

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND  
A UNIT OF THE SALVATION ARMY,  
A GEORGIA CORPORATION**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**September 30, 2009 and 2008**

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**

**TABLE OF CONTENTS**

Independent Auditor's Report.....	1
Financial Statements:	
Statements of Financial Position .....	2 – 5
Statements of Activities and Changes in Net Assets .....	6 – 9
Statements of Cash Flows .....	10
Statements of Functional Expenses .....	11 – 12
Notes to Financial Statements .....	13 – 27



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## INDEPENDENT AUDITOR'S REPORT

To the Area Commander of  
The Salvation Army Nashville, Tennessee Area Command,  
A Unit of the Salvation Army, A Georgia Corporation  
Nashville, Tennessee

We have audited the accompanying statements of financial position of The Salvation Army Nashville, Tennessee Area Command (the "Area Command"), a unit of The Salvation Army, a Georgia corporation as of September 30, 2009 and 2008, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Area Command's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Salvation Army Nashville, Tennessee Area Command, as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Frasier, Dean & Howard, PLLC*

May 7, 2010

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2009**

	<b>Unrestricted</b>						
			<b>Land, Buildings and Equipment</b>	<b>Total Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Assets</b>	<b>General Operating</b>	<b>Board Designated</b>					
Current assets:							
Cash and cash equivalents	\$ 307,202	\$1,260,322	\$ -	\$ 1,567,524	\$ 111,057	\$ -	\$ 1,678,581
Accounts receivable	43,893	-	-	43,893	-	-	43,893
Pledges receivable, net	-	-	-	-	183,412	-	183,412
Other	10,628	-	-	10,628	-	-	10,628
Total current assets	361,723	1,260,322	-	1,622,045	294,469	-	1,916,514
Deposits held by territorial headquarters	458,451	1,076,757	-	1,535,208	2,229,325	7,723,683	11,488,216
Assets held under split interest agreements	-	-	-	-	166,346	2,416,198	2,582,544
Land, buildings and equipment:							
Land	-	-	780,255	780,255	-	-	780,255
Buildings, net of accumulated depreciation of \$2,428,809	-	-	6,140,603	6,140,603	-	-	6,140,603
Equipment, net of accumulated depreciation of \$278,418	-	-	95,841	95,841	-	-	95,841
Total land, buildings and equipment	-	-	7,016,699	7,016,699	-	-	7,016,699
Total assets	\$ 820,174	\$2,337,079	\$ 7,016,699	\$10,173,952	\$2,690,140	\$10,139,881	\$ 23,003,973

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FINANCIAL POSITION (Continued)**  
**September 30, 2009**

	<u>Unrestricted</u>						
	<u>General</u>	<u>Board</u>	<u>Land,</u>	<u>Total</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
	<u>Operating</u>	<u>Designated</u>	<u>Buildings</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	
			<u>and</u>				
			<u>Equipment</u>				
<b>Liabilities and Net Assets</b>							
Current liabilities:							
Accounts payable	\$ 505,588	\$ -	\$ -	\$ 505,588	\$ -	\$ -	\$ 505,588
Due to Divisional Headquarters	29,028	-	-	29,028	-	-	29,028
Total current liabilities	534,616	-	-	534,616	-	-	534,616
Net assets:							
Unrestricted:							
Undesignated	285,558	-	-	285,558	-	-	285,558
Board designated:							
Vehicle and equipment	-	11,482	-	11,482	-	-	11,482
Property maintenance and insurance	-	9,032	-	9,032	-	-	9,032
Capital purposes	-	2,316,565	-	2,316,565	-	-	2,316,565
Land, buildings and equipment	-	-	7,016,699	7,016,699	-	-	7,016,699
Temporarily restricted	-	-	-	-	2,690,140	-	2,690,140
Permanently restricted	-	-	-	-	-	10,139,881	10,139,881
Total net assets	285,558	2,337,079	7,016,699	9,639,336	2,690,140	10,139,881	22,469,357
Total liabilities and net assets	\$ 820,174	\$2,337,079	\$7,016,699	\$ 10,173,952	\$ 2,690,140	\$ 10,139,881	\$23,003,973

