

The Salvation Army USA, Western Territory and Affiliates

Combined Financial Statements as of and for the
Years Ended September 30, 2023 and 2022, and
Independent Auditor's Report

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

To The Salvation Army USA,
Western Territory and Affiliates:

Opinion

We have audited the combined financial statements of The Salvation Army USA, Western Territory and affiliates (the "Western Territory"), all of which are under common ownership and common management, which comprise the combined statements of financial position as of September 30, 2023 and 2022, the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements (collectively, referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Western Territory as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Western Territory and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Western Territory's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 companies' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Western Territory's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control -related matters that we identified during the audit.

Deloitte & Touche LLP

February 16, 2024

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

COMBINED STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2023 AND 2022 (Dollars in thousands)

	2023	2022
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 140,486	\$ 174,377
RESTRICTED CASH (Note 2)	47,732	42,470
ACCOUNTS RECEIVABLE—Net	78,370	75,856
LEGACIES AND BEQUESTS RECEIVABLE	909,703	731,580
PLEDGES RECEIVABLE—Net (Note 4)	13,656	16,130
INVENTORY	5,171	4,642
PREPAID EXPENSES AND DEFERRED CHARGES	17,039	18,722
MORTGAGES AND NOTES RECEIVABLE	<u>2,190</u>	<u>2,806</u>
Total	<u>1,214,347</u>	<u>1,066,583</u>
INVESTMENTS (Note 5):		
Investments—at fair value	1,686,518	1,517,932
Assets held under split-interest agreements	<u>121,461</u>	<u>120,749</u>
Total investments	<u>1,807,979</u>	<u>1,638,681</u>
RIGHT-OF-USE OPERATING LEASE ASSETS (Note 18)	33,786	33,613
LAND, BUILDINGS, AND EQUIPMENT:		
Land—at cost	252,655	251,154
Buildings—net of accumulated depreciation of \$711,830 and \$680,479 in 2023 and 2022, respectively	1,084,713	1,112,332
Construction in progress	113,098	48,576
Equipment—net of accumulated depreciation of \$109,261 and \$98,085 in 2023 and 2022, respectively	30,378	25,096
Assets held for sale (Note 6)	<u>321</u>	<u>1,932</u>
Total land, buildings, and equipment	<u>1,481,165</u>	<u>1,439,090</u>
TOTAL	<u><u>\$4,537,277</u></u>	<u><u>\$4,177,967</u></u>

(Continued)

**THE SALVATION ARMY USA, WESTERN TERRITORY
AND AFFILIATES**

**COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2023 AND 2022
(Dollars in thousands)**

	2023	2022
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 69,604	\$ 62,232
Liability for split-interest agreements	91,682	93,409
Mortgages and notes payable (Note 10)	279,013	282,584
Estimated liability for self-insured claims (Note 9)	38,146	37,379
Estimated liability for pension plan, retirement, and postretirement benefits (Note 8)	622,271	658,217
Lease liabilities (Note 18)	34,172	31,563
Other liabilities	<u>42,483</u>	<u>35,132</u>
Total liabilities	<u>1,177,371</u>	<u>1,200,516</u>
CONTINGENCIES AND COMMITMENTS (Note 17)		
NET ASSETS:		
Without donor restrictions (Note 12)	1,528,014	1,403,406
With donor restrictions (Note 13)	<u>1,831,892</u>	<u>1,574,045</u>
Total net assets	<u>3,359,906</u>	<u>2,977,451</u>
TOTAL	<u>\$4,537,277</u>	<u>\$4,177,967</u>

See notes to combined financial statements.

(Concluded)

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

COMBINED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022 (Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	Without Donor Restrictions	With Donor Restrictions	2022 Total
SUPPORT AND REVENUE:						
Public support:						
Received directly:						
Contributions	\$ 205,238	\$ 37,016	\$ 242,254	\$ 212,600	\$ 27,799	\$ 240,399
Donations-in-kind and contributed services (Note 7)	178,549		178,549	154,193		154,193
Legacies and bequests income (loss)	91,672	188,766	280,438	135,787	(164,702)	(28,915)
Contributions from split-interest agreements		1,800	1,800		3,186	3,186
Change in value of split-interest agreements		5,957	5,957		(20,782)	(20,782)
Total received directly	<u>475,459</u>	<u>233,539</u>	<u>708,998</u>	<u>502,580</u>	<u>(154,499)</u>	<u>348,081</u>
Received indirectly:						
Allocated by federated fund-raising organizations	282	112	394	459	106	565
Contributed by unassociated and nonfederated organizations	188		188	80		80
Total received indirectly	<u>470</u>	<u>112</u>	<u>582</u>	<u>539</u>	<u>106</u>	<u>645</u>
Total public support	<u>475,929</u>	<u>233,651</u>	<u>709,580</u>	<u>503,119</u>	<u>(154,393)</u>	<u>348,726</u>
Government agencies:						
Fees and grants from government agencies	244,191		244,191	217,954		217,954
Donations-in-kind from government agencies (Note 7)	5,735		5,735	6,268		6,268
Total from government agencies	<u>249,926</u>	<u>-</u>	<u>249,926</u>	<u>224,222</u>	<u>-</u>	<u>224,222</u>
Other revenue:						
Program service fees	80,126		80,126	72,247		72,247
Sales to the public	131,389		131,389	120,767		120,767
Investment return—net	85,727	78,740	164,467	(139,075)	(115,617)	(254,692)
Gain on sale of land, buildings, and equipment—net	20,902		20,902	14,914		14,914
Other revenue—net	17,572	11	17,583	15,183	(81)	15,102
Total other revenue	<u>335,716</u>	<u>78,751</u>	<u>414,467</u>	<u>84,036</u>	<u>(115,698)</u>	<u>(31,662)</u>
Total support and revenue	1,061,571	312,402	1,373,973	811,377	(270,091)	541,286
NET ASSETS RELEASED FROM RESTRICTIONS (Note 14)	54,555	(54,555)		61,212	(61,212)	
INTERFUND TRANSFERS						
Total	<u>1,116,126</u>	<u>257,847</u>	<u>1,373,973</u>	<u>870,343</u>	<u>(329,057)</u>	<u>541,286</u>

(Continued)

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

COMBINED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022 (Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	Without Donor Restrictions	With Donor Restrictions	2022 Total
EXPENSES:						
Program services:						
Corps community center	\$ 199,784	\$ -	\$ 199,784	\$ 173,612	\$ -	\$ 173,612
Rehabilitation	150,081		150,081	142,619		142,619
Residential and institutional	194,826		194,826	164,818		164,818
Other social services	325,914		325,914	315,085		315,085
Total program services	870,605	-	870,605	796,134	-	796,134
Supporting services:						
Management and general	113,291		113,291	106,466		106,466
Fund-raising	53,372		53,372	49,174		49,174
Total supporting services	166,663	-	166,663	155,640	-	155,640
Total expenses	1,037,268	-	1,037,268	951,774	-	951,774
EXCESS (DEFICIENCY) OF SUPPORT AND REVENUE OVER EXPENSES	78,858	257,847	336,705	(81,431)	(329,057)	(410,488)
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST (Note 8)	45,750		45,750	91,189		91,189
CHANGE IN NET ASSETS	124,608	257,847	382,455	9,758	(329,057)	(319,299)
NET ASSETS—Beginning of year	1,403,406	1,574,045	2,977,451	1,393,648	1,903,102	3,296,750
NET ASSETS—End of year	\$1,528,014	\$1,831,892	\$3,359,906	\$1,403,406	\$1,574,045	\$2,977,451

See notes to combined financial statements.

