

**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, 2006 and 2005

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

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2 – 5
Statements of Activities and Changes in Net Assets	6 – 9
Statements of Cash Flows	10
Statements of Functional Expenses	11 – 12
Notes to Financial Statements	13 – 20



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INDEPENDENT AUDITOR'S REPORT

Area Commander
The Salvation Army Nashville, Tennessee Area Command

We have audited the accompanying statements of financial position of The Salvation Army Nashville, Tennessee Area Command (the "Area Command"), a unit of The Salvation Army, a Georgia corporation as of September 30, 2006 and 2005, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Area Command's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Salvation Army Nashville, Tennessee Area Command, as of September 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

March 21, 2007

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
STATEMENT OF FINANCIAL POSITION
September 30, 2006

	Unrestricted							
	Land,		Total					
	General	Board	Buildings and	Unrestricted	Temporarily	Permanently		Total
	Operating	Designated	Equipment		Restricted	Restricted		
Assets								
Current assets:								
Cash and cash equivalents	\$ 458,118	\$ 342,544	\$ -	\$ 800,662	\$ 112,762	\$ -	\$	913,424
Accounts receivable	48,680	-	-	48,680	-	-		48,680
Pledges receivable, net	-	-	-	-	137,274	-		137,274
Other	57,214	101	-	57,315	-	-		57,315
Total current assets	564,012	342,645	-	906,657	250,036	-		1,156,693
Marketable securities, at fair value	3,803,319	164,960	-	3,968,279	551,589	5,468,745		9,988,613
Assets held under split interest agreements	-	-	-	-	2,857,020	2,827,788		5,684,808
Land, buildings and equipment:								
Land	-	-	772,554	772,554	-	-		772,554
Buildings, net of accumulated depreciation of \$1,950,256	-	-	6,547,189	6,547,189	-	-		6,547,189
Furniture, fixtures and equipment, net of accumulated depreciation of \$311,194	-	-	41,480	41,480	-	-		41,480
Total land, buildings and equipment	-	-	7,361,223	7,361,223	-	-		7,361,223
Total assets	\$ 4,367,331	\$ 507,605	\$ 7,361,223	\$ 12,236,159	\$ 3,658,645	\$ 8,296,533		\$ 24,191,337

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, 2006

	Unrestricted					
	General	Board	Buildings and	Total	Temporarily	Permanently
	Operating	Designated	Equipment	Unrestricted	Restricted	Restricted
						Total
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 228,859	\$ -	\$ -	\$ 228,859	\$ -	\$ -
Due to Divisional Headquarters	6,237	-	-	6,237	-	-
Total current liabilities	235,096	-	-	235,096	-	-
						235,096
Net assets:						
Unrestricted:						
Undesignated	4,132,235	-	-	4,132,235	-	-
Board designated:						
Vehicle and equipment	-	47,076	-	47,076	-	-
Property maintenance and insurance	-	10,566	-	10,566	-	-
Capital purposes	-	445,457	-	445,457	-	-
Land, buildings and equipment	-	-	7,361,223	7,361,223	-	-
Other	-	4,506	-	4,506	-	-
Temporarily restricted	-	-	-	-	3,658,645	-
Permanently restricted	-	-	-	-	-	8,296,533
Total net assets	4,132,235	507,605	7,361,223	12,001,063	3,658,645	8,296,533
						23,956,241
Total liabilities and net assets	\$4,367,331	\$ 507,605	\$7,361,223	\$ 12,236,159	\$ 3,658,645	\$8,296,533
						\$24,191,337

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, 2005

	Unrestricted				
	Land, Buildings and Equipment		Total Unrestricted	Temporarily Restricted	Permanently Restricted
	General Operating	Board Designated			Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 511,558	\$ 518,798	\$ 1,030,356	\$ 236,218	\$ 1,266,574
Accounts receivable	108,590	-	108,590	-	108,590
Pledges receivable, net	-	-	-	155,919	155,919
Other	5,930	101	6,031	-	6,031
Total current assets	626,078	518,899	1,144,977	392,137	1,537,114
Marketable securities, at fair value	3,182,221	149,444	3,331,665	490,011	9,290,421
Assets held under split interest agreements	-	-	-	2,988,994	5,682,135
Land, buildings and equipment:					
Land	-	-	772,554	-	772,554
Buildings, net of accumulated depreciation of \$1,802,951	-	-	6,464,422	-	6,464,422
Furniture, fixtures and equipment, net of accumulated depreciation of \$301,927	-	-	70,758	-	70,758
Total land, buildings and equipment	-	-	7,307,734	-	7,307,734
Total assets	\$ 3,808,299	\$ 668,343	\$ 11,784,376	\$ 3,871,142	\$ 23,817,404

