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12:25pm

THE WHITE HOUSE

WASHINGTON

January 25, 1980

PRESENTATION OF THE SALVATION ARMY'S ANNUAL REPORT

Monday, January 28, 1980

12:25 p.m.

The Oval Office

From: Anne Wexler *Ann*

I. PURPOSE

To accept the Salvation Army's Annual Report and to celebrate the Salvation Army's 100th Anniversary.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

- A. Background: The Salvation Army traditionally mails its Annual Report to you; however, because 1980 is their 100th anniversary, the group requested a personal meeting with you.

The Salvation Army has invited you to open their Centennial Conference this June in Kansas City. No decision has been made on your participation.

- B. Participants: National Commander Ernest Holz and Prime Osborn, Chairman of the National Advisory Council of the Salvation Army. Osborn, also Chairman of the Board of Seaboard Coast Line Industries of Jacksonville, Florida, attended a Salt II briefing on August 15, 1979.

- C. Press Plan: White House photographer.

III. AGENDA

Commander Holz will present you with the Annual Report and make some remarks.

IV. TALKING POINTS

- o It is a privilege to participate in the celebration surrounding the 100th anniversary of the Salvation Army

in America. Through the years, I have come to appreciate the broad scope of your work extending far beyond the red kettles and brass bands at Christmas time with which the public is most familiar.

- o Based on General Booth's commitment to minister to the "whole" man, the Salvation Army in America has taken the lead in a wide range of social services. I commend you for the clinics, recreation centers, children's camps, homes for unwed mothers as well as the emergency feeding and shelter stations.



A Century in America Serving God and Man

1880-1980



In its many diversified programs,
The Salvation Army always attempts
to serve the whole person —
body, mind and soul — so that each one
may attain his or her
God-given potential.

THE SALVATION ARMY

NATIONAL HEADQUARTERS 120 West 14th Street New York, New York 10011	EASTERN TERRITORY 120 West 14th Street New York, New York 10011	CENTRAL TERRITORY 860 North Dearborn Street Chicago, Illinois 60610
SOUTHERN TERRITORY 1424 Northeast Expressway Atlanta, Georgia 30329	WESTERN TERRITORY 30840 Hawthorne Blvd. Rancho Palos Verdes, California 90274	



ARNOLD BROWN
GENERAL



FOUNDED 1865

THE SALVATION ARMY

WILLIAM BOOTH, FOUNDER

NATIONAL HEADQUARTERS

120-130 WEST FOURTEENTH STREET

NEW YORK, N. Y. 10011

ERNEST W. HOLZ
COMMISSIONER

OFFICE OF
THE NATIONAL COMMANDER

(212) 620-4908

January 28, 1980

The President
The White House
Washington, DC

Dear Mr. President:

It is my pleasure to present an informal annual report of the work of The Salvation Army. The balance sheets of the four Salvation Army territories in the United States tell our financial story for the last calendar year. Highlights of our varied programs of service are touched upon in the listing on the covering folder.

But programs and dollars raised and spent are only indications of our services to the American people.

Our mission is essentially spiritual.

It is a privilege to welcome neglected children to our neighborhood centers. But it is a greater privilege to help those children -- and their parents -- begin to learn about God's love for them, to see an unhappy, divided family begin to enjoy a wholesome family life.

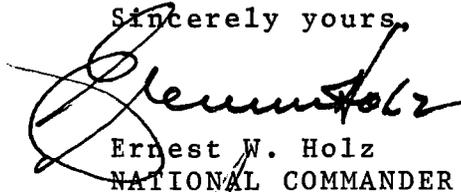
As we work to help an alcoholic, or a discharged prisoner back on his feet, we rejoice at every evidence of progress-- a job, better health, an orderly life. But, we always pray that like the Prodigal Son in the Bible, he will come to himself and return to his Father.

The spiritually poor, the lonely, and the alienated are found in all walks of life, in affluent neighborhoods as well as poverty-stricken ghettos. Our desire to serve is not limited by any boundary of race, creed, color or class.

The trust that the public feels for our organization is shown in the time that busy men and women give to serving on our advisory boards. We feel that the public relies on us to use the funds they give us wisely and thriftily. We have a obligation to examine our programs and keep them up-to-date, or discontinue them if no longer needed.

We believe that these four reports covering our stewardship in the 50 states show an honorable record, and that we will continue to merit the support of the American people that we serve in the name of the Lord Jesus Christ.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Ernest W. Holz".

Ernest W. Holz
NATIONAL COMMANDER

A handwritten signature in cursive script, appearing to read "Prime F. Osborn III".

Prime F. Osborn III
CHAIRMAN
NATIONAL ADVISORY COUNCIL

Statistical Highlights of Salvation Army Services

(Calendar Year - 1978)

- Community Centers -- The Salvation Army operates over 900 community centers where children, families, and older people found wholesome recreation, Sunday School, worship services, and caring professional help -- if needed.
- Help for the Addicted -- Over 57 thousand men and women -- alcohol and drug abusers -- received rehabilitative treatment at our nationwide network of adult rehabilitation centers.
- Older People -- The Salvation Army sponsors 384 centers for senior citizens where approximately 200,000 older people found companionship, and the opportunity to develop new interests and hobbies.
- Young People -- Over 26 thousand youngsters attended our summer camps. We sponsored more than 2,000 Boy Scout and Girl Guard troops with a membership of over 40,000. Over 94,000 children attended our Sunday Schools. More than 7,000 were members of young people's bands. Over 25,000 preschoolers were tenderly nurtured at our day care centers.
- Family Aid -- Material assistance and counseling services were provided to 2,420,125 persons in troubled families.

Prison Work

- Personal counselling and practical assistance were given to over 162,000 inmates, released prisoners and their families.

League of Mercy

- Salvation Army volunteers visited almost 4 million persons in hospitals, nursing homes and other institutions throughout the year.

Holiday Help

- During the Thanksgiving-Christmas season, over 2½ million persons were aided so that they and their families might share in the joys of the season.

Emergency Service

- Over 500,000 persons received food, shelter, furniture and/or clothing to tide them over during disasters, such as flood, fire, hurricanes, tornadoes, etc.

World Services

- The Salvation Army responded with financial and material aid to the victims of natural and man made disasters around the world, including the refugee "Boat People" of South East Asia, the Nicaraguan civil strife, hurricane floods in India, Jamaica, The Philippines, Dominica, Trinidad, Dominican Republic and Haiti. Individual Salvationists also gave a total of \$4,900,000 toward the support of Salvation Army aid programs in 38 less developed nations where an extensive ministry of social services and evangelism is maintained.

STAFF

Five thousand commissioned Salvation Army officers assisted by 229,000 volunteers and 22,000 employees bring these services to the American people.

*In 50 states,
The Salvation Army operates
over 9,000 centers
serving*

children • families • older people • the handicapped • pre-schoolers
alcoholics • drug addicts • prisoners • parolees
unmarried parents • the hospitalized • disaster victims • the needy
through

neighborhood corps community centers • summer camps
residences • adult rehabilitation centers • group homes
family counselling bureaus • service extension units
emergency disaster canteens • Christmas/Thanksgiving aid
visitation in institutions • day care centers • correctional bureaus

staffed by

5,000 commissioned Salvation Army officers
229,000 volunteers 22,000 employees

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

A MEMBER FIRM OF
COOPERS & LYBRAND (INTERNATIONAL)

The Salvation Army
Western Territorial Headquarters

We have examined the balance sheet of The Salvation Army Western Territorial Headquarters as of September 30, 1978. Except as set forth in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In accordance with the terms of our engagement, we did not examine the assets and liabilities of the social service institutions or the Evangeline Residences for Young Women as of September 30, 1978 included in the accompanying financial statements and, accordingly, we do not express an opinion on them.

As discussed in Note 2, the financial statements of the Western Territorial Headquarters of The Salvation Army at September 30, 1978 are not in full compliance with generally accepted accounting principles nor the Audit Guide issued by the American Institute of Certified Public Accountants on "Audits of Voluntary Health and Welfare Organizations". The effects on the financial statements as a result of the noncompliance are not reasonably determinable.

As discussed in Note 3, it is the policy of the Salvation Army to self-insure. The financial statements of the Western Territorial Headquarters of The Salvation Army at September 30, 1978 do not include an accrual for estimated future liability on currently pending insurance claims.

In our opinion, except for the amounts relating to the social service institutions and the Evangeline Residences for Young Women included therein, as discussed in the third preceding paragraph, and except for the effects, if any, of not fully adopting generally accepted accounting principles and the Audit Guide, as discussed in the second preceding paragraph, and except for the effects of not accruing estimated future liability on currently pending insurance claims, as discussed in the preceding paragraph, the aforementioned balance sheet presents fairly the financial position of The Salvation Army Western Territorial Headquarters at September 30, 1978, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers + Lybrand

Los Angeles, California
January 12, 1979

THE SALVATION ARMY
WESTERN TERRITORIAL HEADQUARTERS

BALANCE SHEET
September 30, 1978

A S S E T S:

Current Funds:			
Operating:			
Cash:			
Western Territorial Headquarters	\$137 635		
Social Service Institutions (unaudited)	<u>684 452</u>	\$822 087	
Accounts receivable, Inter-Salvation Army and other:			
Western Territorial Headquarters	858 849		
Social Service Institutions (unaudited)	<u>290 283</u>	1 149 132	
Inventories, principally at first-in, first-out cost (not in excess of market):			
Western Territorial Headquarters	334 217		
Social Service Institutions (unaudited)	<u>3 151</u>		
Deposits and advances		337 368	
		<u>41 274</u>	
		<u>2 349 861</u>	
Board Designated:			
Securities, at cost (market value \$53,939,833)	53 090 227		
Cash and temporary investments	2 106 631		
Accounts and notes receivable	1 269 107		
Loans receivable from Land and Buildings And Improvements Fund	8 045 809		
Loans receivable from Operating Fund	468 815		
Other	<u>311 708</u>	65 292 297	
Donor Designated:			
Securities, at cost (market value \$9,867,789)	9 624 141		
Cash	34 808		
Real estate and improvements	<u>371 784</u>	10 030 733	
Total current funds		<u>77 672 891</u>	
Land, Buildings And Improvements Fund:			
Land (834 properties in 296 cities)		25 642 468	
Buildings and Improvements (net of accumulated depreciation of \$18,098,767)		<u>87 351 059</u>	
		<u>112 993 527</u>	
Segregated Gift And Employees' Retirement Annuity Fund:			
Securities, at cost (market value \$4,623,458)	4 175 889		
Cash	682 315		
Deposit with Board Designated Funds	1 522 203		
Accounts receivable	217 307		
Real estate and improvements	<u>73 684</u>		
		<u>\$6 671 398</u>	

LIABILITIES AND FUND BALANCES:

Current Funds:			
Operating:			
Accounts payable:			
Western Territorial Headquarters	\$501 727		
Social Service Institutions (unaudited)	529 414		
Loan payable to Board Designated Funds	<u>468 815</u>	\$1 499 956	
Miscellaneous Funds - Social Service Institutions (unaudited)			132 124
Working Capital Fund:			
Western Territorial Headquarters, page 4	804 471		
Social Service Institutions, page 4 (unaudited)	<u>(86 690)</u>		
			<u>717 781</u>
			<u>2 349 861</u>
Board Designated:			
Accounts payable	555 958		
Officers' Sick Benefit and Burial Fund, page 10	610 561		
Officers' Retirement Fund, page 11	9 249 309		
Employees' Pension Fund	4 903 484		
Deposit from Annuity Fund	1 596 473		
Men's Social Service Department Funds and Trusts	1 979 352		
Insurance Fund	1 637 143		
World Services Projects Fund, page 12	1 150 421		
Fund for Equipment Replacement - Western Territorial Headquarters	142 447		
Bequests, Property and Maintenance Funds, and Deposits of Proceeds of Local Appeals	<u>43 467 149</u>	65 292 297	
Donor Designated:			
Accounts payable	860		
Donor Designated Funds' balance	<u>10 029 873</u>	10 030 733	
Total current funds			<u>77 672 891</u>
Land, Buildings And Improvements Fund:			
Mortgages payable, with interest rates ranging between 3% and 8 1/2%			11 889 671
Loans payable to Board Designated Fund balance, page 4			8 045 809
			<u>93 058 047</u>
			<u>112 993 527</u>
Segregated Gift And Employees' Retirement Annuity Fund:			
Accounts payable			1 522
Fund for retired employees' annuities			939 580
Accrued obligation for annuity contracts			4 992 487
Fund balance			<u>737 809</u>
			<u>\$6 671 398</u>

The accompanying notes are an integral part of this financial statement.