(Concluded)

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2023, WITH COMPARATIVE TOTALS FOR 2022 (Dollars in thousands)

	Program Services				Total Program Services	Supporting Services			2023 Total Expenses	2022 Total Summarized
	Corps Community Center	Rehabilitation	Residential and Institutional	Other Social Services		Management and General	Fund-raising	Total Supporting Services		
EXPENSES:										
Salaries, allowances, and taxes	\$ 64,862	\$ 67,022	\$ 69,875	\$ 71,993	\$ 273,752	\$ 51,065	\$ 17,716	\$ 68,781	\$ 342,533	\$ 302,692
Employee and officer benefits	20,478	21,159	22,060	22,729	86,426	16,122	5,593	21,715	108,141	105,719
Professional fees	9,079	3,898	13,663	5,841	32,481	9,408	3,677	13,085	45,566	38,242
Supplies	7,780	10,214	18,175	9,841	46,010	1,856	276	2,132	48,142	39,816
Communications, postage, and shipping	1,200	2,017	612	1,097	4,926	1,005	5,814	6,819	11,745	10,686
Occupancy, furnishings, and equipment	33,079	30,334	42,188	21,962	127,563	13,157	610	13,767	141,330	121,807
Printing and publications	2,930	437	118	2,455	5,940	1,455	18,519	19,974	25,914	24,582
Conferences, meetings, and travel	9,568	7,206	963	3,228	20,965	3,605	850	4,455	25,420	27,609
Direct assistance	785	2,616	14,057	178,803	196,261	110		110	196,371	189,727
World service support (Note 19)	2,681			5,397	8,078			-	8,078	15,919
Interest expense	1,404	1,287	2,376		5,067	558		558	5,625	5,196
Depreciation (Note 2)	31,706	844	8,604	1,118	42,272	2,129	90	2,219	44,491	44,174
Other expenses	14,232	3,047	2,135	1,450	20,864	12,821	227	13,048	33,912	25,605
TOTAL	<u>\$ 199,784</u>	<u>\$ 150,081</u>	<u>\$ 194,826</u>	<u>\$ 325,914</u>	<u>\$ 870,605</u>	<u>\$ 113,291</u>	<u>\$ 53,372</u>	<u>\$ 166,663</u>	<u>\$ 1,037,268</u>	<u>\$ 951,774</u>

See notes to combined financial statements.

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2022 (Dollars in thousands)

	Program Services				Supporting Services			2022 Total Expenses	
	Corps Community Center	Rehabilitation	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund-raising		Total Supporting Services
EXPENSES:									
Salaries, allowances, and taxes	\$ 51,342	\$ 61,787	\$ 59,283	\$ 66,616	\$239,028	\$ 47,235	\$ 16,429	\$ 63,664	\$302,692
Employee and officer benefits	17,932	21,580	20,705	23,267	83,484	16,497	5,738	22,235	105,719
Professional fees	9,006	2,580	10,602	4,574	26,762	8,083	3,397	11,480	38,242
Supplies	6,537	8,978	12,271	9,677	37,463	2,086	267	2,353	39,816
Communications, postage, and shipping	1,197	1,504	585	1,151	4,437	977	5,272	6,249	10,686
Occupancy, furnishings, and equipment	25,877	27,555	35,334	21,586	110,352	10,760	695	11,455	121,807
Printing and publications	2,660	1,412	98	2,004	6,174	1,780	16,628	18,408	24,582
Conferences, meetings, and travel	10,830	10,153	794	2,300	24,077	2,962	570	3,532	27,609
Direct assistance	1,045	2,539	13,153	172,931	189,668	59		59	189,727
World service support (Note 19)	7,754			8,165	15,919			-	15,919
Interest expense	1,250	1,331	2,095		4,676	520		520	5,196
Depreciation (Note 2)	32,314	435	8,657	997	42,403	1,708	63	1,771	44,174
Other expenses	<u>5,868</u>	<u>2,765</u>	<u>1,241</u>	<u>1,817</u>	<u>11,691</u>	<u>13,799</u>	<u>115</u>	<u>13,914</u>	<u>25,605</u>
TOTAL	<u>\$173,612</u>	<u>\$ 142,619</u>	<u>\$164,818</u>	<u>\$315,085</u>	<u>\$796,134</u>	<u>\$ 106,466</u>	<u>\$ 49,174</u>	<u>\$155,640</u>	<u>\$951,774</u>

See notes to combined financial statements.

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022 (Dollars in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 382,455	\$ (319,299)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,491	44,174
Unrealized (gain) loss on investments—net	(112,213)	344,406
Realized gain on sale of investments—net	(12,029)	(31,122)
Change in value of split-interest agreements	(5,957)	20,782
Pension-related changes other than net periodic pension cost	(45,750)	(91,189)
Gain on sale of land, buildings, and equipment	(20,902)	(14,914)
Contributions restricted for land, buildings, and equipment	(20,590)	(6,078)
Non-cash lease expense	7,753	9,335
Changes in operating assets and liabilities:		
Accounts receivable—net	(2,514)	(17,520)
Legacies and bequests receivable	(178,123)	181,776
Pledges receivable—net	2,474	845
Inventory	(529)	(426)
Prepaid expenses and deferred charges	1,683	884
Mortgages and notes receivable	616	25,577
Accounts payable and accrued expenses	7,371	27,906
Estimated liability for self-insured claims	767	624
Estimated liability for pension plan, retirement, and postretirement benefits	9,804	2,163
Lease liabilities	(5,317)	(9,335)
Other liabilities	7,351	(1,453)
Net cash provided by operating activities	<u>60,841</u>	<u>167,136</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(77,925)	(240,665)
Proceeds from sale of investments	37,099	146,119
Purchases of land, buildings, and equipment	(92,851)	(51,169)
Proceeds from sale of land, buildings, and equipment	<u>27,188</u>	<u>22,585</u>
Net cash used in investing activities	<u>(106,489)</u>	<u>(123,130)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of mortgages and notes payable	2,975	5
Repayment of mortgages and notes payable	(6,546)	(8,090)
Proceeds restricted for land, buildings, and equipment	<u>20,590</u>	<u>6,078</u>
Net cash provided by (used in) financing activities	<u>17,019</u>	<u>(2,007)</u>
(DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(28,629)	41,999
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—Beginning of year	<u>216,847</u>	<u>174,848</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH—End of year	<u>\$ 188,218</u>	<u>\$ 216,847</u>

(Continued)

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022 (Dollars in thousands)

	2023	2022
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 5,540</u>	<u>\$ 5,105</u>
Donations-in-kind and contributed services	<u>\$ 178,549</u>	<u>\$ 154,193</u>
Donations-in-kind and contributed services from government agencies	<u>\$ 5,735</u>	<u>\$ 6,268</u>
SUPPLEMENTAL NONCASH ACTIVITIES:		
Accrued land, buildings, and equipment purchases	<u>\$ 80</u>	<u>\$ 79</u>
Recognition of right-of-use operating lease assets in exchange for lease liabilities	<u>\$ 7,926</u>	<u>\$ 4,975</u>
See notes to combined financial statements.		(Concluded)

THE SALVATION ARMY USA, WESTERN TERRITORY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022

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 advisers, associates, and committed participants in its service functions.

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

The accompanying financial statements include all programs and operations of the Western Territory, all of which are under common ownership and management. The Western Territory comprises the states of Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming; Guam; the Marshall Islands; and the States of Micronesia. The Western Territory’s corporate headquarters (“Western Territory Headquarters” or THQ) is located in Rancho Palos Verdes, California. All intercompany accounts and transactions have been eliminated in combination.

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 day care centers; adult rehabilitation centers; substance abuse centers; emergency disaster services; assistance for the poor, disabled, and retired; jail and hospital visitation; and camping activities.

The financial statements of the Western Territory include its affiliates:

- The Salvation Army has controlling interests in six limited liability partnerships (collectively, the “Partnerships”). The Partnerships operate housing facilities for low-to-moderate income elderly persons.
- Crestmont Insurance (the “Captive”) is a captive insurance company incorporated in the state of Arizona. The Salvation Army is the sole corporate member of the Captive. All self-insurance losses, which accrue after September 30, 2004, are processed through the Captive (see Note 9).
- The Salvation Army Services, Inc. (“Services, Inc.”) is a nonreligious organization that is incorporated in the state of California. Services, Inc. receives funding from various government agencies, which is used primarily for the purchase and operation of transitional and family housing projects. Each of these eight projects contracts with the Western Territory to provide program services.

- Nonprofit public benefit corporations (“Affordable Housing”), known as Silvercrests, have been formed by the Western Territory to operate housing facilities for low-to-moderate income elderly persons. At September 30, 2023 and 2022, 33 such housing facilities were managed by the Western Territory. Affordable Housing is controlled by the Department of Housing and Urban Development (HUD). However, as they are under common management, Affordable Housing has been included within the financial statements.

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 (GAAP).

In order to observe restrictions, which donors place on grants and other gifts, as well as designations made by the Western Territory’s board of directors (the “Board of Directors”), all assets, liabilities, and activities are accounted for in the following net asset classifications:

Net Assets without Donor Restrictions—Net assets that are not subject to donor-imposed restrictions and may be designated for specific purposes or locations by actions of the Board of Directors.

Net Assets with Donor Restrictions—Net assets that are subject to donor-imposed restrictions that will be fulfilled either by actions of the Western Territory or the passage of time or that include a stipulation that assets provided be retained and invested in perpetuity while permitting the Western Territory to use all or part of the investment return on these assets for specified or unspecified purposes.

