

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND

(A unit of The Salvation Army, a Georgia Corporation)

FINANCIAL STATEMENTS
Year Ended September 30, 2014

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
(A unit of The Salvation Army, a Georgia Corporation)

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MEMBER OF
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Salvation Army, A Georgia Corporation

We have audited the accompanying financial statements The Salvation Army Daytona Beach Operating Fund (the "Operating Fund"), a unit of The Salvation Army, a Georgia corporation, which comprise the statement of financial position as of September 30, 2014 and the related statements of activities, 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.

Auditors' 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 Salvation Army Daytona Beach Operating Fund 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

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 and State Financial Assistance, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 215.97, Florida Statutes, and Chapter 10.650; *Rules of the Auditor General* 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015, on our consideration of The Salvation Army Daytona Beach Operating Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Salvation Army Daytona Beach Operating Fund's internal control over financial reporting and compliance.

James Knutzen & Associates

James Knutzen & Associates, C.P.A.'s, P.A.
Jacksonville, Florida
February 27, 2015

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
(A unit of The Salvation Army, A Georgia Corporation)

STATEMENT OF FINANCIAL POSITION

September 30, 2014

ASSETS

Current Assets:	
Cash and cash equivalents (Note 2b)	\$ 227,527
Accounts receivable, contract	108,608
Accounts receivable, other	<u>2,297</u>
Total Current Assets	<u>338,432</u>
Auto and property reserves (Note 2g)	103,719
Vehicles, less accumulated depreciation	31,065
Other assets	<u>13,925</u>
Total Assets	<u>\$ 487,141</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable, related party (Note 9)	\$ 256,654
Accounts payable, trade	58,481
Accrued payroll	52,758
Deferred revenue	<u>3,854</u>
Total Current Liabilities	<u>371,747</u>
Total Liabilities	<u>371,747</u>
Net Assets:	
Unrestricted	11,142
Unrestricted, board designated (Note 2g)	103,719
Temporarily restricted (Note 4)	<u>533</u>
Total Net Assets	<u>115,394</u>
Total Liabilities and Net Assets	<u>\$ 487,141</u>

See Notes to Financial Statements.

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
(A unit of The Salvation Army, a Georgia Corporation)

STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Contributions	\$ 1,458,463	\$ 73,312	\$ 1,531,775
Government contracts	1,436,067	-	1,436,067
Donations in-kind	392,033	-	392,033
Special events	2,318	-	2,318
Federated fund raising organizations	62,883	-	62,883
Program service fees	38,971	-	38,971
Thrift store	403,329	-	403,329
Other income	4,043	-	4,043
	<u>3,798,107</u>	<u>73,312</u>	<u>3,871,419</u>
Net assets released from restrictions	<u>72,779</u>	<u>(72,779)</u>	<u>-</u>
Total Public Support and Revenue	3,870,886	533	3,871,419
Expenses			
Program Services:			
Social Services	2,932,301	-	2,932,301
Drug treatment program	494,296	-	494,296
Total program expenses	3,426,597	-	3,426,597
Management and general	277,815	-	277,815
Fund raising	241,361	-	241,361
Total supporting services expenses	519,176	-	519,176
Total Expenses	<u>3,945,773</u>	<u>-</u>	<u>3,945,773</u>
Changes in Net Assets	<u>(74,887)</u>	<u>533</u>	<u>(74,354)</u>
Net Assets at Beginning of Year	<u>189,748</u>	<u>-</u>	<u>189,748</u>
Net Assets at End of Year	<u>\$ 114,861</u>	<u>\$ 533</u>	<u>\$ 115,394</u>

See Notes to Financial Statements.

