

**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, 2007 and 2006**

**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

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, 2007 and 2006, 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, 2007 and 2006, 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*

June 19, 2008

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
STATEMENT OF FINANCIAL POSITION  
September 30, 2007**

|   | Unrestricted      |                  |                               |               | Total        | Temporarily Restricted | Permanently Restricted | Total |
|---|-------------------|------------------|-------------------------------|---------------|--------------|------------------------|------------------------|-------|
|   | General Operating | Board Designated | Land, Buildings and Equipment | Unrestricted  |              |                        |                        |       |
| Assets  |                   |                  |                               |               |              |                        |                        |       |
| Current assets:   |                   |                  |                               |               |              |                        |                        |       |
| Cash and cash equivalents   | \$ 412,527        | \$ 238,540       | \$ -                          | \$ 651,067    | \$ 106,632   | \$ -                   | \$ 757,699             |       |
| Accounts receivable   | 17,356            | -                | -                             | 17,356        | -            | -                      | 17,356                 |       |
| Pledges receivable, net   | -                 | -                | -                             | -             | 101,204      | -                      | 101,204                |       |
| Other   | 3,514             | -                | -                             | 3,514         | -            | -                      | 3,514                  |       |
| Total current assets  | 433,397           | 238,540          | -                             | 671,937       | 207,836      | -                      | 879,773                |       |
| Marketable securities, at fair value  | 4,948,972         | 174,800          | -                             | 5,123,772     | 617,262      | 7,668,745              | 13,409,779             |       |
| Assets held under split interest agreements                                     | -                 | -                | -                             | -             | 2,323,937    | 2,981,012              | 5,304,949              |       |
| Land, buildings and equipment:  |                   |                  |                               |               |              |                        |                        |       |
| Land  | -                 | -                | 767,805                       | 767,805       | -            | -                      | 767,805                |       |
| Buildings, net of accumulated depreciation of \$2,097,560                       | -                 | -                | 6,399,885                     | 6,399,885     | -            | -                      | 6,399,885              |       |
| Furniture, fixtures and equipment, net of accumulated depreciation of \$274,226 | -                 | -                | 39,053                        | 39,053        | -            | -                      | 39,053                 |       |
| Total land, buildings and equipment   | -                 | -                | 7,206,743                     | 7,206,743     | -            | -                      | 7,206,743              |       |
| Total assets  | \$ 5,382,369      | \$ 413,340       | \$ 7,206,743                  | \$ 13,002,452 | \$ 3,149,035 | \$ 10,649,757          | \$ 26,801,244          |       |

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, 2007**

|                                    | Unrestricted                           |                     |              |                       |                           |                           |
|------------------------------------|--|---------------------|--------------|-----------------------|---------------------------|---------------------------|
|                                    | Land,<br>Buildings<br>and<br>Equipment |                     |              | Total<br>Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted |
|                                    | General<br>Operating                   | Board<br>Designated |              |                       |                           | Total                     |
| <b>Liabilities and Net Assets</b>  |  |                     |              |                       |                           |                           |
| Current liabilities:               |  |                     |              |                       |                           |                           |
| Accounts payable                   | \$ 91,295                              | \$ -                | \$ -         | \$ 91,295             | \$ -                      | \$ 91,295                 |
| Due to Divisional Headquarters     | 12,056                                 | -                   | -            | 12,056                | -                         | 12,056                    |
| Total current liabilities          | 103,351                                | -                   | -            | 103,351               | -                         | 103,351                   |
| Net assets:                        |  |                     |              |                       |                           |                           |
| Unrestricted:                      |  |                     |              |                       |                           |                           |
| Undesignated                       | 5,279,018                              | -                   | -            | 5,279,018             | -                         | 5,279,018                 |
| Board designated:                  |  |                     |              |                       |                           |                           |
| Vehicle and equipment              | -                                      | 16,688              | -            | 16,688                | -                         | 16,688                    |
| Property maintenance and insurance | -                                      | 12,250              | -            | 12,250                | -                         | 12,250                    |
| Capital purposes                   | -                                      | 384,402             | -            | 384,402               | -                         | 384,402                   |
| Land, buildings and equipment      | -                                      | -                   | 7,206,743    | 7,206,743             | -                         | 7,206,743                 |
| Other                              | -                                      | -                   | -            | -                     | -                         | -                         |
| Temporarily restricted             | -                                      | -                   | -            | -                     | 3,149,035                 | 3,149,035                 |
| Permanently restricted             | -                                      | -                   | -            | -                     | 10,649,757                | 10,649,757                |
| Total net assets                   | 5,279,018                              | 413,340             | 7,206,743    | 12,899,101            | 3,149,035                 | 26,697,893                |
| Total liabilities and net assets   | \$ 5,382,369                           | \$ 413,340          | \$ 7,206,743 | \$ 13,002,452         | \$ 3,149,035              | \$ 26,801,244             |