Cash and Cash Equivalents—For purposes of these financial 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.

Restricted Cash—Restricted cash consists of reserves required under the terms of the regulatory agreements with HUD for the replacement of property and other project expenditures. Restricted cash is also being held for the repayment of the flexible term notes as well as certain social programs. Restricted cash balances are held in separate, largely uninsured demand deposit accounts and not comingled with other funds of the Western Territory.

Restricted cash held at September 30, 2023 and 2022, consists of the following (in thousands):

	2023	2022
HUD reserves	\$ 46,327	\$ 41,060
Programs and other	<u>1,405</u>	<u>1,410</u>
Total restricted cash	<u>\$ 47,732</u>	<u>\$ 42,470</u>

Accounts Receivable—Accounts receivable primarily include amounts due from government agencies related to grants and are expected to be collected within one year.

Pledges Receivable—Unconditional pledges receivable are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows and discounted using a credit-adjusted discount rate applicable to the year

in which the pledge was made. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible pledges receivable is based on management's judgment, including such factors as prior collection history, subsequent collections, creditworthiness of donor, and nature of fund-raising activity. Pledges are written off when determined to be uncollectible.

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

Leases—The Division determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) operating lease assets and lease liabilities in the combined statements of financial position. ROU operating lease assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The Division does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

Investments—Investments are recorded at fair value. Investment return includes interest and dividends and realized and unrealized appreciation (depreciation). Investment expenses, such as custodial fees, investment advisory fees, and direct internal investment expenses involving the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return, are netted against investment return in the accompanying combined statements of activities.

The Western Territory Headquarters has the responsibility for investment activity for all programs within the Western Territory.

The portfolios related to net assets with donor restrictions are maintained on a pooled 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.

Investment return earned on portfolios related to net assets without donor restrictions is distributed to the constituent accounts on the basis of a stated percentage of the monthly account balances during the year. Amounts deposited may be withdrawn when required for use by the centers of operation.

Charitable gift annuities are maintained in a separate portfolio and are invested in accordance with applicable laws for such monies. The Western Territory maintains assets sufficient to meet annuity requirements of various state laws.

Split-Interest Agreements—The following instruments are recorded as income and net assets at the present value of the Western Territory's ultimate interest:

Trusts Held by a Third Party—Donors have established and funded trusts, which are administered by organizations other than The Salvation Army. Under the terms of the trusts, The Salvation Army has the irrevocable right to receive the income earned on the trust assets, either in perpetuity or for the life of the trust. The Salvation Army does not control the assets held by an outside trust. The Western Territory records its beneficial interest in trusts held by a third party as increases in net assets with donor restrictions at the fair value of the assets contributed to the trust.

Distributions from trust assets that are free of purpose or time restrictions are recorded as net assets without donor restrictions. Distributions from trust assets that are restricted for a particular time or purpose are reported as net assets with donor restrictions and released from restrictions when the time has elapsed or the purpose has been satisfied. The present value of the beneficial interest expected to be collected in future years is recorded in the combined statements of financial position as

legacies and bequests receivables. Adjustments to the beneficial interest to reflect changes in the value are reported in the combined statements of activities as legacies and bequests income. The discount rates for the years ended September 30, 2023 and 2022, ranged from 2.60% to 14.73%.

Charitable Remainder Trusts—Donors have established and funded trusts, under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust’s term. Upon termination of the trust, The Salvation Army receives the assets remaining in the trust. Trusts are recorded as increases to net assets with donor restrictions at the fair value of trust assets, less the present value of the estimated future payments to be made under the specific terms of the trust and are revalued at the end of each year. The discount rates for the years ended September 30, 2023 and 2022 ranged from 0.4% to 8.00%.

Charitable Gift Annuities—Donors have contributed assets to The Salvation Army in exchange for a promise by The Salvation Army to pay a fixed amount for a specified period of time to the donor or to individuals or to organizations designated by the donor. Under the terms of such agreements, no trust exists as the assets received are held by, and the annuity liability is an obligation of, The Salvation Army. Contribution revenue is recognized as increases to net assets with or without donor restrictions based on the existence or absence of donor-imposed restrictions and recorded at the fair value of the assets contributed, less the present value of the estimated future payments to be made under the specific terms of the agreement on the date of the contribution. The liability is based upon the 2012 Individual Annuity Reserving Report issued by the American Academy of Actuaries. The discount rates for the years ended September 30, 2023 and 2022 ranged from 0.40% to 8.00%.

Pooled (Life) Income Funds—The Salvation Army manages a life income fund. The fund is divided into units and contributions from many donors are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor’s entry into the pooled fund. The donor is paid the actual income earned on those units until his or her death. Upon the donor’s death, the value of these assigned units reverts to The Salvation Army. The Western Territory recognizes its interest in the assets received as contribution revenue with donor restrictions at the fair value of the assets received net of a discount for future interest based on the life expectancy of the donor. The liability is based upon the 2012 Individual Annuity Reserving Report issued by the American Academy of Actuaries. The contribution revenue net of discount is recorded as contributions from split-interest agreements.

Land, Buildings, and Equipment—Land, buildings, and equipment are recorded at cost or, if donated, at fair value at the date of donation, net of accumulated depreciation.

Support and Revenue—Support and revenue are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions that are not fulfilled in the accounting period. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law.

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

Consequently, at September 30, 2023 and 2022, contributions approximating \$10,814,000 and \$3,062,000, respectively, have not been recognized in the accompanying combined statements of activities because the conditions on which they depend have not yet been met. The conditional contributions at September 30, 2023 depend on meeting established milestones for art and literacy programs, nutrition programs, athletic programs, housing programs, and education-based outreach, as well as construction of a new facility to support the long-term needs for unhoused and at-risk San Diegans through the Rady Center Housing for People project. The conditional contributions at September 30, 2022 depend on completion of construction in progress as well as meeting established milestones for art and literacy programs, mobile outreach, vulnerable population programs, meal delivery, and housing programs.

Fees and Grants from Government Agencies—A portion of The Salvation Army’s revenue is derived from cost reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures. Amounts received are recognized as revenue when the Western Territory has incurred expenditures in compliance with specific contract or grant provisions. The Western Territory was awarded multiyear cost-reimbursable grants of \$124,219,000 that had not been recognized at September 30, 2023, because qualifying expenditures have not yet been incurred with advance payments of \$5,528,000 at September 30, 2023. The Western Territory was awarded multiyear cost-reimbursable grants of \$103,891,000 that had not been recognized at September 30, 2022, because qualifying expenditures have not yet been incurred with advance payments of \$2,905,000 at September 30, 2022. Advance payments are recognized in the combined statements of financial position as a refundable advance within other liabilities.

Donations-in-Kind and Contributed Services—The Western Territory receives various types of donations-in-kind, also known as contributed nonfinancial assets. These contributed nonfinancial assets include food, clothing, toys, household goods, supplies, vehicles, real estate, etc. Contributed nonfinancial assets are recognized at fair value as revenue and expense at the time the items are placed into service or distributed.

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

The Western Territory has a significant number of volunteers who contribute meaningful amounts of time in furtherance of The Salvation Army’s mission. Such contributions that do not meet generally accepted accounting criteria for recognition as contributed services are not recorded in the combined statements of activities.

Program Service Fees and Sales to the Public—The Salvation Army generates revenue from contracts with customers from program service fees and sales to the public. Program service fee revenue is recognized over time during the period of service. The Salvation Army also recognizes revenue from sales of goods to the general public. Sales to the public revenues are recorded at a point in time upon sale and receipt of cash.

Expenses—All expenses are stated on the accrual basis and presented in the combined statements of activities and combined statements of functional expenses and are reported as decreases in net assets without donor restrictions in the combined statements of activities. Expenses directly attributable to a

specific functional category are reported as expenses of those functional categories. Expenses attributable to more than one functional category are allocated across program services and supporting services using a variety of cost allocation techniques that are based on time and effort.

Depreciation—Depreciation is computed using the straight-line method over the estimated service lives of the related assets (40 to 50 years for buildings and improvements and four to 20 years for vehicles and equipment). Depreciation expense totaled \$44,491,000 and \$44,174,000 for the years ended September 30, 2023 and 2022, respectively.

Depreciation is also provided on equipment used in cost reimbursement programs that provide for reimbursement of depreciation by a granting entity.