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, 2005

	Unrestricted					
	Land, Buildings and Equipment			Total Unrestricted	Temporarily Restricted	Permanently Restricted
	General Operating	Board Designated				Total
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 111,245	\$ -	\$ -	\$ 111,245	\$ -	\$ 111,245
Due to Divisional Headquarters	34,755	-	-	34,755	-	34,755
Total current liabilities	146,000	-	-	146,000	-	146,000
Net assets:						
Unrestricted:						
Undesignated	3,662,299	-	-	3,662,299	-	3,662,299
Board designated:						
Vehicle and equipment	-	59,047	-	59,047	-	59,047
Property maintenance and insurance	-	10,640	-	10,640	-	10,640
Capital purposes	-	593,941	-	593,941	-	593,941
Land, buildings and equipment	-	-	7,307,734	7,307,734	-	7,307,734
Other	-	4,715	-	4,715	-	4,715
Temporarily restricted	-	-	-	-	3,871,142	3,871,142
Permanently restricted	-	-	-	-	-	8,161,886
Total net assets	3,662,299	668,343	7,307,734	11,638,376	3,871,142	23,671,404
Total liabilities and net assets	\$ 3,808,299	\$ 668,343	\$ 7,307,734	\$ 11,784,376	\$ 3,871,142	\$ 23,817,404

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, 2006

	Unrestricted					Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Buildings and Equipment	Total Unrestricted				
Public support and revenue								
Public support:								
Received directly:								
Contributions	\$ 1,829,001	\$ -	\$ -	\$ 1,829,001	\$ 589,053	\$ -	\$ -	\$ 2,418,054
Donations-in-kind and contributed services	1,869,869	-	-	1,869,869	-	-	-	1,869,869
Special events	57,963	-	-	57,963	-	-	-	57,963
Legacies and bequests	61,536	67,798	-	129,334	73,947	-	-	203,281
Changes in value of split interest agreements	-	-	-	-	(131,974)	-	134,647	2,673
Total received directly	3,818,369	67,798	-	3,886,167	531,026	134,647		4,551,840
Received indirectly:								
Allocated by federated fund-raising organizations	209,812	-	-	209,812	-	-	-	209,812
Total public support	4,028,181	67,798	-	4,095,979	531,026	134,647		4,761,652
Fees and grants from government agencies	318,216	-	-	318,216	-	-	-	318,216
Program service fees	183,707	-	-	183,707	-	-	-	183,707
Sales to the public	4,650	-	-	4,650	-	-	-	4,650
Investment income:								
Dividends and interest	190,184	9,717	-	199,901	10,142	-	-	210,043
Net realized gain on sale of investments	373,954	6,556	-	380,510	20,930	-	-	401,440
Net unrealized gain on change in value of investments	329,688	5,795	-	335,483	18,876	-	-	354,359
Other revenue	9,665	-	-	9,665	-	-	-	9,665
Total public support and revenue	5,438,245	89,866	-	5,528,111	580,974	134,647		6,243,732

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, 2006

	Unrestricted					
	Land,			Total		
	General	Board	Buildings and	Unrestricted	Temporarily	Permanently
	Operating	Designated	Equipment		Restricted	Restricted
						Total
Net assets reclassified due to fulfillment of donor restrictions	793,471	-	-	793,471	(793,471)	-
Interfund transfers	197,115	(250,604)	53,489	-	-	-
Total	6,428,831	(160,738)	53,489	6,321,582	(212,497)	134,647
						6,243,732
Expenses						
Program services:						
Corps community center	1,087,497	-	-	1,087,497	-	-
Residential and institutional	744,790	-	-	744,790	-	-
Other social services	3,026,436	-	-	3,026,436	-	-
Total program services	4,858,723	-	-	4,858,723	-	-
						4,858,723
Supporting services:						
Management and general	596,654	-	-	596,654	-	-
Fundraising	503,518	-	-	503,518	-	-
Total supporting services	1,100,172	-	-	1,100,172	-	-
						1,100,172
Total expenses	5,958,895	-	-	5,958,895	-	-
						5,958,895
Change in net assets	469,936	(160,738)	53,489	362,687	(212,497)	134,647
Net assets at beginning of year	3,662,299	668,343	7,307,734	11,638,376	3,871,142	8,161,886
Net assets at end of year	\$ 4,132,235	\$ 507,605	\$ 7,361,223	\$ 12,001,063	\$ 3,658,645	\$ 8,296,533
						\$ 23,956,241