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, 2006**

|   | Unrestricted                           |                     |              |                       |                           |                           |
|---|--|---------------------|--------------|-----------------------|---------------------------|---------------------------|
|   | Land,<br>Buildings<br>and<br>Equipment |                     |              | Total<br>Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted |
|   | General<br>Operating                   | Board<br>Designated |              |                       |                           | Total                     |
| <b>Assets</b>   |  |                     |              |                       |                           |                           |
| 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                   | 9,988,613                 |
| Assets held under split interest agreements                                     | -                                      | -                   | -            | -                     | 2,857,020                 | 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              | \$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                           |                     |                       |              |                           |               |
|------------------------------------|--|---------------------|-----------------------|--------------|---------------------------|---------------|
|                                    | Land,<br>Buildings<br>and<br>Equipment |                     | Total<br>Unrestricted |              | Temporarily<br>Restricted |               |
|                                    | General<br>Operating                   | Board<br>Designated |                       |              | Permanently<br>Restricted | Total         |
| <b>Liabilities and Net Assets</b>  |  |                     |                       |              |                           |               |
| Current liabilities:               |  |                     |                       |              |                           |               |
| Accounts payable                   | \$ 228,859                             | \$ -                | \$ 228,859            | \$ -         | \$ -                      | \$ 228,859    |
| Due to Divisional Headquarters     | 6,237                                  | -                   | 6,237                 | -            | -                         | 6,237         |
| Total current liabilities          | 235,096                                | -                   | 235,096               | -            | -                         | 235,096       |
| <b>Net assets:</b>                 |  |                     |                       |              |                           |               |
| Unrestricted:                      |  |                     |                       |              |                           |               |
| Undesignated                       | 4,132,235                              | -                   | 4,132,235             | -            | -                         | 4,132,235     |
| Board designated:                  |  |                     |                       |              |                           |               |
| Vehicle and equipment              | -                                      | 47,076              | 47,076                | -            | -                         | 47,076        |
| Property maintenance and insurance | -                                      | 10,566              | 10,566                | -            | -                         | 10,566        |
| Capital purposes                   | -                                      | 445,457             | 445,457               | -            | -                         | 445,457       |
| Land, buildings and equipment      | -                                      | -                   | 7,361,223             | -            | -                         | 7,361,223     |
| Other                              | -                                      | 4,506               | 4,506                 | -            | -                         | 4,506         |
| Temporarily restricted             | -                                      | -                   | -                     | 3,658,645    | -                         | 3,658,645     |
| Permanently restricted             | -                                      | -                   | -                     | -            | 8,296,533                 | 8,296,533     |
| Total net assets                   | 4,132,235                              | 507,605             | 12,001,063            | 3,658,645    | 8,296,533                 | 23,956,241    |
| Total liabilities and net assets   | \$ 4,367,331                           | \$ 507,605          | \$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 ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year ended September 30, 2007**