1. Summary Of Significant Accounting Policies:

- The financial statements include all activities of The Salvation Army in the Western Territory except those of divisions and corps. However, investments held in trust and real estate and related obligations pertaining to divisions and corps are included.
- Real estate is stated at cost or, if donated, at appraised value at the date of gift for property used for Salvation Army purposes. Depreciation of buildings and improvements is provided over their estimated useful life, 50 years, on the straight-line method. Land and buildings with a net book value of \$18,804,000 are pledged as collateral for mortgages payable.
- Marketable securities are stated at cost or, if donated, at the market price at date of gift. Undistributed earnings was increased \$3,266,873 by net gains of securities and was decreased \$3,554,291 by income distributed to the Board and Donor designated current funds in excess of dividends and interest received from securities. Income distributed to all trust funds was made in accordance with The Salvation Army's policy of distributing income earned on such securities based upon a stated percentage of the average trust fund balances during the year.

2. Compliance With Audit Guide:

The financial statements are prepared in accordance with national accounting policies of The Salvation Army. These policies comply with generally accepted accounting principles as well as the provisions and reporting presentations outlined in the American Institute of Certified Public Accountants' Audit Guide "Audits of Voluntary Health and Welfare Organizations", except as follows:

- Results of operations are presented in selected income, expense and appropriations statements and a statement of changes in fund balance is presented for certain funds. The Audit Guide provides that the results of operations be presented in a statement of support, revenue and expenses and changes in fund balances including all funds, and a statement of functional expenses.
- Costs of additions to furniture, fixtures and equipment are charged to replacement reserves in the current fund. Related depreciation is not recorded. The Audit Guide requires assets to be capitalized and depreciated over their estimated useful lives.
- Proceeds from the disposal of land and building fund assets are generally included as income in current funds, whereas the Audit Guide provides that gains and losses from such dispositions are to be reflected in the Land, Building and Improvements fund.

2. Compliance With Audit Guide, Continued:

- A noncontributory retirement plan for officers is self-funded and annual provisions are discretionary. In addition, contribution by the Western Territory to a self-funded pension plan covering eligible employees is determined by a stipulated percentage of employees' salaries. Under generally accepted accounting principles the provision for pension plans should be based upon an accepted actuarial cost method and a liability for prior service cost should be disclosed.
- The fair value of certain marketable securities and receivables from expected legacy proceeds is not recorded in the current funds. Additionally, the land and building fund includes parcels of property held for resale purposes recorded at nominal value. The Audit Guide requires these assets to be recorded at cost or, if donated, at appraised value at date of gift.

3. Self-Insurance:

The Western Territorial Headquarters is self-insured for losses up to \$250,000 per occurrence and insurance coverage is maintained for losses exceeding that amount. It is The Salvation Army policy to not recognize liabilities on pending claims in excess of the fund balance. At September 30, 1978, estimated claims of the Insurance Fund were approximately \$400,000 in excess of the fund balance of \$1,637,143. The excess of estimated claims over the fund balance can be compensated for, if necessary, by an appropriation from other Board-Designated Funds.

4. Commitments And Contingencies:

The following is a summary, by year, of future minimum rental payments required under operating leases, principally for facilities, that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 1978:

Fiscal Year Ending September 30,	Amount
1979	\$736 000
1980	543 000
1981	310 000
1982	158 000
Later years	<u>49 000</u>
Total minimum payments required	<u>\$1 796 000</u>

There are no material sublease or contingent rentals.

The Salvation Army is defendant in several lawsuits, the outcome of which is highly uncertain. In the opinion of management, unfavorable outcome of the lawsuits would not have a material adverse effect on The Salvation Army's financial statements at September 30, 1978.

THE SALVATION ARMY
WESTERN TERRITORIAL HEADQUARTERS

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THE SALVATION ARMY
WESTERN TERRITORIAL HEADQUARTERS

STATEMENT OF SUPPORT, REVENUE, EXPENSES
AND CHANGE IN FUND BALANCES
For The Year Ended September 30, 1978

	Current Funds				Land, Buildings And Improvements Fund	Segregated Gift And Employee Retirement Annuity Fund	Total All Funds
	Unrestricted		Restricted	Total			
	Operating	Board Designated					
Public support and revenue:							
Public support:							
Contributions		\$106 731	\$106 731	\$637 880			\$744 611
Donations in kind	\$9 181 227		9 181 227				9 181 227
Legacies and bequests		6 081 004	6 081 004	4 855 498			10 936 502
Total public support	9 131 227	6 187 735	15 368 962	5 493 378			20 862 340
Revenue:							
Investment income		3 235 983	3 235 983	326 290		\$260 164	3 822 437
Sales of materials and supplies	908 608		908 608				908 608
Net gain on disposal of properties		1 065 726	1 065 726	29 807			1 095 533
Net allocations from (to) other Salvation Army units	906 808	3 477 741	4 384 549	394 156		(14 541)	4 764 164
Other		33 030	33 030	16 042			49 072
Total revenue	1 815 416	7 812 480	9 627 896	766 295		245 623	10 639 814
Total public support and revenue	10 996 643	14 000 215	24 996 858	6 259 673		245 623	31 502 154
Expenses:							
Program expenses and allocations:							
Medical and retirement claims		2 192 412	2 192 412				2 192 412
World services projects				475 158			475 158
Payments to annuitants						206 214	206 214
School for officers training	661 931		661 931				661 931
Program departments of Territorial Headquarters	559 867		559 867				559 867
Total program expenses and allocations	\$1 221 798	\$2 192 412	\$3 414 210	\$475 158		\$206 214	\$4 095 582

Continued

THE SALVATION ARMY
WESTERN TERRITORIAL HEADQUARTERS

STATEMENT OF SUPPORT, REVENUE, EXPENSES
AND CHANGE IN FUND BALANCES, Continued
For The Year Ended September 30, 1978

	Current Funds			Restricted Donor Designated	Land, Buildings And Improvements Fund	Segregated Gift And Employee Retirement Annuity Fund	Total All Funds
	Unrestricted		Total Unrestricted				
	Operating	Board Designated					
Supporting services:							
Fund raising	\$143 650		\$143 650	\$75 000			\$218 650
Insurance expense		\$2 360 042	2 360 042				2 360 042
Cost of materials sold	703 358		703 358				703 358
Property maintenance		1 460 196	1 460 196	14 598			1 474 794
Purchase of furniture and equipment		1 692 055	1 692 055				1 692 055
Management and general	2 057 350	565 636	2 622 986	27 769		\$5 016	2 655 771
Other		226 067	226 067	5 588			231 655
Total support services	<u>2 904 358</u>	<u>6 303 996</u>	<u>9 208 354</u>	<u>122 955</u>		<u>5 016</u>	<u>9 336 325</u>
Depreciation on buildings					\$1 679 486		1 679 486
Total expenses	<u>4 126 156</u>	<u>8 496 408</u>	<u>12 622 564</u>	<u>598 113</u>	<u>1 679 486</u>	<u>211 230</u>	<u>15 111 393</u>
Excess (deficiency) of public support and revenues over expenses	6 870 487	5 503 807	12 374 294	5 661 560	(1 679 486)	34 393	16 390 761
Other changes in fund balances:							
Transfer to social service institutions to cover operating deficit	(4 051 668)		(4 051 668)				(4 051 668)
Funds returned to other Salvation Army units for land and building acquisitions		(5 629 120)	(5 629 120)	(254 036)			(5 883 156)
Net increase in land and buildings					9 358 058		9 358 058
Net decrease in mortgages and loans payable					(600 310)		(600 310)
Interfund transfers, net	(2 730 774)	669 985	(2 060 789)	2 121 537	(335)	(60 413)	
Fund balance, beginning of year	<u>716 426</u>	<u>62 595 194</u>	<u>63 311 620</u>	<u>2 500 812</u>	<u>85 980 120</u>	<u>763 829</u>	<u>152 556 381</u>
Fund balance, end of year	<u>\$804 471</u>	<u>\$63 139 866</u>	<u>\$63 944 337</u>	<u>\$10 029 873</u>	<u>\$93 058 047</u>	<u>\$737 809</u>	<u>\$167 770 066</u>

AUDITED FINANCIAL STATEMENTS
THE SALVATION ARMY
EASTERN TERRITORIAL HEADQUARTERS
September 30, 1978

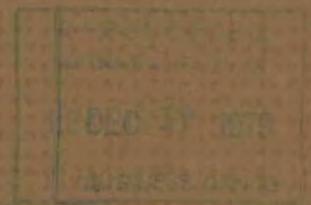
COOPERS & LYBRAND
CERTIFIED PUBLIC ACCOUNTANTS

Ernst & Ernst

→ Audited Financial Statements and
Other Financial Information

The Salvation Army
Southern Territorial Headquarters

September 30, 1978





The Salvation Army

FOUNDED IN 1865 BY WILLIAM BOOTH

SOUTHERN TERRITORIAL HEADQUARTERS
1424 NORTHEAST EXPRESSWAY
ATLANTA, GEORGIA 30329

OFFICE OF
THE TERRITORIAL COMMANDER

TELEPHONE
(404) 321-7870

Dear Friends:

May I commend to your thoughtful consideration our 52nd Balance Sheet and Statements of Account for the Southern Territorial Headquarters of The Salvation Army for the fiscal year ended September 30, 1978.

In recent years Americans have become acutely aware of the existence of vast pockets of poverty in the midst of our affluence. These pockets are to be found everywhere and they provide an inescapable challenge to our society. Salvationists have known of their existence, of course, for our officers and social workers have ministered to the poor ever since the Army commenced its work in the United States in 1880.

When we speak of poverty we think of the unemployed, the underemployed, and the unemployable. We also think of families deprived of a bread winner, as well as people who can't get decent accommodations for their children, but there is another kind of poverty that The Salvation Army grapples with as well. This is the poverty of those who are deprived of the benefits of wholesome family life; whose personalities are warped by addiction to alcohol or drugs; those who, though affluent, find little or no joy in living, whose hearts and homes are shattered by inner discord which so often leads to total disintegration.

Thus, when one says that Salvationists devote themselves to the poor and needy, one must see this in the broadest perspective. For the poor and needy exist in all classes of modern society and The Salvation Army believes it has an obligation to minister to all classes. This obligation arises from a spiritual compulsion that recognizes no boundary of race, creed, color or class.

As you review this report covering the stewardship of The Salvation Army in the fifteen Southern States and the District of Columbia, I remind you that behind this record of dollars and cents stand the generous support and superb service of thousands of people, young and old. Thank you for your concern and interest and I trust The Salvation Army will continue to merit your support and confidence as we serve "Others" in the name of the Lord Jesus Christ.

Sincerely yours,

Ernest W. Holz
COMMISSIONER

Ernst & Ernst

3600 First National Bank Tower • 2 Peachtree Street NW • Atlanta, GA 30303 • Phone 404/658-9400

The Salvation Army
Southern Territorial Headquarters
Atlanta, Georgia

We have examined the balance sheets of the Southern Territorial Headquarters of The Salvation Army as of September 30, 1978 and 1977, and the related statements of support, revenue, and expenses and changes in fund balances for the years then ended. Except as stated in the following paragraph, our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In accordance with the terms of our engagement, our procedures did not include examination of the separate financial statements of other Salvation Army units, which include Divisional Headquarters, Corps and Adult Rehabilitation Centers. The recorded amounts of contributions and other revenues allocated from these units to the Southern Territorial Headquarters are based upon amounts reported by the respective units.

The aforementioned financial statements are in conformity with generally accepted accounting principles except with respect to the pension costs for the officers' retirement reserve, absence of capitalization of certain equipment and furnishings and nonrecognition of gains and losses from the disposition of land and building fund assets, all as more fully described in Notes A and C.

In our opinion, except for the effect which is not reasonably determinable of the accounting policies which are not in accordance with generally accepted accounting principles, as described in the third paragraph, the financial statements referred to above present fairly the financial position of the Southern Territorial Headquarters of The Salvation Army as of September 30, 1978 and 1977, and the results of its operations and the changes in its fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In our report dated January 13, 1978, our opinion on the 1977 financial statements was qualified as being subject to the effects on the 1977 financial statements of such adjustments, if any, as might have been determined to be necessary had we examined the detail records maintained by the Divisional Headquarters, Corps and Adult Rehabilitation Centers. In 1978, it was determined that the effects of such adjustments, if any, would appropriately be recognized as increases or decreases in reported revenues of the current period (see Note D) and would not require restatement of previously reported amounts. Accordingly, our present opinion on the 1977 financial statements, as presented herein, is different from that expressed in our previous report.

