

**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, 2013 and 2012**

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

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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 financial statements of The Salvation Army Nashville, Tennessee Area Command (the "Area Command"), a unit of The Salvation Army, a Georgia Corporation, which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Salvation Army Nashville, Tennessee Area Command (the "Area Command"), a unit of The Salvation Army, a Georgia Corporation, as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Frasier, Orr & Hard, PLLC*

Nashville, Tennessee  
March 21, 2014

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2013**

	Unrestricted					
	Land,		Buildings		Total	Total
	General Operating	Board Designated	Equipment	Unrestricted		
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 680,710	\$ 10,021	\$ -	\$ 690,731	\$ 113,258	\$ 803,989
Accounts receivable	37,457	-	-	37,457	-	37,457
Pledges receivable, net	-	-	-	-	164,790	164,790
Other	125,025	-	-	125,025	-	125,025
Total current assets	843,192	10,021	-	853,213	278,048	1,131,261
Deposits held by territorial headquarters	1,140,291	2,304,617	-	3,444,908	6,006,821	17,175,411
Assets held under split interest agreements	-	-	-	-	205,982	4,423,728
Land, buildings and equipment:						
Land	-	-	751,644	751,644	-	751,644
Buildings, net of accumulated depreciation of \$2,891,523	-	-	5,332,832	5,332,832	-	5,332,832
Equipment, net of accumulated depreciation of \$271,844	-	-	102,845	102,845	-	102,845
Total land, buildings and equipment	-	-	6,187,321	6,187,321	-	6,187,321
Total assets	\$ 1,983,483	\$ 2,314,638	\$ 6,187,321	\$ 10,485,442	\$ 6,490,851	\$ 28,917,721

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, 2013**

	Unrestricted					
	Land, Buildings and Equipment					
	General Operating	Board Designated	Total Unrestricted		Temporarily Restricted	Permanently Restricted
						Total
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Accounts payable	\$ 174,563	\$ -	\$ -	\$ 174,563	\$ -	\$ -
						\$ 174,563
Total current liabilities	174,563	-	-	174,563	-	-
						174,563
<b>Net assets:</b>						
Unrestricted:						
Undesignated	1,808,920	-	-	1,808,920	-	-
Board designated:						
Vehicle and equipment	-	1,574	-	1,574	-	-
Property maintenance and insurance	-	8,447	-	8,447	-	-
Capital purposes	-	2,304,617	-	2,304,617	-	-
Land, buildings and equipment	-	-	6,187,321	6,187,321	-	-
Temporarily restricted	-	-	-	-	6,490,851	-
Permanently restricted	-	-	-	-	-	11,941,428
						11,941,428
Total net assets	1,808,920	2,314,638	6,187,321	10,310,879	6,490,851	11,941,428
						28,743,158
Total liabilities and net assets	\$1,983,483	\$2,314,638	\$6,187,321	\$ 10,485,442	\$ 6,490,851	\$ 11,941,428
						\$28,917,721

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, 2012**

	Unrestricted					
	Land, Buildings and Equipment		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets	General Operating	Board Designated				
Current assets:						
Cash and cash equivalents	\$ 362,622	\$ 10,021	\$ 372,643	\$ 70,109	\$ -	\$ 442,752
Accounts receivable	69,566	-	69,566	-	-	69,566
Pledges receivable, net	-	-	-	85,252	-	85,252
Other	2,983	-	2,983	-	-	2,983
Total current assets	435,171	10,021	445,192	155,361	-	600,553
Deposits held by territorial headquarters	1,108,926	2,342,813	3,451,739	4,868,952	7,723,682	16,044,373
Assets held under split interest agreements	-	-	-	229,059	4,290,461	4,519,520
Land, buildings and equipment:						
Land	-	-	789,277	-	-	789,277
Buildings, net of accumulated depreciation of \$2,872,309	-	-	5,542,124	-	-	5,542,124
Equipment, net of accumulated depreciation of \$277,302	-	-	117,111	-	-	117,111
Total land, buildings and equipment	-	-	6,448,512	-	-	6,448,512
Total assets	\$ 1,544,097	\$ 2,352,834	\$ 6,448,512	\$ 5,253,372	\$ 12,014,143	\$ 27,612,958