|   | Unrestricted         |                     |                            |                                |              |
|---|----------------------|---------------------|----------------------------|--------------------------------|--------------|
|   | General<br>Operating | Board<br>Designated | Buildings and<br>Equipment | Land,<br>Total<br>Unrestricted |              |
| <b>Public support and revenue</b>                     |                      |                     |                            |                                |              |
| Public support:                                       |                      |                     |                            |                                |              |
| Received directly:                                    |                      |                     |                            |                                |              |
| Contributions   | \$ 2,150,952         | \$ -                | \$ -                       | \$ 2,150,952                   | \$ 2,257,584 |
| Donations-in-kind and contributed services            | 1,955,792            | -                   | -                          | 1,955,792                      | 1,955,792    |
| Special events  | 174,278              | -                   | -                          | 174,278                        | 174,278      |
| Legacies and bequests                                 | 14,271               | 115,871             | -                          | 130,142                        | 1,349,858    |
| Changes in value of split interest agreements         | -                    | -                   | -                          | -                              | 657,408      |
|   |                      |                     |                            |                                |              |
| Total received directly                               | 4,295,293            | 115,871             | -                          | 4,411,164                      | 6,394,920    |
|   |                      |                     |                            |                                |              |
| Received indirectly:                                  |                      |                     |                            |                                |              |
| Allocated by federated fund-raising organizations     | 150,068              | -                   | -                          | 150,068                        | 150,068      |
|   |                      |                     |                            |                                |              |
| Total public support                                  | 4,445,361            | 115,871             | -                          | 4,561,232                      | 6,544,988    |
|   |                      |                     |                            |                                |              |
| Fees and grants from government agencies              | 227,935              | -                   | -                          | 227,935                        | 227,935      |
| Program service fees                                  | 191,676              | -                   | -                          | 191,676                        | 191,676      |
| Sales to the public                                   | 3,814                | -                   | -                          | 3,814                          | 3,814        |
| Investment income:                                    |                      |                     |                            |                                |              |
| Dividends and interest                                | 255,106              | 8,595               | -                          | 263,701                        | 277,422      |
| Net realized gain on sale of investments              | 803,280              | 13,493              | -                          | 816,773                        | 862,352      |
| Net unrealized gain on change in value of investments | 417,544              | 7,450               | -                          | 424,994                        | 452,668      |
| Other revenue   | 7,228                | -                   | -                          | 7,228                          | 7,228        |
|   |                      |                     |                            |                                |              |
| Total public support and revenue                      | 6,351,944            | 145,409             | -                          | 6,497,353                      | 8,568,083    |

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, 2007**

|  | Unrestricted |            |               |               |              |               |               |
|--|--------------|------------|---------------|---------------|--------------|---------------|---------------|
|  | General      | Board      | Buildings and | Total         | Temporarily  | Permanently   | Total         |
|  | Operating    | Designated | Equipment     | Unrestricted  | Restricted   | Restricted    |               |
| Net assets reclassified due to fulfillment of donor restrictions | 227,116      | -          | -             | 227,116       | (227,116)    | -             | -             |
| Interfund transfers  | 394,154      | (239,674)  | (154,480)     | -             | (1,037,267)  | 1,037,267     | -             |
| Total  | 6,973,214    | (94,265)   | (154,480)     | 6,724,469     | (509,610)    | 2,353,224     | 8,568,083     |
| <b>Expenses</b>  |              |            |               |               |              |               |               |
| Program services:  |              |            |               |               |              |               |               |
| Corps community center   | 1,206,485    | -          | -             | 1,206,485     | -            | -             | 1,206,485     |
| Residential and institutional                                    | 802,444      | -          | -             | 802,444       | -            | -             | 802,444       |
| Other social services  | 2,715,589    | -          | -             | 2,715,589     | -            | -             | 2,715,589     |
| Total program services   | 4,724,518    | -          | -             | 4,724,518     | -            | -             | 4,724,518     |
| Supporting services:   |              |            |               |               |              |               |               |
| Management and general   | 594,704      | -          | -             | 594,704       | -            | -             | 594,704       |
| Fundraising  | 507,209      | -          | -             | 507,209       | -            | -             | 507,209       |
| Total supporting services  | 1,101,913    | -          | -             | 1,101,913     | -            | -             | 1,101,913     |
| Total expenses   | 5,826,431    | -          | -             | 5,826,431     | -            | -             | 5,826,431     |
| Change in net assets   | 1,146,783    | (94,265)   | (154,480)     | 898,038       | (509,610)    | 2,353,224     | 2,741,652     |
| Net assets at beginning of year                                  | 4,132,235    | 507,605    | 7,361,223     | 12,001,063    | 3,658,645    | 8,296,533     | 23,956,241    |
| Net assets at end of year  | \$ 5,279,018 | \$ 413,340 | \$ 7,206,743  | \$ 12,899,101 | \$ 3,149,035 | \$ 10,649,757 | \$ 26,697,893 |