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2008**

	<b>Unrestricted</b>						
	<b>General</b>	<b>Board</b>	<b>Land,</b>	<b>Total</b>	<b>Temporarily</b>	<b>Permanently</b>	<b>Total</b>
	<b>Operating</b>	<b>Designated</b>	<b>Buildings</b>	<b>Unrestricted</b>	<b>Restricted</b>	<b>Restricted</b>	
			<b>and</b>				
			<b>Equipment</b>				
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 347,176	\$ 1,015,147	\$ -	\$ 1,362,323	\$ 187,973	\$ -	\$ 1,550,296
Accounts receivable	44,941	-	-	44,941	-	-	44,941
Pledges receivable, net	-	-	-	-	183,412	-	183,412
Other	81,493	-	-	81,493	-	-	81,493
Total current assets	473,610	1,015,147	-	1,488,757	371,385	-	1,860,142
Deposits held by territorial							
headquarters	203,625	969,522	-	1,173,147	2,869,879	7,723,683	11,766,709
Assets held under split interest agreements	-	-	-	-	-	2,509,262	2,509,262
Noncurrent pledges receivable	-	-	-	-	100,000	-	100,000
Land, buildings and equipment:							
Land	-	-	809,055	809,055	-	-	809,055
Buildings, net of accumulated depreciation							
of \$2,249,584	-	-	6,483,848	6,483,848	-	-	6,483,848
Equipment, net of accumulated							
depreciation of \$299,195	-	-	34,333	34,333	-	-	34,333
Total land, buildings and equipment	-	-	7,327,236	7,327,236	-	-	7,327,236
Total assets	\$ 677,235	\$ 1,984,669	\$ 7,327,236	\$ 9,989,140	\$ 3,341,264	\$ 10,232,945	\$ 23,563,349

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FINANCIAL POSITION (Continued)**  
**September 30, 2008**

	<u>Unrestricted</u>						
	<u>General</u>	<u>Board</u>	<u>Land,</u>	<u>Total</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
	<u>Operating</u>	<u>Designated</u>	<u>Buildings</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	
			<u>and</u>				
			<u>Equipment</u>				
<b>Liabilities and Net Assets</b>							
Current liabilities:							
Accounts payable	\$ 171,837	\$ -	\$ -	\$ 171,837	\$ -	\$ -	\$ 171,837
Due to Divisional Headquarters	10,829	-	-	10,829	-	-	10,829
Total current liabilities	182,666	-	-	182,666	-	-	182,666
Net assets:							
Unrestricted:							
Undesignated	494,569	-	-	494,569	-	-	494,569
Board designated:							
Vehicle and equipment	-	19,688	-	19,688	-	-	19,688
Property maintenance and insurance	-	9,214	-	9,214	-	-	9,214
Capital purposes	-	1,955,767	-	1,955,767	-	-	1,955,767
Land, buildings and equipment	-	-	7,327,236	7,327,236	-	-	7,327,236
Temporarily restricted	-	-	-	-	3,341,264	-	3,341,264
Permanently restricted	-	-	-	-	-	10,232,945	10,232,945
Total net assets	494,569	1,984,669	7,327,236	9,806,474	3,341,264	10,232,945	23,380,683
Total liabilities and net assets	\$ 677,235	\$ 1,984,669	\$ 7,327,236	\$ 9,989,140	\$ 3,341,264	\$ 10,232,945	\$ 23,563,349

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year ended September 30, 2009**

	<u>Unrestricted</u>						
	<u>General</u>	<u>Board</u>	<u>Land,</u>	<u>Total</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
	<u>Operating</u>	<u>Designated</u>	<u>Buildings</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	
			<u>and</u>				
			<u>Equipment</u>				
<b>Public support and revenue</b>							
Public support:							
Received directly:							
Contributions	\$2,624,139	\$ -	\$ -	\$ 2,624,139	\$ 226,602	\$ -	\$ 2,850,741
Donations-in-kind and contributed services	2,553,213	-	-	2,553,213	-	-	2,553,213
Special events	61,166	-	-	61,166	-	-	61,166
Legacies and bequests	10,000	129,328	-	139,328	50,317	-	189,645
Changes in value of split interest agreements	-	-	-	-	-	(93,064)	(93,064)
Total received directly	5,248,518	129,328	-	5,377,846	276,919	(93,064)	5,561,701
Received indirectly:							
Allocated by federated fund-raising organizations	166,440	-	-	166,440	-	-	166,440
Total public support	5,414,958	129,328	-	5,544,286	276,919	(93,064)	5,728,141
Fees and grants from government agencies	273,819	-	-	273,819	-	-	273,819
Program service fees	232,588	-	-	232,588	-	-	232,588
Sales to the public	1,867	-	-	1,867	-	-	1,867
Investment income:							
Dividends and interest	8,787	59,173	-	67,960	138,335	-	206,295
Net realized loss on sale of investments	(2,100)	(50)	-	(2,150)	(540,692)	-	(542,842)
Net unrealized gain on change in value of investments	1,082	26	-	1,108	216,080	-	217,188
Other revenue	25,163	-	-	25,163	-	-	25,163
Total public support and revenue	5,956,164	188,477	-	6,144,641	90,642	(93,064)	6,142,219

See accompanying notes.



