

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

**FINANCIAL STATEMENTS**

**June 30, 2004 and 2003**

**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, 2004 and 2003, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year ended June 30, 2004. 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 2003 summarized comparative information has been derived from the chapter's 2003 financial statements, and in our report dated July 31, 2003, 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, 2004, 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.

*Fraser, Dean & Howard, PLLC*

August 3, 2004

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 574,312	\$ 597,383
Investments	-	55,187
Inter-Red Cross receivables	491,578	120,514
Contributions receivable, net	202,468	148,023
Accounts receivable other, net	262,906	240,224
Inventory	19,456	50,773
Other assets	11,794	13,200
Total current assets	1,562,514	1,225,304
Noncurrent assets:		
Investments	61,230	57,550
Contributions receivable	83,684	62,746
Other assets	-	20,029
Land, building and equipment, net	1,167,511	1,209,286
Total noncurrent assets	1,312,425	1,349,611
Total assets	<u>\$ 2,874,939</u>	<u>\$ 2,574,915</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Inter-Red Cross payables	\$ 325,573	\$ 235,805
Accounts payable and accrued expenses	243,266	312,406
Capital lease obligations - current portion	25,290	17,781
Total current liabilities	594,129	565,992
Capital lease obligations	25,281	29,637
Total liabilities	619,410	595,629
Net assets:		
Unrestricted	1,392,172	924,431
Temporarily restricted	828,357	1,019,855
Permanently restricted	35,000	35,000
Total net assets	2,255,529	1,979,286
Total liabilities and net assets	<u>\$ 2,874,939</u>	<u>\$ 2,574,915</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, 2004  
(with summarized financial information for the year ended June 30, 2003)

	2004			2003
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Monetary contributions	\$ 554,637	\$ 127,761	\$ -	\$ 682,398 <i>ind</i>
United Way and Combined Federal Campaign	6,788	84,153	-	90,941 <i>uw</i>
Course fees and program materials	726,662	1,209	-	727,871 <i>earn</i>
Legacies and bequests	468,950	-	-	468,950 <i>ind</i>
Inter-Red Cross revenues	76,419	16,764	-	93,183 <i>earn</i>
Special events, net of expenses of \$116,827 in 2004 and \$50,748 in 2003	337,186	-	-	337,186 <i>SE</i>
Other contributions (in kind)	331,202	-	-	331,202 <i>IK</i>
Private and government grants	11,000	196,947	-	207,947 <i>fm</i>
Other revenue	26,127	75	-	26,202 <i>other</i>
Contracts	52,776	-	-	52,776 <i>earn</i>
Investment income (loss)	69,429	241	-	69,670 <i>inv</i>
Endowment income	2,070	-	-	2,070
Net assets released from restrictions - satisfaction of program restrictions	618,648	(618,648)	-	-
Total public support and revenue	3,281,894	(191,498)	-	3,090,396
Expenses:				
Program services:				
Health and safety services	930,760	-	-	930,760
Disaster services	500,300	-	-	500,300
Community services	230,065	-	-	230,065
Service to military families	104,159	-	-	104,159
International services	11,492	-	-	11,492
Services to Chapters	16,372	-	-	16,372
Total program services	1,793,148	-	-	1,793,148
Supporting services:				
Fund-raising and financial development	535,264	-	-	535,264
Management and general	254,231	-	-	254,231
Total supporting services	789,495	-	-	789,495
National chapter assessment	231,510	-	-	231,510
Total expenses	2,814,153	-	-	2,814,153
Change in net assets	467,741	(191,498)	-	276,243
Net assets, beginning of year	924,431	1,019,855	35,000	1,979,286
Net assets, end of year	\$1,392,172	\$ 828,357	\$ 35,000	\$2,255,529

See accompanying notes.

