

**NASHVILLE AREA CHAPTER OF
THE AMERICAN RED CROSS**

FINANCIAL STATEMENTS

June 30, 2005 and 2004

**NASHVILLE AREA CHAPTER OF
THE AMERICAN RED CROSS**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Nashville Area Chapter of the
American Red Cross

We have audited the accompanying statements of financial position of the Nashville Area Chapter of the American Red Cross (the "Chapter") as of June 30, 2005 and 2004, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year ended June 30, 2005. These financial statements are the responsibility of the Chapter's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 2004 summarized comparative information has been derived from the Chapter's 2004 financial statements, and in our report dated August 3, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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 Nashville Area Chapter of the American Red Cross as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier Dean & Howard, PLLC

August 5, 2005

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 297,035	\$ 574,312
Inter-Red Cross receivables	527,928	491,578
Contributions receivable, net	417,895	202,468
Accounts receivable other, net of estimated uncollectibles of \$16,772 in 2005 and \$6,892 in 2004	240,794	262,906
Inventory	29,707	19,456
Other	438	11,794
	<u>1,513,797</u>	<u>1,562,514</u>
Total current assets		
Noncurrent assets:		
Investments	57,663	61,230
Contributions receivable	74,505	83,684
Land, building and equipment, net	1,114,014	1,167,511
	<u>1,246,182</u>	<u>1,312,425</u>
Total noncurrent assets		
Total assets	<u><u>\$ 2,759,979</u></u>	<u><u>\$ 2,874,939</u></u>
Liabilities and Net Assets		
Current liabilities:		
Inter-Red Cross payables	\$ 264,745	\$ 325,573
Accounts payable and accrued expenses	165,475	243,266
Notes payable - current portion	5,561	-
Capital lease obligations - current portion	18,250	25,290
	<u>454,031</u>	<u>594,129</u>
Total current liabilities		
Notes payable	8,489	-
Capital lease obligations	4,175	25,281
	<u>466,695</u>	<u>619,410</u>
Total liabilities		
Net assets:		
Unrestricted	1,316,272	1,392,172
Temporarily restricted	942,012	828,357
Permanently restricted	35,000	35,000
	<u>2,293,284</u>	<u>2,255,529</u>
Total net assets		
Total liabilities and net assets	<u><u>\$ 2,759,979</u></u>	<u><u>\$ 2,874,939</u></u>

See accompanying notes.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2005
(with summarized financial information for the year ended June 30, 2004)

	2005			2004
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Monetary contributions	\$ 655,223	\$ 75,933	\$ -	\$ 731,156
United Way and Combined				
Federal Campaign	46,389	113,367	-	159,756
Course fees and program materials	600,186	792	-	600,978
Legacies and bequests	227,660	-	-	227,660
Inter-Red Cross revenues	70,338	18,822	-	89,160
Special events, net of expenses of				
\$89,713 in 2005 and \$116,827 in 2004	320,679	-	-	320,679
Other contributions (in kind)	79,985	-	-	79,985
Private and government grants	10,000	183,897	-	193,897
Other revenue	12,906	(96)	-	12,810
Contracts	53,052	-	-	53,052
Investment income	56,953	-	-	56,953
Endowment income	1,767	-	-	1,767
Net assets released from restrictions -				
satisfaction of program restrictions	279,060	(279,060)	-	-
Total public support and revenue	2,414,198	113,655	-	2,527,853
Expenses:				
Program services:				
Health and safety services	761,713	-	-	761,713
Disaster services	557,901	-	-	557,901
Community services	160,607	-	-	160,607
Service to military families	91,200	-	-	91,200
International services	11,215	-	-	11,215
Services to chapters	17,901	-	-	17,901
Total program services	1,600,537	-	-	1,600,537
Supporting services:				
Fund-raising and financial development	451,332	-	-	451,332
Management and general	183,568	-	-	183,568
Total supporting services	634,900	-	-	634,900
National Chapter assessment	254,661	-	-	254,661
Total expenses	2,490,098	-	-	2,490,098
Change in net assets	(75,900)	113,655	-	37,755
Net assets, beginning of year	1,392,172	828,357	35,000	2,255,529
Net assets, end of year	\$1,316,272	\$ 942,012	\$ 35,000	\$2,293,284

See accompanying notes.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2005
(with summarized financial information for the year ended June 30, 2004)

