



**The Salvation Army - National Capital
and Virginia Division**
A Division of The Salvation Army -
Southern Territory, a Georgia Corporation

Financial Statements
Years Ended September 30, 2018 and 2017

The Salvation Army - National Capital and Virginia Division

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Independent Auditor's Report

The Divisional Finance Board
The Salvation Army - National Capital and Virginia Division
Washington, D.C.

We have audited the accompanying financial statements of The Salvation Army - National Capital and Virginia Division (the "Division"), which comprise the divisional statements of financial position as of September 30, 2018 and 2017, and the related divisional schedules of support, revenue and expenses and divisional statements of functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Division'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 qualified audit opinion.



Basis for Qualified Opinion

The Division excluded activities not under the direction of the Division from the financial statements referred to above, including certain accounts receivable, investments, certain real property and donor restricted activities. Also excluded are the statements of cash flows. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the omission of the information described the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Salvation Army - National Capital and Virginia Division as of September 30, 2018 and 2017, and the results of its operations - the unrestricted general operating position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements were prepared for the purpose of presenting the operating results of the Division and is not intended to be a complete financial statement presentation of the Division. As discussed in Note 1 to the financial statements, certain Division activities are controlled by The Salvation Army - Southern Territory. The financial statements of The Salvation Army - Southern Territory should be read in conjunction with the financial statements of the Division. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary schedules of support, revenues and expenses included 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

March 29, 2019

Financial Statements

The Salvation Army - National Capital and Virginia Division

Divisional Statements of Financial Position

<i>September 30,</i>	Unrestricted General Operating Position	
	2018	2017
Assets		
Cash and cash equivalents	\$ 4,294,905	\$ 4,253,387
Accounts receivable, net of allowance for doubtful accounts of \$0	1,767,193	2,065,951
Inventory	152,961	124,238
Prepaid expenses and deferred charges	115,173	252,088
Amounts on deposit at territorial headquarters	2,101,249	2,420,703
Furniture, fixtures, and equipment, net	1,920,089	2,011,273
Total Assets	\$ 10,351,570	\$ 11,127,640
Liabilities		
Accounts payable and accrued expenses	\$ 3,879,253	\$ 4,335,746
Refundable advances	528,459	486,572
Mortgages and notes payable	1,027,218	1,063,646
Total Liabilities	5,434,930	5,885,964
Net Assets		
Unrestricted	4,916,640	5,241,676
Total Liabilities and Net Assets	\$ 10,351,570	\$ 11,127,640

See accompanying notes to financial statements.

The Salvation Army - National Capital and Virginia Division

Divisional Schedules of Support, Revenues and Expenses

<i>Year ended September 30,</i>	Unrestricted General Operating Position	
	2018	2017
Support and Revenue		
Public support:		
Received directly:		
Contributions	\$ 41,508,142	\$ 38,930,654
Donations in kind and contributed services	14,714,483	16,130,786
Special events	928,827	789,812
Total received directly	57,151,452	55,851,252
Received indirectly:		
Allocated by federated fund-raising organizations	1,199,142	1,413,050
Total received indirectly	1,199,142	1,413,050
Total Public Support	58,350,594	57,264,302
Fees and grants from government agencies	6,555,223	5,918,675
Program service fees	2,633,528	2,953,878
Sales to public	2,955,376	3,340,124
Allocation of earnings on amounts held at territorial headquarters	47,197	128,950
Gain on sale of equipment	20,562	84,178
Total Support and Revenue	70,562,480	69,690,107
Expenses		
Program services:		
Corps community center	15,022,072	16,310,752
Residential and institutional	8,600,854	8,052,780
Other social services	32,144,774	31,788,984
Total program services	55,767,700	56,152,516
Supporting services:		
Management and general	7,976,411	7,924,834
Fundraising	7,143,405	7,022,856
Total supporting services	15,119,816	14,947,690
Total Expenses	70,887,516	71,100,206
Change in Net Assets	(325,036)	(1,410,099)
Net Assets at beginning of year	5,241,676	6,651,775
Net Assets at end of year	\$ 4,916,640	\$ 5,241,676

See accompanying notes to financial statements.