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, 2012**

	Unrestricted					
	Land, Buildings and Equipment			Total Unrestricted	Temporarily Restricted	Permanently Restricted
	General Operating	Board Designated				Total
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Accounts payable	\$ 154,555	\$ -	\$ -	\$ 154,555	\$ -	\$ 154,555
Total current liabilities	154,555	-	-	154,555	-	154,555
<b>Net assets:</b>						
Unrestricted:						
Undesignated	1,389,542	-	-	1,389,542	-	1,389,542
Board designated:						
Vehicle and equipment	-	1,574	-	1,574	-	1,574
Property maintenance and insurance	-	8,447	-	8,447	-	8,447
Capital purposes	-	2,342,813	-	2,342,813	-	2,342,813
Land, buildings and equipment	-	-	6,448,512	6,448,512	-	6,448,512
Temporarily restricted	-	-	-	-	5,253,372	5,253,372
Permanently restricted	-	-	-	-	12,014,143	12,014,143
Total net assets	1,389,542	2,352,834	6,448,512	10,190,888	5,253,372	27,458,403
Total liabilities and net assets	\$ 1,544,097	\$ 2,352,834	\$ 6,448,512	\$ 10,345,443	\$ 5,253,372	\$ 27,612,958

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, 2013**

	Unrestricted					
	Land, Buildings and Equipment		Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated				
<b>Public support and revenue</b>						
Public support:						
Received directly:						
Contributions	\$ 2,363,394	\$ -	\$ 2,363,394	\$ 278,048	\$ -	\$ 2,641,442
Donations-in-kind and contributed services	2,094,197	-	2,094,197	-	-	2,094,197
Special events	102,373	-	102,373	-	-	102,373
Legacies and bequests	88,846	148,002	236,848	87,483	-	324,331
Changes in value of split interest agreements	-	-	-	(23,077)	(72,715)	(95,792)
Total received directly	4,648,810	148,002	4,796,812	342,454	(72,715)	5,066,551
Received indirectly:						
Allocated by federated fund-raising organizations	162,803	-	162,803	-	-	162,803
Total public support	4,811,613	148,002	4,959,615	342,454	(72,715)	5,229,354
Fees and grants from government agencies	316,487	-	316,487	-	-	316,487
Program service fees	130,716	-	130,716	-	-	130,716
Sales to the public	200	-	200	-	-	200
Investment income:						
Dividends and interest	8,487	68,429	76,916	248,047	-	324,963
Net realized gain on sale of investments	-	-	-	776,133	-	776,133
Net unrealized gain on change in value of investments	-	-	-	570,095	-	570,095
Gain on sale of property	272,773	-	272,773	-	-	272,773
Other revenue	26,283	-	26,283	-	-	26,283
Total public support and revenue	5,566,559	216,431	5,782,990	1,936,729	(72,715)	7,647,004

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, 2013**

	Unrestricted					
	General Operating	Board Designated	Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets reclassified due to fulfillment of donor restrictions	699,250	-	-	699,250	(699,250)	-
Interfund transfers	515,818	(254,627)	(261,191)	-	-	-
Total	6,781,627	(38,196)	(261,191)	6,482,240	1,237,479	(72,715)
						7,647,004
<b>Expenses</b>						
Program services:						
Corps community center	895,266	-	-	895,266	-	-
Residential and institutional	920,671	-	-	920,671	-	-
Other social services	3,048,741	-	-	3,048,741	-	-
Total program services	4,864,678	-	-	4,864,678	-	-
						4,864,678
Supporting services:						
Management and general	675,006	-	-	675,006	-	-
Fundraising	822,565	-	-	822,565	-	-
Total supporting services	1,497,571	-	-	1,497,571	-	-
						1,497,571
Total expenses	6,362,249	-	-	6,362,249	-	-
						6,362,249
Change in net assets	419,378	(38,196)	(261,191)	119,991	1,237,479	(72,715)
Net assets at beginning of year	1,389,542	2,352,834	6,448,512	10,190,888	5,253,372	12,014,143
						27,458,403
Net assets at end of year	\$ 1,808,920	\$ 2,314,638	\$ 6,187,321	\$ 10,310,879	\$ 6,490,851	\$ 11,941,428
						\$ 28,743,158