Ernst & Ernst



Atlanta, Georgia
January 5, 1979

BALANCE SHEET

THE SALVATION ARMY--SOUTHERN TERRITORIAL HEADQUARTERS

September 30, 1978 with Comparative Totals for 1977

	CURRENT FUNDS		
	UNRESTRICTED		
	OPERATING	BOARD DESIGNATED	TOTAL
ASSETS			
Cash and cash items	\$ 32,948	\$ 829,549	\$ 862,497
Investments in pooled marketable securities, at cost--Notes A and B	4,311,391	24,186,963	28,498,354
Accounts receivable	-0-	1,052,250	1,052,250
Accounts receivable--Intra-Salvation Army	792,370	-0-	792,370
Inventories--Territorial Headquarters, at approximate cost	423,605	-0-	423,605
Deferred charges and other assets	78,976	298,699	377,675
Investments held in trust	-0-	540,867	540,867
Securities, at cost (market--\$1,134,986)--Notes A and B	-0-	-0-	-0-
Investment in pooled income fund--Notes A and B	-0-	-0-	-0-
Loans receivable from Land and Building Fund--Salvation Army properties--(contra)	-0-	8,947,498	8,947,498
Mortgages and notes receivable	-0-	868,883	868,883
Real estate held in trust	-0-	1,013,722	1,013,722
Land and buildings, at cost, less accumulated depreciation of \$20,017,297--Note A	-0-	-0-	-0-
	<u>\$5,639,290</u>	<u>\$37,738,431</u>	<u>\$43,377,721</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 126,567	\$ 82,726	\$ 209,293
Accounts payable to Institutions and other Headquarters	-0-	88,496	88,496
Deferred credits	40,599	830,273	870,872
Notes and mortgages payable	-0-	-0-	-0-
Loans payable to Board Designated Fund	-0-	-0-	-0-
Employee pension fund--Notes A and C	-0-	478,505	478,505
	<u>167,166</u>	<u>1,480,000</u>	<u>1,647,166</u>
FUND BALANCES			
Undesignated:			
Territorial Headquarters	782,073	-0-	782,073
Men's Social Service	220,716	-0-	220,716
Corps and Divisional reserves	4,469,335	-0-	4,469,335
Land and Building Fund	-0-	-0-	-0-
	<u>5,472,124</u>	<u>-0-</u>	<u>5,472,124</u>
Designated	-0-	36,258,431	36,258,431
	<u>5,472,124</u>	<u>36,258,431</u>	<u>41,730,555</u>
	<u>\$5,639,290</u>	<u>\$37,738,431</u>	<u>\$43,377,721</u>

See notes to financial statements

<u>DONOR RESTRICTED</u>	<u>LAND AND BUILDING FUND</u>	<u>ENDOWMENT FUND</u>	<u>SEGREGATED ANNUITY FUND</u>	<u>TOTAL ALL FUNDS</u>	
				<u>1978</u>	<u>1977</u>
\$ -0-	\$ 2,620	\$ -0-	\$ 3,090	\$ 868,207	\$ 235,414
3,695,166	6,504,620	1,687,344	-0-	40,385,484	33,769,003
-0-	-0-	-0-	11,676	1,063,926	908,138
-0-	-0-	-0-	-0-	792,370	771,794
-0-	-0-	-0-	-0-	423,605	422,906
-0-	-0-	-0-	-0-	377,675	366,766
249,467	-0-	-0-	-0-	790,334	537,121
-0-	-0-	-0-	1,173,435	1,173,435	1,668,593
-0-	-0-	-0-	308,410	308,410	230,748
-0-	-0-	-0-	-0-	8,947,498	8,260,730
-0-	130,799	-0-	-0-	999,682	992,366
-0-	-0-	-0-	-0-	1,013,722	999,528
-0-	129,039,474	-0-	-0-	129,039,474	121,000,154
<u>\$3,944,633</u>	<u>\$135,677,513</u>	<u>\$1,687,344</u>	<u>\$1,496,611</u>	<u>\$186,183,822</u>	<u>\$170,163,261</u>
\$ -0-	\$ 2,620	\$ -0-	\$ -0-	\$ 211,913	\$ 107,135
-0-	-0-	-0-	-0-	88,496	142,168
-0-	-0-	-0-	14,132	885,004	490,021
-0-	8,876,666	-0-	-0-	8,876,666	8,546,340
-0-	8,947,498	-0-	-0-	8,947,498	8,260,730
-0-	-0-	-0-	-0-	478,505	512,118
-0-	17,826,784	-0-	14,132	19,488,082	18,058,512
-0-	-0-	-0-	-0-	782,073	775,389
-0-	-0-	-0-	-0-	220,716	220,716
-0-	-0-	-0-	-0-	4,469,335	3,734,203
-0-	6,504,620	-0-	-0-	6,504,620	5,951,724
-0-	6,504,620	-0-	-0-	11,976,744	10,682,032
3,944,633	111,346,109	1,687,344	1,482,479	154,718,996	141,422,717
<u>3,944,633</u>	<u>117,850,729</u>	<u>1,687,344</u>	<u>1,482,479</u>	<u>166,695,740</u>	<u>152,104,749</u>
<u>\$3,944,633</u>	<u>\$135,677,513</u>	<u>\$1,687,344</u>	<u>\$1,496,611</u>	<u>\$186,183,822</u>	<u>\$170,163,261</u>

BALANCE SHEET

THE SALVATION ARMY--SOUTHERN TERRITORIAL HEADQUARTERS

September 30, 1977

ASSETS	CURRENT FUNDS		
	UNRESTRICTED		
	OPERATING	BOARD DESIGNATED	TOTAL
Cash and cash items	\$ 128,077	\$ 101,804	\$ 229,881
Investment in pooled marketable securities, at cost--Notes A and B	3,426,259	19,052,689	22,478,948
Accounts receivable	-0-	908,138	908,138
Accounts receivable--Intra-Salvation Army	771,794	-0-	771,794
Inventories--Territorial Headquarters, at approximate cost	422,906	-0-	422,906
Deferred charges and other assets	80,043	286,723	366,766
Investments held in trust	-0-	300,936	300,936
Securities, at cost (market--\$1,687,730)--Notes A and B	-0-	-0-	-0-
Investment in pooled income fund--Notes A and B	-0-	-0-	-0-
Loans receivable from Land and Building Fund--Salvation Army properties--(contra)	-0-	8,260,730	8,260,730
Mortgages and notes receivable	-0-	925,100	925,100
Real estate held in trust	-0-	999,528	999,528
Land and buildings, at cost, less accumulated depreciation of \$18,085,564--Note A	-0-	-0-	-0-
	<u>\$4,829,079</u>	<u>\$30,835,648</u>	<u>\$35,664,727</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 91,931	\$ 11,460	\$ 103,391
Accounts payable to Institutions and other Headquarters	-0-	142,168	142,168
Deferred credits	6,840	474,872	481,712
Notes and mortgages payable	-0-	-0-	-0-
Loans payable to Board Designated Fund	-0-	-0-	-0-
Employee pension fund--Notes A and C	-0-	512,118	512,118
TOTAL LIABILITIES	<u>98,771</u>	<u>1,140,618</u>	<u>1,239,389</u>
FUND BALANCES			
Undesignated:			
Territorial Headquarters	775,389	-0-	775,389
Men's Social Service	220,716	-0-	220,716
Corps and Divisional reserves	3,734,203	-0-	3,734,203
Land and Building Fund	-0-	-0-	-0-
	<u>4,730,308</u>	<u>-0-</u>	<u>4,730,308</u>
Designated	-0-	29,695,030	29,695,030
	<u>4,730,308</u>	<u>29,695,030</u>	<u>34,425,338</u>
	<u>\$4,829,079</u>	<u>\$30,835,648</u>	<u>\$35,664,727</u>

See notes to financial statements

<u>DONOR RESTRICTED</u>	<u>LAND AND BUILDING FUND</u>	<u>ENDOWMENT FUND</u>	<u>SEGREGATED ANNUITY FUND</u>	<u>TOTAL FUNDS</u>
\$ -0-	\$ 1,744	\$ -0-	\$ 3,789	\$ 235,414
3,761,299	5,951,724	1,577,032	-0-	33,769,003
-0-	-0-	-0-	-0-	908,138
-0-	-0-	-0-	-0-	771,794
-0-	-0-	-0-	-0-	422,906
-0-	-0-	-0-	-0-	366,766
236,185	-0-	-0-	-0-	537,121
-0-	-0-	-0-	1,668,593	1,668,593
-0-	-0-	-0-	230,748	230,748
-0-	-0-	-0-	-0-	8,260,730
-0-	67,266	-0-	-0-	992,366
-0-	-0-	-0-	-0-	999,528
-0-	121,000,154	-0-	-0-	121,000,154
<u>\$3,997,484</u>	<u>\$127,020,888</u>	<u>\$1,577,032</u>	<u>\$1,903,130</u>	<u>\$170,163,261</u>
\$ -0-	\$ 1,744	\$ -0-	\$ 2,000	\$ 107,135
-0-	-0-	-0-	-0-	142,168
-0-	-0-	-0-	8,309	490,021
-0-	8,546,340	-0-	-0-	8,546,340
-0-	8,260,730	-0-	-0-	8,260,730
-0-	-0-	-0-	-0-	512,118
-0-	16,808,814	-0-	10,309	18,058,512
-0-	-0-	-0-	-0-	775,389
-0-	-0-	-0-	-0-	220,716
-0-	-0-	-0-	-0-	3,734,203
-0-	5,951,724	-0-	-0-	5,951,724
-0-	5,951,724	-0-	-0-	10,682,032
3,997,484	104,260,350	1,577,032	1,892,821	141,422,717
<u>3,997,484</u>	<u>110,212,074</u>	<u>1,577,032</u>	<u>1,892,821</u>	<u>152,104,749</u>
<u>\$3,997,484</u>	<u>\$127,020,888</u>	<u>\$1,577,032</u>	<u>\$1,903,130</u>	<u>\$170,163,261</u>

STATEMENT OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES

THE SALVATION ARMY--SOUTHERN TERRITORIAL HEADQUARTERS

Year Ended September 30, 1978 with Comparative Totals for 1977

	CURRENT	
	OPERATING	UNRESTRICTED BOARD DESIGNATED
Public support and revenue:		
Public support:		
Contributions--Note D	\$ 4,986,990	\$ 1,000
Contributions to Building Fund	-0-	-0-
Legacies and bequests	5,000	5,790,962
TOTAL PUBLIC SUPPORT	<u>4,991,990</u>	<u>5,791,962</u>
Revenue:		
Investment income--Note A	258,016	1,138,248
Allocations from other Salvation Army Units	2,932,561	5,829,112
Program service fees	25,000	-0-
Sale of materials and supplies	1,869,935	-0-
Miscellaneous	70,741	-0-
TOTAL REVENUE	<u>5,156,253</u>	<u>6,967,360</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>10,148,243</u>	<u>12,759,322</u>
Expenses:		
Program expenses and allocations:		
Medical and retirement claims--Note A	-0-	1,408,311
Payment to annuitants and distribution of revenue	-0-	-0-
Returns to Salvation Army Units	2,913,257	4,785,839
World Service Projects	-0-	549,768
School for Officers' Training	675,295	-0-
TOTAL PROGRAM EXPENSES AND ALLOCATIONS	<u>3,588,552</u>	<u>6,743,918</u>
Supporting services:		
Property maintenance costs	336,677	-0-
Cost of materials sold	1,430,766	-0-
Management and general	2,659,383	2,072,482
TOTAL SUPPORTING SERVICES	<u>4,426,826</u>	<u>2,072,482</u>
Depreciation on buildings	-0-	-0-
TOTAL EXPENSES	<u>8,015,378</u>	<u>8,816,400</u>
EXCESS (DEFICIENCY) OF PUBLIC SUPPORT AND REVENUE OVER EXPENSES	2,132,865	3,942,922
Other changes in fund balances:		
Appropriations between funds	(1,394,049)	2,540,728
Distribution of endowment earnings	3,000	79,751
Net increase in equity in capitalized land and buildings	-0-	-0-
NET INCREASE (DECREASE) FOR THE YEAR	<u>741,816</u>	<u>6,563,401</u>
Fund balance at beginning of year	<u>4,730,308</u>	<u>29,695,030</u>
FUND BALANCE AT END OF YEAR	<u>\$ 5,472,124</u>	<u>\$36,258,431</u>