**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (Continued)**  
**Year ended September 30, 2009**

	<b>Unrestricted</b>						
	<b>General Operating</b>	<b>Board Designated</b>	<b>Land, Buildings and Equipment</b>	<b>Total Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets reclassified due to fulfillment of donor restrictions	559,101	-	-	559,101	(559,101)	-	-
Interfund transfers	146,604	163,933	(310,537)	-	-	-	-
<b>Total</b>	<b>6,661,869</b>	<b>352,410</b>	<b>(310,537)</b>	<b>6,703,742</b>	<b>(468,459)</b>	<b>(93,064)</b>	<b>6,142,219</b>
<b>Expenses</b>							
Program services:							
Corps community center	945,904	-	-	945,904	-	-	945,904
Residential and institutional	717,607	-	-	717,607	-	-	717,607
Other social services	4,084,234	-	-	4,084,234	-	-	4,084,234
<b>Total program services</b>	<b>5,747,745</b>	<b>-</b>	<b>-</b>	<b>5,747,745</b>	<b>-</b>	<b>-</b>	<b>5,747,745</b>
Supporting services:							
Management and general	706,137	-	-	706,137	-	-	706,137
Fundraising	599,663	-	-	599,663	-	-	599,663
<b>Total supporting services</b>	<b>1,305,800</b>	<b>-</b>	<b>-</b>	<b>1,305,800</b>	<b>-</b>	<b>-</b>	<b>1,305,800</b>
<b>Total expenses</b>	<b>7,053,545</b>	<b>-</b>	<b>-</b>	<b>7,053,545</b>	<b>-</b>	<b>-</b>	<b>7,053,545</b>
Change in net assets	(391,676)	352,410	(310,537)	(349,803)	(468,459)	(93,064)	(911,326)
Net assets at beginning of year	494,569	1,984,669	7,327,236	9,806,474	3,341,264	10,232,945	23,380,683
<b>Net assets at end of year</b>	<b>\$ 102,893</b>	<b>\$ 2,337,079</b>	<b>\$ 7,016,699</b>	<b>\$ 9,456,671</b>	<b>\$ 2,872,805</b>	<b>\$ 10,139,881</b>	<b>\$ 22,469,357</b>

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year ended September 30, 2008**

	<u>Unrestricted</u>						
	<u>General</u>	<u>Board</u>	<u>Land,</u>	<u>Total</u>	<u>Temporarily</u>	<u>Permanently</u>	
	<u>Operating</u>	<u>Designated</u>	<u>Buildings</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
			<u>and</u>				
			<u>Equipment</u>				
<b>Public support and revenue</b>							
Public support:							
Received directly:							
Contributions	\$2,322,739	\$ -	\$ -	\$ 2,322,739	\$ 332,048	\$ -	\$ 2,654,787
Donations-in-kind and contributed services	1,964,086	-	-	1,964,086	-	-	1,964,086
Special events	141,574	-	-	141,574	-	-	141,574
Legacies and bequests	-	94,584	-	94,584	73,787	54,937	223,308
Changes in value of split interest agreements	-	-	-	-	-	(471,749)	(471,749)
Total received directly	4,428,399	94,584	-	4,522,983	405,835	(416,812)	4,512,006
Received indirectly:							
Allocated by federated fund-raising organizations	189,839	-	-	189,839	-	-	189,839
Total public support	4,618,238	94,584	-	4,712,822	405,835	(416,812)	4,701,845
Fees and grants from government agencies	238,697	-	-	238,697	-	-	238,697
Program service fees	237,438	-	-	237,438	-	-	237,438
Sales to the public	4,283	-	-	4,283	-	-	4,283
Investment income:							
Dividends and interest	17,661	24,704	-	42,365	252,953	-	295,318
Net realized gain on sale of investments	285	2,343	-	2,628	82,234	-	84,862
Net unrealized loss on change in value of investments	(8,550)	(531,574)	-	(540,124)	(2,289,432)	-	(2,829,556)
Other revenue	111	-	-	111	-	-	111
Total public support and revenue	5,108,163	(409,943)	-	4,698,220	(1,548,410)	(416,812)	2,732,998

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (Continued)**  
**Year ended September 30, 2008**

	<b>Unrestricted</b>						
			<b>Land, Buildings and Equipment</b>	<b>Total Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
	<b>General Operating</b>	<b>Board Designated</b>					
Net assets reclassified due to fulfillment of donor restrictions	1,200,408	1,802,437	-	3,002,845	(3,002,845)	-	-
Interfund transfers	(299,328)	178,835	120,493	-	-	-	-
<b>Total</b>	<b>6,009,243</b>	<b>1,571,329</b>	<b>120,493</b>	<b>7,701,065</b>	<b>(4,551,255)</b>	<b>(416,812)</b>	<b>2,732,998</b>
<b>Expenses</b>							
Program services:							
Corps community center	1,160,648	-	-	1,160,648	-	-	1,160,648
Residential and institutional	810,671	-	-	810,671	-	-	810,671
Other social services	2,846,742	-	-	2,846,742	-	-	2,846,742
<b>Total program services</b>	<b>4,818,061</b>	<b>-</b>	<b>-</b>	<b>4,818,061</b>	<b>-</b>	<b>-</b>	<b>4,818,061</b>
Supporting services:							
Management and general	639,752	-	-	639,752	-	-	639,752
Fundraising	592,395	-	-	592,395	-	-	592,395
<b>Total supporting services</b>	<b>1,232,147</b>	<b>-</b>	<b>-</b>	<b>1,232,147</b>	<b>-</b>	<b>-</b>	<b>1,232,147</b>
<b>Total expenses</b>	<b>6,050,208</b>	<b>-</b>	<b>-</b>	<b>6,050,208</b>	<b>-</b>	<b>-</b>	<b>6,050,208</b>
Change in net assets	(40,965)	1,571,329	120,493	1,650,857	(4,551,255)	(416,812)	(3,317,210)
Net assets reclassification due to change in accounting policy	(4,743,484)	-	-	(4,743,484)	4,743,484	-	-
Net assets at beginning of year	5,279,018	413,340	7,206,743	12,899,101	3,149,035	10,649,757	26,697,893
<b>Net assets at end of year</b>	<b>\$ 494,569</b>	<b>\$ 1,984,669</b>	<b>\$ 7,327,236</b>	<b>\$ 9,806,474</b>	<b>\$ 3,341,264</b>	<b>\$ 10,232,945</b>	<b>\$ 23,380,683</b>