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, 2012**

	Unrestricted					
	Land, Buildings and Equipment		Total Unrestricted			
	General Operating	Board Designated		Temporarily Restricted	Permanently Restricted	Total
<b>Public support and revenue</b>						
Public support:						
Received directly:						
Contributions	\$ 2,367,461	\$ -	\$ 2,367,461	\$ 111,000	\$ -	\$ 2,478,461
Donations-in-kind and contributed services	2,459,970	-	2,459,970	-	-	2,459,970
Special events	68,674	-	68,674	-	-	68,674
Legacies and bequests	6,864	477,232	484,096	432,930	-	917,026
Changes in value of split interest agreements	-	-	-	62,713	439,841	502,554
Total received directly	4,902,969	477,232	5,380,201	606,643	439,841	6,426,685
Received indirectly:						
Allocated by federated fund-raising organizations	126,977	-	126,977	-	-	126,977
Total public support	5,029,946	477,232	5,507,178	606,643	439,841	6,553,662
Fees and grants from government agencies	248,765	-	248,765	-	-	248,765
Program service fees	296,056	-	296,056	-	-	296,056
Sales to the public	259	-	259	-	-	259
Investment income:						
Dividends and interest	8,029	66,342	74,371	200,091	-	274,462
Net realized gain on sale of investments	-	-	-	75,972	-	75,972
Net unrealized gain on change in value of investments	-	-	-	1,010,280	-	1,010,280
Other revenue	136,291	-	136,291	-	-	136,291
Total public support and revenue	5,719,346	543,574	6,262,920	1,892,986	439,841	8,595,747

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, 2012**

	Unrestricted					Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment						
Net assets reclassified due to fulfillment of donor restrictions	923,992	-	-		923,992	(923,992)	-	-	-
Interfund transfers	411,599	(343,133)	(68,466)		-	-	-	-	-
Total	7,054,937	200,441	(68,466)		7,186,912	968,994	439,841		8,595,747
<b>Expenses</b>									
Program services:									
Corps community center	906,079	-	-		906,079	-	-	-	906,079
Residential and institutional	909,072	-	-		909,072	-	-	-	909,072
Other social services	3,649,126	-	-		3,649,126	-	-	-	3,649,126
Total program services	5,464,277	-	-		5,464,277	-	-	-	5,464,277
Supporting services:									
Management and general	689,210	-	-		689,210	-	-	-	689,210
Fundraising	658,194	-	-		658,194	-	-	-	658,194
Total supporting services	1,347,404	-	-		1,347,404	-	-	-	1,347,404
Total expenses	6,811,681	-	-		6,811,681	-	-	-	6,811,681
Change in net assets	243,256	200,441	(68,466)		375,231	968,994	439,841		1,784,066
Net assets at beginning of year	1,146,286	2,152,393	6,516,978		9,815,657	4,284,378	11,574,302		25,674,337
Net assets at end of year	\$ 1,389,542	\$ 2,352,834	\$ 6,448,512		\$ 10,190,888	\$ 5,253,372	\$ 12,014,143		\$ 27,458,403

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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,284,755	\$ 1,784,066
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	211,207	208,030
Gain on sale of land, buildings and equipment	(272,773)	-
Net unrealized and realized gain on investments	(1,346,228)	(1,086,252)
Change in value of split interest agreements	95,792	(502,555)
Changes in operating assets and liabilities:		
Accounts receivable	32,109	20,124
Pledges receivable, net	(79,538)	(846)
Other	(122,042)	434
Accounts payable	<u>20,008</u>	<u>28,260</u>
Net cash (used in) provided by operating activities	<u>(176,710)</u>	<u>451,261</u>
Cash flows from investing activities:		
Proceeds from sales of investments	863,517	1,198,677
Purchases of investments	(648,327)	(1,689,703)
Proceeds from sale of land, buildings and equipment	352,223	-
Purchases of land, buildings and equipment	<u>(29,466)</u>	<u>(139,564)</u>
Net cash provided by (used in) investing activities	<u>537,947</u>	<u>(630,590)</u>
Net change in cash and cash equivalents	361,237	(179,329)
Cash and cash equivalents at beginning of year	<u>442,752</u>	<u>622,081</u>
Cash and cash equivalents at end of year	<u><u>\$ 803,989</u></u>	<u><u>\$ 442,752</u></u>

See accompanying notes.