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                           |                     |      |                       |                           |                           |
|---|--|---------------------|------|-----------------------|---------------------------|---------------------------|
|   | Land,<br>Buildings<br>and<br>Equipment |                     |      | Total<br>Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted |
|   | General<br>Operating                   | Board<br>Designated |      |                       |                           | Total                     |
| <b>Public support and revenue</b>                     |  |                     |      |                       |                           |                           |
| Public support:                                       |  |                     |      |                       |                           |                           |
| Received directly:                                    |  |                     |      |                       |                           |                           |
| Contributions   | \$ 1,829,001                           | \$ -                | \$ - | \$ 1,829,001          | \$ 589,053                | \$ -                      |
| Donations-in-kind and contributed services            | 1,869,869                              | -                   | -    | 1,869,869             | -                         | -                         |
| Special events  | 57,963                                 | -                   | -    | 57,963                | -                         | -                         |
| Legacies and bequests                                 | 61,536                                 | 67,798              | -    | 129,334               | 73,947                    | -                         |
| Changes in value of split interest agreements         | -                                      | -                   | -    | -                     | (131,974)                 | 134,647                   |
| 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               | -                         | -                         |
| Total public support                                  | 4,028,181                              | 67,798              | -    | 4,095,979             | 531,026                   | 134,647                   |
| Fees and grants from government agencies              | 318,216                                | -                   | -    | 318,216               | -                         | -                         |
| Program service fees                                  | 183,707                                | -                   | -    | 183,707               | -                         | -                         |
| Sales to the public                                   | 4,650                                  | -                   | -    | 4,650                 | -                         | -                         |
| Investment income:                                    |  |                     |      |                       |                           |                           |
| Dividends and interest                                | 190,184                                | 9,717               | -    | 199,901               | 10,142                    | -                         |
| Net realized gain on sale of investments              | 373,954                                | 6,556               | -    | 380,510               | 20,930                    | -                         |
| Net unrealized gain on change in value of investments | 329,688                                | 5,795               | -    | 335,483               | 18,876                    | -                         |
| Other revenue   | 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,        |            |               |              |              |               |
|  | General      | Board      | Buildings and | Total        | Temporarily  | Permanently   |
|  | Operating    | Designated | Equipment     | Unrestricted | 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     |
| <b>Expenses</b>  |              |            |               |              |              |               |
| 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**  
**STATEMENTS OF CASH FLOWS**  
**Years ended September 30, 2007 and 2006**

|  | <u>2007</u>        | <u>2006</u>       |
|--|--------------------|-------------------|
| Cash flows from operating activities:  |                    |                   |
| Change in net assets   | \$ 2,741,652       | \$ 284,837        |
| Adjustments to reconcile change in net assets to<br>net cash provided by (used in) operating activities: |                    |                   |
| Depreciation   | 187,598            | 200,566           |
| Net unrealized and realized gain on investments  | (1,972,428)        | (758,472)         |
| Changes in operating assets and liabilities:   |                    |                   |
| Accounts receivable  | 31,324             | 59,910            |
| Pledges receivable, net  | 36,070             | 18,645            |
| Other  | 53,801             | (51,284)          |
| Accounts payable   | (137,564)          | 117,614           |
| Due to Divisional Headquarters   | 5,819              | (28,518)          |
| Net cash provided by (used in) operating activities  | <u>946,272</u>     | <u>(156,702)</u>  |
| Cash flows from investing activities:  |                    |                   |
| Proceeds from sales of investments   | 1,492,061          | 452,902           |
| Purchases of investments   | (2,560,940)        | (395,295)         |
| Proceeds from sale of fixed assets   | 4,749              |                   |
| Purchases of land, buildings and equipment   | <u>(37,867)</u>    | <u>(254,055)</u>  |
| Net cash used in investing activities  | <u>(1,101,997)</u> | <u>(196,448)</u>  |
| Net change in cash and cash equivalents  | (155,725)          | (353,150)         |
| Cash and cash equivalents at beginning of year   | <u>913,424</u>     | <u>1,266,574</u>  |
| Cash and cash equivalents at end of year   | <u>\$ 757,699</u>  | <u>\$ 913,424</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, 2007**