The Salvation Army - National Capital and Virginia Division

Divisional Statements of Functional Expenses

<i>Year ended September 30, 2018</i>	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund Raising	Total Supporting Services	Total Expenses
Salaries and officer allowances	\$ 5,466,139	\$ 4,059,589	\$ 5,473,993	\$ 14,999,721	\$ 3,753,873	\$ 2,954,296	\$ 6,708,169	\$ 21,707,890
Officer and employee benefits	1,797,933	713,696	948,501	3,460,130	789,938	311,835	1,101,773	4,561,903
Payroll taxes	349,879	352,782	460,089	1,162,750	359,349	256,815	616,164	1,778,914
Professional fees	594,239	455,424	366,522	1,416,185	524,387	164,533	688,920	2,105,105
Supplies	660,976	690,099	548,814	1,899,889	324,081	114,578	438,659	2,338,548
Telecommunication	205,375	62,035	137,925	405,335	90,039	38,004	128,043	533,378
Postage and shipping	31,020	2,845	14,731	48,596	31,699	319,378	351,077	399,673
Occupancy	2,942,108	1,685,325	2,356,969	6,984,402	1,030,863	63,325	1,094,188	8,078,590
Furnishings and equipment	769,541	181,002	288,291	1,238,834	405,356	121,179	526,535	1,765,369
Printing and publications	74,141	14,199	95,987	184,327	47,636	2,650,344	2,697,980	2,882,307
Travel, meals, and transportation	777,725	51,984	236,550	1,066,259	338,560	99,381	437,941	1,504,200
Conference, meetings, and major trips	521,901	8,012	20,702	550,615	195,219	31,625	226,844	777,459
Specific assistance to individuals	-	305,477	19,420,203	19,725,680	-	-	-	19,725,680
Organizational dues	29,115	2,100	6,444	37,659	16,429	9,317	25,746	63,405
Awards and grants	126,700	1,984	51,400	180,084	64,965	5,661	70,626	250,710
Miscellaneous	461,334	14,301	998,530	1,474,165	4,017	3,134	7,151	1,481,316
Support services - programs	213,946	-	719,123	933,069	-	-	-	933,069
Total Expenses	\$ 15,022,072	\$ 8,600,854	\$ 32,144,774	\$ 55,767,700	\$ 7,976,411	\$ 7,143,405	\$ 15,119,816	\$ 70,887,516

<i>Year ended September 30, 2017</i>	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund Raising	Total Supporting Services	Total Expenses
Salaries and officer allowances	\$ 5,460,341	\$ 3,849,908	\$ 5,894,908	\$ 15,205,157	\$ 3,590,728	\$ 3,067,746	\$ 6,658,474	\$ 21,863,631
Officer and employee benefits	1,858,831	877,464	1,374,487	4,110,782	958,438	343,083	1,301,521	5,412,303
Payroll taxes	342,864	345,195	512,023	1,200,082	367,898	262,455	630,353	1,830,435
Professional fees	701,577	401,723	396,547	1,499,847	571,084	110,744	681,828	2,181,675
Supplies	767,263	424,057	546,189	1,737,509	338,473	150,153	488,626	2,226,135
Telecommunication	223,205	68,211	140,813	432,229	92,390	38,037	130,427	562,656
Postage and shipping	28,003	1,969	5,669	35,641	31,911	215,572	247,483	283,124
Occupancy	2,986,501	1,359,223	2,178,165	6,523,889	952,042	51,208	1,003,250	7,527,139
Furnishings and equipment	853,136	128,194	376,149	1,357,479	419,952	119,246	539,198	1,896,677
Printing and publications	84,641	8,769	108,026	201,436	19,203	2,514,185	2,533,388	2,734,824
Travel, meals, and transportation	759,806	90,588	183,594	1,033,988	279,446	103,081	382,527	1,416,515
Conference, meetings, and major trips	645,554	25,289	55,581	726,424	192,353	37,795	230,148	956,572
Specific assistance to individuals	-	454,747	19,652,329	20,107,076	-	-	-	20,107,076
Organizational dues	37,939	2,250	6,878	47,067	22,532	5,861	28,393	75,460
Awards and grants	94,995	1,090	37,229	133,314	55,366	3,690	59,056	192,370
Miscellaneous	479,262	14,103	259,737	753,102	33,018	-	33,018	786,120
Support services - programs	986,834	-	60,660	1,047,494	-	-	-	1,047,494
Total Expenses	\$ 16,310,752	\$ 8,052,780	\$ 31,788,984	\$ 56,152,516	\$ 7,924,834	\$ 7,022,856	\$ 14,947,690	\$ 71,100,206