Use of Estimates—The preparation of financial statements in conformity with GAAP 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. RECENT ACCOUNTING PRONOUNCEMENTS

Other Accounting Pronouncements — In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The update replaces the current incurred loss methodology with a current expected credit loss model. The new guidance requires an entity to recognize an allowance for its estimate of lifetime expected credit losses, which will result in more timely recognition of such losses and provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which formally delayed the effective date of ASU No. 2016-13 and allowed for early adoption as of the original effective date. The provisions of ASU No. 2016-13, as amended, are effective for the Western Territory beginning October 1, 2023. The Western Territory is currently evaluating the impact on the financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*. The objective of this update is to provide optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. It provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that are affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which formally extended the relief date of ASU 2020-04. The provisions of ASU No. 2020-04, as amended, are applicable for the Western Territory through December 31, 2024. The expedients and exceptions provided by the amendments do not apply to contract modifications entered into or evaluated after December 31, 2024. The Western Territory is currently evaluating the impact on the financial statements.

4. PLEDGES RECEIVABLE

Pledges receivable at September 30, 2023 and 2022, include the following (in thousands):

	2023	2022
Gross amounts due in:		
Less than one year	\$ 5,524	\$ 5,113
One year to five years	8,186	10,358
More than five years	<u>1,031</u>	<u>1,913</u>
Total gross pledges receivable	14,741	17,384
Less discount to present value	(942)	(1,101)
Less allowance for uncollectibles	<u>(143)</u>	<u>(153)</u>
Pledges receivable—net	<u>\$ 13,656</u>	<u>\$ 16,130</u>

At September 30, 2023 and 2022, pledges receivable were discounted at rates ranging from 0.94% to 4.75% and 0.20% to 3.98%, respectively.

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The composition of the Western Territory's investments measured at fair value on a recurring basis at September 30, 2023 and 2022, and the fair value hierarchy of the valuation techniques utilized by management to determine such fair value are as follows (in thousands):

Assets	2023			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents:				
Cash and cash equivalents	\$ 20,148	\$ -	\$ -	\$ 20,148
Debt securities:				
US Treasury securities		11,295		11,295
US government and agency securities		1		1
Mutual funds:				
US government fixed-income funds	61,696			61,696
US corporate fixed-income funds	396,281			396,281
Foreign corporate fixed-income funds	40,209			40,209
US equity funds	644,947			644,947
Foreign equity funds	172,877			172,877
Global equity funds	186,360			186,360
Alternative investments ⁽¹⁾ :				
Multistrategy hedge funds				100,672
Real assets/funds				63,167
Commingled funds—foreign equity				<u>110,326</u>
Total Investments	<u>\$ 1,522,518</u>	<u>\$ 11,296</u>	<u>\$ -</u>	<u>\$ 1,807,979</u>

⁽¹⁾ Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

Assets	2022			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents:				
Cash and cash equivalents	\$ 21,667	\$ -	\$ -	\$ 21,667
Debt securities:				
US Treasury securities		11,927		11,927
US government and agency securities		1,496		1,496
Mutual funds:				
US government fixed-income funds	59,202			59,202
US corporate fixed-income funds	391,359			391,359
Foreign corporate fixed-income funds	37,976			37,976
US equity funds	555,957			555,957
Foreign equity funds	150,034			150,034
Global equity funds	156,396			156,396
Alternative investments ⁽¹⁾ :				
Multistrategy hedge funds				93,315
Real assets/funds				68,279
Commingled funds—foreign equity				91,073
Total Investments	<u>\$ 1,372,591</u>	<u>\$ 13,423</u>	<u>\$ -</u>	<u>\$ 1,638,681</u>

⁽¹⁾ Investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

At September 30, 2023 and 2022, investments held by the Captive totaled \$81,157,000 and \$73,159,000, respectively, and are included above. At September 30, 2023 and 2022, assets held under split-interest agreements totaled \$121,461,000 and \$120,749,000, respectively, and are included above.

The estimated fair value of financial instruments has been determined by the Western Territory using available market information and appropriate methodologies; however, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Western Territory could realize in a current market exchange. Certain of these financial instruments expose the Western Territory to market and credit risk and may, at times, be concentrated with certain counterparties or groups of counterparties.

Investments measured and reported at fair value in the combined statements of financial position are categorized using level inputs, as defined by the FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, and are classified and disclosed in one of the following categories:

Level 1—Quoted prices (unadjusted) in active markets for identical investments that the Western Territory can access at the measurement date.

Level 2—Pricing inputs other than quoted prices included in Level 1 that are observable for the investment, either directly or indirectly.

Level 3—Pricing inputs are developed from unobservable inputs and include situations where there is little or no market activity for the investment.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts in the accompanying combined statements of financial position.

A description of valuation inputs and techniques that the Western Territory utilizes to measure the fair value of each major category of investments in accordance with ASC 820 is as follows:

- **Debt Securities (US Treasury Securities)**—US Treasury securities include US Treasury notes that are valued based on prices provided by third-party vendors that obtain feeds from a number of live data sources, including active market makers and interdealer brokers. To the extent that US Treasury securities are actively quoted, they are categorized as Level 1. To the extent that these securities are not actively traded, but inputs are observable and timely, they are categorized as Level 2.
- **Debt Securities (US Government and Agency Securities)**—US government and agency securities are valued using inputs and techniques that include identification of similar issues and market activity. To the extent that these inputs are observable and timely, the values of US government and agency securities are categorized as Level 2.
- **Mutual Funds**—Mutual funds registered with the Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940 are valued based on quoted market prices, which represent the NAV of shares, and are categorized as Level 1.
- **Alternative Investments**—Alternative investments are valued based upon the NAV per share (or its equivalent) of the funds, as provided by the Western Territory's investment managers. The NAV amounts are based on the fair values of the funds' various underlying investments, which are computed using limited quantitative and qualitative observations of activity for similar companies in the current market. The valuation process also includes review by an independent valuation party on a quarterly basis to corroborate the values determined by management. The key inputs utilized in the funds' market modeling include, as applicable, transactions for comparable companies in similar industries and having similar revenue and growth characteristics, similar preferences in the capital structure, discounted cash flows, liquidation values and milestones established at initial funding, and the assumption that the values of the fund's venture capital investments can be inferred from these inputs.

A summary of the fair value measurements of investments in other investment funds that calculate NAV per share (or its equivalent) at September 30, 2023 and 2022, is as follows (in thousands):

	Fair Value 2023	Unfunded Commitments 2023	Fair Value 2022	Unfunded Commitments 2022	Redemption Frequency	Redemption Notice Period
Multistrategy hedge funds ^(a)	\$ 100,672	\$ 65,324	\$ 93,315	\$ 31,179	Monthly/quarterly	8–90 days
Real asset funds ^(b)	63,167	26,640	68,279	38,063	General partner approval	None
Commingled funds—foreign equity ^(c)	<u>110,326</u>	<u> </u>	<u>91,073</u>	<u> </u>	Daily/weekly	1–7 days
Total	<u>\$274,165</u>	<u>\$91,964</u>	<u>\$252,667</u>	<u>\$69,242</u>		

(a) This category includes investments in hedge funds that invest in a combination of securities, including fixed-income and equity securities, to generate both capital appreciation and current income. The fair value of this investment has been estimated using the NAV per share of the fund.

(b) This category includes investments in funds that invest in a combination of real estate, mineral rights, and oil and gas to generate both capital appreciation and current income. The fair value of this investment has been estimated using the NAV per share of the fund.

(c) This category includes investments in pooled vehicles that invest in non-US-developed and emerging markets' equity securities. The fair value of this investment has been estimated using the NAV per share of the fund.

6. ASSETS HELD FOR SALE

The Western Territory has entered into negotiations and/or implemented plans to sell land and buildings to unrelated parties. The carrying amount of assets classified as held for sale are included in the combined statements of financial position and are accounted for at the lower of cost or net realizable value, less cost to sell.

7. DONATIONS-IN-KIND AND CONTRIBUTED SERVICES

Donations-in-kind and contributed services for the years ended September 30, 2023 and 2022, recognized in the combined statements of activities consist of the following unrestricted amounts:

	2023	2022
Food from public support	\$ 109,313	\$ 90,022
Clothing	23,933	21,584
Angel Tree and other Christmas gifts	16,006	16,287
Household goods	17,112	15,283
Other	<u>12,185</u>	<u>11,017</u>
Donations in kind and contributed services— public support	178,549	154,193
Food from government agencies	<u>5,735</u>	<u>6,268</u>
Total donations-in-kind and contributed services	<u>\$ 184,284</u>	<u>\$ 160,461</u>

Public Support in Salvation Army Corps and Programs—Food, clothing, Angel Tree and other Christmas gifts, household goods, and other donations-in-kind are contributed nonfinancial assets that may be used as part of the Western Territory's programs, distributed directly to the public or sold in corps-managed thrift stores. Angel Tree and other Christmas gifts primarily consist of toys, and also

includes gifts of clothing, books, gift cards, and other items distributed specifically for the Christmas season. Valuation of these items used in programs or distributed directly is based on appraisal studies, comparison to published comparable sales or published information by third parties. Donations of vehicles, included in 'other,' if determined to be unsuitable for use in programs, are valued and recorded equal to actual cash proceeds received on their disposition. The related expenses to these donations-in-kind are recorded primarily in direct assistance but may also be found in other directly related line items in the combined statements of functional expenses.