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
(A unit of The Salvation Army, a Georgia Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2014

	<u>Social</u> <u>Services</u>	<u>Corrections</u> <u>Program</u>	<u>Total</u> <u>Program</u> <u>Services</u>	<u>Management</u> <u>and</u> <u>General</u>	<u>Fund</u> <u>Raising</u>	<u>Total</u> <u>Supporting</u> <u>Services</u>	<u>Total</u> <u>Expenses</u>
Salaries and officer allowances	\$ 634,507	\$ 196,524	\$ 831,031	\$ 168,534	\$ 55,818	\$ 224,352	\$ 1,055,383
Employee and officer benefits	161,188	41,183	202,371	37,345	-	37,345	239,716
Payroll taxes	56,910	20,782	77,692	14,831	7,006	21,837	99,529
Professional fees	24,054	7,131	31,185	13,737	1,753	15,490	46,675
Office expenses	39,472	2,948	42,420	5,245	2,042	7,287	49,707
Telephone	21,246	3,939	25,185	1,248	561	1,809	26,994
Postage and shipping	5,323	474	5,797	320	51,190	51,510	57,307
Program supplies	161,404	88,138	249,542	966	226	1,192	250,734
Occupancy	437,075	53,704	490,779	27,860	7,219	35,079	525,858
Furnishings and equipment	93,765	3,624	97,389	3,619	953	4,572	101,961
Printing and publications	5,782	908	6,690	130	113,084	113,214	119,904
Travel, meals, and transportation	50,400	4,878	55,278	3,980	132	4,112	59,390
Conferences, meetings and trips	27,256	-	27,256	-	-	-	27,256
Specific assistance to individuals	817,878	-	817,878	-	-	-	817,878
Organization dues	195	-	195	-	300	300	495
Awards and grants	34,576	-	34,576	-	-	-	34,576
Miscellaneous	15,557	281	15,838	-	1,077	1,077	16,915
Support services	326,377	69,782	396,159	-	-	-	396,159
Depreciation	19,336	-	19,336	-	-	-	19,336
Total Expenses	<u>\$ 2,932,301</u>	<u>\$ 494,296</u>	<u>\$ 3,426,597</u>	<u>\$ 277,815</u>	<u>\$ 241,361</u>	<u>\$ 519,176</u>	<u>\$ 3,945,773</u>

See Notes to Financial Statements.

THE SALVATION ARMY
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STATEMENT OF CASH FLOWS

For The Year Ended September 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ (74,354)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation expense	19,336
Changes in Operating Assets and Liabilities:	
Decrease in accounts receivable	31,600
Increase in other assets and reserves	(27,800)
Increase in accounts payable	119,112
Increase in accrued expenses	12,185
Increase in deferred revenue	<u>3,048</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>83,127</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>83,127</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>144,400</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 227,527</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during year	
Interest expense	<u>\$ -</u>

See Notes to Financial Statements.

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
(A unit of The Salvation Army, a Georgia Corporation)

NOTES TO FINANCIAL STATEMENTS
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 membership includes 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 Salvation Army Daytona Beach Operating Fund (the "Operating Fund"), a unit of The Salvation Army, a Georgia corporation. The Operating Fund does not include investments, land and buildings.

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

The Salvation Army operates a variety of programs including corps community centers that provide spiritual, educational, and recreational services; homeless and emergency shelters; senior citizens' residences, children's homes, children's day care centers; adult rehabilitation centers and substance abuse centers; emergency disaster services; assistance for the poor, disabled, and retired; jail and hospital visitation; camping activities. The Salvation Army Daytona Beach Operating Fund's major sources of revenue are contributions, United Way, and governmental grants and contracts.

2. Significant Accounting Policies

a. 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.

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
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NOTES TO FINANCIAL STATEMENTS
September 30, 2014
(continued)

2. Significant Accounting Policies (continued)

In order to observe restrictions which donors place on grants and other gifts, all assets, liabilities, and activities 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 Salvation Army to use all or part of the investment return on these net assets for specified or unspecified purposes.

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. 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 reclassifications of net assets.

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.

b. Cash and Cash Equivalents

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

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
(A unit of The Salvation Army, a Georgia Corporation)

NOTES TO FINANCIAL STATEMENTS
September 30, 2014
(continued)

2. Significant Accounting Policies (continued)

c. Equipment

Equipment and vehicles are stated at cost or, if donated, at fair market value at the date of donation.

d. Revenue and Support

All items revenue and support are stated on the accrual basis, including revenues receivable as reimbursements for incurred costs from governmental units and other third party payers.