	2005					2004
	Program Services	Fundraising and Financial Development	Management and General	National Chapter Assessment	Total	Total
Salaries and wages	\$ 796,928	\$ 187,779	\$ 82,229	\$ -	\$ 1,066,936	\$1,072,233
Contractual services	141,731	107,738	31,335	-	280,804	480,432
Supplies, materials and printing	163,983	80,594	7,891	-	252,468	425,198
Financial and material assistance	206,740	21,509	1,167	-	229,416	198,757
Employee benefits	156,648	34,336	(95)	-	190,889	190,551
Inter-Red Cross expe	81,073	12,384	14,717	-	108,174	96,458
Depreciation and amortization	29,154	3,813	41,628	-	74,595	68,261
Equipment repair and maintenance	14,145	1,079	459	-	15,683	27,598
Travel	10,135	2,100	4,237	-	16,472	23,155
National Chapter assessment	-	-	-	254,661	254,661	231,510
	<u>\$ 1,600,537</u>	<u>\$ 451,332</u>	<u>\$ 183,568</u>	<u>\$ 254,661</u>	<u>\$ 2,490,098</u>	<u>\$2,814,153</u>

See accompanying notes.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 37,755	\$ 276,243
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	74,595	68,261
Gain on sale of fixed asset	(500)	(92)
Provision for doubtful accounts	32,040	20,692
Net unrealized gains on long-term investments	(2,867)	(3,679)
Increase in accounts and contributions receivable	(252,526)	(489,821)
Decrease in inventory and other assets	1,105	52,752
(Decrease) increase in payables and accrued expenses	(138,619)	20,628
Net cash used in operating activities	<u>(249,017)</u>	<u>(55,016)</u>
Cash flows from investing activities:		
Proceeds from sale of fixed asset	3,077	1,500
Purchases of fixed assets	(23,675)	(4,073)
Sales and maturities of investments	6,434	55,186
Net cash (used in) provided by investing activities	<u>(14,164)</u>	<u>52,613</u>
Cash flows from financing activities:		
Repayment of capital lease obligation	(28,146)	(20,668)
Proceeds from issuance of notes payable	17,139	-
Principal payment on note payable	(3,089)	-
Net cash used in financing activities	<u>(14,096)</u>	<u>(20,668)</u>
Decrease in cash and cash equivalents	(277,277)	(23,071)
Cash and cash equivalents, beginning of year	574,312	597,383
Cash and cash equivalents, end of year	<u>\$ 297,035</u>	<u>\$ 574,312</u>
Non-cash investing and financing transactions:		
Acquisition of equipment under capital lease agreements	<u>\$ -</u>	<u>\$ 23,821</u>

See accompanying notes.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The Nashville Area Chapter of the American Red Cross (the “Chapter”) is an operating unit of the American Red Cross. The American Red Cross is a volunteer, not-for-profit emergency service organization comprised of approximately 1,000 operating units (including chapters, blood service regions and the national sector) located throughout the United States and its territories. The American Red Cross also operates field stations on United States military installations around the world. The American Red Cross is a single corporate legal entity and produces consolidated financial statements for all chapters, blood service regions and the national sector.

The Chapter, as part of the American Red Cross system, has a mission to help prevent and relieve human suffering. Established in 1917, the Chapter provides disaster relief and community disaster education, aid to military servicemen and their families, CPR, First Aid and other related health and safety courses in the community and in the workplace, HIV/AIDS education in the state, international services, and vision and hearing tests in public schools. The Chapter’s jurisdictions are Cheatham, Davidson, DeKalb, Dickson, Macon, Robertson, Smith, Sumner, Trousdale and Wilson Counties in Tennessee.

As stated in their Congressional Charter, the American Red Cross is committed to continue and carry on a system of national and international relief in time of peace and apply the same in mitigating the suffering caused by pestilence, famine, fire, floods and other great natural calamities and devise and carry on measures for preventing the same.

All transactions with the national sector and other operating units are appropriately disclosed in the accompanying financial statements. These transactions include disaster relief, national products and services and shared services with other chapters or regions.

The Chapter is governed by a Board of Directors consisting of fifty members of the Nashville community and an Executive Committee consisting of twelve members of the Board of Directors.

The Chapter and the Tennessee Valley Blood Services Region (“Blood Services”) share the headquarters building and certain occupancy costs, but have separate management and support staffs.

Basis of Presentation

The financial statements of the Chapter have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

Management of the Chapter has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Chapter considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair market value in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Fair market value is determined by using quoted market prices, where available. Where not available, the present value of estimated expected future cash flows or another reasonable method is used. Investments of the permanently restricted net assets class consist of collective funds, managed by the American Red Cross national sector. These investments are stated at market value of \$57,663 at June 30, 2005 and 2004, while the cost of these investments at June 30, 2005 and 2004 is \$33,000.

