

**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, 2004 and 2003**

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## INDEPENDENT AUDITOR'S REPORT

Area Commander  
The Salvation Army Nashville, Tennessee Area Command

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, 2004 and 2003, 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, 2004 and 2003, 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*

January 21, 2005

THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
STATEMENT OF FINANCIAL POSITION  
September 30, 2004

	Unrestricted						
	General Operating	Board Designated	Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 253,871	\$ 560,047	\$ -	\$ 813,918	\$ 199,631	\$ -	\$ 1,013,549
Accounts receivable	94,983	-	-	94,983	-	-	94,983
Pledges receivable, net	-	-	-	-	163,314	-	163,314
Other	5,781	101	-	5,882	-	-	5,882
Total current assets	354,635	560,148	-	914,783	362,945	-	1,277,728
Marketable securities, at fair value	2,565,740	132,228	-	2,697,968	187,139	5,468,745	8,353,852
Assets held under split interest agreements	-	-	-	-	2,793,974	2,566,099	5,360,073
Land, buildings and equipment:							
Land	-	-	772,554	772,554	-	-	772,554
Buildings, net of accumulated depreciation of \$147,305	-	-	6,611,725	6,611,725	-	-	6,611,725
Furniture, fixtures and equipment, net of accumulated depreciation of \$50,116	-	-	68,733	68,733	-	-	68,733
Total land, buildings and equipment	-	-	7,453,012	7,453,012	-	-	7,453,012
Total assets	<u>\$ 2,920,375</u>	<u>\$ 692,376</u>	<u>\$ 7,453,012</u>	<u>\$ 11,065,763</u>	<u>\$ 3,344,058</u>	<u>\$ 8,034,844</u>	<u>\$ 22,444,665</u>

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, 2004

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment	Total Unrestricted			
<b>Liabilities and Net Assets</b>							
Current liabilities:							
Accounts payable	\$ 81,107	\$ -	\$ -	\$ 81,107	\$ -	\$ -	\$ 81,107
Due to Divisional Headquarters	32,600	-	-	32,600	-	-	32,600
Total current liabilities	113,707	-	-	113,707	-	-	113,707
Net assets:							
Unrestricted:							
Undesignated	2,806,668	-	-	2,806,668	-	-	2,806,668
Board designated:							
Vehicle and equipment	-	88,954	-	88,954	-	-	88,954
Property maintenance and insurance	-	17,058	-	17,058	-	-	17,058
Capital purposes	-	578,999	-	578,999	-	-	578,999
Land, buildings and equipment	-	-	7,453,012	7,453,012	-	-	7,453,012
Other	-	7,365	-	7,365	-	-	7,365
Temporarily restricted	-	-	-	-	3,344,058	-	3,344,058
Permanently restricted	-	-	-	-	-	8,034,844	8,034,844
Total net assets	2,806,668	692,376	7,453,012	10,952,056	3,344,058	8,034,844	22,330,958
Total liabilities and net assets	<u>\$2,920,375</u>	<u>\$ 692,376</u>	<u>\$7,453,012</u>	<u>\$ 11,065,763</u>	<u>\$ 3,344,058</u>	<u>\$ 8,034,844</u>	<u>\$22,444,665</u>

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, 2003

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment			
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 378,039	\$ 475,704	\$ -	\$ 189,156	\$ -	\$ 1,042,899
Accounts receivable	67,651	-	-	-	-	67,651
Pledges receivable, net	-	-	-	215,235	-	215,235
Other	4,031	101	-	-	-	4,132
Total current assets	449,721	475,805	-	404,391	-	1,329,917
Marketable securities, at fair value	2,089,490	118,430	-	194,540	5,468,745	7,871,205
Assets held under split interest agreements	-	-	-	2,417,142	2,477,132	4,894,274
Land, buildings and equipment:						
Land	-	-	772,554	-	-	772,554
Buildings, net of accumulated depreciation of \$1,508,342	-	-	6,691,289	-	-	6,691,289
Furniture, fixtures and equipment, net of accumulated depreciation of \$301,927	-	-	42,078	-	-	42,078
Total land, buildings and equipment	-	-	7,505,921	-	-	7,505,921
Total assets	<u>\$ 2,539,211</u>	<u>\$ 594,235</u>	<u>\$ 7,505,921</u>	<u>\$ 3,016,073</u>	<u>\$ 7,945,877</u>	<u>\$ 21,601,317</u>