- i. Contributions with donor imposed restrictions that are met in the same accounting period are recorded as unrestricted income at the time of receipt.
- ii. Contributions of temporarily restricted long-lived assets are assumed to be temporarily restricted over the specified period of the restriction.

e. Donations-In-Kind and Contributed Services

Material gifts-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, and foodstuffs, etc.) are recorded as income 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 create or enhance nonfinancial assets, would have been 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 SALVATION ARMY
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NOTES TO FINANCIAL STATEMENTS
September 30, 2014

(continued)

2. Summary of Significant Accounting Policies (continued)

f. Expenses

All expenses are stated on the accrual basis and presented in a functionalized statement.

g. Depreciation

Depreciation is provided on vehicles and equipment at straight-line rates based on estimated service life. A half year of depreciation is charged in the year of acquisition. A half year of depreciation is charged in the year of disposition. Accumulated depreciation totals \$254,300 as of September 30, 2014.

Depreciation is also provided on equipment used in cost-reimbursement programs that provide for reimbursement of depreciation by a third party payer.

Provision is made for 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.

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

i. Allowance for Uncollectible Accounts

Receivables are stated at their estimated realizable value. No allowance for uncollectible accounts is maintained and accounts are written off as they are deemed uncollectible.

3. Pension Plan and Retirement and Post-Retirement Benefits Provisions

a. 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 contribution, money purchase plan.

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
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NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(continued)

a. Employee Pension Plan (continued)

Annual contributions to the Plan are based on a stipulated percentage of employees' salaries. The Salvation Army Daytona Beach Operating Fund incurred \$34,171 of expense under this plan in fiscal year 2014.

b. Officers' Retirement Provision

The Salvation Army has a 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 from legacy income, by earnings on assets designated for retirement benefits, and by special appropriations. Amounts charged to the unit and included in expenses for this provision were \$6,000.

4. Net Asset Classifications

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

Utility assistance	<u>\$ 533</u>
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5. Net Assets Released from Restrictions

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

Utility assistance	\$ 64,979
Camp	4,550
Assistance for specific geographic areas	2,250
Assistance for veterans	<u>1,000</u>
	<u>\$ 72,779</u>

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
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NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(continued)

6. Property and Equipment

The Salvation Army Daytona Beach Operating Fund uses buildings and equipment owed by other units of the Salvation Army.

7. Concentrations

Approximately 97% of the Daytona Beach Non-Secure Drug Treatment Program's funding is provided from two contracts with the Florida Department of Corrections.

Approximately 50% of accounts receivable are due from the Florida Department of Corrections and approximately 38% of accounts receivable are due from the U.S. Veterans Administration.

The organization maintains accounts at one FDIC insured bank and deposits are insured up to \$250,000. The Salvation Army Daytona Beach Operating Fund deposits exceed the insured limit by \$11,171 as of September 30, 2014.

8. Subsequent Events

In preparing these financial statements, the organization has evaluated events and transactions for potential recognition or disclosure through February 27, 2015, the date the financial statements were available to be issued.

9. Related Party Transactions

The Salvation Army Daytona Beach Operating Fund is assessed an administrative charge by The Salvation Army Florida Divisional Headquarters for support services provided by the Florida Divisional Headquarters and the Southern Territorial Headquarters to the Operating Fund. Support services provided by Divisional and Territorial Headquarters include program, personnel, business, and social services. Expenses reflected for these services were \$396,159 in fiscal 2014.

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 these benefits. Amounts charged to the Operating Fund and included in expenses for this plan were \$15,048 in fiscal 2014.

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND
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NOTES TO FINANCIAL STATEMENTS

September 30, 2014

(continued)

9. Related Party Transactions (continued)

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 Daytona Beach Operating Fund and included in expenses were \$182,837 in fiscal 2014.

The Salvation Army maintains self-insurance programs for general liability, automobile, workers compensation and property coverage. The programs which are administered by Territorial Headquarters are intended to provide coverage for claims arising in all centers of operation. Amounts charged to the Daytona Beach Operating Fund and included in expenses were \$83,852 in fiscal 2014.