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, 2005

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Buildings and Equipment	Total Unrestricted			
Public support and revenue							
Public support:							
Received directly:							
Contributions	\$ 1,662,381	\$ -	\$ -	\$ 1,662,381	\$ 554,265	\$ -	\$ 2,216,646
Donations-in-kind and contributed services	1,573,168	-	-	1,573,168	-	-	1,573,168
Special events	44,388	-	-	44,388	-	-	44,388
Legacies and bequests	1,183	109,874	-	111,057	308,546	-	419,603
Changes in value of split interest agreements	-	-	-	-	195,020	127,042	322,062
Total received directly	3,281,120	109,874	-	3,390,994	1,057,831	127,042	4,575,867
Received indirectly:							
Allocated by federated fund-raising organizations	68,769	-	-	68,769	155,919	-	224,688
Total public support	3,349,889	109,874	-	3,459,763	1,213,750	127,042	4,800,555
Fees and grants from government agencies	298,938	-	-	298,938	-	-	298,938
Program service fees	271,510	-	-	271,510	-	-	271,510
Sales to the public	6,422	-	-	6,422	-	-	6,422
Investment income:							
Dividends and interest	142,043	8,327	-	150,370	4,742	-	155,112
Net realized gain on sale of investments	287,959	4,862	-	292,821	9,626	-	302,447
Net unrealized gain on change in value of investments	595,709	10,019	-	605,728	23,287	-	629,015
Other revenue	14,565	-	-	14,565	-	-	14,565
Total public support and revenue	4,967,035	133,082	-	5,100,117	1,251,405	127,042	6,478,564

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, 2005

	Unrestricted			Land, Buildings and Equipment	Total		Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated			Unrestricted				
Net assets reclassified due to fulfillment of donor restrictions	724,321	-	-	-	724,321	(724,321)	-	-	-
Interfund transfers	302,393	(157,115)	(145,278)		-	-	-	-	-
Total	5,993,749	(24,033)	(145,278)		5,824,438	527,084	127,042		6,478,564
Expenses									
Program services:									
Corps community center	1,238,121	-	-	-	1,238,121	-	-	-	1,238,121
Residential and institutional	609,816	-	-	-	609,816	-	-	-	609,816
Other social services	2,313,428	-	-	-	2,313,428	-	-	-	2,313,428
Total program services	4,161,365	-	-	-	4,161,365	-	-	-	4,161,365
Supporting services:									
Management and general	484,728	-	-	-	484,728	-	-	-	484,728
Fundraising	492,025	-	-	-	492,025	-	-	-	492,025
Total supporting services	976,753	-	-	-	976,753	-	-	-	976,753
Total expenses	5,138,118	-	-	-	5,138,118	-	-	-	5,138,118
Change in net assets	855,631	(24,033)	(145,278)		686,320	527,084	127,042		1,340,446
Net assets at beginning of year	2,806,668	692,376	7,453,012		10,952,056	3,344,058	8,034,844		22,330,958
Net assets at end of year	\$ 3,662,299	\$ 668,343	\$ 7,307,734		\$ 11,638,376	\$ 3,871,142	\$ 8,161,886		\$ 23,671,404

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 284,837	\$ 1,340,446
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	200,566	200,819
Net unrealized and realized gain on investments	(758,472)	(1,253,524)
Changes in operating assets and liabilities:		
Accounts receivable	59,910	(13,607)
Pledges receivable, net	18,645	7,395
Other	(51,284)	(149)
Accounts payable	117,614	30,138
Due to Divisional Headquarters	(28,518)	2,155
Net cash (used in) provided by operating activities	<u>(156,702)</u>	<u>313,673</u>
Cash flows from investing activities:		
Proceeds from sales of investments	452,902	449,744
Purchases of investments	(395,295)	(454,852)
Purchases of land, buildings and equipment	<u>(254,055)</u>	<u>(55,540)</u>
Net cash used in investing activities	<u>(196,448)</u>	<u>(60,648)</u>
Net change in cash and cash equivalents	(353,150)	253,025
Cash and cash equivalents at beginning of year	<u>1,266,574</u>	<u>1,013,549</u>
Cash and cash equivalents at end of year	<u><u>\$ 913,424</u></u>	<u><u>\$ 1,266,574</u></u>

See accompanying notes.