See accompanying notes to financial statements.

The Salvation Army - National Capital and Virginia Division

Notes to Financial Statements

1. Purpose of 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 include programs and operations of the National Capital and Virginia Division (the Division), a division of The Salvation Army - Southern Territory ("Territorial Headquarters" or "Southern Territory"). The National Capital and Virginia Division is located in the mid-Atlantic region of the United States and consists of 32 operating units (corps) and three Service Centers (Outposts) situated in the Commonwealth of Virginia and the greater Washington DC metropolitan area. The Salvation Army National Capital and Virginia Divisional Headquarters is located in Washington, DC. The Southern Territory is incorporated in the state of Georgia, with the Territorial Headquarters located in Atlanta, GA. The financial statements of the Division include certain accounts receivable, investments, certain real property and donor restricted activities which are under the control of Territorial Headquarters. As a result, material balances of the Division have not been included as required under accounting principles generally accepted in the United States. All intercompany accounts and transactions have been eliminated.

The Southern Territory 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 Division operates a variety of programs in the communities it serves including: corps community centers that provide spiritual, educational, and recreational services; homeless and emergency shelters; children's day care centers; adult rehabilitation and substance abuse centers; emergency disaster services; assistance for the poor, disabled, and retired; summer camp programs; jail and hospital visitation.

2. Significant Accounting Policies

General - 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 with the exception of the exclusion of certain assets, liabilities and revenue and expense activities.

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

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.

The Salvation Army - National Capital and Virginia Division

Notes to Financial Statements

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.

Accounts Receivable, Net

Accounts receivable consists of contributions receivable and grants receivable and are recorded at the amounts due and do not bear interest. If applicable, the Division determines the allowance for doubtful accounts based on the composition of the receivable balances, historical collections, and loss experience.

Inventory

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

Amounts on Deposit at Territorial Headquarters

While certain balances have been excluded from the Divisional financial statements, Territorial Headquarters has the responsibility for the investment activity for all units within the territory, including board designated assets, the temporarily restricted assets, and permanently restricted assets. All investments, including the temporarily restricted assets and permanently restricted asset portfolios are maintained on a pooled "mutual fund" accounting basis with the total earnings, investment expenses, appreciation and depreciation, whether realized or unrealized, being allocated to each participating account on a pro rata basis. Amounts reflected on the statements of financial position as amounts on deposit at Territorial Headquarters are invested in accordance with this policy. The investment portfolio at Territorial Headquarters does not represent a significant concentration of the market risk as the investment portfolio is diversified among various issuers. However, any significant change in the financial markets could affect the values of the amounts held at Territorial Headquarters.

Income earned on unrestricted assets is distributed to the constituent accounts on the basis of a stated percentage of the monthly account balances during the year. Amounts so deposited may be withdrawn when required for use by the local units in the Division.