**THE SALVATION ARMY**

Total expenses

**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, 2012**

	Program Services			Supporting Services			
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services
Direct assistance	\$ 14,813	\$ -	\$ 2,446,394	\$ 2,461,207	\$ -	\$ -	\$ 2,461,207
Salaries and allowances	282,618	393,206	257,759	933,583	347,136	292,501	1,573,220
Occupancy	249,862	137,111	201,813	588,786	59,098	30,558	678,442
Printing and publications	1,810	16,833	293,421	312,064	656	175,231	487,951
Support services	77,734	53,704	328,451	459,889	-	-	459,889
Officer and employee benefits	81,198	84,374	36,705	202,277	37,449	31,419	271,145
Professional fees	6,309	81,453	10,108	97,870	79,011	11,134	188,015
Payroll taxes	21,674	40,301	25,704	87,679	28,211	30,179	146,069
Supplies	20,798	76,677	13,182	110,657	10,357	5,032	126,046
Furnishings and equipment	57,413	16,826	7,512	81,751	28,686	3,546	113,983
Conferences, meetings, and major trips	18,903	-	10,072	28,975	55,044	10,024	94,043
Travel, meals and transportation	47,736	49	7,687	55,472	28,676	7,630	91,778
Telephone	23,950	8,316	7,850	40,116	11,179	6,603	57,898
Postage and shipping	686	222	433	1,341	1,216	52,442	54,999
Organization dues	575	-	-	575	2,060	1,895	4,530
Miscellaneous	-	-	2,035	2,035	431	-	2,466
Total expenses	\$ 906,079	\$ 909,072	\$ 3,649,126	\$ 5,464,277	\$ 689,210	\$ 658,194	\$ 6,811,681

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, 2013 and 2012**

**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.



**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
September 30, 2013 and 2012**

**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**

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 to estimated net present value. Amortization of the discount is recorded as contribution revenue. Management considers all promises to give to be fully collectible at September 30, 2013 and 2012. Accordingly, no allowance for doubtful accounts has been provided.

**Split Interest Agreements**

Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidelines 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.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2013 and 2012**

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

**Split Interest Agreements (Continued)**

**Charitable Remainder Trust**

Donors have established and funded trusts under which specified distributions are to be made to designated beneficiaries over the trusts' term. Upon termination of the trusts, Area Command receives a percentage of the assets remaining in the trusts. The assets in the trusts are assumed to earn a rate of 5% over the estimated lives of the trusts and are discounted at a rate of 3.52%.

**Deposits with Territorial Headquarters**

The Salvation Army's 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.

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

**Deposits with Territorial Headquarters (Continued)**

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.

**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

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

**Land, Buildings and Equipment (Continued)**

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.

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

**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.

FASB ASC guidance requires that a tax position be recognized or derecognized based on a “more likely 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 this criteria. There are no tax penalties on interest in 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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, 2013 and 2012.

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

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

**Concentrations (Continued)**

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.

**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.

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**NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable as of September 30, 2013 and 2012 totaled \$164,790 and \$85,252, respectively, and are due in less than one year.

**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 deposits held by territorial headquarters 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.

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

	<u>2013</u>	<u>2012</u>
Dividends and interest	\$ 324,963	\$ 274,462
Realized and unrealized gains, net	<u>1,346,228</u>	<u>1,086,252</u>
	<u>\$ 1,671,191</u>	<u>\$ 1,360,714</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 2013 and 2012) of employees’ salaries. The Area Command incurred \$62,119 and \$40,615 of expense under this plan in fiscal 2013 and 2012, respectively.

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

**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 approximately \$8,250 and \$9,000 in fiscal 2013 and 2012, respectively.

**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 \$428,198 and \$459,889 in fiscal 2013 and 2012, 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 \$46,446 and \$50,904 in fiscal 2013 and 2012, 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 \$210,677 and \$177,176 in fiscal 2013 and 2012, 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 \$141,455 and \$131,462 in fiscal 2013 and 2012 respectively.



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**NOTE 5 – NET ASSETS CLASSIFICATIONS**

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

	<u>2013</u>	<u>2012</u>
Welfare and support for needy persons	\$ 319,240	\$ 299,168
Time restricted	164,790	85,252
Permanently restricted endowment market gains	<u>6,006,821</u>	<u>4,868,952</u>
Total	<u>\$ 6,490,851</u>	<u>\$ 5,253,372</u>

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

	<u>2013</u>	<u>2012</u>
Welfare and support for needy persons	<u>\$ 11,941,428</u>	<u>\$ 12,014,143</u>

**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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trust	\$ -	\$ -	\$ 2,783,105	\$ 2,783,105
Beneficial interest in charitable remainder trusts	<u>-</u>	<u>-</u>	<u>1,640,623</u>	<u>1,640,623</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,423,728</u>	<u>\$ 4,423,728</u>

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**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

The summary of changes in the fair value of Area Command's level 3 assets for the year ended September 30, 2013 is as follows:

	<u>Beneficial Interest in Trust</u>	<u>Beneficial Interest in Charitable Remainder Trusts</u>
Balance, beginning of year	\$ 2,638,898	\$ 1,880,622
Realized and unrealized gains (losses)	144,207	(239,999)
Purchases, sales, issuances and settlements (net)	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 2,783,105</u>	<u>\$ 1,640,623</u>

The following table sets forth by level, within the fair value hierarchy, Area Command's assets at fair value as of September 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trust	\$ -	\$ -	\$ 2,638,898	\$ 2,638,898
Beneficial interest in charitable remainder trusts	<u>-</u>	<u>-</u>	<u>1,880,622</u>	<u>1,880,622</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,519,520</u>	<u>\$ 4,519,520</u>

The summary of changes in the fair value of Area Command's level 3 assets for the year ended September 30, 2012 is as follows:

	<u>Beneficial Interest in Trust</u>	<u>Beneficial Interest in Charitable Remainder Trusts</u>
Balance, beginning of year	\$ 2,522,536	\$ 1,494,429
Realized and unrealized gains (losses)	116,362	386,193
Purchases, sales, issuances and settlements (net)	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 2,638,898</u>	<u>\$ 1,880,622</u>

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**NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)**

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.

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

The Salvation Army in Nashville, Tennessee 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 fund credited to The Salvation Army in Nashville consists of individual funds established for a variety of purposes. As required by GAAP, 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 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 interpretation by the Board of Trustees of relevant law is stated as follows:

The Uniform Prudent Management of Institutional Funds Acts (UPMIFA) as enacted by the State of Georgia applies to all the institutional funds of the Southern Territory 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. In accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

- 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 Board of Trustees considers the effect of inflation and deflation on the original gift value from the effective date of UPMIFA, July 1, 2008, or the gift date, whichever is later. Endowment funds are appropriated as of the date of disbursement from the invested asset.

**Endowment Net Asset Composition by Type of Fund as of September 30, 2013:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 3,223,995	\$ 11,941,428	\$ 15,165,423

**Changes in Endowment Net Assets for the Year Ended September 30, 2013:**

Endowment net assets, beginning of year	\$ -	\$ 2,350,531	\$ 12,014,143	\$ 14,364,674
Investment return:				
Investment income	-	199,728	-	199,728
Contributions	-	-	-	-
Net appreciation (realized and unrealized)	-	1,125,347	(72,715)	1,052,632
Total investment return	-	1,325,075	(72,715)	1,252,360
Appropriation of endowment assets for expenditure	-	(451,611)	-	(451,611)
Endowment net assets, end of year	\$ -	\$ 3,223,995	\$ 11,941,428	\$ 15,165,423

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

**Endowment Net Asset Composition by Type of Fund as of September 30, 2012:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 2,350,531	\$ 12,014,143	\$ 14,364,674

**Changes in Endowment Net Assets for the Year Ended September 30, 2012:**

Endowment net assets, beginning of year	\$ -	\$ 1,741,009	\$ 11,574,302	\$ 13,315,311
Investment return:				
Investment income	-	166,207	-	166,207
Contributions	-	10,000	-	10,000
Net depreciation (realized and unrealized)	-	923,063	439,841	1,362,904
Total investment return	-	1,099,270	439,841	1,539,111
Appropriation of endowment assets for expenditure	-	(489,748)	-	(489,748)
Endowment net assets, end of year	\$ -	\$ 2,350,531	\$ 12,014,143	\$ 14,364,674

***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

The Southern Territory has a policy of allocating an amount available for appropriation for spending each year equal to the weighted average of the prior-year's spending allocation adjusted for inflation plus a percentage of the endowment fund's fair value at the calendar year-end preceding the fiscal year in which the appropriation is planned. The prior year's spending allocation is weighted at 60% and the percentage of the fund's fair value is weighted at 40%. The percentage of the fund's fair

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

value varies in a band from 0% to 7%, depending on the ratio of the fund's fair value to the purchasing power of the endowment gifts as measured by changes in CPI-U. The median percentage is 4%, and the minimum and maximum of the band are reached at 50% and 200% ratios of the fund's fair value to the endowment gift's(s') purchasing power, respectively. With long-term real growth expected through investment returns, the expected long-term average percentage rate is 4.5%. Accordingly, over the long-term, the Southern Territory expects the current spending policy to allow its endowments to maintain or grow 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.

*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 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:

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 diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

*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 UPMIFA/SPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 as of September 30, 2013 and 2012. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

**NOTE 9 – SUBSEQUENT EVENTS**

Area Command evaluated subsequent events through March 21, 2014, when these financial statements were available to be issued. Management is 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.