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**Years ended September 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (911,326)	\$ (3,317,210)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	260,787	176,993
Net unrealized and realized loss on investments	418,718	3,216,443
Gain on sale of land, building and equipment	(18,143)	-
Changes in operating assets and liabilities:		
Accounts receivable	1,048	(27,585)
Pledges receivable, net	100,000	(182,208)
Other	70,865	(77,978)
Accounts payable	333,751	80,542
Due to Divisional Headquarters	18,199	(1,227)
Net cash provided by (used in) operating activities	<u>273,899</u>	<u>(132,230)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	662,848	2,559,003
Purchases of investments	(876,355)	(1,336,689)
Proceeds from sale of land, building and equipment	181,440	-
Purchases of land, buildings and equipment	<u>(113,547)</u>	<u>(297,487)</u>
Net cash (used in) provided by investing activities	<u>(145,614)</u>	<u>924,827</u>
Net change in cash and cash equivalents	128,285	792,597
Cash and cash equivalents at beginning of year	<u>1,550,296</u>	<u>757,699</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,678,581</u></u>	<u><u>\$ 1,550,296</u></u>

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended September 30, 2009**

	<b>Program Services</b>				<b>Supporting Services</b>			
	<b>Corps Community Center</b>	<b>Residential and Institutional</b>	<b>Other Social Services</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Fund - raising</b>	<b>Total Supporting Services</b>	<b>Total</b>
Direct assistance	\$ 59,801	\$ -	\$ 2,350,662	\$ 2,410,463	\$ -	\$ -	\$ -	\$2,410,463
Salaries and allowances	355,115	375,925	276,847	1,007,887	243,516	276,140	519,656	1,527,543
Occupancy	162,058	103,821	136,536	402,415	256,690	9,816	266,506	668,921
Printing and publications	2,017	55	459,807	461,879	1,288	161,397	162,685	624,564
Grants to others	-	-	405,000	405,000	-	-	-	405,000
Support services	65,285	39,596	292,119	397,000	-	-	-	397,000
Officer and employee benefits	77,654	70,927	42,176	190,757	44,774	25,912	70,686	261,443
Payroll taxes	36,072	38,508	28,640	103,220	22,093	23,196	45,289	148,509
Supplies	40,536	50,825	25,212	116,573	8,349	10,286	18,635	135,208
Furnishings and equipment	34,113	8,321	15,158	57,592	48,943	7,453	56,396	113,988
Travel, meals and transportation	58,427	463	13,954	72,844	27,988	6,901	34,889	107,733
Professional fees	10,912	25,436	4,000	40,348	27,772	17,365	45,137	85,485
Postage and shipping	1,628	199	673	2,500	1,397	56,966	58,363	60,863
Conferences, meetings, and major trips	14,164	105	25,463	39,732	4,779	71	4,850	44,582
Telephone	23,735	3,426	4,780	31,941	9,775	2,637	12,412	44,353
Awards and grants	400	-	3,107	3,507	6,478	-	6,478	9,985
Organization dues	283	-	100	383	1,672	1,523	3,195	3,578
Miscellaneous	3,704	-	-	3,704	623	-	623	4,327
Total expenses	<u>\$ 945,904</u>	<u>\$ 717,607</u>	<u>\$ 4,084,234</u>	<u>\$ 5,747,745</u>	<u>\$ 706,137</u>	<u>\$ 599,663</u>	<u>\$ 1,305,800</u>	<u>\$7,053,545</u>