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, 2003

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment	Total Unrestricted			
<b>Liabilities and Net Assets</b>							
Current liabilities:							
Accounts payable	\$ 103,386	\$ -	\$ -	\$ 103,386	\$ -	\$ -	\$ 103,386
Due to Divisional Headquarters	109,488	-	-	109,488	-	-	109,488
Total current liabilities	212,874	-	-	212,874	-	-	212,874
Net assets:							
Unrestricted:							
Undesignated	2,326,337	-	-	2,326,337	-	-	2,326,337
Board designated:							
Vehicle and equipment	-	126,666	-	126,666	-	-	126,666
Property maintenance and insurance	-	18,635	-	18,635	-	-	18,635
Capital purposes	-	448,934	-	448,934	-	-	448,934
Land, buildings and equipment	-	-	7,505,921	7,505,921	-	-	7,505,921
Temporarily restricted	-	-	-	-	3,016,073	-	3,016,073
Permanently restricted	-	-	-	-	-	7,945,877	7,945,877
Total net assets	2,326,337	594,235	7,505,921	10,426,493	3,016,073	7,945,877	21,388,443
Total liabilities and net assets	<u>\$ 2,539,211</u>	<u>\$ 594,235</u>	<u>\$ 7,505,921</u>	<u>\$ 10,639,367</u>	<u>\$ 3,016,073</u>	<u>\$ 7,945,877</u>	<u>\$ 21,601,317</u>

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, 2004

	Unrestricted						
	General	Board	Land,	Total	Temporarily	Permanently	Total
	Operating	Designated	Buildings and	Unrestricted	Restricted	Restricted	
			Equipment				
<b>Public support and revenue</b>							
Public support:							
Received directly:							
Contributions	\$ 1,760,739	\$ -	\$ -	\$ 1,760,739	\$ 150,669	\$ -	\$ 1,911,408 <i>In</i>
Donations-in-kind and contributed services	1,780,722	-	-	1,780,722	-	-	1,780,722 <i>Ent</i>
Special events	8,001	-	-	8,001	-	-	8,001 <i>Ind</i>
Legacies and bequests	-	265,787	-	265,787	41,025	-	306,812 <i>Ind</i>
Changes in value of split interest agreements	-	-	-	-	376,832	88,967	465,799 <i>Ind</i>
Total received directly	3,549,462	265,787	-	3,815,249	568,526	88,967	4,472,742
Received indirectly:							
Allocated by federated fund-raising organizations	24,916	-	-	24,916	163,314	-	188,230 <i>way</i>
Total public support	3,574,378	265,787	-	3,840,165	731,840	88,967	4,660,972
Fees and grants from government agencies	341,798	-	-	341,798	-	-	341,798 <i>gov</i>
Program service fees	399,823	-	-	399,823	-	-	399,823 <i>earn</i>
Sales to the public	12,802	-	-	12,802	-	-	12,802 <i>earn</i>
Investment income:							
Dividends and interest	126,637	7,880	-	134,517	3,183	-	137,700 <i>net</i>
Net realized gain on sale of investments	305,999	4,902	-	310,901	7,773	-	318,674 <i>net</i>
Net unrealized gain on change in value of investments	440,401	6,894	-	447,295	10,771	-	458,066 <i>net</i>
Other revenue	8,673	-	-	8,673	-	-	8,673 <i>net</i>
Total public support and revenue	5,210,511	285,463	-	5,495,974	753,567	88,967	6,338,508

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, 2004

	Unrestricted			Temporarily	Permanently	
	General	Board	Land,	Restricted	Restricted	Total
	Operating	Designated	Buildings and			
			Equipment	Unrestricted		
Net assets reclassified due to fulfillment of donor restrictions	425,582	-	-	425,582	(425,582)	-
Interfund transfers	240,231	(187,322)	(52,909)	-	-	-
Total	5,876,324	98,141	(52,909)	5,921,556	327,985	88,967
6,338,508						
<b>Expenses</b>						
Program services:						
Corps community center	1,119,111	-	-	1,119,111	-	-
Residential and institutional	648,696	-	-	648,696	-	-
Other social services	2,673,447	-	-	2,673,447	-	-
Total program services	4,441,254	-	-	4,441,254	-	-
4,441,254						
Supporting services:						
Management and general	504,302	-	-	504,302	-	-
Fundraising	450,437	-	-	450,437	-	-
Total supporting services	954,739	-	-	954,739	-	-
954,739						
Total expenses	5,395,993	-	-	5,395,993	-	-
5,395,993						
Changes in net assets	480,331	98,141	(52,909)	525,563	327,985	88,967
Net assets at beginning of year	2,326,337	594,235	7,505,921	10,426,493	3,016,073	7,945,877
21,388,443						
Net assets at end of year	\$ 2,806,668	\$ 692,376	\$ 7,453,012	\$ 10,952,056	\$ 3,344,058	\$ 8,034,844
\$22,330,958						