Public Support in Adult Rehabilitation Center (ARC) Thrift Stores - Goods donated for sale in ARC thrift stores consist primarily of clothing, household goods, and other miscellaneous items, such as vehicles, jewelry, and books, which are included in 'other.' These items are recorded as donations-in-kind revenue based on a percentage of the actual sale amount at the time they are sold.

Government Support – Contributed nonfinancial assets from government agencies consist primarily of food commodities provided via government-sponsored programs. The Western Territory records these donations-in-kind based on 1) the valuation of the food provided via written communication from the respective government agency or 2) based on appraisal studies, comparison to published comparable sales or published information by third parties. The related expenses to these donations-in-kind are recorded in direct assistance in the combined statements of functional expenses

8. PENSION, RETIREMENT, AND OTHER POSTRETIREMENT BENEFIT PLANS

A summary of the unfunded liability and pension-related changes other than net periodic pension cost for the Western Territory's employee pension plan, officer retirement provisions, and officer other postretirement benefit provisions as of September 30, 2023 and 2022, is set forth as follows (in thousands):

	2023	2022
Estimated liability for pension plan, retirement, and other benefits:		
Employee pension plan	\$ 238,280	\$ 245,575
Officer retirement provisions	184,415	198,720
Officer—other postretirement benefit provisions	<u>199,576</u>	<u>213,922</u>
Total	<u>\$ 622,271</u>	<u>\$ 658,217</u>
Pension-related changes other than net periodic pension cost:		
Employee pension plan	\$ 1,544	\$ 39,680
Officer retirement provisions	24,496	2,243
Officer—other postretirement benefit provisions	<u>19,710</u>	<u>49,266</u>
Total pension-related changes other than net periodic pension cost	<u>\$ 45,750</u>	<u>\$ 91,189</u>

Employee Pension Plan—The Western Territory has a noncontributory defined benefit pension plan (the "Plan") for certain full-time employees. The benefits are based upon years of service and the employee's average annual compensation. The Plan is self-funded principally by annual assessments to all centers of operation. Contributions are intended to provide benefits for services provided to date, as well as those benefits expected to be earned in future years.

The Western Territory has established a separate legal irrevocable trust for the Plan. Trust assets are not included in these financial statements. The Plan assets are invested in diversified investments consistent with the investments of the Western Territory, including debt and equity securities, whose values are subject to fluctuations of the securities markets and alternative investments. Alternative investments include real assets (real estate and oil and gas investment funds) and private investment funds, whose fair values have been estimated by management in the absence of readily determinable fair values. See Note 5 for information on the valuation of investments. Changes in these values attributable to the differences between actual and assumed returns on the Plan assets are deferred as unrecognized gains or losses and are included in the determination of the net pension expense over time.

A summary of the Western Territory's funded status, amounts reflected in the combined statements of financial position, and the components of net periodic pension cost as of the date of the latest actuarial valuation for the years ended September 30, 2023 and 2022, is as follows (in thousands):

	2023	2022
Changes in benefit obligation:		
Benefit obligation—beginning of year	\$ 394,754	\$ 474,215
Service cost	2,444	3,723
Interest cost	22,024	14,101
Benefits paid	(23,480)	(23,437)
Actuarial loss (gain)	<u>8,697</u>	<u>(73,848)</u>
Benefit obligation—end of year	<u>404,439</u>	<u>394,754</u>
Changes in the Plan assets:		
Fair value of the Plan assets—beginning of year	149,179	180,765
Actual return on the Plan assets	18,267	(26,702)
Employer contribution	22,193	18,553
Benefits paid	<u>(23,480)</u>	<u>(23,437)</u>
Fair value of the Plan assets—end of year	<u>166,159</u>	<u>149,179</u>
Funded status	<u>(238,280)</u>	<u>(245,575)</u>
Accrued pension liability recognized in the combined statements of financial position	<u>(238,280)</u>	<u>(245,575)</u>
Amounts not yet reflected in the accrued benefit cost and included in accumulated charge to net assets without donor restriction consist of:		
Prior service cost	\$ -	\$ -
Net loss	<u>(79,541)</u>	<u>(81,085)</u>
Total accumulated charge to net assets without donor restriction	<u>\$ (79,541)</u>	<u>\$ (81,085)</u>

Net periodic pension expense for the years ended September 30, 2023 and 2022, includes the following components (in thousands):

	2023	2022
Components of net periodic benefit cost:		
Service cost	\$ 2,444	\$ 3,723
Interest cost	22,024	14,101
Expected return on the Plan assets	(10,307)	(10,611)
Amortization of loss	<u>2,274</u>	<u>3,146</u>
Net benefit cost	<u>\$ 16,435</u>	<u>\$ 10,359</u>

The accumulated benefit obligation for the Western Territory was \$391,681,000 and \$380,378,000 at September 30, 2023 and 2022, respectively.

Weighted-average assumptions used to determine benefit obligations at September 30, 2023 and 2022, are as follows:

	2023	2022
Discount rate	5.87 %	5.50 %
Rate of compensation increase	1.00%-4.00%	1.00 %—4.00 %

Weighted-average assumptions used to determine net periodic pension cost for the years ended September 30, 2023 and 2022, are as follows:

	2023	2022
Discount rate	5.50 %	3.00 %
Expected long-term rate of return on the Plan assets	7.00	6.00
Rate of compensation increase	1.00% - 4.00%	1.00 %—4.00 %

The Western Territory employs a rigorous process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset class returns and advice from external actuarial firms, while incorporating specific asset class risk factors.

At September 30, 2023, the benefit obligation experienced a net actuarial loss, which was primarily attributable to the offsetting effects of demographic experience and updates in retirement and cost-of-living adjustment assumptions resulting in a loss, and the discount rate increasing from 5.50% to 5.87% resulting in a gain.

At September 30, 2022, the benefit obligation decreased from the prior year which was primarily attributable to a net actuarial gain mostly related to the discount rate increasing to 5.50%, compared to 3.00% in the prior year.

The current asset allocation and target for the Plan at September 30, 2023 and 2022, by asset category are as follows:

	2023		2022	
	Actual	Target	Actual	Target
Equity securities	62 %	59 %	58 %	59 %
Debt securities	20	22	22	22
Alternative investments	18	19	20	19

The Plan invests primarily in asset categories with sufficient size, liquidity, and cost efficiency to permit investments of reasonable size. The Plan invests in asset categories that provide diversification benefits and are easily measured. Specified variances from the target allocations are set by The Salvation Army Investment Committee. Actual asset allocation within these approved ranges is based on a variety of economic and market conditions and consideration of specific asset category risk. To assess the Plan's investment performance, a long-term asset allocation policy benchmark has been established.

The information about assets of the Plan measured at fair value at September 30, 2023 and 2022, in accordance with ASC 715, *Compensation—Retirement Benefits*, and the fair value hierarchy of the valuation techniques utilized by management to determine such fair value is as follows (in thousands):

Assets	2023			
	Level 1	Level 2	Level 3	Total
Investments:				
US corporate fixed-income funds	\$ 35,501	\$ -	\$ -	\$ 35,501
US equity funds	56,082			56,082
Global equity funds	35,233			35,233
Alternative investments: ⁽¹⁾				
Multistate hedge funds				22,388
Real asset funds				10,797
Commingled funds—foreign equity				21,136
Total investments	<u>\$ 126,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 181,137</u>

⁽¹⁾ Investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the fair value of Plan assets balance.

Assets	2022			Total
	Level 1	Level 2	Level 3	
Investments:				
US corporate fixed-income funds	\$ 35,238	\$ -	\$ -	\$ 35,238
US equity funds	46,581			46,581
Global equity funds	30,095			30,095
Alternative investments: ⁽¹⁾				
Multistate hedge funds				21,212
Real asset funds				11,987
Commingled funds—foreign equity				17,451
Total investments	<u>\$ 111,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162,564</u>

⁽¹⁾ Investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the fair value of Plan assets balance.