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended September 30, 2008**

	Program Services				Supporting Services			
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services	Total
Direct assistance	\$ 47,893	\$ 16,153	\$ 1,806,575	\$ 1,870,621	\$ -	\$ -	\$ -	\$ 1,870,621
Salaries and allowances	446,519	417,970	164,199	1,028,688	226,184	253,847	480,031	1,508,719
Occupancy	214,584	97,889	83,348	395,821	209,514	11,646	221,160	616,981
Printing and publications	2,214	-	342,640	344,854	643	181,832	182,475	527,329
Support services	50,875	47,753	291,653	390,281	-	-	-	390,281
Officer and employee benefits	91,117	72,052	24,097	187,266	40,755	23,741	64,496	251,762
Supplies	68,924	72,195	31,610	172,729	11,491	2,351	13,842	186,571
Furnishings and equipment	49,464	26,755	19,976	96,195	42,141	9,986	52,127	148,322
Payroll taxes	46,199	41,353	16,270	103,822	17,828	22,406	40,234	144,056
Travel, meals and transportation	74,448	142	15,858	90,448	36,660	8,808	45,468	135,916
Conferences, meetings, and major trips	27,959	180	37,616	65,755	9,897	510	10,407	76,162
Postage and shipping	1,305	109	761	2,175	2,750	67,311	70,061	72,236
Professional fees	12,705	14,403	4,178	31,286	28,197	5,891	34,088	65,374
Telephone	25,198	3,617	6,744	35,559	10,278	2,533	12,811	48,370
Organization dues	519	100	985	1,604	2,165	1,533	3,698	5,302
Miscellaneous	725	-	232	957	1,249	-	1,249	2,206
Total expenses	\$ 1,160,648	\$ 810,671	\$ 2,846,742	\$ 4,818,061	\$ 639,752	\$ 592,395	\$ 1,232,147	\$ 6,050,208

See accompanying notes.

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2009 and 2008**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Salvation Army, founded in 1865, is a not-for-profit international religious organization and charitable movement organized and operated on a quasi-military pattern and is a branch of the Christian Church. Its membership includes officers (clergy), soldiers and adherents (laity), members of varied activity groups and volunteers who serve as advisors, associates and committed participants in its service functions.

The accompanying financial statements are summaries of the financial position, changes in net assets and cash flows of The Salvation Army Nashville, Tennessee Area Command (“Area Command”), an operating unit of the Southern Territory of The Salvation Army.

The Salvation Army Nashville, Tennessee Area Command operates a variety of programs including the corps community centers that provide spiritual, educational, and recreational services; homeless and emergency shelters; children’s day care centers; adult rehabilitation centers; emergency disaster services; assistance for the poor, disabled, and retired; and camping activities.

**Financial Statement Presentation**

The accompanying financial statements have been prepared in accordance with the national accounting policies of The Salvation Army. These policies are consistent with accounting principles generally accepted in the United States of America. Accordingly, The Salvation Army is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* – net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Trustees.

*Temporarily restricted net assets* – net assets subject to donor-imposed stipulations that may or will be met, either by actions of The Salvation Army and/or the passage of time.

*Permanently Restricted Net Assets* – net assets subject to donor-imposed stipulations that they be retained and invested permanently by The Salvation Army. The donors permit The Salvation Army to use or expend all or part of the investment return on these net assets for specified or unspecified purposes.

Public support and revenue are recorded as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions that are not fulfilled in the accounting period. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. All expenses are reported as decreases

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
September 30, 2009 and 2008**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Statement Presentation (Continued)**

in unrestricted net assets. Satisfaction of temporary restrictions on net assets, that is, the satisfaction of the donor-imposed stipulated purpose or the elapsing of the specified time period, are reported as net assets reclassified due to fulfillment of donor restrictions.

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Promises to give that are scheduled to be received after the end of the reporting period are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restriction is met. Promises to give subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at the risk-free rate. Amortization of the discount is recorded as contribution revenue.

**Split Interest Agreements**

Accounting standards require that the following instruments be recorded as contributions and net assets at the present value of their ultimate Salvation Army interest.

**Perpetual Trusts**

Donors have established and funded trusts which are administered by organizations other than The Salvation Army. Under the terms of the trusts, The Salvation Army has the irrevocable right to receive the income earned on the trust assets in perpetuity. The Salvation Army does not control the assets held by a third party.

**Charitable Remainder Trust**

A donor has established and funded a trust under which specified distributions are to be made to designated beneficiaries over the trust's term. Upon termination of the trust, Area Command receives a percentage of the assets remaining in the trust. The assets in the trust are assumed to earn a rate of 5% over the estimated life of the trust and are discounted at a rate of 4.2%.



**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deposits with Territorial Headquarters**

Corporate headquarters has the responsibility for the investment activity for all units within the Southern Territory for unrestricted assets, including board designated assets; temporarily restricted assets; and permanently restricted assets. The temporarily restricted assets, including the life income funds, and permanently restricted asset portfolios are maintained on a pooled “mutual fund” accounting basis with the total earnings, investment expenses, appreciation and depreciation, whether realized or unrealized, being allocated to each participating account on a pro rata basis.

Income earned on unrestricted assets is distributed to the constituent accounts on the basis of a stated percentage of the monthly account balances during the year. Amounts so deposited may be withdrawn when required for use by the centers of operation. The excess (deficit) of investment income earned over amounts distributed is reported as unrestricted board designated income. The Board of Trustees of the Southern Territory of The Salvation Army generally designates the use of portions of these excess funds for specified projects for use within the territory.