Investment income and net appreciation (depreciation) on investments of donor endowments, whether permanently or temporarily restricted are reported as follows:

As decreases in unrestricted net assets when there are losses that reduce the fair value of the assets of endowment funds below the required level and as increases in unrestricted net assets when there are gains that restore the fair value of the assets of endowment funds to the required level.

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 support when the donor-imposed restriction has been fulfilled or the stipulated time

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Notes to Financial Statements

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 amounts held at Territorial Headquarters 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. The expiration of the donor-imposed stipulated purpose or the elapsing of the specified time period, are reported as reclassifications of net assets.

Donations in Kind and Contributed Services

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

Goods donated for sale in Salvation Army 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 land, buildings and equipment are 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 Division does not imply a time restriction on contributions of long-lived assets.

Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets, would have been purchased if not provided by contribution, or 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.

Expenses

All expenses are stated on the accrual basis and presented in the accompanying Divisional Schedules of Support, Revenue and Expenses and the Divisional Statements of Functional Expenses.

Depreciation

Depreciation is provided on furniture, fixtures and equipment on a straight-line basis based on estimated service lives ranging from 4 to 50 years. A full year of depreciation is charged in the year of acquisition or completion of construction. No depreciation is charged in the year of disposition.

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.

Cost reimbursement grant programs are subject to independent audit under the Uniform Guidance and review by grantor agencies. These audits and reviews could result in the disallowance of

The Salvation Army - National Capital and Virginia Division

Notes to Financial Statements

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 Division's financial position.

3. Amounts on Deposit at Territorial Headquarters

Salvation Army policy requires that the investment of assets for all centers of operation may be made only through the corporate portfolio under the administration of the Board of Trustees of the Southern Territory of The Salvation Army. Assets that are restricted by donors for use in a center of operation are invested on a pooled mutual fund basis and receive total net rate of return. These invested assets are reflected as amounts on deposit at Territorial Headquarters in the financial statements.

Assets which are remitted for investment by a center of operation or are designated for the use of a center of operation, receive various fixed rates of interest as determined by the Board of Trustees of The Southern Territory of The Salvation Army. These assets are reflected as amounts on deposit at territorial headquarters on the accompanying statements of financial positions.

4. Furniture, Fixtures and Equipment, Net

Furniture, fixtures and equipment, net is comprised of the following as of:

<i>September 30,</i>	2018	2017
Vehicles	\$ 4,054,330	\$ 3,580,394
Furniture, fixtures and equipment	3,483,600	3,884,552
Total furniture, fixtures and equipment	7,537,930	7,464,946
Less: accumulated depreciation	(5,617,841)	(5,453,673)
Furniture, fixtures and equipment, net	\$ 1,920,089	\$ 2,011,273

Depreciation expense totaled \$619,476 and \$604,908 for the years ended September 30, 2018 and 2017, respectively.

5. Pension, Retirement, and Post-Retirement Benefit Plans

Employee Pension Plan

Eligible employees participate in The Salvation Army Pension Plan with other Salvation Army territories which provides for death, disability and retirement benefits. The Employee Pension Plan is a defined benefit, money purchase plan.

Quarterly contributions to the Plan are based on 5.25% of employees' salaries. The Division incurred \$646,503 and \$1,049,298 of expense under this plan in fiscal year 2018 and 2017, respectively.

The Southern Territory 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.

The Salvation Army - National Capital and Virginia Division

Notes to Financial Statements

The Southern Territory also provides certain health care and death benefits for retired Salvation Army Officers as part of the retirement provision for officers. The Southern Territory 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.

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 division and included in expenses for this provision were \$307,853 and \$328,009 in fiscal year 2018 and 2017, respectively.

6. Mortgages and Notes Payable

Mortgages and payable include the following:

<i>September 30,</i>	2018	2017
Mortgage payable to a bank with monthly payments of \$9,824 through November 2028, with an approximate effective interest rate of 2.18% at September 30, 2018	\$ 1,027,218	\$ 1,063,646

Interest expense was \$25,626 and \$5,117 in fiscal year 2018 and 2017, respectively.