See notes to financial statements

FUNDS		LAND AND BUILDING FUND	ENDOWMENT FUND	SEGREGATED ANNUITY FUND	TOTAL ALL FUNDS	
TOTAL	DONOR RESTRICTED				1978	1977
\$ 4,987,990	\$1,038,481	\$ -0-	\$ -0-	\$ 170,874	\$ 6,197,345	\$ 6,136,002
-0-	-0-	4,248,892	-0-	-0-	4,248,892	3,460,083
5,795,962	903,824	-0-	61,819	-0-	6,761,605	6,332,553
<u>10,783,952</u>	<u>1,942,305</u>	<u>4,248,892</u>	<u>61,819</u>	<u>170,874</u>	<u>17,207,842</u>	<u>15,928,638</u>
1,396,264	242,431	376,028	96,351	125,563	2,236,637	3,373,847
8,761,673	563,857	-0-	-0-	-0-	9,325,530	5,872,844
25,000	-0-	-0-	-0-	-0-	25,000	86,780
1,869,935	-0-	-0-	-0-	-0-	1,869,935	1,655,146
70,741	-0-	-0-	-0-	-0-	70,741	55,660
<u>12,123,613</u>	<u>806,288</u>	<u>376,028</u>	<u>96,351</u>	<u>125,563</u>	<u>13,527,843</u>	<u>11,044,277</u>
<u>22,907,565</u>	<u>2,748,593</u>	<u>4,624,920</u>	<u>158,170</u>	<u>296,437</u>	<u>30,735,685</u>	<u>26,972,915</u>
1,408,311	-0-	-0-	-0-	-0-	1,408,311	1,023,353
-0-	-0-	-0-	-0-	109,818	109,818	77,538
7,699,096	2,138,865	5,251,165	-0-	-0-	15,089,126	11,312,780
549,768	78,827	-0-	-0-	-0-	628,595	669,655
675,295	-0-	-0-	-0-	-0-	675,295	597,883
<u>10,332,470</u>	<u>2,217,692</u>	<u>5,251,165</u>	<u>-0-</u>	<u>109,818</u>	<u>17,911,145</u>	<u>13,681,209</u>
336,677	-0-	-0-	-0-	-0-	336,677	310,925
1,430,766	-0-	-0-	-0-	-0-	1,430,766	1,170,573
4,731,865	-0-	-0-	-0-	-0-	4,731,865	4,327,149
6,499,308	-0-	-0-	-0-	-0-	6,499,308	5,808,647
-0-	-0-	2,221,895	-0-	-0-	2,221,895	2,003,764
<u>16,831,778</u>	<u>2,217,692</u>	<u>7,473,060</u>	<u>-0-</u>	<u>109,818</u>	<u>26,632,348</u>	<u>21,493,620</u>
6,075,787	530,901	(2,848,140)	158,170	186,619	4,103,337	5,479,295
1,146,679	(597,352)	(859)	48,493	(596,961)	-0-	-0-
82,751	13,600	-0-	(96,351)	-0-	-0-	-0-
-0-	-0-	10,487,654	-0-	-0-	10,487,654	11,005,293
<u>7,305,217</u>	<u>(52,851)</u>	<u>7,638,655</u>	<u>110,312</u>	<u>(410,342)</u>	<u>14,590,991</u>	<u>16,484,588</u>
<u>34,425,338</u>	<u>3,997,484</u>	<u>110,212,074</u>	<u>1,577,032</u>	<u>1,892,821</u>	<u>152,104,749</u>	<u>135,620,161</u>
<u>\$41,730,555</u>	<u>\$3,944,633</u>	<u>\$117,850,729</u>	<u>\$1,687,344</u>	<u>\$1,482,479</u>	<u>\$166,695,740</u>	<u>\$152,104,749</u>

STATEMENT OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES

THE SALVATION ARMY—SOUTHERN TERRITORIAL HEADQUARTERS

Year Ended September 30, 1977

	CURRENT	
	UNRESTRICTED	
	OPERATING	BOARD DESIGNATED
Public support and revenue:		
Public support:		
Contributions--Note D	\$4,333,320	\$ -0-
Contributions to Building Fund	-0-	-0-
Legacies and bequests	14,642	5,269,046
TOTAL PUBLIC SUPPORT	<u>4,347,962</u>	<u>5,269,046</u>
Revenue:		
Investment income--Note A	212,824	2,414,196
Allocations from other Salvation Army Units	2,208,068	2,505,210
Program service fees	86,780	-0-
Sale of materials and supplies	1,655,146	-0-
Miscellaneous	55,660	-0-
TOTAL REVENUE	<u>4,218,478</u>	<u>4,919,406</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>8,566,440</u>	<u>10,188,452</u>
Expenses:		
Program expenses and allocations:		
Medical and retirement claims--Note A	-0-	1,023,353
Payment to annuitants and distribution of revenue	-0-	-0-
Returns to Salvation Army Units	2,038,619	4,202,581
World Service Projects	-0-	374,464
School for Officers' Training	597,883	-0-
TOTAL PROGRAM EXPENSES AND ALLOCATIONS	<u>2,636,502</u>	<u>5,600,398</u>
Supporting services:		
Property maintenance costs	310,925	-0-
Cost of materials sold	1,170,573	-0-
Management and general	2,312,145	2,015,004
TOTAL SUPPORTING SERVICES	<u>3,793,643</u>	<u>2,015,004</u>
Depreciation on buildings	-0-	-0-
TOTAL EXPENSES	<u>6,430,145</u>	<u>7,615,402</u>
EXCESS (DEFICIENCY) OF PUBLIC SUPPORT AND REVENUE OVER EXPENSES	2,136,295	2,573,050
Other changes in fund balances:		
Appropriations between funds	(1,560,774)	810,667
Distribution of endowment earnings	2,985	80,151
Net increase in equity in capitalized land and buildings	-0-	-0-
NET INCREASE FOR THE YEAR	<u>578,506</u>	<u>3,463,868</u>
Fund balance at beginning of year	4,151,802	26,231,162
FUND BALANCE AT END OF YEAR	<u>\$4,730,308</u>	<u>\$29,695,030</u>

See notes to financial statements

* Certain amounts have been reclassified to conform to 1978 presentation.

FUNDS					
TOTAL	DONOR RESTRICTED	LAND AND BUILDING FUND	ENDOWMENT FUND	SEGREGATED ANNUITY FUND	TOTAL
\$ 4,333,320	\$1,095,804	\$ -0-	\$ -0-	\$ 706,878	\$ 6,136,002
-0-	-0-	3,460,083	-0-	-0-	3,460,083
5,283,688	1,048,865	-0-	-0-	-0-	6,332,553
<u>9,617,008</u>	<u>2,144,669</u>	<u>3,460,083</u>	<u>-0-</u>	<u>706,878</u>	<u>15,928,638</u>
2,627,020	230,419	340,214	94,170	82,024	3,373,847
4,713,276	1,159,566	-0-	-0-	-0-	5,872,844
86,780	-0-	-0-	-0-	-0-	86,780
1,655,146	-0-	-0-	-0-	-0-	1,655,146
55,660	-0-	-0-	-0-	-0-	55,660
<u>9,137,884</u>	<u>1,389,985</u>	<u>340,214</u>	<u>94,170</u>	<u>82,024</u>	<u>11,044,277</u>
<u>18,754,892</u>	<u>3,534,654</u>	<u>3,800,297</u>	<u>94,170</u>	<u>788,902</u>	<u>26,972,915</u>
1,023,353	-0-	-0-	-0-	-0-	1,023,353
-0-	-0-	-0-	-0-	77,538	77,538
6,241,200	1,547,222	3,524,358	-0-	-0-	11,312,780
374,464	295,191	-0-	-0-	-0-	669,655
597,883	-0-	-0-	-0-	-0-	597,883
<u>8,236,900</u>	<u>1,842,413</u>	<u>3,524,358</u>	<u>-0-</u>	<u>77,538</u>	<u>13,681,209</u>
310,925	-0-	-0-	-0-	-0-	310,925
1,170,573	-0-	-0-	-0-	-0-	1,170,573
4,327,149	-0-	-0-	-0-	-0-	4,327,149
5,808,647	-0-	-0-	-0-	-0-	5,808,647
-0-	-0-	2,003,764	-0-	-0-	2,003,764
<u>14,045,547</u>	<u>1,842,413</u>	<u>5,528,122</u>	<u>-0-</u>	<u>77,538</u>	<u>21,493,620</u>
4,709,345	1,692,241	(1,727,825)	94,170	711,364	5,479,295
(750,107)	(430,985)	1,222,235	-0-	(41,143)	-0-
83,136	11,034	-0-	(94,170)	-0-	-0-
-0-	-0-	11,005,293	-0-	-0-	11,005,293
<u>4,042,374</u>	<u>1,272,290</u>	<u>10,499,703</u>	<u>-0-</u>	<u>670,221</u>	<u>16,484,588</u>
<u>30,382,964</u>	<u>2,725,194</u>	<u>99,712,371</u>	<u>1,577,032</u>	<u>1,222,600</u>	<u>135,620,161</u>
<u>\$34,425,338</u>	<u>\$3,997,484</u>	<u>\$110,212,074</u>	<u>\$1,577,032</u>	<u>\$1,892,821</u>	<u>\$152,104,749</u>

NOTES TO FINANCIAL STATEMENTS

THE SALVATION ARMY--SOUTHERN TERRITORIAL HEADQUARTERS

NOTE A--ACCOUNTING POLICIES

The accounting principles followed by the Southern Territorial Headquarters of The Salvation Army and the methods of applying those principles which materially affect the determination of financial position and results of operations are summarized as follows:

Basis of Presentation: The Southern Territorial Headquarters of The Salvation Army is the governing headquarters for Salvation Army activity in the Territory. The accompanying financial statements include assets, liabilities, and operations resulting from activities of the Southern Territorial Headquarters and certain units under its immediate authority. The Salvation Army in the United States of America has established uniform accounting policies and practices. The Southern Territorial Headquarters has adopted these policies and practices as follows:

SUMMARY OF THE FISCAL POLICIES AND PRACTICES OF THE SALVATION ARMY IN THE UNITED STATES OF AMERICA

The Salvation Army, like many other voluntary welfare organizations, receives support and revenue from a multitude of sources. Whereas most of the support received is unrestricted and may be used for any purpose, a certain amount is designated for specific programs or goals, such as a building campaign. In addition, a Salvation Army unit, within policies established by its supervising headquarters, may designate for special purposes amounts of unrestricted contributions it has received.

All financial activities are classified into the following funds:

- a. Operating and board designated fund
- b. Donor restricted fund
- c. Land, building and equipment fund
- d. Endowment fund
- e. Life income and annuity fund

Salvation Army policies have been established for:

- a. Investments--within each territorial geographical area, all funds eligible for investments (board designated funds, endowments, property maintenance and equipment replacement reserves, etc.) are held in a central portfolio maintained at Territorial Headquarters, under the control of the Board of Trustees and with the guidance of experienced and knowledgeable investment personnel. Income from the central portfolio is distributed to the constituent accounts based upon a stated percentage of the account balances during the year. Funds required by law to be invested in separate portfolios are handled accordingly.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

THE SALVATION ARMY--SOUTHERN TERRITORIAL HEADQUARTERS

NOTE A--ACCOUNTING POLICIES--CONTINUED

- b. Land and building--the costs of all fixed assets purchased by The Salvation Army are recorded in the year of their acquisition and are reported as major property and equipment acquisitions in the "Statement of Support, Revenue, and Expenses and Changes in Fund Balances".
- c. Depreciation and replacement and maintenance reserves--a depreciation expense on buildings at a uniform annual rate of two percent (2%) is reflected as a non-funded charge in the unit's reports. In lieu of recognizing depreciation on certain equipment and furnishings, The Salvation Army sets aside funds for their replacement. Payments approximately equal to depreciation are made from the unit's operating funds to equipment replacement reserve accounts. This procedure provides for sufficient real funds being available when needed.
- d. Timing of revenue and expense recognition--the principal accounting methods affecting the timing of the recognition of revenue and expenses are the cash method and the accrual method. The cash method is used by the smaller units for recording transactions during the course of the year. At the fiscal year-end the accrual method is then used to recognize certain types of normal financial transactions. Larger units have developed year round accrual accounting and reporting capabilities. The Salvation Army classifies expenses by function in all units which deliver service to the public.
- e. Donated services, property, equipment and material--the value of donated services is included in the "Statement of Support, Revenue, and Expenses and Changes in Fund Balances", when such valuation is necessary for per diem cost reimbursement by a third party. Other donated services are not recorded when they are insignificant or do not meet the criteria set forth in the A.I.C.P.A. Audit Guide. Donations of land, building and equipment are included in the support section of the "Statement of Support, Revenue, and Expenses and Changes in Fund Balances" in the year in which they are received. The value assigned to the asset is fair market value at the time of the donation.