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
Year ended September 30, 2006

	Program Services			Supporting Services				
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services	Total
Direct assistance	\$ -	\$ -	\$ 2,318,182	\$ 2,318,182	\$ -	\$ -	\$ -	\$ 2,318,182
Salaries and allowances	366,674	387,084	93,563	847,321	205,750	255,298	461,048	1,308,369
Occupancy	252,208	69,591	109,237	431,036	166,236	9,971	176,207	607,243
Support services	82,833	55,626	191,258	329,717	-	-	-	329,717
Officer and employee benefits	61,458	80,905	14,691	157,054	35,823	21,991	57,814	214,868
Furnishings and equipment	105,611	25,933	10,383	141,927	59,424	10,544	69,968	211,895
Printing and publications	2,448	-	157,019	159,467	2,468	97,513	99,981	259,448
Supplies	53,007	64,089	18,888	135,984	14,580	10,338	24,918	160,902
Payroll taxes	34,157	41,806	11,549	87,512	17,483	24,535	42,018	129,530
Travel, meals and transportation	58,720	283	19,517	78,520	21,177	6,657	27,834	106,354
Professional fees	7,752	15,707	5,169	28,628	29,149	20,972	50,121	78,749
Postage and shipping	1,129	11	498	1,638	2,194	36,659	38,853	40,491
Conferences, meetings, and major trips	22,191	115	34,425	56,731	8,932	5,109	14,041	70,772
Miscellaneous	16,384	-	32,775	49,159	256	100	356	49,515
Telephone	22,487	3,640	5,549	31,676	8,447	2,226	10,673	42,349
Awards and grants	105	-	3,304	3,409	22,889	-	22,889	26,298
Organization dues	333	-	429	762	1,846	1,605	3,451	4,213
Total expenses	\$ 1,087,497	\$ 744,790	\$ 3,026,436	\$ 4,858,723	\$ 596,654	\$ 503,518	\$ 1,100,172	\$ 5,958,895

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, 2005

	Program Services			Supporting Services			
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services
	\$ -	\$ -	\$ 1,642,404	\$ 1,642,404	\$ -	\$ 4,211	\$ 4,211
Direct assistance	441,312	281,322	172,558	895,192	219,319	229,294	448,613
Salaries and allowances	313,143	74,500	117,796	505,439	85,293	8,864	94,157
Occupancy	94,210	46,406	176,011	316,627	-	-	-
Support services	71,551	58,211	26,272	156,034	31,907	21,634	53,541
Officer and employee benefits	69,752	59,743	6,021	135,516	32,793	22,551	55,344
Furnishings and equipment	2,744	90	74,654	77,488	1,847	96,806	98,653
Printing and publications	61,621	45,096	23,900	130,617	12,616	9,014	21,630
Supplies	35,171	28,564	18,148	81,883	15,873	20,798	36,671
Payroll taxes	59,980	99	8,100	68,179	21,563	3,104	24,667
Travel, meals and transportation	9,313	12,895	7,434	29,642	39,043	4,321	43,364
Professional fees	1,322	37	441	1,800	2,068	50,993	53,061
Postage and shipping	28,932	-	(9)	28,923	6,895	17,563	24,458
Conferences, meetings, and major trips	20,310	-	31,737	52,047	289	149	438
Miscellaneous	27,872	2,853	5,841	36,566	6,926	1,624	8,550
Telephone	-	-	2,100	2,100	5,662	-	5,662
Awards and grants	888	-	20	908	2,634	1,099	3,733
Organization dues							
Total expenses	\$ 1,238,121	\$ 609,816	\$ 2,313,428	\$ 4,161,365	\$ 484,728	\$ 492,025	\$ 976,753

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, 2006 and 2005**

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

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

Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with the national accounting policies of The Salvation Army. These policies are consistent with those appearing in the *Audit and Accounting Guide – Not-for-Profit Organizations* issued by the American Institute of Certified Public Accountants. Accordingly, The Salvation Army is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Net assets and changes therein are classified and reported as follows:

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

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

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

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2006 and 2005

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

Financial Statement Presentation (Continued)

Public support and revenue are recorded as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions that are not fulfilled in the accounting period. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. All expenses are reported as decreases in unrestricted net assets. Satisfaction of temporary restrictions on net assets, that is, the satisfaction of the donor-imposed stipulated purpose or the elapsing of the specified time period, are reported as net assets reclassified due to fulfillment of donor restrictions.