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the year ended June 30, 2004**  
(with summarized financial information for the year ended June 30, 2003)

	2004					2003
	Program Services	Fundraising and Financial Development	Management and General	National Chapter Assessment	Total	Total
Salaries and wages	\$ 720,867	\$ 212,451	\$ 138,915	\$ -	\$ 1,072,233	\$ 1,168,850
Contractual services	346,587	118,571	15,274	-	480,432	530,747
Supplies, materials and printing	296,825	120,155	8,218	-	425,198	486,078
Financial and material assistance	174,321	22,643	1,793	-	198,757	294,081
Employee benefits	125,669	40,755	24,127	-	190,551	239,297
Inter-Red Cross expenses	71,415	11,079	13,964	-	96,458	88,669
Depreciation and amortization	21,422	1,846	44,993	-	68,261	69,727
Equipment repair and maintenance	21,930	4,891	777	-	27,598	34,629
Travel	14,112	2,873	6,170	-	23,155	27,884
National chapter assessment	-	-	-	231,510	231,510	231,510
	<u>\$ 1,793,148</u>	<u>\$ 535,264</u>	<u>\$ 254,231</u>	<u>\$ 231,510</u>	<u>\$ 2,814,153</u>	<u>\$ 3,171,472</u>

See accompanying notes.

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended June 30, 2004 and 2003**

2004	2003	
		Cash flows from operating activities:
		Change in net assets
\$ 276,243	\$ (217,469)	Adjustments to reconcile change in net assets to net cash used in operating activities:
68,261	69,727	Depreciation and amortization
(92)	-	Gain on sale of fixed asset
20,692	103,971	Provision for doubtful accounts
(3,679)	2,461	Net unrealized (gains) losses on long-term investments
(489,821)	(21,760)	Increase in accounts and contributions receivable
52,752	(8,909)	Decrease (increase) in inventory and other assets
20,628	(85,655)	Increase (decrease) in payables and accrued expenses
(55,016)	(157,634)	Net cash used in operating activities
		Cash flows from investing activities:
1,500	-	Proceeds from sale of fixed asset
(4,073)	(3,393)	Purchases of fixed assets
-	(1,186)	Purchases of investments
55,186	-	Sales and maturities of investments
52,613	(4,579)	Net cash provided by (used in) investing activities
		Cash flows from financing activities:
(20,668)	(5,928)	Repayment of capital lease obligation
(20,668)	(5,928)	Net cash used in financing activities
(23,071)	(168,141)	Decrease in cash and cash equivalents
597,383	765,524	Cash and cash equivalents at beginning of year
\$ 574,312	\$ 597,383	Cash and cash equivalents at end of year
		Non-cash investing and financing transactions:
\$ 23,821	\$ 53,346	Acquisition of equipment under capital lease agreements

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See accompanying notes.

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004 and 2003**

**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 (chapters, blood service regions and 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, 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.

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.

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.

**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.



**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2004 and 2003**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 in the unrestricted net assets category consist primarily of certificates of deposit. Investments of the permanently restricted net assets class consist of collective funds, managed by the American Red Cross national sector, with concentrations in intermediate maturity bonds, common stocks, and an equity index fund. These investments are stated at market value of \$54,812 and \$51,132 at June 30, 2004 and 2003, while the cost of these investments at June 30, 2004 and 2003 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.

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2004 and 2003**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2004 and 2003**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

**Reclassifications**

Certain reclassifications have been made to 2003 balances to conform with 2004 presentation.

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2004 and 2003**

**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>2004</u>	<u>2003</u>
Amount receivable within one year	\$ 277,129	\$ 213,083
Amount receivable in 1 to 5 years	<u>83,684</u>	<u>62,746</u>
	360,813	275,829
Less allowance for uncollectible contributions	<u>(74,661)</u>	<u>(65,060)</u>
Contributions receivable, net	<u>\$ 286,152</u>	<u>\$ 210,769</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 \$447,691 and \$81,269 at June 30, 2004 and 2003 respectively. Contribution income from annuities was \$301,417 and \$28,282 for the years ended June 30, 2004 and 2003, respectively. The annuities increased (decreased) in value by \$65,005 and \$(14,037) for the years ended June 30, 2004 and 2003, respectively.