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, 2003

	Unrestricted						
	General	Board	Land,	Total	Temporarily	Permanently	Total
	Operating	Designated	Buildings and	Unrestricted	Restricted	Restricted	
			Equipment				
<b>Public support and revenue</b>							
Public support:							
Received directly:							
Contributions	\$ 1,665,519	\$ -	\$ -	\$ 1,665,519	\$ 189,156	\$ -	\$ 1,854,675 <i>Ind</i>
Donations-in-kind and contributed services	1,339,308	-	-	1,339,308	-	-	1,339,308
Special events	14,743	-	-	14,743	-	-	14,743
Legacies and bequests	-	264,387	-	264,387	151	-	264,538 <i>Ind</i>
Changes in value of split interest agreements	-	-	-	-	83,536	231,670	315,206 <i>Ind</i>
Total received directly	3,019,570	264,387	-	3,283,957	272,843	231,670	3,788,470
Received indirectly:							
Allocated by federated fund-raising organizations	100,576	-	-	100,576	215,235	-	315,811
Total public support	3,120,146	264,387	-	3,384,533	488,078	231,670	4,104,281
Fees and grants from government agencies	240,228	-	-	240,228	-	-	240,228 <i>30'</i>
Program service fees	288,797	-	-	288,797	-	-	288,797 <i>CO</i>
Sales to the public	13,829	-	-	13,829	-	-	13,829 <i>PO</i>
Investment income:							
Dividends and interest	194,790	8,657	-	203,447	1,884	-	205,331
Net realized loss on sale of investments	(95,473)	(2,290)	-	(97,763)	(3,042)	-	(100,805)
Net unrealized gain on change in value of investments	1,172,358	21,102	-	1,193,460	31,933	-	1,225,393
Other revenue	6,649	-	-	6,649	-	-	6,649
Total public support and revenue	4,941,324	291,856	-	5,233,180	518,853	231,670	5,983,703

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, 2003

	Unrestricted						
	General Operating	Board Designated	Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets reclassified due to fulfillment of donor restrictions	197,143	-	-	197,143	(197,143)	-	-
Interfund transfers	470,660	(245,219)	(225,441)	-	-	-	-
Total	5,609,127	46,637	(225,441)	5,430,323	321,710	231,670	5,983,703
<b>Expenses</b>							
Program services:							
Corps community center	1,309,658	-	-	1,309,658	-	-	1,309,658
Residential and institutional	646,668	-	-	646,668	-	-	646,668
Other social services	2,188,937	-	-	2,188,937	-	-	2,188,937
Total program services	4,145,263	-	-	4,145,263	-	-	4,145,263
Supporting services:							
Management and general	474,322	-	-	474,322	-	-	474,322
Fundraising	568,674	-	-	568,674	-	-	568,674
Total supporting services	1,042,996	-	-	1,042,996	-	-	1,042,996
Total expenses	5,188,259	-	-	5,188,259	-	-	5,188,259
Changes in net assets	420,868	46,637	(225,441)	242,064	321,710	231,670	795,444
Net assets at beginning of year	1,905,469	547,598	7,731,362	10,184,429	2,694,363	7,714,207	20,592,999
Net assets at end of year	<u>\$ 2,326,337</u>	<u>\$ 594,235</u>	<u>\$ 7,505,921</u>	<u>\$ 10,426,493</u>	<u>\$ 3,016,073</u>	<u>\$ 7,945,877</u>	<u>\$21,388,443</u>