In addition to the uniform accounting policies and practices described above, which apply to all Salvation Army units, the following policies and practices also apply to the Southern Territorial Headquarters:

NOTES TO FINANCIAL STATEMENTS--CONTINUED

THE SALVATION ARMY--SOUTHERN TERRITORIAL HEADQUARTERS

NOTE A--ACCOUNTING POLICIES--CONTINUED

- a. The support of the Southern Territorial Headquarters is partially based upon allocations from other Salvation Army units, including Divisions and Adult Rehabilitation Centers. The allocations are based upon a fixed percentage of contributions and other revenues received at the unit level. In addition, certain expenses of the School For Officers' Training are also underwritten by the Divisions on a formula basis.
- b. Gains and losses arising from the sale of land and buildings are reflected as direct additions to or reductions from the fund balance of the Land and Building Fund. Further, additions to equipment and furniture are not capitalized but are charged against replacement reserves, which are a portion of the Board Designated Fund Balance. Generally accepted accounting principles require that gains and losses from the sale of land and buildings be recognized as items of revenue or expense, and that disbursements for equipment and furniture be capitalized as assets and depreciated over their estimated useful lives.
- c. The Southern Territorial Headquarters provides publications, books and supplies, uniforms, etc., to its local member units at cost plus a fixed percentage markup to cover overhead and certain operating expenses of the Southern Territorial Headquarters.
- d. Income to support the funds for retirement, medical and burial, and various insurance coverages are allocated from Divisions, Corps, and Social Service Institutions. Retirement and medical allocations are based on a fixed premium basis per individual. The employee pension plan is a fully funded "money purchase plan."
- e. The Southern Territorial Headquarters is self-insured for property losses up to \$50,000 per claim and insurance coverage is maintained for any losses which exceed \$250,000 in the aggregate in any three-year period.

NOTE B--MARKETABLE SECURITIES

Marketable securities, except those required by law to be invested in separate portfolios (segregated annuity fund), as of September 30, 1978 and 1977, approximated \$40,385,484 and \$33,769,003, respectively, at cost, and \$40,292,442 and \$33,337,494, respectively, at fair market value. These securities have been allocated prorata to the various funds, based upon contributions to the total securities portfolio.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

THE SALVATION ARMY--SOUTHERN TERRITORIAL HEADQUARTERS

NOTE B--MARKETABLE SECURITIES--CONTINUED

The Southern Territorial Headquarters has consistently followed the practice of maintaining a security valuation reserve resulting from gains, losses, income and expenses of securities transactions. The reserve at September 30, 1978 and 1977, of \$686,580 and \$1,318,699, respectively, is reported as part of the board designated fund balance.

NOTE C--RETIREMENT PLANS

The Southern Territory maintains a pension plan which provides for death, disability and retirement benefits for eligible employees. The plan, as amended in 1975 and approved by the Internal Revenue Service in 1976, is administered by the Board of Trustees of the Southern Territory and the plan's assets are held by a bank trustee. Annual contributions to the plan are based on stipulated percentages of employees' salaries and are funded by assessments from the respective Salvation Army units. The Southern Territorial Headquarters maintains reserves to fund past service cost and to provide benefits for employees who retired prior to the amendment of the plan in 1975.

A noncontributory retirement reserve for officers of the Southern Territory is self-funded through assessments made to the various units. Annual provisions to the reserve, which are discretionary in amount, are not determined by an actuarial cost method. Contributions to the reserve amounted to \$980,173 and \$534,067 for the years ended September 30, 1978 and 1977, respectively. The officers' retirement reserve is not accounted for in accordance with generally accepted accounting principles, which require recognizing anticipated future retirement costs ratably over the estimated working lives of the officers.

NOTE D--CONTRIBUTIONS

The Southern Territorial Headquarters recognizes, as a contribution, a portion of the revenue from reported sales of donated goods made by Adult Rehabilitation Centers to approximate the contributed value of the goods. Such contributions amounted to \$4,944,571 and \$4,287,788 for the years ended September 30, 1978 and 1977, respectively, and are used to fund current years' operations. The Southern Territorial Headquarters also receives support from other Salvation Army units, including Divisions and Corps, in amounts generally based on a specified percentage of the respective unit's revenues, as reported by the units.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

THE SALVATION ARMY--SOUTHERN TERRITORIAL HEADQUARTERS

NOTE E--SEGREGATED ANNUITY FUND

The annuity contract fund balance includes \$299,358 of funds maintained by a financial institution from which annuitants receive payments based upon the earnings of the fund. The remaining fund balance is represented by life income and annuity funds held by another financial institution from which annuitants receive payments based upon the terms of the annuity contract.

NOTE F--AUDIT GUIDE

In 1975, the Southern Territorial Headquarters of The Salvation Army adopted the major provisions of the A.I.C.P.A. Audit Guide "Audits of Voluntary Health and Welfare Organizations". Of the three financial statements required by the Audit Guide, the Southern Territorial Headquarters does not present a Statement of Functional Expenses as it is a support facility with substantially all expenses of the various departments being administrative in nature.

NOTE G--INCOME TAXES

The Salvation Army is a non-profit organization exempt from income taxation as provided by Section 501(a) of the Internal Revenue Code of 1954.



THE SALVATION ARMY
CENTRAL TERRITORIAL HEADQUARTERS

AUDITED FINANCIAL STATEMENTS

September 30, 1978

COOPERS & LYBRAND
CERTIFIED PUBLIC ACCOUNTANTS

12:15pm

THE WHITE HOUSE
WASHINGTON

January 25, 1980

MEETING WITH SPEAKER O'NEILL, CONGRESSMAN JIM CORMAN,
CONGRESSMAN MARIO BIAGGI, AND MISS SOPHIA LOREN

Monday, January 28, 1980
12:15 p.m. (5 minutes)
The Cabinet Room

From: Frank Moore

I. PURPOSE

Photo opportunity for Sophia Loren, Chairperson for the National Alliance for the Prevention and Treatment of Child Abuse and Maltreatment.

Goal: To eradicate child abuse by establishing primary treatment centers and to provide needed social, educational, and health services to strengthen families during the critical child-rearing years.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

On November 26, 1979, the President signed the Joint Resolution (H.J. Res. 428) proclaiming the month of December, 1979 as National Child Abuse Prevention month. At that time, a signing ceremony was desired, but never came to pass. Miss Sophia Loren as Chairperson of the National Alliance for the Prevention and Treatment of Child Abuse and Maltreatment will be present for a photo opportunity to campaign for contributions in attempt to gain recognition for this cause. Speaker T. O'Neill and his wife, Millie, are the National Vice Co-Chairmen of this Alliance. Because of the continued need for public awareness for this crisis and the personal involvement throughout the 1980s on the part of each American individual, this Alliance was established.

Participants: The President, Speaker Thomas O'Neill, Congressman Mario Biaggi, Congressman Jim Corman, Miss Sophia Loren, and Frank Moore and Bill Cable.

Press Plan: Full Press.

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for Preservation Purposes

III. TALKING POINTS

Following are some suggested remarks for the Speaker of the House, Thomas O'Neill, the President, and Miss Sophia Loren, respectively:

1. Speaker Thomas O'Neill:

"My wife Millie and I are honored to be the National Vice Chairmen of the campaign to eradicate child abuse. A recent House of Representative's resolution which was jointly approved by the Senate and acted upon by President Jimmy Carter has brought us here today. The effort of the National Alliance for the Prevention and Treatment of Child Abuse and Maltreatment is to focus greater attention on, and resources into, the movement to combat child abuse and neglect. In pursuit of this goal, the President has invited us here today. Mr. President.... (Time: 47 seconds)

2. The President:

- A. Our nation's children are our nation's future. We all share the responsibility for making sure they grow up in a healthy environment--a healthy physical environment, a healthy emotional environment.
- B. I appeal to all Americans to support the National Alliance for the Prevention and Treatment of Child Abuse and Maltreatment. This Alliance provides the social, educational and health services that are needed to strengthen families and prevent child abuse.
- C. I proclaimed last month--December, 1979--as National Child Abuse Prevention month. Working together, with sensitivity and concern, we must eliminate the incidence of child abuse and the life-long damage that results from it.
- D. It is my pleasure to introduce the national Chairwoman of the National Alliance for the Prevention and Treatment of Child Abuse-- Miss Sophia Loren... (Time: Approx. 1 minute)

3.

3. For Miss Sophia Loren:

"We are asking all persons to join in our national campaign to seek contributions to the National Alliance. Contributions will enable us to meet our goals for eradicating child abuse through education and rehabilitation. Please mail your contributions to the National Alliance, c/o Sophia Loren, New York, New York 10021.

IV. ADDENDUM

Attached is a copy of suggested material which has been prepared by Speechwriter's for your use.

Talking Points

1. OUR NATION'S CHILDREN ARE OUR NATION'S FUTURE.
WE ALL SHARE THE RESPONSIBILITY FOR MAKING SURE
THEY GROW UP IN A HEALTHY ENVIRONMENT--A HEALTHY
PHYSICAL ENVIRONMENT, A HEALTHY EMOTIONAL ENVIR-
ONMENT.
2. I APPEAL TO ALL AMERICANS TO SUPPORT THE NATIONAL
ALLIANCE FOR THE PREVENTION AND TREATMENT OF
CHILD ABUSE AND MALTREATMENT. THIS ALLIANCE PROVIDES
THE SOCIAL, EDUCATIONAL AND HEALTH SERVICES THAT ARE
NEEDED TO STRENGTHEN FAMILIES AND PREVENT CHILD
ABUSE.
3. I PROCLAIMED LAST MONTH--DECEMBER, 1979--AS NATIONAL
CHILD ABUSE PREVENTION MONTH. WORKING TOGETHER,
WITH SENSITIVITY AND CONCERN, WE MUST ELIMINATE THE
INCIDENCE OF CHILD ABUSE AND THE LIFE-LONG DAMAGE
THAT RESULTS FROM IT.
4. IT IS MY PLEASURE TO INTRODUCE THE NATIONAL
CHAIRWOMAN OF THE NATIONAL ALLIANCE FOR THE
PREVENTION AND TREATMENT OF CHILD ABUSE--MISS
SOPHIA LOREN.

THE WHITE HOUSE
WASHINGTON
28 Jan 80

Anne Wexler

The attached was returned in
the President's outbox today
and is forwarded to you for
appropriate handling.

Rick Hutcheson

~~Administratively
Confidential~~

THE WHITE HOUSE
WASHINGTON

Anne
J

January 26, 1980

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER *Anne*
SUBJECT: Activities Report -- Week Ending January 25, 1980

1. Registration

Expedite
We are working with Sarah Weddington, Jack Watson, OMB and others to brief and consult with appropriate groups in implementing your decision on registration and preparing materials and an outreach strategy for the February 9 report to the Congress. This week we are in contact with women, students and youth, religious, veterans and military service organizations.

2. Inflation

Yesterday we started a telephone and mail effort with the most affected constituent groups to discuss the CPI for 1979 and the actions which the Administration is taking. We are trying to emphasize again the long-term nature of the problem and why wage and price controls are not an appropriate solution.

3. Olympics

I leave on Sunday to lead a delegation to pick up the Olympic flame for the Lake Placid Winter Games. In addition to representatives of the Lake Placid and U.S. Olympic Committees, prominent Greek Americans are on the delegation. Their participation in the trip will get heavy coverage in the Greek American press.

We are working with Lloyd Cutler and former Olympians in the Administration to develop support from U.S. athletes.

4. Water Projects

Working with key environmental leaders, Interior and the Corps of Engineers, I have been coordinating strategy on House consideration of the Public Works/Water Projects bill. Although our chances for victory in the House are very poor, we are working to have one test vote that will demonstrate we can sustain a veto. To this end appropriate media backgrounders, editorial interviews, fact sheets and technical assistance to members and their staffs have all been provided and this will serve as a basis for our effort in the Senate. Howard Jarvis has again taken out an ad deploring this legislation, and the Post ran a good editorial this week.

5. Miscellaneous

- o The feedback on your sessions with the evangelical leaders was positive and your speech will be shown many times on their various television networks and programs.
- o I am working with outside ERA support groups to develop business support for ERA.
- o Jim Guy Tucker met with the evangelical leaders to discuss the White House Conference on the Family. While all of the evangelicals' problems with the Conference cannot be resolved, we will continue the dialogue.
- o On Friday, February 1, we will meet with about 200 local community action program executive directors and board members to discuss domestic issues. The Vice President will host the meeting.
- o We continue to work with Penny Laingen in response to various matters of concern to the families of the hostages. With Bill Cable we arranged for her to have a seat at the State of the Union and we are arranging for yellow ribbons to be placed on the Christmas tree.
- o My two sons (26 and 24) support registration. They thought your speech was excellent. So did I.

So does
chip.

THE WHITE HOUSE
WASHINGTON

28 Jan 80

Hugh Carter

The attached was returned in
the President's outbox today
and is forwarded to you for
appropriate handling.

Rick Hutcheson

cc: Al McDonald

THE WHITE HOUSE
WASHINGTON

1/25/80

Mr. President:

Al McDonald has no comment.

Rick/Patti

THE WHITE HOUSE

WASHINGTON

January 21, 1980

0
/

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER, *H.C.*

SUBJECT: Burials at Arlington National Cemetery

In my June 1977 memo to you (copy attached), you authorized me to make decision regarding interment at Arlington National Cemetery when the burial did not require additional grave space. You reserved the decision on new graves for yourself.