The Western Territory expects to contribute \$22,000,000 to the pension plan during the year ending September 30, 2024. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows (in thousands):

**Years Ending
September 30**

2024	\$ 27,140
2025	28,466
2026	27,259
2027	26,680
2028	27,600
2029–2032	<u>144,363</u>
Total	<u>\$ 281,508</u>

The Western Territory expects to recognize \$3,046,000 of actuarial losses as a component of net periodic benefit cost over the next year ending September 30, 2024.

Officers' Retirement and Other Postretirement Benefit Provisions—The Western Territory has a retirement provision for officers, which provides retirement benefits to retired officers as defined by The Salvation Army's national policy, which governs such benefits. Retirement allowances are determined based upon active officer allowances and length of service. Provision for these benefits are made principally by annual assessments to all centers of operation, by designated portions of legacy income, by earnings of assets designated for retirement benefits, and by special appropriations. Such designated assets, which were \$104,745,000 and \$94,228,000 as of September 30, 2023 and 2022, respectively, are included in board-designated investments. These assets may be reallocated for other purposes at any time by the Board of Directors.

The Western Territory also provides certain health care and death benefits for retired Salvation Army officers as part of the retirement provision for officers. The Western 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 The Salvation Army's national policy. Provision for these benefits is made in a manner similar to that for officers' retirement benefits.

A summary of the Western Territory's funded status, amounts reflected in the combined statements of financial position, and components of net periodic pension cost at September 30, 2023 and 2022, is as follows (in thousands):

	2023		2022	
	Officers' Retirement	Other Benefits	Officers' Retirement	Other Benefits
Changes in benefit obligation:				
Benefit obligation—beginning of year	\$ 198,720	\$ 213,922	\$ 195,747	\$ 258,047
Service cost	5,407	6,203	5,448	8,294
Interest cost	10,716	11,481	5,279	7,602
Benefits paid	(7,597)	(10,646)	(7,648)	(8,618)
Actuarial gain	<u>(22,831)</u>	<u>(21,384)</u>	<u>(106)</u>	<u>(51,403)</u>
Benefit obligation—end of year	<u>184,415</u>	<u>199,576</u>	<u>198,720</u>	<u>213,922</u>
Changes in Plan assets:				
Fair value of Plan assets—beginning of year	-	-	-	-
Employer contributions	7,595	10,646	7,648	8,618
Benefits paid	<u>(7,595)</u>	<u>(10,646)</u>	<u>(7,648)</u>	<u>(8,618)</u>
Fair value of Plan assets—end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funded status	<u>(184,415)</u>	<u>(199,576)</u>	<u>(198,720)</u>	<u>(213,922)</u>
Accrued pension liability recognized in the combined statements of financial position	<u>(184,415)</u>	<u>(199,576)</u>	<u>(198,720)</u>	<u>(213,922)</u>
Amount not yet reflected in the accrued benefit cost and included in accumulated charge to net assets without donor restriction consist of:				
Prior service cost	\$ -	\$ (3,191)	\$ -	\$ (2,675)
Net (loss) gain	<u>(15,612)</u>	<u>78,279</u>	<u>(40,108)</u>	<u>58,634</u>
Total accumulated charge to net assets without donor restriction	<u>\$ (15,612)</u>	<u>\$ 75,088</u>	<u>\$ (40,108)</u>	<u>\$ 55,959</u>

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining lifetime of inactive employees expected to receive benefits under the plan.

At September 30, 2023, the decrease in benefit obligation for officers' retirement was primarily the result of a net actuarial gain related to the discount rate increasing to 6.00%, compared to 5.50% in the prior year. The decrease in benefit obligation for other benefits was primarily the result of a net actuarial gain related to the discount rate increasing to 5.75%, compared to 5.50% in the prior year, decrease in the inflation assumption and a reduction in medical claims experience.

At September 30, 2022, the decrease in benefit obligation for other benefits was primarily the result of a net actuarial gain related to the discount rate increasing to 5.50%, compared to 3.00% in the prior year, and changes in the medical claims calculation and Medical and Prescription Drug trends (including Medicare Part B reimbursement and Part D subsidy) for future benefit payments. Additional changes were also made for Medicare Part B reimbursements, Medicare Part D subsidy and the incidence of Continuum of Care benefits.

Net periodic pension expense for the years ended September 30, 2023 and 2022, includes the following components (in thousands):

	2023		2022	
	Officers' Retirement	Other Benefits	Officers' Retirement	Other Benefits
Components of net periodic pension cost:				
Service cost	\$ 5,407	\$ 6,203	\$ 5,448	\$ 8,294
Interest cost	10,716	11,481	5,279	7,602
Amortization of actuarial loss	1,666		1,843	
Amortization of prior service cost		475	293	818
Net periodic cost	<u>\$ 17,789</u>	<u>\$ 18,159</u>	<u>\$ 12,863</u>	<u>\$ 16,714</u>
	2023 Officers' Retirement	Other Benefits	2022 Officers' Retirement	Other Benefits
Weighted-average assumptions used to determine net benefit obligations at September 30:				
Discount rate	6.00 %	5.75 %	5.50 %	5.50 %
Rate of compensation increase	4.60	4.60	5.10	5.10
Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30:				
Discount rate	5.50 %	5.50 %	2.75 %	3.00 %
Rate of compensation increase	5.10	5.10	2.60	2.60

The accumulated benefit obligation for the Western Territory Officers' Retirement plan was \$171,490,000 and \$183,766,000 at September 30, 2023 and 2022, respectively.

For measurement purposes, annual rate of increase in the per capita cost of covered health care benefits of 4.5% were assumed for 2023 and 2022.

The Western Territory expects to contribute \$8,444,000 for the officers' retirement benefits and \$9,398,000 for the officers' other benefits during the year ending September 30, 2024. Benefit payments for the retirement and other benefit provisions, which reflect expected future service, as appropriate, are expected to be paid as follows (in thousands):

Years Ending September 30	Retirement	Other Benefits
2024	\$ 8,444	\$ 9,398
2025	8,881	11,018
2026	9,447	12,211
2027	9,952	12,421
2028	10,431	12,446
2029-2032	<u>58,201</u>	<u>15,076</u>
Total	<u>\$ 105,356</u>	<u>\$ 72,570</u>

The amounts expected to be recognized as components of net periodic benefit cost over the next year ending September 30, 2024, include the following (in thousands):

	Retirement	Other Benefits
Prior service cost	\$	\$ 422
Actuarial gain	<u>(238)</u>	<u>(4,455)</u>
Total	<u>\$ (238)</u>	<u>\$ (4,033)</u>

Employee Defined Contribution Plan—Effective January 1, 2013, the Western Territory began providing a noncontributory defined contribution money purchase plan for eligible employees (the “Defined Contribution Plan”). Eligible employees can participate in the Defined Contribution Plan after completion of one year of service. Participating employees who have completed 1,000 hours of service during the Plan year, based on the calendar year, and who are employed by the Western Territory as of the last day of the Plan year are eligible to receive employer contributions. Contributions under the Defined Contribution Plan are determined as a percentage of the participant’s salary. For the years ended September 30, 2023 and 2022, contributions related to the Defined Contribution Plan were \$6,234,000 and \$4,661,000, respectively.

Employees who are eligible to participate in the Plan will also receive annual contributions to the Defined Contribution Plan of 3%–5% of participant salary based on age and length of service, effective January 1, 2014.

9. SELF-INSURANCE

The Western Territory maintains self-insurance programs for general liability, automobile, workers’ compensation, and property coverage. The self-insurance programs are administered by the Western Territory Headquarters and are intended to provide coverage for claims arising in all centers of operation. Funding for claims prior to 2005 is obtained through general operating funds.

At the beginning of 2005, the Western Territory established the Captive in the state of Arizona to handle all self-insurance claims for 2005 and future periods. The Captive had \$81,157,000 and \$73,159,000 in investments at September 30, 2023 and 2022, respectively, which are used to pay claims. The investments are included in the accompanying combined statements of financial position (see Note 5). Coverage through the Captive is reinsured by unaffiliated reinsurers once certain deductibles and self-insurance levels are met, which provides coverage in excess of specified limits.