**NOTE 4 – LAND, BUILDING AND EQUIPMENT**

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

	<u>2004</u>	<u>2003</u>
Land	\$ 203,156	\$ 203,156
Building and improvements	1,301,813	1,301,813
Equipment and automobiles	<u>367,015</u>	<u>345,620</u>
	1,871,984	1,850,589
Less accumulated depreciation	<u>(704,473)</u>	<u>(641,303)</u>
Land, buildings and equipment, net	<u>\$1,167,511</u>	<u>\$1,209,286</u>

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2004 and 2003**

**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 (4.00 percent at June 30, 2004) and require monthly payments of interest only. As of June 30, 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, 2004.

**NOTE 6 – NET ASSETS**

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

	<u>2004</u>	<u>2003</u>
Undesignated net deficit	\$ (62,118)	\$ (574,173)
Investment in land, building and equipment	1,167,511	1,209,286
Designated for quasi-endowment	31,775	34,314
Designated for capital improvements and maintenance	<u>255,004</u>	<u>255,004</u>
	<u>\$1,392,172</u>	<u>\$ 924,431</u>

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

	<u>2004</u>	<u>2003</u>
Disaster services	\$ 44,626	\$ 258,379
Health and safety services	11,922	10,713
Community services	21,519	21,699
Buildings and equipment	66,449	66,209
Time restrictions	583,062	559,405
Other	<u>100,779</u>	<u>103,450</u>
	<u>\$ 828,357</u>	<u>\$1,019,855</u>

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

	<u>2004</u>	<u>2003</u>
Investments in perpetuity, income which is expendable to support general operations	\$ 33,000	\$ 33,000
Pledge receivable	<u>2,000</u>	<u>2,000</u>
	<u>\$ 35,000</u>	<u>\$ 35,000</u>

As of June 30, 2004 and 2003, the temporarily restricted net asset class has a receivable from the unrestricted net asset class for \$519,638 and \$704,858, respectively.

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2004 and 2003**

**NOTE 7 – CAPITAL LEASE COMMITMENT**

During fiscal 2004, the Chapter entered into lease agreements for equipment and a vehicle that have been accounted for as capital leases. The leases provide for thirty-six monthly payments of \$345 and \$281, respectively. At June 30, 2004, future minimum annual lease commitments under non-cancelable lease obligations are as follows:

Year ending June 30,	
2005	\$ 25,290
2006	19,363
2007	<u>5,918</u>

Capital lease obligations (includes current portion of \$25,290)	<u>\$ 50,571</u>
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**NOTE 8 – OPERATING LEASE COMMITMENT**

The Chapter is leasing vehicles and office space under operating lease agreements. Rent expense for the years ended June 30, 2004 and 2003 was \$20,105 and \$31,914, respectively. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004 are as follows:

Year ended	
<u>June 30</u>	
2005	\$ 5,755
2006	575
2007	<u>-</u>
	<u>\$ 6,330</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.

**NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2004 and 2003**

**NOTE 9 – RETIREMENT PLAN (Continued)**

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 \$17,721 and \$9,794 during the years ended June 30, 2004 and 2003, respectively.

**NOTE 10 – POSTRETIREMENT 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.

Postretirement 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.

**NOTE 11 – NATIONAL CHAPTER ASSESSMENT**

The Board of Governors of the American Red Cross established \$84.7 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, 2004. The Chapter's portion of the assessment for the fiscal year ending June 30, 2004 was established at \$231,510, of which \$115,755 remains outstanding at June 30, 2004. Additionally, \$148,704 remains due to NHQ for unpaid assessments for years prior to June 30, 2004. The amount to be paid and expensed during fiscal 2005 is \$254,660.