In order to alleviate the necessity for you to become personally involved in granting all waivers involving new grave space, I recommend that you also delegate this authority to me when the senior staff supports the request, and the request is otherwise appropriate. In the case where there is a difference of opinion among the senior staff, the matter would be presented to you for decision.

Approve _____

Disapprove _____

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for Preservation Purposes

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

June 20, 1977

*Old grave - High
New one - me -
J.C.*

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTEP *HC*

SUBJECT: Arlington Burials (Per Your Request)

In regard to your comment asking "Who is by White House direction?" on Frank Moore's memo concerning the burial of Sam Nelson at Arlington National Cemetery, the following information is provided.

Permission for the Fisher burial was granted by me, and permission for the Kurta burial was granted by Hamilton Jordan. Both these individuals were interred with relatives and required no additional space.

However, in the case of Sam Nelson, a new grave plot, was required and needed Presidential approval because of the limited space at Arlington.

In the cases that do not involve additional grave space, I feel there is no problem in allowing interment in the existing grave of relatives. However, if you would prefer to make these decisions in the future, please let me know.

THE WHITE HOUSE
WASHINGTON

January 28, 1980

MR. PRESIDENT:

Secretary Landrieu
called about your speech
last night. "It couldn't
have been better."

PHIL

THE WHITE HOUSE

WASHINGTON

January 23, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: Frank Moore *F. M.*
SUBJECT: Gasoline Rationing

Contained in this memorandum are: (1) a summary of the statutorily-required procedures for approving and implementing a gasoline rationing plan; and (2) the results of our consultations on the Hill.

1. Summary of the Statutorily-Required Procedures for Approving and Implementing a Gasoline Rationing Plan

Existing law requires a two-step procedure for (a) approving and (b) subsequently implementing a gasoline rationing plan. No provision is made for combining the two steps.

A. APPROVAL

A gasoline rationing plan is subject to a two-house veto. Such a plan receives priority and moves under expedited procedures. If, after "30 calendar days of continuous session", either or both Houses have not acted, the plan is automatically approved. However, if both Houses pass a joint resolution of disapproval, you may veto that resolution. The Congress then has the opportunity to override your veto (two-thirds vote of both Houses required).

B. IMPLEMENTATION

A plan which has already been approved by Congress may be implemented only in the following circumstances:

- (1) If you find that a "severe supply interruption" exists and also find that such an interruption would cause a gasoline shortfall in excess of 20%, you may submit an "action" to implement the plan. That "action" would be subject to a one-house veto within 15 legislative days.
- (11) If you find that a "severe supply interruption" exists, but also find that it would not cause a

gasoline shortfall in excess of 20%, you may submit an "action" to implement the plan. That "action" would have to be approved by both Houses of Congress within 30 calendar days of continuous session.

- (iii) If you submit an "action" to implement a plan in order to address an obligation under an international agreement, that "action" would be subject to a one-house veto within 15 legislative days. There is a requirement that you find the existence of a "severe supply interruption" but there is no 20% trigger.

2. Consultations

Members of Congress with whom we have consulted feel that a rationing plan should be submitted for approval before any rationing-related steps are taken or sought. The consensus is that the plan would be approved by Congress.

With the notable exception of Senator Byrd, most Members and staff experts with whom we spoke recommend against our seeking legislation to reduce the 20% trigger requirement. They feel that such a measure is not necessary primarily because existing law clearly contains a mechanism for seeking implementation of a previously-approved plan when the shortfall is less than 20%. (See B(ii) above). Under this mechanism the concurrent resolution permitting implementation would be considered under expedited procedures. On the other hand, legislation to eliminate or reduce the trigger would not enjoy the same statutorily-required priority.

In their view, using the existing mechanism has the additional advantage of not subjecting the basic law to amendments which would be objectionable.

Again, it is clear from discussions that Congress would overwhelmingly prefer that we seek approval of a rationing plan before taking any other steps. It is also clear that most Congressional leaders believe that we should use existing law which contains a provision permitting us to seek implementation of a previously-approved plan even if a 20% shortfall does not exist. Only one major Congressional leader (Senator Byrd) feels we should seek an amendment to existing law to eliminate or reduce the 20% figure.

As you know, the Department of Energy has already had its rationing plan printed in the Federal Register and public comments are now being received on it. The plan should be ready for submission to the Hill for approval by the end of February, assuming it survives final DoE and

White House scrutiny. The Department of Energy estimates that up to one year would be required for the Department to implement the plan after all Congressional hurdles have been cleared.

cc: Stu Eizenstat

THE WHITE HOUSE
WASHINGTON
28 Jan 80

Secretary Brown

The attached was returned in
the President's outbox today
and is forwarded to you for
appropriate handling.

Rick Hutcheson

cc: The Vice President
Hamilton Jordan
Zbig Brzezinski

~~SECRET~~

591

DECLASSIFIED
E.O. 12356, SEC. 3.4(b)
WHITE HOUSE GUIDELINES, FEB. 24, 1983
BY Jay NARS DATE 9/22/20

~~SECRET~~

cc Harold J



THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

January 25, 1980

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Significant Actions, Secretary and Deputy Secretary of Defense (January 19-25, 1980)

Rapid Deployment by Sea: We intend to go ahead with our maritime prepositioning ship construction program, to improve quickly our ability to project forces into the Middle East region. But in the light of possible needs in the Arabian Sea area this year, we will want to get a head start on such a capability if there is a sensible approach. To this end, we may well wish to acquire some commercial ships which are readily adaptable to military use and are immediately available at very attractive prices. For example, four "Maine" class roll-on/roll-off ships are available for sale or lease (with option to buy). These ships can be put to immediate use to carry the tanks, APCs and other heavy equipment of an Army mechanized brigade or a Marine amphibious brigade. We are examining the concept of loading two of these ships with such equipment, and prepositioning them in the Indian Ocean region within a few months. Also available is a barge carrier designed to carry 38 barges, each of which can accommodate about 900 tons of cargo. All 38 barges can be on-loaded and off-loaded within a period of 24 hours. A separate possibility exists with the availability of eight SL-7 container ships. These, owned by Sea Land Corporation, have a 33 knot capability, which makes them fuel inefficient and Sea Land is anxious to dispose of them. They may provide an effective fast sealift or resupply capability. We are working with OMB and Commerce to develop acquisition proposals for your consideration.

Meeting with Prime Minister Cossiga: I met with Cossiga late yesterday after his meeting with you, and he raised with me the subjects referred by you and Cy. I noted the sensitivity of the nuclear release authority matter and suggested that our discussions should continue through State/Embassy channels, with Defense prepared to implement any decisions. I also assured him that we would examine carefully his request for U.S. agreement to permit Italy to sell to Iraq frigates that use turbine engines produced under license from General Electric. Regarding the use of FMS to procure CH-47 helicopters embargoed for Iran, I suggested that the Egyptians may be interested; to what degree would be dependent, of

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SEC DEF CONTR No. X-06188

course, on the availability of attractive financing terms which I hoped Italy could give. I also offered to take a look at an Italian helicopter for possible use as an armed scout helicopter, although I did not encourage Cossiga to believe that we would be able to introduce such a helicopter into our own forces. Finally, I told him that I would have Assistant Secretary Dave McGiffert stop off in Rome to brief the new Italian MOD, Sarti, on the results of my China trip prior to Sarti's March PRC visit.

Technical Developments: There are a couple of developments that have emerged from reviews of high-energy laser work and of ASW work on which I'd like to fill you in personally when you can find a half-hour. *ok*

Congressional Breakfast Briefing on China Trip: At breakfast on Wednesday I briefed key Congressional leaders on my China trip, informing them fully of your decisions on the sale of military equipment and dual use technology. I also stressed the caution with which both sides approached the visit, and our emphasis on a mutually beneficial two-way relationship with the Chinese. The reaction was positive--and balanced--with most questions related to the broad strategic basis for our China policy and its future implications. Lester Wolff, whose three-week Far East trip ended too late for him to accept the breakfast invitation, subsequently made a confused (though he had been briefed) public objection, the effect of which I think will be minor.

Legislative Issues: On Wednesday, Graham Claytor, Dave Jones and LTG Gene Tighe, Director of the Defense Intelligence Agency, briefed the Senate Armed Services Committee on the situation in Iran and Afghanistan. The entire Committee attended the briefing, which lasted a total of four hours. It was reasonably well received, considering the committee composition, and provided us an indication of the line of questioning we can expect during the budget and posture hearings that begin next week. The Committee was very interested in Soviet military capability to intervene militarily in Iran and Pakistan as well as U.S. capability to respond to such moves. Senator Goldwater raised the issue of General Huyser's mission to Iran last year. Dave Jones fielded the question very well, but it will arise again. We have initiated discussions with Lloyd Cutler to formulate a sound Administration position to address press speculation and further Congressional inquiries. *Give this to me J*

Public Support of Defense Spending: In December I noted in my report to you that a Lou Harris poll had shown that the percentage of Americans who supported an increase in Defense budgets had grown sharply from 1971 to 1979. Now an Associated

Press-NBC News poll taken in mid-December--after the Iran crisis, but before Soviet intervention in Afghanistan-- confirms that public support for increased Defense spending has risen to 63%, the highest level in a decade. The December poll also showed that 21% of the population surveyed favored keeping Defense spending at current levels, only 8% called for a decrease, and 8% had no opinion. This continuing trend reflects, I think, a national consensus and should reinforce our position during the up-coming Congressional hearings. We will need to work even harder than usual to oppose unbalancing program changes by the Congress and excessive add-ons prompted by contractors who smell money.

Harold Brown

THE WHITE HOUSE
WASHINGTON

①

January 21, 1980

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Domestic Policy Staff Status Report

NATURAL RESOURCES

RARE II - Wilderness: A California Federal District Court Judge recently ruled that the EIS for the California RARE II process was insufficient. While directly affecting only California, the decision clouds the viability of the land designations that were made in your RARE II decision last year and has caused considerable business uncertainty in the West. It also improves the chances for enactment of legislation introduced by Tom Foley that finalizes your RARE II non-wilderness designations. No decision has been made whether to appeal this decision.

RPA - 1980: Within the next few weeks, Secretary Bergland will transmit to you the Forest Service's proposed long-term management program pursuant to Renewable Resources Planning Act of 1974 (RPA). The RPA is a status report and guidelines and goals for long-term management of the National Forests and our nation's renewable resources. You must transmit to Congress this report, together with your RPA policy statement. The policy statement will be a significant opportunity to express your views on renewable resources and very important to industry and environmentalists.

Alaska Lands: We are now preparing for early Senate floor action on the Alaska bill. We are working with CL, Interior, and Agriculture on amendment strategies to strengthen the Senate Committee bill and with Anne Wexler to set up staff briefings and media events for early February.

Omnibus Public Works Bill: The House Bill, HR 4788 is scheduled to come to the floor Jan. 22. The Senate bill S.703 is in subcommittee mark-up. The subcommittee has had trouble getting a quorum and it may be late Spring before a bill reaches the Senate floor. Both bills are unacceptable, and unless substantial improvements occur the final bill will be a strong veto candidate.

ENERGY

Water Resources Council/Independent Review Unit Authorization: The Senate has passed S. 480 reauthorizing the Water Resources Council and authorizing your expanded state grant program for state water management and water conservation technical assistance programs. They did not authorize the independent review unit, but will agree to it in Conference.

We are negotiating with the House committees and are close to agreement at the staff level. The biggest remaining issue is Congressional oversight. They want a retroactive legislative veto over the principles, standards, and procedures for planning Federal water projects and over the independent review regulations. We oppose this and Senate staff say they will back us on this issue. We believe they may settle for a "notice and wait" provision eventually if we stand firm against the legislative veto. (The revision of the principles and standards to incorporate non-structural alternatives and water conservation and the promulgation of a manual of procedures for calculating economic costs and benefits has been one of the key accomplishments of your water policy reforms.)

West-to-East Pipeline Decision: Your decision has been announced by Secretary Andrus and I and was well received in the Midwest. As you requested, I notified the Canadian government in advance.

Energy Mobilization Board: The EMB Conference will resume shortly after Congress reconvenes. The remaining major issues involve the grandfather clause, which you support, and the waiver of substantive law which you do not support.

Weatherization: DOE Undersecretary John Deutch has personally taken charge of an intensive management initiative in the weatherization program. He has brought in a top manager from DOE's San Francisco Office to direct this special effort for 90 days. DPS has been working with OMB, DOL, DOE, and CSA on improving program performance under the Interagency Action Plan, initiated in September. While some improvements have been made, the program has not dramatically improved. Production levels are still low and, at the current rate, DOE will be spending less than \$200 million of the over \$400 million it has available this year. Congressional frustration is growing and the program's chief sponsor, Senator Nelson, is sponsoring legislation this session to transfer the program back to CSA. Deutch has conceded that DOE must improve the program quickly or they do not deserve to keep it.