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, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Changes in net assets	\$ 942,515	\$ 795,444
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	197,420	207,615
Net unrealized and realized gain on investments	(1,242,539)	(1,445,053)
Changes in operating assets and liabilities:		
Accounts receivable	(27,332)	17,794
Pledges receivable, net	51,921	(38,683)
Other	(1,750)	(517)
Accounts payable and accrued expenses	(22,279)	61,417
Due to Divisional and Territorial Headquarters	(76,888)	(58,766)
Deferred revenue	<u>-</u>	<u>(22,375)</u>
Net cash used in operating activities	<u>(178,932)</u>	<u>(483,124)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	464,676	1,045,947
Purchases of investments	(170,583)	(236,841)
Purchases of land, buildings and equipment	(144,511)	-
Net disposals of land, buildings and equipment	<u>-</u>	<u>17,826</u>
Net cash provided by investing activities	<u>149,582</u>	<u>826,932</u>
Net change in cash and cash equivalents	(29,350)	343,808
Cash and cash equivalents at beginning of year	<u>1,042,899</u>	<u>699,091</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,013,549</u></u>	<u><u>\$ 1,042,899</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, 2004

	Program Services				Supporting Services			Total
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services	
Direct assistance	\$ -	\$ -	\$ 1,834,806	\$ 1,834,806	\$ -	\$ -	\$ -	\$ 1,834,806
Salaries and allowances	343,043	322,252	283,370	948,665	179,772	225,379	405,151	1,353,816
Occupancy	252,978	74,495	115,024	442,497	107,449	9,242	116,691	559,188
Support services - programs	93,667	45,763	178,177	317,607	-	-	-	317,607
Officer and employee benefits	92,747	65,078	44,901	202,726	30,813	20,032	50,845	253,571
Printing and publications	4,789	-	89,746	94,535	1,703	100,233	101,936	196,471
Supplies	73,278	48,451	35,912	157,641	20,234	7,484	27,718	185,359
Furnishings and equipment	72,427	38,340	6,917	117,684	55,404	6,705	62,109	179,793
Payroll taxes	32,408	31,068	21,507	84,983	12,342	19,733	32,075	117,058
Professional fees	10,760	18,704	12,427	41,891	44,484	21,895	66,379	108,270
Travel, meals and transportation	65,647	12	11,889	77,548	20,060	1,566	21,626	99,174
Miscellaneous	16,916	-	29,583	46,499	-	-	-	46,499
Conferences, meetings, and major trips	32,019	1,193	1,159	34,371	11,113	515	11,628	45,999
Telephone	25,974	3,266	5,727	34,967	8,742	2,057	10,799	45,766
Postage and shipping	1,923	74	322	2,319	4,352	34,631	38,983	41,302
Awards and grants	15	-	1,980	1,995	5,106	-	5,106	7,101
Organization dues	520	-	-	520	2,728	965	3,693	4,213
Total expenses	<u>\$ 1,119,111</u>	<u>\$ 648,696</u>	<u>\$ 2,673,447</u>	<u>\$ 4,441,254</u>	<u>\$ 504,302</u>	<u>\$ 450,437</u>	<u>\$ 954,739</u>	<u>\$ 5,395,993</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, 2003

	Program Services				Supporting Services			Total
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services	
Direct assistance	\$ -	\$ -	\$ 1,540,591	\$ 1,540,591	\$ -	\$ -	\$ -	\$ 1,540,591
Salaries and allowances	372,572	329,042	208,590	910,204	208,920	227,628	436,548	1,346,752
Occupancy	441,492	63,696	92,182	597,370	72,361	8,435	80,796	678,166
Support services - programs	116,646	43,326	173,302	333,274	-	-	-	333,274
Officer and employee benefits	72,874	60,613	31,615	165,102	35,878	13,246	49,124	214,226
Printing and publications	3,914	103	6,045	10,062	1,308	120,636	121,944	132,006
Supplies	70,784	59,077	27,310	157,171	13,516	9,185	22,701	179,872
Furnishings and equipment	69,756	13,409	9,679	92,844	13,035	7,200	20,235	113,079
Payroll taxes	31,225	30,826	18,974	81,025	15,669	19,506	35,175	116,200
Professional fees	9,491	39,192	32,849	81,532	61,793	97,236	159,029	240,561
Travel, meals and transportation	48,942	173	12,370	61,485	19,466	1,707	21,173	82,658
Miscellaneous	16,006	-	28,960	44,966	1,023	-	1,023	45,989
Conferences, meetings, and major trips	23,708	1,951	24	25,683	11,825	18,960	30,785	56,468
Telephone	30,038	5,202	6,446	41,686	12,081	2,507	14,588	56,274
Postage and shipping	1,126	58	-	1,184	2,891	41,173	44,064	45,248
Awards and grants	-	-	-	-	2,536	-	2,536	2,536
Organization dues	1,084	-	-	1,084	2,020	1,255	3,275	4,359
Total expenses	\$ 1,309,658	\$ 646,668	\$ 2,188,937	\$ 4,145,263	\$ 474,322	\$ 568,674	\$ 1,042,996	\$ 5,188,259