At September 30, 2023 and 2022, the estimated reserves for self-insurance claims, as actuarially determined, which are included as estimated liability for self-insured claims in the combined statements of financial position, are as follows (in thousands):

	2023	2022
General liability	\$ 4,346	\$ 4,387
Automobile	3,663	3,480
Workers’ compensation	16,062	17,862
Other coverage	12,973	10,639
Employee medical	<u>1,102</u>	<u>1,011</u>
Estimated liability for self-insured claims	<u>\$ 38,146</u>	<u>\$ 37,379</u>

10. MORTGAGES AND NOTES PAYABLE

	2023	2022
HUD advances—The HUD advances, bearing no interest, are not required to be repaid as long as the facilities comply with HUD requirements. The advances have maturity dates between 2032 and 2046 and are collateralized by the HUD facilities.	\$ 125,364	\$ 125,364
Refunding Revenue Bonds, Series 2016—The bonds accrue interest at fixed rates, which range from 3% to 5% during the life of the bonds. Interest and principal payments are made semiannually. The bonds have maturity dates between 2024 and 2036.	45,976	48,688
Taxable Revenue Bonds, Series 2006—The bonds accrue interest at fixed rates, which range from 5.2% to 5.7% during the life of the bonds. Interest and principal payments are made semiannually. The bonds have maturity dates between 2024 and 2036.	34,806	36,611
Refinanced HUD mortgages—The notes are payable in monthly installments and have fixed interest rates ranging from 2.78% to 5.67%. The notes have maturity dates between 2034 and 2058 and are collateralized by the senior housing facilities.	26,862	22,999
HUD notes—The HUD notes are payable in monthly installments and have fixed interest rates ranging from 8.38% to 9.25%. The HUD notes have maturity dates between 2025 and 2031 and are collateralized by the HUD facilities.	148	2,468
Housing revenue bonds:		
The bond accrues interest at a fixed rate of 1.01%. Interest is payable monthly. The outstanding bonds are due on June 15, 2037.	12,005	12,735
The bond accrues interest at a fixed rate of 5.47%. Interest is payable monthly. The bond matures on June 15, 2026.	339	551
California Department of Housing and Community Development—Fixed term loan at a fixed interest rate of 3%. Interest is payable monthly. The note has a maturity date of 2064.	7,000	7,000
Other notes—Other notes consist of loans with varying monthly, quarterly, and annual installments, bearing interest ranging from 0% to 6%, with maturity dates between 2024 and 2074. If secured, the notes are collateralized by real property.	<u>26,513</u>	<u>26,168</u>
Total	<u>\$ 279,013</u>	<u>\$ 282,584</u>

Maturities of mortgages and notes payable as of September 30, 2023, are as follows (in thousands):

**Years Ending
September 30**

2024	\$ 4,842
2025	5,039
2026	5,163
2027	5,095
2028	5,129
Thereafter	<u>253,745</u>
Total	<u>\$ 279,013</u>

The revenue bonds contain certain restrictive covenants. Compliance with these covenants is determined annually. During the year ended September 30, 2023, the Western Territory believes it was in compliance with all covenant requirements.

Lines and Letters of Credit—The Western Territory has borrowing arrangements with a bank that provide for an overdraft financing facility (the “Facility”), which is extended annually, currently through April 2025. The Western Territory may overdraw its checking account up to \$5,000,000. The Facility is not collateralized. Borrowings bear interest at the British Bankers’ Association (BBA) LIBOR daily floating rate, plus 1%. At September 30, 2023 and 2022, there were no amounts outstanding under the Facility.

The Western Territory has letters of credit in support of its self-insurance program and property program up to \$10,000,000, which are extended annually, currently through April 2025. These letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The interest rate on the letters of credit as of September 30, 2023 and 2022, was 0.65% and 3.77%, respectively. The Western Territory had letters of credit of \$8,443,000 at September 30, 2023 and 2022. No amounts were outstanding under these letters of credit as of September 30, 2023 and 2022.

11. ENDOWMENTS

The Western Territory’s endowment consists of approximately 270 individual funds established for various purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Western Territory has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 stipulations to the contrary. As a result of this interpretation, the Western Territory retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 held in perpetuity is classified as with donor restrictions as restricted for a specified purpose or the passage of time until those amounts are appropriated for expenditure by the Western Territory in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Western Territory considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Western Territory and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Western Territory
- The investment policies of the Western Territory

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Western Territory to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2023 or 2022.

The Western Territory has adopted investment and spending 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 donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Standard & Poor's 500 Index, while assuming a moderate level of investment risk. The Western Territory expects its endowment funds, over time, to provide a real rate of return of greater than 4.5% (net of fees and adjusted for inflation) as calculated, based on rolling five-year periods. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Western 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 Western Territory targets a diversified asset allocation intended to achieve its long-term return objectives within prudent risk constraints.

The Western Territory has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Western Territory considered the long-term expected return on its endowment. Accordingly, over the long term, the Western Territory expects the current spending policy to allow its endowment to grow at an average real rate of return greater than inflation. This is consistent with the Western Territory's objective to maintain 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 and investment return.

The endowment net assets with donor restriction composition at September 30, 2023 and 2022, are as follows (in thousands):

	2023	2022
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor or by stipulation or by SPMIFA	\$ 1,111,594	\$ 923,849
Accumulated investment earnings—portion of endowment funds subject to time or purpose restrictions under SPMIFA	<u>179,122</u>	<u>136,618</u>
Total endowment funds	<u>\$ 1,290,716</u>	<u>\$ 1,060,467</u>

The changes in endowment net assets by type of fund for the years ended September 30, 2023 and 2022, are as follows (in thousands):

	Total
Endowment net assets—September 30, 2021	\$ 1,248,273
Investment return—net	(59,854)
Contributions	111
Legacies and bequests loss	(89,667)
Change in value of split-interest agreements	(601)
Amounts appropriated for expenditure	<u>(37,795)</u>
Endowment net assets—September 30, 2022	1,060,467
Investment return—net	71,276
Contributions	1
Legacies and bequests gain	187,527
Change in value of split-interest agreements	217
Amounts appropriated for expenditure	<u>(28,772)</u>
Endowment net assets—September 30, 2023	<u>\$ 1,290,716</u>

12. NET ASSETS WITHOUT DONOR RESTRICTION

At September 30, 2023 and 2022, net assets without donor restriction are composed of undesignated and Board of Directors-designated amounts for the following purposes (in thousands):

	2023	2022
Undesignated	\$ 84,786	\$ 6,612
Land, buildings, and equipment	1,290,615	1,310,415
Employee pension plan	(235,614)	(242,917)
Officer retirement and other postretirement plans	(294,487)	(319,845)
Insurance programs	(21,035)	(17,025)
Other board designated	<u>703,749</u>	<u>666,166</u>
Total	<u>\$ 1,528,014</u>	<u>\$ 1,403,406</u>

13. NET ASSETS WITH DONOR RESTRICTION

At September 30, 2023 and 2022, net assets with donor restrictions are restricted for the following purposes or periods (in thousands):

	2023	2022
Social programs	\$ 787,101	\$ 717,594
Remainder interest from split-interest agreements and bequests	934,103	758,911
Capital expenditures	108,170	94,997
Other gifts restricted by time	<u>2,518</u>	<u>2,543</u>
Total	<u>\$ 1,831,892</u>	<u>\$ 1,574,045</u>

14. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets are released from donor restrictions by incurring expenses that satisfy the restricted purposes or by occurrence of other events specified by the donors. Remainder interest from split-interest agreements and bequests is released from social programs and capital expenditures in accordance with donor restrictions. For the years ended September 30, 2023 and 2022, net assets were released from restrictions for the following purposes or events (in thousands):

	2023	2022
Purpose restrictions accomplished:		
Social programs	\$ 48,883	\$ 53,339
Capital expenditures	<u>5,121</u>	<u>7,403</u>
Subtotal	<u>54,004</u>	<u>60,742</u>
Time restrictions met by September 30	<u>551</u>	<u>470</u>
Total net assets released from restrictions	<u>\$ 54,555</u>	<u>\$ 61,212</u>

15. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Western Territory's financial assets (in thousands) as of September 30, 2023 and 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of September 30, 2023 and 2022. However, amounts already appropriated from the donor-restricted endowment for general expenditure within one year of the combined statements of financial position date have not been subtracted as unavailable.

	2023	2022
Total assets	\$ 4,537,277	\$ 4,177,967
Less those unavailable for general expenditure within one year:		
Investment encumbered by restrictions	274,165	252,667
Restricted by donor with time or purpose restrictions	1,831,892	1,574,045
Restricted cash	47,732	42,470
Pledges receivable—net	8,132	11,017
Inventory	5,171	4,642
Prepaid expenses and deferred charges	17,039	18,722
Right-of-use operating lease assets	33,786	33,613
Land, buildings, and equipment	<u>1,481,165</u>	<u>1,439,090</u>
Total assets available to meet cash needs for general expenditures within one year	<u>\$ 838,195</u>	<u>\$ 801,701</u>

The Western Territory regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Western Territory has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and lines of credit. See Note 10 for information on the lines of credit.

