These amounts are included in the accompanying financial statements as contributions.

During the year ended September 30, 2014, the Command received approximately \$62,000 from Divisional and Territorial Headquarters in the form of grants. This amount is included in the accompanying financial statements as other income.

The Command has HUD-approved management agreements with The Salvation Army - Houston, Texas William Booth Garden Apartments ("WB-HUD") and The Salvation Army - Houston, Texas Evangeline Booth Garden Apartments ("EB-HUD"), HUD-subsidized apartment facilities for the elderly, which are related parties. The management agreements are administered by the Command. The management fee is computed based on 12% of residential income collected, not to exceed \$36.60 per unit per month. In addition, the agreement provides for a fee of 6% of miscellaneous income. Compensation to the Command totaled approximately \$29,000 from WB-HUD and approximately \$10,000 from EB-HUD in fiscal year 2014. These amounts are included in the accompanying financial statements as other income.

The Fund makes lease payments on behalf of The Salvation Army, a Georgia Corporation, who has leased buildings and certain other equipment which are used by the Command. Lease payments made on behalf of The Salvation Army, a Georgia Corporation, totaled approximately \$128,000 and are included in the accompanying financial statements as occupancy and equipment.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

10 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Command's financial instruments consist of cash and cash equivalents, contributions receivable, due from Territorial Headquarters, due from other Salvation Army units, other receivables, due to Divisional Headquarters and accounts payable and accrued expenses. All financial instruments are stated either at cost or net realizable value, which approximates fair value.

Financial instruments that potentially expose the Command 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, 2014, the Command had cash balances on deposit with federally insured financial institutions which exceeded federally insured limits by approximately \$1,349,000. The Command 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 uncollectibility of these receivables have historically been negligible.

11 FAIR VALUE MEASUREMENTS

The Command has adopted ASC subtopic 820-10-65, which delayed the effective date of ASC 820 for all nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

The Command has adopted Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*, to amend ASC 820, *Fair Value Measurements and Disclosure*. ASU 2010-06 requires additional disclosures for the amounts and reasons for significant transfers in and out of fair value measurements hierarchies. ASU 2010-06 also requires information about purchases, sales, issuances and settlements for Level 3 fair value measurements to be presented separately.

The Command recorded certain assets at their fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.

Level 2: Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets;
- b. Quoted prices for identical or similar assets in markets that are not active;
- c. Observable inputs other than quoted prices for the asset or liability;
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Inputs that are unobservable and significant to the overall fair value measurement of the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value of short-term financial instruments, including cash and cash equivalents, contributions receivable, due from Territorial Headquarters, due from other Salvation Army units, other receivables, due to Divisional Headquarters and accounts payable and accrued expenses, approximate the carrying value in the accompanying financial statements due to the short maturity of such instruments.

12 CONTINGENCIES

In the normal course of conducting its business and programs, the Command occasionally becomes party to various legal actions and proceedings. While outside counsel cannot predict the outcome of such litigation, management does not expect the outcome to have a material effect upon the financial position or the results of operations of the Command.

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

**NOTES TO FINANCIAL STATEMENTS
(continued)**

13 SUBSEQUENT EVENTS

ASC 855 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The Command has evaluated all subsequent events through February 6, 2015, which is the date the financial statements were available to be issued.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant Period	Expenditures
United States Department of Housing and Urban Development / Child Care Council of Greater Houston / Emergency Solutions Grant Program	14.231	3/1/13 - 2/28/15	\$ 521,883
United States Department of Housing and Urban Development / Texas Department of Housing and Community Affairs / Fort Bend County Women's Center / Emergency Solutions Grant Program	14.231	10/1/12 - 9/30/13 4/15/13 - 10/30/14	72,715
United States Department of Housing and Urban Development / Texas Department of Housing and Community Affairs / Service of the Emergency Aid Resource Center for the Homeless / Emergency Solutions Grant Program	14.231	10/1/13 - 9/30/14	148,775
United States Department of Housing and Urban Development / Harris County Community Services Department / Emergency Solutions Grant Program	14.231	3/1/13 - 2/28/15	<u>187,093</u>
Total Emergency Solutions Grant Program			<u>930,466</u>
United States Department of Housing and Urban Development / Supportive Housing Program	14.235	8/1/12 - 7/31/13 8/1/13 - 7/31/14	364,333
United States Department of Housing and Urban Development / Office of Community Planning and Development / Supportive Housing Program	14.235	2/1/13 - 1/31/15	<u>222,243</u>
Total Supportive Housing Program			<u>586,576</u>
United States Department of Homeland Security / Emergency Food and Shelter National Board Program	97.024	10/1/13 - 4/30/14	167,318

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

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(continued)**

Federal or State Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant Period	Expenditures
United States Department of Agriculture / Texas Health and Human Services Commission / Child and Adult Care Food Program	10.558	10/1/13 - 9/30/14	81,185
United States Department of Justice / Office of Juvenile Justice and Delinquency Prevention / Boys and Girls Club of America / Youth Mentoring Programs	16.726	10/1/13 - 9/30/14	14,931
United States Department of Justice / State of Texas Criminal Justice Division / Gang-Free Schools - Community-Based Gang Intervention	16.544	9/1/13 - 8/31/14	8,298
United States Veterans Health Administration / Residential and Rehabilitative Services	64.024	4/1/13 - 3/31/14 4/1/14 - 3/31/15	973,125
United States Department of Veterans Affairs / Supportive Services for Veteran Families	64.033	10/1/13 - 9/30/14	1,044,581
United States Department of Education / Upward Bound Program	84.047	9/1/13 - 8/31/14	270,955
United States Department of Health and Human Services / Area Agency on Aging / Senior Nutrition Program	93.045	10/1/13 - 9/30/14	<u>184,870</u>
Total Expenditures			<u><u>\$ 4,262,305</u></u>

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

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

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Command and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**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 - Houston, Texas Area Command (the "Command"), which comprise the statement of financial position as of September 30, 2014, 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 February 6, 2015.

Internal Control Over Financial Reporting

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



To the Board of Trustees of The Salvation Army,
a Georgia Corporation
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Command's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

BKHM, P.A.

Winter Park, Florida
February 6, 2015

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Operating Fund of The Salvation Army - Houston, Texas Area Command's (the "Command") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Command's major federal programs for the year ended September 30, 2014. The Command's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Command's major federal programs 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 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 Command's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



Opinion on Each Major Federal Program

In our opinion, the Command complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of the Command 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 Command's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Command'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKHM, P.A.

Winter Park, Florida
February 6, 2015

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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 major programs:	
• 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 major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
10.558	10/1/13 – 9/30/14	United States Department of Agriculture / Texas Health and Human Services Commission / Child and Adult Care Food Program
64.033	10/1/13 – 9/30/14	United States Department of Veterans Affairs / Supportive Services for Veteran Families

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

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

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

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Year Audit Findings

There were no prior year audit findings.