The recognized captions for investments and the categories of earnings related to investments (interest and dividends, net appreciation (depreciation)) are retained in the statements and in the relevant footnotes for all funds held for The Salvation Army at territorial headquarters and divisional headquarters, so that the information required by generally accepted accounting principles may be reported for Area Command where appropriate in accustomed terms.

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

- As increases in permanently restricted net assets if the terms of the gift or the Territory’s interpretation of relevant state law require that they be added back to the principal of the permanently restricted contributions.
- As increases in temporarily restricted net assets if the terms of the gift or the Territory’s interpretation of relevant state law impose restrictions on the current use of the investment income or net appreciation (depreciation).
- As increases (decreases) in unrestricted net assets in all other cases.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, The Salvation Army considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Land, Buildings and Equipment**

Area Command generally capitalizes an asset if its life is estimated to be one year or greater. Land, buildings and equipment are stated at cost or, if donated, at estimated fair market value at the date of donation.

Depreciation is provided on buildings, vehicles and equipment at straight-line rates based on estimated service lives. A half year of depreciation is charged in the year of acquisition or completion of construction. A half year of depreciation is charged in the year of disposition.

Estimated service lives for various classes of assets are as follows:

Buildings	50 years
Equipment	3-10 years

Provision is made for major future costs of property maintenance and replacement of vehicles and some equipment by transfer of operating net assets to board designated unrestricted net assets.

**Public Support and Revenue**

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

Contributions with donor-imposed restrictions that are met in the same accounting period are recorded as unrestricted income at the time of receipt.

**Donations-in-kind and Contributed Services**

Donations-in-kind which are used in the Area Command's programs (e.g., vehicle, free rent, equipment, etc.) and donated goods distributed (e.g., clothing, furniture, foodstuffs, etc.) are recorded as contributions and expenses at the time the donated items are placed into service or distributed.

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

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

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Expenses**

All expenses are stated on the accrual basis and presented in the statements of activities and changes in net assets and the statements of functional expenses.

**Income Taxes**

The Salvation Army is exempt from federal and state income taxes under section 501(a) as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for income taxes has been made. The Area Command has been classified as other than a private foundation.

In June 2006, The Financial Accounting Standards Board issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, which is now Accounting Standards Codification 740 (“ASC 740”). ASC 740 requires that a tax position be recognized or derecognized based on a “more than not” threshold. This applies to positions taken or expected to be taken in a tax return where there is uncertainty about whether a tax position will ultimately be sustained upon examination.

The Salvation Army has evaluated its tax positions and determined that it does not have any uncertain tax positions that meet the criteria under ASC 740. Accordingly, implementation of ASC 740 did not have any impact on the accompanying financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Bequests**

The Salvation Army has been named as beneficiary of several estates. The amounts to be received from the proceeds of these estates are not currently determinable and no amounts have been recorded in the accompanying financial statements.

**Concentrations**

Area Command had cash deposits in excess of federally insured limits as of September 30, 2009 and 2008. Credit risk is managed by maintaining all deposits in high quality financial institutions.

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
September 30, 2009 and 2008**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Standards Codification**

The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") became the sole authoritative source of accounting principles generally accepted in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC has no effect on Area Command's financial position, changes in net assets and cash flows.

**Fair value measurements**

Fair value of assets is measured as required by the Fair Value Measurements and Disclosures Topic of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology that are quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs to the valuation methodology include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs that are unobservable, supported by little or no market activity and significant to the fair value measurement.

The fair value measurements and valuation techniques related to the Area Command's financial assets are further discussed in Note 7.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Restricted Endowment Funds**

The Uniform Prudent Management Institutional Funds Act (“UPMIFA”) was enacted in Georgia effective July 1, 2008. The Not-for-Profit topic of the FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board’s interpretation of the law that underlies the organization’s net asset classification of donor-restricted endowment funds, a description of the organization’s policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization’s endowment investment policies, and additional disclosures not previously required.

**NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable are recorded at net realizable value. Pledges receivable include the following at September 30:

	<u>2009</u>	<u>2008</u>
Unconditional promises to give due in:		
Less than one year	\$ 183,412	\$ 183,412
1-2 years	<u>-</u>	<u>100,000</u>
Net pledges receivable	<u>\$ 183,412</u>	<u>\$ 283,412</u>

**NOTE 3 – DEPOSITS HELD BY TERRITORIAL HEADQUARTERS**

The Salvation Army policy requires that the investment of assets for all centers of operation may be made only through the corporate portfolio under the administration of the Board of Trustees of the Southern Territory of The Salvation Army. Assets that are restricted by donors for use in a center of operation by place, purpose or time are invested on a pooled “mutual fund” basis and are allocated a total net rate of return. The Area Command’s pro rata share of these invested assets is recorded as investments in the financial statements.