At September 30, 2018, the amounts due on mortgages and notes payable are as follows:

<i>Year ending September 30,</i>	Amount
2019	\$ 117,885
2020	117,885
2021	117,885
2022	117,885
2023	117,885
2024 and thereafter	437,793
Total	\$ 1,027,218

7. Endowments

The Southern Territory, which has sole authority for the receipt management and investment of all endowment funds credited to units in the Southern Territory. The endowment fund credited to the Southern Territory in the Division consists of 117 individual funds. Its endowment includes 63 donor-restricted endowment funds and 54 funds designated by the Board of Trustees as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Salvation Army - National Capital and Virginia Division

Notes to Financial Statements

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Acts ("UPMIFA") as enacted by the State of Georgia applies to all the institutional funds of the Southern Territory unless the donor has specifically directed otherwise. The Board of Trustees interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor restrictions to the contrary. As a result of this interpretation, the Board of Trustees classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purpose of the organization and the donor-restricted endowment fund.
- General economic conditions.
- The possible effects of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the organization.
- The investment policies of the organization.

The Board of Trustees considers the effect of inflation and deflation on the original gift value from the effective date of UPMIFA, July 1, 2008, or the gift date, whichever is later. Endowment funds are appropriated as of the date of disbursement from the invested asset.

Spending Policy

The responsibility for investment of all institutional funds in the Southern Territory is solely the responsibility of the Board of Trustees of the Southern Territory. The spending policy and how the investment objectives relate to the spending policy, which is applicable to the endowments herewith presented, are stated as follows:

The Southern Territory has a policy of allocating an amount available for appropriation for spending each year equal to the weighted average of the prior-year's spending allocation adjusted for inflation plus a percentage of the endowment fund's fair value at the calendar year-end preceding the fiscal year in which the appropriation is planned. The prior year's spending allocation is weighted at 60% and the percentage of the fund's fair value is weighted at 40%. The percentage of the fund's fair value varies in a band from 0% to 7%, depending on the ratio of the fund's fair value to the purchasing power of the endowment gifts as measured by changes in CPI-U. The median percentage is 4%, and the minimum and maximum of the band are reached at 50% and 200% ratios of the fund's fair value to the endowment gift's(s') purchasing power, respectively. With long-term real growth expected through investment returns, the expected long-term average percentage rate is 4.5%. Accordingly, over the long-term, the Southern Territory expects the current spending policy to allow its endowments to maintain or grow the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts.

The Salvation Army - National Capital and Virginia Division

Notes to Financial Statements

Return Objectives and Risk Parameters

The responsibility for investment of all institutional funds in the Southern Territory is solely the responsibility of the Board of Trustees of the Southern Territory. The return objectives and risk parameters applicable to the endowments herewith presented are as follows:

The Southern Territory has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without putting the assets at imprudent risk.

Strategies Employed for Achieving Objectives

The responsibility for investment of all institutional funds in the Southern Territory is solely the responsibility of the Board of Trustees of the Southern Territory. The strategies employed for achieving objectives applicable to the endowments herewith presented are as follows:

To satisfy its long-term objectives, the Southern Territory relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Southern Territory targets a diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

8. Fair Value of Financial Instruments

The Division's financial instruments approximate fair value due to their relatively short maturities, or the materiality impact of their rates. Such amounts consist of cash and cash equivalents, accounts receivable, amounts on deposit at Territorial Headquarters, accounts payable and accrued expenses, refundable advances, and mortgages and notes payable. All other financial instruments are stated either at cost or net realizable value, which approximates fair value.