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, 2004 and 2003**

**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 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; 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 those appearing in the *Audit and Accounting Guide – Not-for-Profit Organizations* issued by the American Institute of Certified Public Accountants. 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.

**THE SALVATION ARMY  
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NOTES TO FINANCIAL STATEMENTS (Continued)  
September 30, 2004 and 2003**

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

**Financial Statement Presentation (Continued)**

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 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**

The Salvation Army accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, 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.

**Trusts Held by a Third Party**

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



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NOTES TO FINANCIAL STATEMENTS (Continued)  
September 30, 2004 and 2003**

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

**Split Interest Agreements (Continued)**

**Charitable Remainder Trusts**

Donors have established and funded trusts under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the Area Command receives 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 4.5%.

**Investments**

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.

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.

**THE SALVATION ARMY**  
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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2004 and 2003**

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

**Land, Buildings and Equipment**

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.

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.

**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.

**THE SALVATION ARMY**  
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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2004 and 2003**

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

**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.

**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.

**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, 2004 and 2003. Credit risk is managed by maintaining all deposits in high quality financial institutions.

**NOTE 2 - PLEDGES RECEIVABLE**

Pledges receivable that are expected to be collected within one year are recorded at net realizable value.

Pledges receivable include the following at September 30:

	<u>2004</u>	<u>2003</u>
Unconditional promises to give due in:		
Less than one year	\$ 163,314	\$ 215,235
Allowance for uncollectible pledges receivable	<u>-</u>	<u>-</u>
Net pledges receivable	<u>\$ 163,314</u>	<u>\$ 215,235</u>

**THE SALVATION ARMY**  
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**NOTE 3 - INVESTMENTS**

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. These assets are treated as cash equivalents in the financial statements.

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

**Employee Pension Plan**

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

Annual contributions to the Plan are based on a stipulated percentage (5.25% in fiscal 2004 and 2003) of employees' salaries. The Area command incurred \$47,937 and \$58,667 of expense under this plan in fiscal 2004 and 2003, 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 \$15,000 and \$10,810 in fiscal 2004 and 2003, respectively.

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

**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 \$317,606 and \$333,274 in fiscal year 2004 and 2003, respectively.

The Salvation Army provides certain health care and death benefits for active Salvation Army officers and Auxiliary-Captains through Officers' and Auxiliary-Captains' Sick Benefit and Burial Funds, as defined by the national Salvation Army policy. All active Salvation Army officers and Auxiliary-Captains and their eligible dependents are eligible for these benefits. Amounts charged to the Area Command and included in expenses for this provision were \$42,106 and \$30,632 in fiscal 2004 and 2003, 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 \$136,421 and \$105,670 in fiscal 2004 and 2003, 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 \$84,239 and \$67,035 in fiscal 2004 and 2003.

**NOTE 5 - NET ASSETS CLASSIFICATIONS**

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

	<u>2004</u>	<u>2003</u>
Welfare and support for needy persons	\$ 386,770	\$ 383,696
Time restricted	<u>2,957,288</u>	<u>2,632,377</u>
Total	<u>\$ 3,344,058</u>	<u>\$ 3,016,073</u>

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

	<u>2004</u>	<u>2003</u>
Welfare and support for needy persons	<u>\$ 8,034,844</u>	<u>\$ 7,945,877</u>

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**NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors during the years ended September 30:

	<u>2004</u>	<u>2003</u>
Time restricted	\$ 215,235	\$ 176,552
Purpose restriction accomplished:		
Welfare and support for needy persons	<u>210,347</u>	<u>20,591</u>
Total restrictions released	<u>\$ 425,582</u>	<u>\$ 197,143</u>

**NOTE 7 - 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.