The Operating Fund received \$340,046 in fiscal year 2014 from funds held by Territorial Headquarters for operations which is reflected as contributions in the accompanying financial statements.

The Daytona Beach Operating Fund owes Divisional Headquarters \$127,268 as of September 30, 2014 and owes Territorial Headquarters \$129,386 as of September 30, 2014.

JAMES KNUTZEN & ASSOCIATES
C.P.A.'s, P.A.

THE SALVATION ARMY
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SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE FINANCIAL ASSISTANCE

For The Year Ended September 30, 2014

<u>Federal/State Agency, Pass-through Entity, Federal Program/State Project</u>	<u>Contract Period</u>	<u>CFDA CSFA Number</u>	<u>Contract No.</u>	<u>Expenditures</u>	<u>Transfers to Subrecipients</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS					
Direct Projects					
Supportive Services for Veteran Families	10/1/13 - 9/30/14	64.033	14-FL-098	\$ 402,283	\$ -
Grant & Per Diem	10/1/13 - 9/30/14	64.024	07-62-FL	<u>94,450</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS				<u>496,733</u>	<u>-</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Direct Programs					
Continuum of Care	12/19/13 - 9/30/14	14.267	FL0072L4H041205	63,464	-
Supportive Housing	12/1/12 - 11/30/13	14.235	FL0072B4H041104	<u>2,205</u>	<u>-</u>
Subtotal Direct Programs				<u>65,669</u>	<u>-</u>
Indirect Programs					
Passed through Volusia County, Florida					
Community Development Block Grant	7/26/12 - 12/31/13	14.218		78,521	-
Passed through Volusia-Flagler County					
Coalition for the Homeless					
Emergency Solutions Grant	9/1/13 - 8/30/14	14.231		58,284	\$ -
Passed through State of Florida,					
Department of Children and Families					
Emergency Shelter Grant	10/1/13 - 6/30/14	14.231	NPZ12	<u>46,705</u>	<u>-</u>
Subtotal Indirect Programs				183,510	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				<u>249,179</u>	<u>-</u>
U.S. DEPARTMENT OF AGRICULTURE					
Passed through Florida Department of Agriculture					
Emergency Food Assistance Program -					
Food Commodities	10/1/13 - 9/30/14	10.569		<u>38,960</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>38,960</u>	<u>-</u>
DEPARTMENT OF HOMELAND SECURITY					
Passed through the United Way					
Emergency Food & Shelter Program - Volusia	6/1/13 - 5/31/14	97.024		43,097	-
Emergency Food & Shelter Program - Flagler	6/1/13 - 5/31/14	97.024		<u>10,364</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				<u>53,461</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL FINANCIAL ASSISTANCE				<u>\$ 838,333</u>	<u>\$ -</u>
FLORIDA DEPARTMENT OF CORRECTIONS					
Direct Projects					
Transitional Services - Post Release	10/1/13 - 9/30/14	70.011	C2684	\$ 26,320	\$ -
Substance Abuse Services	10/1/13 - 9/30/14	70.016	C2689	<u>544,940</u>	<u>-</u>
TOTAL FLORIDA DEPARTMENT OF CORRECTIONS				<u>571,260</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE				<u>\$ 571,260</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

THE SALVATION ARMY
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NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE FINANCIAL ASSISTANCE
For The Year Ended September 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Financial Assistance includes the state grant activity of The Salvation Army Daytona Beach Operating Fund 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 and the State of Florida “Rules of the Auditor General” Chapter 10.650. Because the Schedule presents only a selected portion of the operations of The Salvation Army Daytona Beach Operating Fund, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Salvation Army Daytona Beach Operating Fund.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – USDA FOOD COMMODITIES

Free USDA Food commodities are reported in the Schedule at the \$1.69 per pound, a value established by a study done by Feeding America, a nationwide non-profit network of food banks. These food commodities are received by the Salvation Army Daytona Beach and are immediately distributed to needy persons.