Financial instruments that potentially expose the Division to concentrations of credit and market risk consist primarily of cash and cash equivalents, accounts receivables, and amounts on deposit at Territorial Headquarters. 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. Accounts receivables are due from a large number of government agencies, entities as well as individuals, therefore, diversifying the related concentration of credit risk. Pledges receivable are due from individuals, corporations and foundations that are concentrated in certain cities within the Division. The Division's amounts on deposit at Territorial Headquarters do not represent significant concentrations of market risk as the Southern Territory's investment portfolio is diversified among issuers.

The Salvation Army - National Capital and Virginia Division

Notes to Financial Statements

9. Contingencies and Commitments

Litigation

The Division is a defendant in certain lawsuits arising in the normal course of operations. While outside counsel cannot predict the outcome of such litigation, management does not expect the outcome to have a material effect upon the changes of net assets or the results of operations of the Division.

10. Related-Party Transactions

The Division is assessed an administrative charge by the Southern Territory for support services. Support services provided by the Southern Territory include program, personnel, business and social services. Expenses reflected for these services amounted to \$902,382 and \$1,004,273 for the years ended September 30, 2018 and 2017, respectively.

The Salvation Army provides certain health care and death benefits for active Salvation Army Officers and Auxiliary-Captains through Officers' and Auxiliary-Captains' 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 benefits. The amount charged to the Division and included in expenses for this provision was \$739,080 and \$674,845 in fiscal year 2018 and 2017, respectively.

Employees of The Salvation Army are provided health benefits under a self-insured program which is administered by a third-party claims administrator. The amount charged to the Division and included in expenses was \$2,800,603 and \$3,291,131 in fiscal year 2018 and 2017, respectively.

The Southern Territory maintains self-insurance programs for general liability, automobile, workers' compensation and property coverage. The programs are intended to provide coverage for claims arising in all centers of operation. The amount charged to the Division and included in expenses was \$1,651,320 and \$1,642,720 in fiscal year 2018 and 2017, respectively.

11. Subsequent Events

The Division has evaluated the need for disclosures and/or adjustments resulting from subsequent events through March 29, 2019, 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 financial statements.

Supplementary Information

The Salvation Army - National Capital Virginia Division

Schedules of Support, Revenue and Expenses for the Central Virginia Area Command

<i>Year ended September 30,</i>	Unrestricted General Operating Position	
	2018	2017
Support and Revenue		
Public support		
Received directly:		
Contributions	\$ 3,182,632	\$ 3,178,172
Donations in kind and contributed services	1,382,690	1,335,711
Special events	59,699	39,911
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Total received directly	4,625,021	4,553,794
Received indirectly:		
Allocated by federated fund-raising organizations	223,024	249,192
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Total received indirectly	223,024	249,192
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Total Public Support	4,848,045	4,802,986
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Fees and grants from government agencies	116,606	161,223
Program service fees	104,741	105,256
Sales to public	165	1,306
Allocation of earnings on amounts held at territorial headquarters	2,714	858
Gain on sale of equipment	-	-
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Total revenues	224,226	268,643
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Total Support and Revenue	\$ 5,072,271	\$ 5,071,629
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Expenses		
Salaries and officer allowances	\$ 1,487,422	\$ 1,476,100
Officer and employee benefits	324,647	377,973
Payroll taxes	125,564	128,226
Professional fees	115,463	122,853
Supplies	93,313	99,194
Telecommunications	39,430	47,567
Postage and shipping	91,055	42,383
Occupancy	331,295	392,491
Furnishings and equipment	60,361	51,417
Printing and publications	188,402	174,151
Travel, meals and transportation	99,487	67,138
Conferences, meetings and major trips	28,676	39,599
Specific assistance to individuals	1,487,492	1,444,520
Organization dues	3,606	7,623
Awards and grants	12,364	10,735
Miscellaneous expenses	100,226	101,269
Support service and state wide to divisional headquarters	418,123	431,503
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Total expenses before depreciation	5,006,926	5,014,742
Depreciation	19,528	34,322
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Total Expenses	\$ 5,026,454	\$ 5,049,064