Assets which are remitted for investment by a center of operation or are designated for the use of a center of operation receive a fixed rate of interest as determined by the Board of Trustees of The Southern Territory of The Salvation Army.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 3 – DEPOSITS HELD BY TERRITORIAL HEADQUARTERS (Continued)**

Investment income (loss) consists of the following for the years ended September 30:

	<u>2009</u>	<u>2008</u>
Dividends and interest	\$ 206,295	\$ 295,318
Realized and unrealized (loss) gains, net	<u>(325,654)</u>	<u>(2,744,694)</u>
	<u>\$ (119,359)</u>	<u>\$ (2,449,376)</u>

**NOTE 4 – PENSION, RETIREMENT AND POSTRETIREMENT BENEFITS**

**Employee Pension Plan**

Eligible employees participate in The Salvation Army Pension Plan (the “Plan”) with other Salvation Army territories which provides for death, disability and retirement benefits. The Plan is a defined contribution, money purchase plan.

Annual contributions to the Plan are based on a stipulated percentage (5.25% in fiscal 2009 and 2008) of employees’ salaries. The Area Command incurred \$59,202 and \$35,733 of expense under this plan in fiscal 2009 and 2008, respectively.

**Officers’ Retirement Provision**

The Salvation Army has a noncontributory retirement provision for officers, which provides retirement benefits and certain health care and death benefits to retired officers, as defined by The Salvation Army policy governing such benefits. The corporate headquarters has total responsibility for the administration of retirement benefits. Retirement allowances are determined based upon active officer allowances and length of service. They are self-funded principally by annual assessments to all centers of operation, by designated portions from legacy income, earnings on assets designated for retirement benefits, and special appropriations. Amounts charged to the Area Command and included in expenses for this provision were \$9,000 in fiscal 2009 and 2008.

**Related Party Transactions**

The Area Command is assessed an administrative charge by The Salvation Army Kentucky-Tennessee Divisional Headquarters for support services provided by the Kentucky-Tennessee Divisional Headquarters and the Southern Territorial Headquarters to the Area Command. Support services provided by Divisional and Territorial Headquarters include program, personnel, business and social services. Expenses reflected for these services were \$397,000 and \$390,281 in fiscal 2009 and 2008, respectively.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 4 – PENSION, RETIREMENT AND POSTRETIREMENT BENEFITS (Continued)**

The Salvation Army provides certain health care and death benefits for active Salvation Army officers and Auxiliary-Captains through Officers' and Auxiliary-Captains' Sick Benefit and Burial Funds, as defined by the national Salvation Army policy. All active Salvation Army officers and Auxiliary-Captains and their eligible dependents are eligible for these benefits. Amounts charged to the Area Command and included in expenses for this provision were \$25,052 and \$26,542 in fiscal 2009 and 2008, respectively.

Employees of The Salvation Army are provided health benefits under a self-insured program, which is administered by a third-party claims administrator. Amounts charged to the Area Command and included in expenses were \$168,190 and \$180,056 in fiscal 2009 and 2008, respectively.

The Salvation Army maintains self-insurance programs for general liability, automobile, workers' compensation and property coverage. The programs, which are administered by Territorial Headquarters, are intended to provide coverage for claims arising in all centers of operation. Amounts charged to the Area Command and included in expenses were \$128,461 and \$104,677 in fiscal 2009 and 2008 respectively.

The Area Command received a pledge from the Southern Territorial Headquarters in 2008 for \$300,000 for the Berry Street Corps. In 2009 and 2008, \$100,000 was received each year by Area Command and the remaining balance is classified as a pledge receivable.

The Area Command committed to the Kentucky-Tennessee Divisional Headquarters in 2009 a \$405,000 grant for support of the Camp Paradise renovation. The grant is included in accounts payable in the accompanying statement of financial position.

**NOTE 5 – NET ASSETS CLASSIFICATIONS**

Temporarily restricted net assets are available for the following purposes or periods at September 30:

	<u>2009</u>	<u>2008</u>
Welfare and support for needy persons	\$ 734,211	\$ 659,711
Time restricted	183,412	283,412
Berry Street worship center	35,653	50,643
Permanently restricted endowment market gains	<u>1,736,864</u>	<u>2,347,498</u>
Total	<u>\$ 2,690,140</u>	<u>\$ 3,341,264</u>

Permanently restricted net assets are restricted for the following purpose at September 30:

	<u>2009</u>	<u>2008</u>
Welfare and support for needy persons	<u>\$ 10,139,881</u>	<u>\$ 10,232,945</u>

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 6 – ALLOCATION OF FUNCTIONAL EXPENSES**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on estimates by management.