The Western Territory is substantially supported by contributions, including those with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Western Territory must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year. As part of the Western Territory's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Western Territory operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by existing resources.

16. CONCENTRATION OF CREDIT RISK

Certain financial instruments potentially subject the Western Territory to concentrations of credit risk. Those financial instruments consist primarily of cash and cash equivalents, receivables, and investments. The Western Territory places its cash and cash equivalents with high-credit quality financial institutions and credit exposure is limited to the amount of deposits at any one institution in excess of the federally insured limit. Concentrations of credit risk with respect to receivables are generally diversified due to the large number of entities, government agencies, and individuals composing the Western Territory's program and donor base. The Western Territory performs credit evaluations and records reserves for uncollectible amounts.

17. CONTINGENCIES AND COMMITMENTS

Legal Proceedings—The Western Territory is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based upon current facts and circumstances known by the Western Territory, resolution of these matters will not have a material effect on the Western Territory’s financial statements.

Bequests—Revenue from legacies and bequests is recognized when such gifts become unconditional promises to give and are reflected in the accompanying combined statements of activities as legacies and bequests income with and without donor restrictions based on the existence of donor-imposed restrictions.

The Western Territory has also been named beneficiary in a number of bequests. These bequests have not been recorded in the accompanying financial statements because the donors’ wills have not yet been declared valid by the probate court and/or the value of the amounts to be received is not yet determinable.

Income Taxes—The Western Territory recognizes or derecognizes a tax position based on whether the position is “more likely than not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Western Territory has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it was nexus, and to identify and evaluate other matters that may be considered tax positions. The Western Territory has determined that as of September 30, 2023 and 2022, there were no material uncertain tax positions that require recognition or disclosure in the financial statements.

18. LEASES

The Western Territory leases real estate for thrift stores, program needs, and office space through operating leases. These agreements have initial lease terms ranging from five to 30 years, with current contractual periods expiring at various dates through December 2051. Lease terms may include options to extend or terminate the lease and renewal and termination options are factored into estimated future lease payments when it is reasonably certain that those options will be exercised.

As of the lease commencement date, the lease liability is initially measured as the present value of lease payments not yet paid. The leases are discounted using the incremental borrowing rate for existing debt of approximately 5% as the rate implicit in the lease is generally not readily determinable. The lease asset is initially measured equal to the lease liability and adjusted for lease payments made at or before lease commencement (e.g., prepaid rent), lease incentives received prior to lease commencement, and any initial direct costs. Expense for short-term leases is recognized on a straight-line basis over the lease term.

Right-of-use operating lease assets as of September 30, 2023 and 2022 were as follows:

	2023	2022
Right-of-use operating lease assets—real estate	\$ 43,460	\$ 49,317
Less accumulated amortization	<u>(9,674)</u>	<u>(15,704)</u>
Right-of-use operating lease assets	<u>\$ 33,786</u>	<u>\$ 33,613</u>

The components of lease expense included within occupancy, furnishings and equipment in the statement of functional expenses for the year ended September 30, 2023 and 2022, were as follows:

	2023	2022
Operating lease costs	\$ 11,698	\$ 7,838
Short-term and variable lease costs	<u>5,414</u>	<u>5,161</u>
Total lease expense	<u>\$ 17,112</u>	<u>\$ 12,999</u>

As of September 30, 2023 and 2022 cash flow information related to leases was as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities—operating cash flows from operating leases	<u>\$ 11,305</u>	<u>\$ 11,160</u>

Future minimum lease payments as of September 30, 2023, are as follows:

September 30

2024	\$ 10,293
2025	8,266
2026	6,710
2027	4,868
2028	4,069
Thereafter	<u>4,269</u>
Total	38,475
Less: Present value discount	<u>(4,303)</u>
Lease liability	<u>\$ 34,172</u>

The weighted average remaining lease term and weighted average discount rate at September 30, 2023 and 2022, were as follows:

	2023	2022
Weighted- average remaining lease term—operating leases	4.6 years	3.3 years
Weighted- average discount rate—operating leases	5 %	5 %

The Western Territory also receives rental payments on operating leases. Total rental income recognized within other revenue during the year was \$6,569,000 and \$4,304,000 for the years ended September 30, 2023 and 2022, respectively. The following is a schedule by years of minimum future receipts on noncancelable operating leases as of September 30, 2023 (in thousands):

**Years Ending
September 30**

2024	\$ 2,688
2025	1,576
2026	917
2027	399
2028	203
Thereafter	<u>387</u>
Total	<u>\$ 6,170</u>

19. RELATED-PARTY TRANSACTION

The Western Territory made the following payments to The Salvation Army, National Headquarters (NHQ). For 2023 and 2022, the Western Territory provided to NHQ \$1,300,000 for NHQ administration, and \$8,078,000 and \$15,919,000, respectively, for world services. These amounts are included in other expenses and world services support, respectively, in the accompanying combined statements of functional expenses.

20. AFFILIATE INFORMATION

The combined financial statements of the Western Territory include the financial position of The Salvation Army, a California Corporation (“California Corporation”), as well as the Partnerships, Captive, Services, Inc., and Affordable Housing (collectively, “Affiliates/Other” below) (Note 1). Accordingly, The Salvation Army, a California Corporation column represents the financial position of the California Corporation on a stand-alone basis. The combined statement of financial position of the Western Territory as of September 30, 2023, is as follows (in thousands):

	California Corporation	Affiliates/ Other	Eliminations	Combined
Assets:				
Cash and cash equivalents	\$ 133,928	\$ 6,558	\$ -	\$ 140,486
Restricted cash	1,404	46,328		47,732
Accounts receivable—net	77,958	412		78,370
Receivable from affiliates	39,273		(39,273)	-
Legacies and bequests receivable	909,703			909,703
Pledges receivable—net	13,656			13,656
Inventory	5,171			5,171
Prepaid expenses and deferred charges	7,082	9,957		17,039
Mortgages and notes receivable	<u>2,190</u>			<u>2,190</u>
Total	<u>1,190,365</u>	<u>63,255</u>	<u>(39,273)</u>	<u>1,214,347</u>
Investments:				
Investments—at fair value	1,605,361	81,157		1,686,518
Assets held under split-interest agreements	<u>121,461</u>			<u>121,461</u>
Total investments	<u>1,726,822</u>	<u>81,157</u>	<u>-</u>	<u>1,807,979</u>
Right-of-use operating lease assets	<u>33,786</u>			<u>33,786</u>
Land, buildings, and equipment:				
Land—at cost	234,014	18,641		252,655
Buildings—net	965,077	119,636		1,084,713
Construction in progress	112,535	563		113,098
Equipment—net	25,927	4,451		30,378
Assets held for sale	<u>321</u>			<u>321</u>
Total land, buildings, and equipment	<u>1,337,874</u>	<u>143,291</u>	<u>-</u>	<u>1,481,165</u>
Total assets	<u>\$4,288,847</u>	<u>\$ 287,703</u>	<u>\$ (39,273)</u>	<u>\$4,537,277</u>

(Continued)

	California Corporation	Affiliates/ Other	Eliminations	Combined
Liabilities:				
Accounts payable and accrued expenses	\$ 55,160	\$ 14,444	\$ -	\$ 69,604
Payable to THQ		39,273	(39,273)	-
Liability for split-interest agreements	91,682			91,682
Mortgages and notes payable	80,782	198,231		279,013
Estimated liability for self-insured claims	1,919	36,227		38,146
Estimated liability for pension plan, retirement, and post retirement benefits	622,271			622,271
Lease liabilities	34,172			34,172
Other liabilities	<u>22,415</u>	<u>20,068</u>		<u>42,483</u>
Total liabilities	<u>908,401</u>	<u>308,243</u>	<u>(39,273)</u>	<u>1,177,371</u>
Net assets:				
Without donor restrictions	1,548,554	(20,540)		1,528,014
With donor restrictions	<u>1,831,892</u>			<u>1,831,892</u>
Total net assets	<u>3,380,446</u>	<u>(20,540)</u>	<u>-</u>	<u>3,359,906</u>
Total liabilities and net assets	<u>\$ 4,288,847</u>	<u>\$ 287,703</u>	<u>\$ (39,273)</u>	<u>\$ 4,537,277</u>

(Concluded)

As of September 30, 2023 and 2022, charitable gift annuities totaled \$58,816,000 and \$61,152,000, respectively, and were included in liability for split-interest agreements in the combined statements of financial position.

21. SUBSEQUENT EVENTS

The Western Territory has evaluated subsequent events through February 16, 2024, the date the financial statements were available to be issued.

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