Inventory

Supplies inventory purchased for use in program services is carried at the lower of cost (as determined by average price) or market.

Land, Building and Equipment

Purchases of land, building and equipment having a unit cost in excess of \$2,500 and a useful life of three or more years are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Donated assets are capitalized at the fair market value at the time of receipt. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support.

The cost of the headquarters building has been allocated between the Chapter and Blood Services based primarily upon the Chapter’s proceeds from the sale of the former building.

Basis of Presentation

The Chapter has adopted Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Chapter is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Chapter is required to present a statement of cash flows. Net assets of the Chapter are presented as follows:

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Chapter and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Chapter. Generally, donors of these assets may permit the Chapter to use all or part of the income earned for general or specific purposes.

Contributions

All contributions are considered to be available for the general programs of the Chapter unless restricted by the donor. The Chapter reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

Amounts are reported in the financial statements for voluntary donations of services only when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation. A substantial number of volunteers donate significant amounts of their time in the Chapter's program services and its fund-raising campaigns that have not been reported in the accompanying financial statements because the services do not create or enhance non-financial assets and no objective basis is available to measure the value of such donations.

Expense Allocation

General, administrative and public relations expenses have been allocated among functional expense categories based upon estimates by management.

Income Taxes

The Chapter is an operating unit of a national organization exempt from taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in these financial statements.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 2 – CONTRIBUTIONS RECEIVABLE

The Chapter has included unconditional promises to give as contributions receivable in accordance with the provisions of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions are scheduled to be received as follows at June 30:

	<u>2005</u>	<u>2004</u>
Amount receivable within one year	\$ 493,851	\$ 277,129
Amount receivable in 1 to 5 years	<u>74,505</u>	<u>83,684</u>
	568,356	360,813
Less allowance for uncollectible contributions	<u>(75,956)</u>	<u>(74,661)</u>
Contributions receivable, net	<u>\$ 492,400</u>	<u>\$ 286,152</u>

NOTE 3 – SPLIT INTEREST AGREEMENTS

The Chapter has been named beneficiary of certain charitable gift annuities (“annuities”). Assets contributed related to the annuities are held at national headquarters of the American Red Cross. The difference in the fair value of the assets contributed and the present value of the estimated future distributions to be paid has been recorded as contribution revenue at the time of gift. Amounts included in Inter-Red Cross receivables for annuities were \$499,319 and \$447,691 at June 30, 2005 and 2004 respectively. Contribution income from annuities was \$0 and \$301,417 for the years ended June 30, 2005 and 2004, respectively. The annuities increased in value by \$51,858 and \$65,005 for the years ended June 30, 2005 and 2004, respectively.

NOTE 4 – LAND, BUILDING AND EQUIPMENT

A summary of land, building and equipment at June 30 is as follows:

	<u>2005</u>	<u>2004</u>
Land	\$ 203,156	\$ 203,156
Building and improvements	1,301,813	1,301,813
Equipment and automobiles	<u>379,614</u>	<u>367,015</u>
	1,884,583	1,871,984
Less accumulated depreciation	<u>(770,569)</u>	<u>(704,473)</u>
Land, buildings and equipment, net	<u>\$1,114,014</u>	<u>\$1,167,511</u>

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 5 – LINE OF CREDIT

The Chapter has a line of credit with a financial institution. Borrowings under this agreement bear interest at the bank's index rate (4.75 percent at June 30, 2005) and require monthly payments of interest only. As of June 30, 2005 and 2004, the Chapter had no borrowings on this line of credit. The amount available under the agreement is \$250,000. The note is secured by accounts receivable and matures on October 9, 2005.

NOTE 6 – NET ASSETS

Unrestricted net assets are comprised of the following at June 30:

	<u>2005</u>	<u>2004</u>
Undesignated net deficit	\$ (84,157)	\$ (62,118)
Investment in land, building and equipment	1,114,014	1,167,511
Designated for quasi-endowment	31,411	31,775
Designated for capital improvements and maintenance	<u>255,004</u>	<u>255,004</u>
	<u>\$ 1,316,272</u>	<u>\$1,392,172</u>

Temporarily restricted net assets are comprised of the following at June 30:

	<u>2005</u>	<u>2004</u>
Disaster services	\$ 63,334	\$ 44,626
Health and safety services	11,922	11,922
Community services	21,519	21,519
Buildings and equipment	66,449	66,449
Time restrictions	631,182	583,062
Other	<u>147,606</u>	<u>100,779</u>
	<u>\$ 942,012</u>	<u>\$ 828,357</u>

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 6 – NET ASSETS (Continued)

Permanently restricted net assets are comprised of the following at June 30:

	<u>2005</u>	<u>2004</u>
Investments in perpetuity, income from which is expendable to support general operations	\$ 33,000	\$ 33,000
Pledge receivable	-	2,000
Due from unrestricted fund	<u>2,000</u>	<u>-</u>
	<u>\$ 35,000</u>	<u>\$ 35,000</u>

As of June 30, 2005 and 2004, the temporarily restricted net asset class has a receivable from the unrestricted net asset class for \$637,911 and \$519,638, respectively.

NOTE 7 – LEASES

The Chapter has entered into lease agreements for equipment and vehicles that have been accounted for as capital leases. At June 30, 2005, future minimum annual lease commitments under non-cancelable lease obligations are as follows:

Year ending June 30,	
2006	\$ 18,250
2007	<u>4,175</u>
Capital lease obligations	<u>\$ 22,425</u>

NOTE 8 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2005</u>	<u>2004</u>
Notes payable, equipment, payable to bank. The notes provided for interest at rates ranging from 6.25% to 6.49%. The notes require monthly principal and interest payments of \$525 with maturity October 2007 and January 2008. The notes are collateralized by vehicles.	<u>\$ 14,050</u>	<u>\$ -</u>

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 8 – NOTES PAYABLE (Continued)

Scheduled principal payments of notes payable are as follows:

<u>Year Ended</u>	
2006	\$ 5,561
2007	5,925
2008	<u>2,564</u>
	<u>\$ 14,050</u>

NOTE 9 – RETIREMENT PLAN

The Chapter participates in a defined-benefit retirement plan administered by the Retirement System of the American Red Cross that covers substantially all employees. Chapter participation in the Retirement System is voluntary; however, most chapters with paid employees have elected to join the plan. For funding purposes under the plan, normal pension costs are determined by the projected unit credit method and are funded currently. The plan provides a pension funded by the employer. Voluntary contributions may be made by active members to fund an optional annuity benefit. Defined benefits are based on years of service and/or age and the employee's final average compensation, which is calculated using the highest consecutive 48 months of the last 120 months' service before retirement.

The Retirement System includes numerous participating chapters and blood services regions. It is not practicable for the actuary to compute accumulated and projected benefit obligations for individual chapters or blood services regions. Accumulated and projected benefit obligations and other required disclosures for the entire American Red Cross (including all participating chapters, blood services regions, and the national sector) are presented in consolidated financial statements of the American Red Cross. Payments to the Retirement System on behalf of the participants of the Chapter were \$41,069 and \$17,721 during the years ended June 30, 2005 and 2004, respectively.

NOTE 10 – POST-RETIREMENT BENEFITS

The American Red Cross provides medical and dental benefits to eligible retirees and their eligible dependents. Generally, retirees and employer units pay a portion of the premium costs. The American Red Cross has the right to modify cost-sharing provisions at any time.

In addition, life insurance benefits of \$5,000 are provided with no contributions required from the retirees. Life insurance benefits are generally provided by insurance contracts.

Post-retirement benefits are accrued over the period the employee provides services to the organization. Since the American Red Cross is a single corporate legal entity and most retirees participate in the single American Red Cross benefits plan, providing separate disclosures for retirees associated with individual chapters or blood services regions is not practicable. Annual postretirement benefits expenses are recorded and disclosed for the entire American Red Cross in its consolidated financial statements.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005 and 2004

NOTE 11 – NATIONAL CHAPTER ASSESSMENT

The Board of Governors of the American Red Cross established \$83.5 million as the net financial requirements for all services provided by the American Red Cross national sector (“NHQ”) on behalf of all chapters for the year ended June 30, 2005. The Chapter’s portion of the assessment for the fiscal year ending June 30, 2005 was established at \$254,661, of which \$74,276 remains outstanding at June 30, 2005. Additionally, \$129,975 remains due to NHQ for unpaid assessments for years prior to June 30, 2005.

In addition to the Chapter’s portion for 2006 of \$280,127, all of the remaining amounts related to 2005 and prior will be paid during 2006.

NOTE 12 – CONCENTRATIONS

The Chapter maintains cash in excess of federally insured limits. In management’s opinion, risk related to such deposits is minimal based on the credit rating of its depositories.