**NOTE 7 – FAIR VALUE MEASUREMENTS**

The following table sets forth by level, within the fair value hierarchy, Area Command's assets at fair value as of September 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trust	\$ -	\$ -	\$ 2,416,198	\$ 2,416,198
Beneficial interest in charitable remainder trusts	<u>-</u>	<u>-</u>	<u>166,346</u>	<u>166,346</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,582,544</u>	<u>\$ 2,582,544</u>

The summary of changes in the fair value of Area Command's level 3 assets for the year ended September 30, 2009 is as follows:

	<u>Beneficial Interest in Trust</u>	<u>Beneficial Interest in Charitable Remainder Trust</u>
Balance, beginning of year	\$ 2,509,262	\$ -
Realized and unrealized gains (losses)	(93,064)	-
Purchases, sales, issuances and settlements (net)	<u>-</u>	<u>166,346</u>
Balance, end of year	<u>\$ 2,416,198</u>	<u>\$ 166,346</u>

The Area Command's beneficial interest in trusts and charitable remainder trusts are valued using information obtained from third party sources, including financial statements and other information from detailed listing of holdings from the trusts. These valuations are typically performed annually, based on the present value of the estimated future distributions Area Command expects to receive over the term of the trust.



**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS**

The Area Command is a unit of the Southern Territory, which has sole authority for the receipt management and investment of all endowment funds credited to units in the Southern Territory. The endowment funds credited to Area Command consists of 3 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

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

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

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)**

**Endowment Net Asset Composition by Type of Fund as of September 30, 2009:**

	<u><b>Unrestricted</b></u>	<u><b>Temporarily Restricted</b></u>	<u><b>Permanently Restricted</b></u>	<u><b>Total</b></u>
Donor restricted endowment funds	\$ <u>-</u>	\$ <u>1,736,864</u>	\$ <u>10,139,881</u>	\$ <u>11,876,745</u>

**Changes in Endowment Net Assets for the Year Ended September 30, 2009:**

Endowment net assets, beginning of year	\$ <u>-</u>	\$ <u>2,347,498</u>	\$ <u>10,232,945</u>	\$ <u>12,580,443</u>
Investment return:				
Investment income	-	131,854	-	131,854
Net depreciation (realized and unrealized)	<u>-</u>	<u>(305,662)</u>	<u>(93,064)</u>	<u>(398,726)</u>
Total investment return	<u>-</u>	<u>(173,808)</u>	<u>(93,064)</u>	<u>(266,872)</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(436,826)</u>	<u>-</u>	<u>(436,826)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>1,736,864</u>	\$ <u>10,139,881</u>	\$ <u>11,876,745</u>

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)**

**Endowment Net Asset Composition by Type of Fund as of September 30, 2008:**

	<u><b>Unrestricted</b></u>	<u><b>Temporarily Restricted</b></u>	<u><b>Permanently Restricted</b></u>	<u><b>Total</b></u>
Donor restricted endowment funds	\$ <u>-</u>	\$ <u>2,347,498</u>	\$ <u>10,232,945</u>	\$ <u>12,580,443</u>

**Changes in Endowment Net Assets for the Year Ended September 30, 2008:**

Endowment net assets, beginning of year	\$ <u>4,743,484</u>	\$ <u>-</u>	\$ <u>10,649,757</u>	\$ <u>15,393,241</u>
Net asset reclassification based on change in accounting standards	<u>(4,743,484)</u>	<u>4,743,484</u>	<u>-</u>	<u>-</u>
Endowment net assets Reclassification	-	4,743,484	10,649,757	15,393,241
Investment return:				
Investment income	-	240,678	-	240,678
Net depreciation (realized and unrealized)	<u>-</u>	<u>(2,100,084)</u>	<u>(471,749)</u>	<u>(2,571,833)</u>
Total investment return	<u>-</u>	<u>(1,859,406)</u>	<u>(471,749)</u>	<u>(2,331,155)</u>
Contributions	<u>-</u>	<u>-</u>	<u>54,937</u>	<u>54,937</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(536,580)</u>	<u>-</u>	<u>(536,580)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>2,347,498</u>	\$ <u>10,232,945</u>	\$ <u>12,580,443</u>

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2009 and 2008**

**NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)**

**Spending Policy**

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

For fiscal year ended September 30, 2009, the Southern Territory had a policy of appropriating for distribution 4.5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year preceding the fiscal year in which the distribution is planned. During fiscal 2009, the Board of Trustees did not appropriate for spending amounts which would bring the value of the endowment fund below the original value of the contributions and amounts accumulated in the fund in accordance with donor restrictions. In establishing this policy, the Southern Territory considered the long-term expected return on its endowment. Accordingly, over the long term, the Southern Territory expects its endowment assets to grow at a pace at least equal to inflation. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Return Objectives and Risk Parameters**

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

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

**Strategies Employed for Achieving Investment Objectives**

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

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
September 30, 2009 and 2008**

**NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)**

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

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA required The Salvation Army to retain as a fund of perpetual duration. However, there were no such deficiencies as of September 30, 2009 and 2008.

**NOTE 9 – SUBSEQUENT EVENTS**

Area Command evaluated subsequent events through May 7, 2010, when these financial statements were available to be issued. We are not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the financial statements.