Alcohol Fuels: Your statement on the Administration's alcohol fuels program was released on January 11, 1980. We will continue to work with Congress on passage of the gasohol tax credits and the \$3 billion financial incentives program necessary to accelerate alcohol fuels production to achieve the 1981 500 million gallon capacity target which has been set.

DRUG ABUSE POLICY

Rise in Heroin Purity: Since the beginning of the Administration, we have experienced a continuing decrease in the use of heroin in the United States (overdose deaths reduced, heroin related injuries down; new estimate indicates 380,000 heroin addicts, down from 550,000 in 1977). However, for the first time since 1976 the heroin purity rate is showing a slight increase from 3.5% to 3.6%. According to the Drug Enforcement Administration, it is related to heroin of Middle Eastern origin -- Afghanistan, Pakistan, and Iran. Drug law enforcement and drug intelligence resources are giving special attention to this threat.

Tax Reform Act: The Senate Permanent Investigations Subcommittee (Sam Nunn) has held hearings on the financial aspects of drug trafficking. Enforcement agencies claim that limits placed on disclosure of taxpayer information by the Tax Reform Act of 1976 have severely affected their ability to pursue narcotics traffickers and other white-collar criminals. IRS and Treasury (Tax Policy) maintain that the effects of the Act have not been substantial and that the privacy rights involved are more important than enforcement concerns.

Commissioner Kurtz and Assistant Attorney General Phil Heymann are meeting under our direction to implement administrative procedures to allow maximum access to needed information under the current law. They will also identify areas where statutory changes are warranted and develop an agreed upon Administration position. We will ensure that any proposal balances privacy rights with enforcement interests.

BANKING AND FINANCE

Small Savers Reform: The conferees will meet March 4 to consider the phaseout of Regulation Q (Senate bill) and legislation to stem the decline in Federal Reserve Membership (House bill). There is a reasonable possibility that your major proposals will be approved, and a strong probability that the Congress will complete action on this issue this spring.

McFadden Act Study: We have succeeded in having the Congress request a delay in the Administration's submission of this controversial study until mid-spring.

HOUSING AND COMMUNITY DEVELOPMENT

Brooke-Cranston: We have asked the Banking Committees to expedite approval of the changes in Brooke-Cranston authorizing legislation submitted by the Administration. Senator Williams has scheduled hearings for February 6. This is separate from the decision we will eventually ask you to make on a supplemental appropriation to implement the program.

Condominium Legislation: We met in December with the leadership of the Florida condominium movement and have asked Senator Williams and Congressman Ashley to attach a high priority to quick action on this legislation. We are developing a strategy with Williams and the Florida delegation to accelerate this process.

GENERAL GOVERNMENT

Regulatory Reform: The Subcommittee on Administrative Practice and Procedure of the Senate Judiciary Committee has favorably reported a regulatory reform bill, S. 2147, which was co-sponsored by a broad cross-section of Senators, including Culver, Laxalt, Kennedy, Hatch, Metzenbaum, and Thurmond. The Senate Governmental Affairs Committee, to which our bill was jointly referred, has scheduled mark-up in late January. Meanwhile, the House Judiciary Subcommittee on Administrative Law and Governmental Relations is nearing completion on its hearings on the Administration's bill and plans to begin mark-up in mid-February.

Regulatory Oversight: With OSTP, CEA and Fred Kahn's staff, we have been following major pending final regulations, including OSHA's cancer policy, EPA's hazardous wastes policy, EPA's diesel particulates rule, and HEW's day care regulations, which will all be issued within the next three or four months. We are also following the RARG reviews of DOE's building energy performance standards and EPA's air carcinogen policy: these RARG reports are due in February. We do not expect significant intramural disputes over these rules.

Trucking Deregulation: The House and Senate Committee staffs have started drafting bills. We will send you details and a proposed strategy shortly.

Rail Deregulation: The Senate Commerce Committee reported out a rail deregulation bill. It falls short of our major deregulation proposals, but still provides for significant change. However, the bill was held up from Senate floor consideration because Senator Long threatened to place a cap on coal rates which would have contradicted the entire thrust of the bill. We are working with DOT to reach a compromise with Long. A draft of the House bill should be released shortly.

Lobby Reform: The House Judiciary Committee reported a bill which we will try and have strengthened on the House floor. A new Senate bill was just drafted. We are working with Justice on this legislation.

Judicial Reform Initiative: The Federal Courts Improvement Act you proposed creating a new Federal Court of Appeals and other important judicial administrative changes passed the Senate, but with the unacceptable Bumpers Amendment. We are working with Justice to generate House hearings on just the bill without the amendment. The Dispute Resolution Act passed both the House and Senate, and we are pushing for final passage with Justice.

Federal Election Campaign Act Amendments: House and Senate members and staff were very pleased with the resolution we worked out on signing of the Federal Election Campaign Act. They firmly pledge to work for repeal or amendment of the offensive prohibition on Federal employee contributions.

URBAN POLICY

General Revenue Sharing: The Administration's proposal to extend the General Revenue Sharing program for five years has been strongly endorsed by State and local officials. We are working with Treasury and OMB to finalize our legislative proposal and to build Congressional support for it. We expect to have the legislation ready for submission in early February.

Counter-Cyclical Legislation: With Cong. Jack Brooks' help, a compromise counter-cyclical and targeted fiscal assistance proposal passed the House Government Operations Committee in December. The targeted fiscal assistance program is somewhat less targeted than our original submission. Nevertheless, the compromise represents a substantial change of view by Cong. Brooks and is strongly endorsed by State and local officials. We are working with Speaker O'Neill and Cong. Brooks to obtain House consideration of this legislation as soon as Congress returns from recess.

Community Development Block Grants: The Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) programs are to be renewed this year. We expect that representatives of the South and West will make a major push to overturn the increased targeting that we proposed and Congress enacted in 1977. We are working with HUD to maintain Congressional support for the existing formula.

EDA Reauthorization: The Administration's EDA legislation has passed both the House and the Senate. Both bills contain virtually all elements of our original National Development Bank proposal. The House bill contains two objectionable features: 1) a \$2 billion stand-by public works program that would trigger into place when the national unemployment rate rises above 6.5 percent and 2) substantially less targeted eligibility criteria than we proposed. The Administration is strongly supporting the Senate position on both of these issues.

The Conferees met prior to the Christmas recess and resolved most of their differences on all but these two issues. We expect them to reconvene in late January, but to remain deadlocked. We may need to moderate our position somewhat to break this deadlock.

New York City: On January 15, Mayor Koch will release his plan to close his 1981 budget gap. The plan will require the most severe cutbacks that the City has experienced to date, and in the coming months the City will be forced by its various monitors to make even deeper cuts. At the Mayor's request, we are undertaking an effort to facilitate Federal action on sixty "priority" items; this process has produced over \$100 million for the City in the past six weeks.

HUMAN RESOURCES

Youth Employment: Your announcement of our youth initiative has received widespread and favorable response. The New York Times carried the story as its lead and the Des Moines Register gave it major play. Congressional reaction has generally been favorable and we have a commitment from key staff in both the House and the Senate to work closely with us. We are committed to sending a Presidential message and legislation to Congress by February 8th so hearings can begin soon after the Lincoln birthday recess.

Welfare Reform: On November 7 the House passed (222-184) the cash portion of our welfare reform proposals. We won the critical vote on recommitment 205-200, which insured final passage. Senator Moynihan will hold two days of meetings February 6 and 7, and Senator Long has agreed to hold Finance Committee hearings in March. Congressman Hawkins has agreed to mark-up the welfare jobs bill on February 7. We hope hearings in the Senate on jobs will be scheduled within the next two months.

Hospital Cost Containment: Work is proceeding on determining whether there is a legal basis for establishing an administrative cap on hospital reimbursements and on other cost-saving administrative actions. A memo on the legal issues will be ready for your review shortly and on the administrative options by the end of January.

National Health Plan: Senate Finance Committee is expected to return to consideration of NHP in February after the windfall profits conference.

Low Income Energy Assistance: On November 27, the bill providing \$1.35 billion for an energy assistance program to help low income people was signed into law (P.L. 96-126). With enactment of that legislation, and an additional \$250 million appropriated earlier, the total amount available for assistance during this winter was \$1.6 billion. On January 4, the Treasury completed mailing of low income energy assistance checks to totalling \$380 million to four million aged and disabled recipients of Supplemental Security Income. Approximately \$800 million is being distributed to the States as grants to fund assistance programs for other low income households, including AFDC and Food Stamp recipients. The Senate has included in its version of the

windfall profits tax bill, provisions authorizing up to \$4 billion over a three-year period for an energy-related assistance program following the block grant approach. Our proposal would authorize up to \$2.4 billion over the same period, and would target the assistance to welfare recipients.

Higher Education Act Reauthorization: A costly reauthorization bill passed the House on November 7, 1979 by a vote of 385 to 15. The Senate Subcommittee on Education, Arts, and the Humanities is about to begin drafting a bill. The Senate subcommittee is reported to be under pressure from Appropriations and Budget Committees to scale down the costs entailed by the House version.

Refugees: Congress adjourned before final passage of the comprehensive refugee legislation. Conferee staff will begin meeting this month with conference scheduled for mid-February. Our two year limit on full federal reimbursement for refugee support will be opposed by the House which approved four years of reimbursement in addition to two additional "grace" years before the legislation takes effect. Also, I have received the report of a Task Force, whose establishment I requested last November, on meeting the increased demands on public and private sectors on domestic refugee resettlement. We will continue to work with Ambassador Palmieri to carry out the Task Force recommendations.

TERRITORIES

Territories Policy: Based on your decision on the Territorial Domestic Policy Review, we are implementing with appropriate agencies some twenty-three initiatives to improve Federal policy toward the territories. These include actions and proposals regarding political development, Federal-Territorial relations, reform of the Federal grant process, economic development and Federal reorganization. A Presidential statement announcing these initiatives is now being prepared as are legislative proposals and administration actions.

Puerto Rico Submerged Lands: Justice and Interior were unpersuaded by the island's latest claim to title to submerged lands three marine leagues from their coast. As you are aware, Geological Survey reports of potential oil and gas deposits have made this Puerto Rico's priority issue but the claims of Gulf Coast states to similar boundaries makes this politically sensitive. Despite that, the Senate Energy Committee has passed a Jackson proposal to recognize the Commonwealth claim and the measure seems likely to win passage. In view of the likely Congressional action and the strong support for it by Governor Romero and Congressman Corrada, we advise no action that would attempt to frustrate the proposal.

Micronesian Status Negotiations: Based on the revision you approved for the negotiations with the three islands entities of Micronesia, the Administration has been conducting this week negotiations toward compact of free association. The talks are proceeding as anticipated. Congressman Phillip Burton, whose objection to the previous negotiating posture threatened to interfere with your goal of the 1981 termination of Micronesian trusteeship seems mollified by the changes.

SMALL BUSINESS

ERISA Rules: As a result of a new "Prudent Man" rule adopted by the Labor Department under ERISA, the flow of capital from pension funds into small and innovative businesses has been increasing. This action helps to implement your innovation policy, and can be quite important, since there is about \$500 billion of private money in pension funds. However, the venture capital industry has asserted that a new proposed "Plan Assets" rule issued by Labor would cut off this capital flow, and has already begun to dry it up. Ray Marshall and I have agreed that he will hold a public hearing on the issue as soon as possible, and will reassure all parties that existing statutory interpretations will remain in effect pending the adoption of any final rule.

SBA Reauthorization Bill: This legislation did not clear Congress in the last session because Senators Bellmon and Muskie threatened a mini-filibuster on the Conference Report. They are opposed to a provision inserted by Neal Smith which would artificially inflate the level of funds available to SBA for disaster loans, which they regard correctly as bad budget practice.

While we share their dislike for this provision, the bill does contain acceptable provisions for transferring farm disaster lending activities from SBA to the Department of Agriculture. This has been an important objective of your Administration, and for that reason we would like to have the bill clear Congress for your signature.

TRANSPORTATION

Midwest Railroad Restructuring: On December 31 the Interstate Commerce Commission rejected as inequitable, unfair and lacking adequate financing a plan filed by New Milwaukee Lines to convert a part of the Milwaukee Road railroad into an employee-shipper owned company. This plan was critically reviewed by DOT but had the support of congressmen from the northern tier states. The Commission has also announced

expedited procedures to consider the Rock Island and Milwaukee Road bankruptcy reorganizations because of the emergency created by the Milwaukee's precarious financial condition and a statutory prohibition against ICC directed service over the Milwaukee until April 1, 1981. To provide immediate assistance to continue Milwaukee service in the midwest and northern states, DOT announced on January 7 a \$30 million loan to the Milwaukee Road pursuant to the Emergency Rail Services Assistance Act.