Contributions

The Salvation Army accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

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

Split Interest Agreements

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

Trusts Held by a Third Party

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

**THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2006 and 2005**

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

Split Interest Agreements (Continued)

Charitable Remainder Trusts

Donors have established and funded trusts under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the Area Command receives the assets remaining in the trust. The assets in the trust are assumed to earn a rate of 5% over the estimated life of the trust and are discounted at a rate of 4.7%.

Investments

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

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

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

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

**THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2006 and 2005**

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

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost or, if donated, at estimated fair market value at the date of donation.

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

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

Public Support and Revenue

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

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

Donations-in-kind and Contributed Services

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

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

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

Expenses

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

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2006 and 2005

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

Cash and Cash Equivalents

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

Income Taxes

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

Use of Estimates

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

Bequests

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

Concentrations

Area Command had cash deposits in excess of federally insured limits as of September 30, 2006 and 2005. Credit risk is managed by maintaining all deposits in high quality financial institutions.

NOTE 2 - PLEDGES RECEIVABLE

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

Pledges receivable include the following at September 30:

	<u>2006</u>	<u>2005</u>
Unconditional promises to give due in:		
Less than one year	\$ 137,274	\$ 155,919
Allowance for uncollectible pledges receivable	<u>-</u>	<u>-</u>
Net pledges receivable	<u>\$ 137,274</u>	<u>\$ 155,919</u>

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2006 and 2005

NOTE 3 - INVESTMENTS

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

Assets which are remitted for investment by a center of operation or are designated for the use of a center of operation receive a fixed rate of interest as determined by the Board of Trustees of The Southern Territory of The Salvation Army. These assets are treated as cash equivalents in the financial statements.

NOTE 4 - PENSION, RETIREMENT AND POSTRETIREMENT BENEFITS

Employee Pension Plan

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

Annual contributions to the Plan are based on a stipulated percentage (5.25% in fiscal 2006 and 2005) of employees' salaries. The Area Command incurred \$24,105 and \$34,771 of expense under this plan in fiscal 2006 and 2005, respectively.

Officers' Retirement Provision

The Salvation Army has a noncontributory retirement provision for officers, which provides retirement benefits and certain health care and death benefits to retired officers, as defined by The Salvation Army policy governing such benefits. The corporate headquarters has total responsibility for the administration of retirement benefits. Retirement allowances are determined based upon active officer allowances and length of service. They are self-funded principally by annual assessments to all centers of operation, by designated portions from legacy income, earnings on assets designated for retirement benefits, and special appropriations. Amounts charged to the Area Command and included in expenses for this provision were \$9,625 and \$13,875 in fiscal 2006 and 2005, respectively.

**THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2006 and 2005**

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

Related Party Transactions

The Area Command is assessed an administrative charge by The Salvation Army Kentucky-Tennessee Divisional Headquarters for support services provided by the Kentucky-Tennessee Divisional Headquarters and the Southern Territorial Headquarters to the Area Command. Support services provided by Divisional and Territorial Headquarters include program, personnel, business and social services. Expenses reflected for these services were \$329,718 and \$316,626 in fiscal 2006 and 2005, 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 \$28,541 and \$37,836 in fiscal 2006 and 2005, 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 \$111,557 and \$108,048 in fiscal 2006 and 2005, 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 \$113,645 and \$99,820 in fiscal 2006 and 2005, respectively.

NOTE 5 - NET ASSETS CLASSIFICATIONS

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

	<u>2006</u>	<u>2005</u>
Welfare and support for needy persons	\$ 664,351	\$ 726,229
Time restricted	<u>2,994,294</u>	<u>3,144,913</u>
Total	<u>\$ 3,658,645</u>	<u>\$ 3,871,142</u>

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

	<u>2006</u>	<u>2005</u>
Welfare and support for needy persons	<u>\$ 8,296,533</u>	<u>\$ 8,161,886</u>

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2006 and 2005

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2006</u>	<u>2005</u>
Time restricted	\$ 155,919	\$ 163,314
Purpose restriction accomplished:		
Welfare and support for needy persons	<u>637,552</u>	<u>561,007</u>
Total restrictions released	<u>\$ 793,471</u>	<u>\$ 724,321</u>

NOTE 7 - ALLOCATION OF FUNCTIONAL EXPENSES

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