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MEMBER OF
AMERICAN AND FLORIDA
INSTITUTES OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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*

Board of Trustees
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 Salvation Army Daytona Beach Operating Fund (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Salvation Army Daytona Beach Operating Fund'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 Salvation Army Daytona Beach Operating Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or 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 Salvation Army Daytona Beach Operating Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



James Knutzen & Associates, C.P.A.'s, P.A.
Jacksonville, Florida
February 27, 2015

JAMES KNUTZEN & ASSOCIATES, C.P.A.'s, P.A.

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MEMBER OF
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND
CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

To the Board of Trustees
The Salvation Army Daytona Beach
Daytona Beach, Florida

Report on Compliance for Each Major Federal Program and State Project

We have audited The Salvation Army Daytona Beach Operating Fund's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of The Salvation Army Daytona Beach Operating Fund's major federal programs and state projects for the year ended September 30, 2014. The Salvation Army Daytona Beach Operating Fund's major federal programs and state projects are identified in the summary of auditors' 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 and state projects.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Salvation Army Daytona Beach Operating Fund's major federal programs and state projects 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; OMB Circular A-113, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General 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 or state project occurred. An audit includes examining, on a test basis, evidence about The Salvation Army Daytona Beach Operating 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 each major federal program and state project. However, our audit does not provide a legal determination on The Salvation Army Daytona Beach Operating Fund's compliance.

Opinion on Each Major Federal Program and State Project

In our opinion The Salvation Army Daytona Beach Operating Fund 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 and state projects for the year ended September 30, 2014.

Report on Internal Control over Compliance

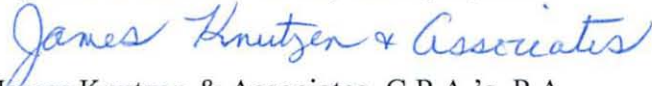
Management of The Salvation Army Daytona Beach Operating Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Salvation Army Daytona Beach Operating Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state project 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 state project and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Salvation Army Daytona Beach Operating 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 or state project 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 or state project will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

JAMES KNUTZEN & ASSOCIATES
C.P.A.'s, P.A.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be 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.

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 and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



James Knutzen & Associates, C.P.A.'s, P.A.
Jacksonville, Florida
February 27, 2015

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND

(A unit of The Salvation Army, a Georgia Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE PROJECTS

Year Ended September 30, 2014

Section I--Summary of Auditors' Results

Financial Statements:

Unmodified auditors' report issued

Internal control over financial reporting:

Material weakness(es) identified?	_____	YES	_____ X _____	NO
Significant deficiency(ies) identified?	_____	YES	_____ X _____	NO
Noncompliance material to financial statements noted?	_____	YES	_____ X _____	NO

Federal/State Awards:

Internal control over major programs/projects:

Material weakness(es) identified?	_____	YES	_____ X _____	NO
Significant deficiency(ies) identified?	_____	YES	_____ X _____	NO

Unmodified auditors' report issued on compliance for major programs/projects:

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133 or Florida Single Audit Act?	_____	YES	_____ X _____	NO
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Identification of major programs/ projects:

	<u>CFDA #'s</u>	<u>Name of Federal Program and State Project or Cluster</u>
Supportive Services for Veteran Families	64.033	N/A
	<u>CSFA #'s</u>	
Substance Abuse Services	70.016	N/A

Dollar threshold used to distinguish between type A and type B programs:

\$171,378

Auditee qualified as low risk auditee?

_____	YES	_____ X _____	NO
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Section II--Financial Statement Findings

None

THE SALVATION ARMY
DAYTONA BEACH OPERATING FUND

(A unit of The Salvation Army, a Georgia Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE PROJECTS

Year Ended September 30, 2014

Section III--Federal/State Award Findings and Questioned Costs

Major Federal Award Programs/State Projects Audit:

None

Section IV--Summary Schedule of Prior Audit Findings

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to Federal Programs or State Projects.

Section V--Corrective Action Plan

No Corrective Action Plan is required because there were no findings required to be reported under the Federal or Florida Single Audit Act.

Section VI--Management Letter

No Management Letter as defined in State of Florida, Rules of the Auditor General 10.656(3)(e) is required because there were no findings related to State Financial Assistance required to be reported.