DOT is working with the affected states, local governments and the court appointed trustees in these proceedings to maintain service on the economically viable sections of these systems. Iowa, Oklahoma, Kansas and Minnesota are among the states most affected by this restructuring.

Maritime Legislation: The staff of the House Committee on Merchant Marine and Fisheries has redrafted the Omnibus Maritime Regulatory Reform, Revitalization and Reorganization bill for resubmission to Congress. The new bill will include the first three titles of the omnibus bill, concerning maritime industry promotion. Title IV, amending the Internal Revenue Code, will be dropped. Title V of the omnibus bill, reorganizing maritime policymaking functions, will be substantially dropped. The Committee staff is now proposing that the Assistant Secretary of Commerce for Maritime Affairs be upgraded to the Undersecretary level.

JUSTICE & CIVIL RIGHTS

Criminal Code Reform: The Senate Judiciary Committee reported out its criminal code reform bill, S. 1722, on December 4, 1979 on a 14- - 1 vote, with Senator Mathias voting against it. The final vote had been delayed until Chairman Kennedy worked out a compromise dealing with the applicability of the extortion laws to labor union violence that was acceptable to the Republicans. A second delay was averted by reporting the death penalty provision as a separate bill, to accommodate Senator Thurmond. That bill passed 7 - 6. Floor action on both bills has not yet been scheduled. The House Judiciary Committee will continue the markup of its version of the Criminal Reform bill when Congress reconvenes.

Fair Housing: A tentative compromise has been reached with the Republican leadership on the House Judiciary Committee on specific language in the key section of the bill's enforcement powers provision. If the agreement is confirmed then Committee passage seems certain and floor action in the House should follow in short order. The Senate bill has been held in abeyance pending movement in the House.

FBI Charter: The Senate Judiciary Committee plans to hold one additional hearing and mark up the bill in February. The House Judiciary Subcommittee has moved very slowly. Only about one-third of the necessary hearings have been held. Members in both Houses are deeply divided. None seem willing to engage in discussions which could lead to compromise. Given the political situation, there is serious question whether a charter will be enacted in 1980.

Select Commission on Immigration and Refugee Policy (The Hesburgh Commission): Substantial amounts of work have been done on the four principal issues: How many? From where? By what criteria? Through what process? Extensive hearings have been held in Baltimore, Boston, Miami and San Antonio. Other hearings are planned. This month the Commissioners will be fully briefed on the "undocumented alien" issue. No decisions are sought. The Commission's report is due March 1, 1981.

OTHER ISSUES

Chrysler: The Treasury is working hard to implement the provisions of the Chrysler aid bill. The rapid agreement between Chrysler and the UAW on further labor concessions was a good first step. A great deal remains to be done, however, to get the other interested parties, particularly the banks, to provide their share. It will be extremely difficult and probably take several months to assemble the entire financing package.

THE WHITE HOUSE
WASHINGTON

January 19, 1980

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER *AW*
SUBJECT: ACTIVITIES REPORT --- WEEK ENDING JANUARY 18, 1980

1. Afghanistan and Iran. The working group on coordinating agency outreach efforts has identified some 100 national regional conventions or meetings of business, agriculture, civic groups and the like which we will seek to cover over the next three to four weeks explaining your agriculture and trade decisions.
2. FY 1981 Budget. Almost 1000 interest group representatives will be invited to briefings on the budget following its announcement on January 28. In addition, we are working with OMB and the Commerce Department on regional presentations of the budget much as we have done in the last two years.
3. Trucking Deregulation. An ad-hoc coalition of outside groups sponsored a day long forum on trucking deregulation which drew approximately 200 supporting organizations and businesses, as well as some congressional staff. The Administration bill was strongly supported particularly by consumer groups, large and small business-shippers and agricultural groups. There is a surprising amount of support for this legislation which is controversial in many areas.
4. Water Projects. We have been working with Stu and Frank on the House strategy for the public works bill. In the interim, we have continued meetings with our supporting interest groups. Once the strategy decisions have been made, we will initiate a strong effort consistent with the strategy.

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for Preservation Purposes

5. Olympics. We stand ready to assist in trying to build public support for your decision on the Olympics, whatever it may be. There are many amateur sports organizations who agree with you and would like to help.
6. Refugee Resettlement. Bob Maddox has been working with the Graham organization, World Relief, Inc., and Samaritan's Purse on plans to settle Laotian refugees, now in camps in Thailand, in the Jonestown area of Guyana. If the pilot project is successful, upwards of 100,000 may eventually be resettled there.

Iowa. I have just returned from a quick trip to Iowa--ten events in 24 hours. Seven press interviews--radio and newspaper--and three meetings (average attendance about 60 people) in the Cedar Rapids-Iowa City area.

Predictions of outcome aren't worth the time--the sample is too small and the turnout is too important. But some observations are interesting:

1. Everyone asks about your involvement in the ERA. This probably means the opposition has done a good job in convincing people we haven't done a good job. I have some ideas on how to combat this.
2. The debate vs. phone calls issue is bigger than I thought it would be--it is easy to rebut, however.
3. I did not receive one question on the grain embargo, but answered many about the general situation in Southwest Asia and Iran. Much support for your actions.
4. There are more uncommitted people than I thought. My impression is that there is not great Kennedy support in the areas I visited.
5. I talked to six people you called personally.
6. People have mixed feelings about the Olympics. Most feel we should not act unilaterally--e.g. without other countries joining us. A hot issue in Iowa.
7. There is a lot of enthusiasm among Carter people. They'll do a good job Monday.

THE WHITE HOUSE
WASHINGTON

28 Jan 80

Stu Eizenstat
Jody Powell

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

cc:
Jody
Stu
J

January 26, 1980

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze ^{CLS}

Subject: Reversing the Trend of Government Spending

An examination of your record on government spending, compared to earlier postwar trends, reveals several impressive facts that you may find useful.

Each year the budget document provides estimates of real Federal spending -- spending measured in dollars of constant purchasing power. That table shows the following:

Total Federal Spending

In the decade of the 1960s, real Federal spending rose at an average annual rate of 3.9 percent. In the first seven (pre-Carter) years of the 1970s, real spending rose 3.0 percent a year. In the four Carter years (1977-81), real spending will rise only 1.3 percent a year, and in the final year, 1981, it will rise only 0.2 percent.

Nondefense Spending

In the 1960s, nondefense spending rose by an average of 5.4 percent a year faster than inflation. In the first seven years of the 1970s -- presided over by those Republican paragons of fiscal prudence -- real nondefense spending rose at an average rate of 6.7 percent a year. In the four Carter years, the growth rate dropped to 0.9 percent, and in 1981 real nondefense spending falls by 1.0 percent.

The table below summarizes the numbers.

Real Federal Spending

(average annual rate
of change)

<u>Fiscal Years</u>	<u>Total</u>	<u>Defense</u>	<u>Nondefense</u>
1960-1970	3.9	2.0	5.4
1970-1977	3.0	-4.3	6.7

1977-1981	1.3	2.4	0.9
1980-1981	0.2	3.5	-1.0

The tremendous momentum of nondefense spending has virtually been halted in its tracks. And yet room has been made for sizable increases in high-priority programs, especially youth employment, energy, and basic research.

THE WHITE HOUSE
WASHINGTON

28 Jan 80

Jack Watson

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON
January 26, 1980

Good
J

MEMORANDUM TO THE PRESIDENT

FROM: JACK WATSON *Jack*
SUBJECT: ARTICLE IN TODAY'S POST

An article by Bill Richards in this morning's Washington Post charges that my office applied pressure on the Office of Education to award a contract to Atlanta University. The reporter misrepresented me and my staff, and I wish to apprise you of the facts.

- o Daddy King spoke to you last summer about problems Atlanta University was having with the Office of Education.
- o You asked me to look into it and I worked on the matter with a member of my staff, Jane Hansen.
- o Jane talked to both the President of the University, Dr. Cleveland Dennard, and then Assistant Secretary of Education, Dr. Mary Berry, and determined the primary problem was one of communication between the two parties.
- o She was informed by the federal agency that, in fact, the proposal submitted by the university was an excellent one but there had been problems in administering the previous year's contract, attributed mainly to the director of the project.
- o She was told by the President of the university that he was having difficulty establishing communication by phone with the Office of Education.
- o Our intervention in the contract was no more than a request to Dr. Berry that she or her staff meet with or speak to Dr. Dennard to allow him his "day in court."
- o Most important, in a memo dated July 27th, 1979, Jane reported to me the following: "I assured Dr. Dennard we would facilitate a meeting between him and Dr. Berry if he so desired, but we would have to depend on Dr. Berry's judgment about his institution's capacity to receive continued funding based on their monitored performance during the past year."
- o The meeting occurred and subsequently, Dr. Berry decided to award the university \$800,000 or one third of what the university

had wanted and received as the previous year's funding.

- o The implication is we pressured the Office of Education to award a contract to a fiscally mismanaged institution.
- o The true account is that we facilitated communication in which the two parties negotiated and resolved their differences.

White House Intervened on Contract

By Bill Richards

Washington Post Staff Writer

A top education official in the Department of Health, Education and Welfare overruled objections from her staff and awarded an \$800,000 training contract renewal to an Atlanta college last year after the White House intervened on the school's behalf.

The official, assistant HEW Secretary Mary F. Berry, gave the contract to Atlanta University, a small predominantly black graduate school, despite a flurry of written staff complaints that the college badly mishandled the first year of the two-year teacher training program.

The \$800,000 award was made without any competitive bidding, even though the terms of the contract provided no option for a noncompetitive renewal after Atlanta University won a \$2 million portion of the project in competitive bidding the first year.

According to documents made available to The Washington Post and interviews with HEW officials, the renewal was made by Berry after a call from a member of presidential assistant Jack Watson's staff. One memo noted that the staff member asked that all education office contracting be halted until the Atlanta University contract was renewed.

Jane Hansen, a staff assistant in Watson's office, said she called both Berry and deputy education commissioner Alfred L. Moye about the Atlanta University contract last July. She said she made the calls after the matter was raised during a conversation between President Carter and Rev. Martin Luther King Sr. and was referred to Watson's office. King is a member of the Atlanta University board of trustees.

"The whole purpose of the calls was to give [university president] Cleveland Dennard his day in court," said Hansen. She said she was not aware of the problems the school had with the training program.

The Atlanta University contract is the first one to come to light in which the White House exerted pressure on the office of education. HEW officials said, however, that such outside pressure is not unique.

The office of education has been criticized recently for its handling of

grant programs to developing colleges. Last month HEW officials testified before a Senate Judiciary subcommittee chaired by Sen. Max Baucus (D-Mont.) that they made or raised grants to more than 100 schools under pressure from Berry or members of Congress.

After the call from Hansen, office of education officials scrambled to yank a notice out of the Commerce Business Daily calling for competitive bids for renewal of the training contract.

Berry then split the controversial contract three ways. Two schools, the University of Colorado and Marquette University, received their portions of the \$2.4 million second-year training contract through competitive bidding while Atlanta University got its \$800,000 without competition, according to HEW officials.

At the time Berry was opening a vigorous campaign for the post of secretary of education. President Carter subsequently picked California jurist Shirley Hufstедler for the new Cabinet position and Berry has since announced she plans to leave HEW at the end of this month.

Berry was not available to comment on the Atlanta University contract. A spokesman for the assistant secretary said the procedure used in the contract splitting was not unusual for the office of education.

The spokesman said staff members in the office of education who originally expressed concern about the renewal of the training contract with Atlanta University changed their minds after the call from Watson's of-

fice and a subsequent meeting with Berry.

According to memos written by senior office of education staff members last year Atlanta University officials had trouble accounting for money the school received under the first year of the contract.

"The overall fiscal control of the contract is grossly inadequate" wrote David A. Johnson, the director of the division of student services and veterans' programs.

Johnson also noted wasteful spending by the school and "the state of almost complete pandemonium" during training programs it conducted at eight sites around the United States.

In addition, Johnson complained that the school had had shown "political insensitivity" in its hiring almost all blacks for key positions in the program. The project was designed to train about 2,000 instructors to help underprivileged young people get into college.

Other memos repeated the problems and advised against granting Atlanta University a noncompetitive renewal. Berry herself, in a memo to Watson, noted that she had told the school's president Dennard that "Atlanta seemed no more qualified for this contract than many other institutions which have distinguished records of service to the disadvantaged."

Nevertheless, she said she had made arrangements to split the contract, leaving the Georgia school with the choice of bidding with other colleges for the renewal or taking a portion "for which Atlanta University is uniquely qualified."