|  | 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                      | \$ 63,626              | \$ 14,941                     | \$ 1,922,245          | \$ 2,000,812           | \$ -                   | \$ -           | \$ -                      | \$ 2,000,812 |
| Salaries and allowances                | 403,391                | 402,429                       | 119,860               | 925,680                | 220,636                | 254,487        | 475,123                   | 1,400,803    |
| Occupancy                              | 261,733                | 104,417                       | 111,168               | 477,318                | 185,716                | 11,174         | 196,890                   | 674,208      |
| Support services                       | 82,953                 | 46,092                        | 240,464               | 369,509                | -                      | -              | -                         | 369,509      |
| Printing and publications              | 2,683                  | 275                           | 200,150               | 203,108                | 5,195                  | 130,266        | 135,461                   | 338,569      |
| Officer and employee benefits          | 82,259                 | 86,224                        | 17,597                | 186,080                | 39,733                 | 18,095         | 57,828                    | 243,908      |
| Supplies                               | 63,991                 | 68,554                        | 14,925                | 147,470                | 11,600                 | 3,601          | 15,201                    | 162,671      |
| Furnishings and equipment              | 77,856                 | 20,738                        | 10,326                | 108,920                | 30,025                 | 7,121          | 37,146                    | 146,066      |
| Payroll taxes                          | 43,884                 | 41,244                        | 10,503                | 95,631                 | 16,918                 | 18,794         | 35,712                    | 131,343      |
| Travel, meals and transportation       | 67,127                 | 29                            | 11,264                | 78,420                 | 25,878                 | 1,332          | 27,210                    | 105,630      |
| Conferences, meetings, and major trips | 16,076                 | 68                            | 42,385                | 58,529                 | 15,836                 | 8,301          | 24,137                    | 82,666       |
| Professional fees                      | 9,655                  | 13,301                        | 6,148                 | 29,104                 | 21,011                 | 4,871          | 25,882                    | 54,986       |
| Postage and shipping                   | 1,091                  | 31                            | 1,202                 | 2,324                  | 1,996                  | 45,261         | 47,257                    | 49,581       |
| Telephone                              | 26,421                 | 3,891                         | 5,599                 | 35,911                 | 8,331                  | 2,485          | 10,816                    | 46,727       |
| Miscellaneous                          | 3,484                  | -                             | 153                   | 3,637                  | 8,087                  | -              | 8,087                     | 11,724       |
| Organization dues                      | 255                    | 210                           | 1,600                 | 2,065                  | 1,192                  | 1,421          | 2,613                     | 4,678        |
| Awards and grants                      | -                      | -                             | -                     | -                      | 2,550                  | -              | 2,550                     | 2,550        |
| Total expenses                         | \$ 1,206,485           | \$ 802,444                    | \$ 2,715,589          | \$ 4,724,518           | \$ 594,704             | \$ 507,209     | \$ 1,101,913              | \$ 5,826,431 |

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 | Management and General | Fund - raising | Total        |
|  | \$                     | \$                            | \$                    | \$                     | \$             | \$           |
| Direct assistance                      | -                      | -                             | 2,318,182             | -                      | -              | 2,318,182    |
| Salaries and allowances                | 366,674                | 387,084                       | 93,563                | 205,750                | 255,298        | 1,308,369    |
| Occupancy                              | 252,208                | 69,591                        | 109,237               | 166,236                | 9,971          | 607,243      |
| Support services                       | 82,833                 | 55,626                        | 191,258               | -                      | -              | 329,717      |
| Printing and publications              | 2,448                  | -                             | 157,019               | 2,468                  | 97,513         | 259,448      |
| Officer and employee benefits          | 61,458                 | 80,905                        | 14,691                | 35,823                 | 21,991         | 214,868      |
| Furnishings and equipment              | 105,611                | 25,933                        | 10,383                | 59,424                 | 10,544         | 211,895      |
| Supplies                               | 53,007                 | 64,089                        | 18,888                | 14,580                 | 10,338         | 160,902      |
| Payroll taxes                          | 34,157                 | 41,806                        | 11,549                | 17,483                 | 24,535         | 129,530      |
| Travel, meals and transportation       | 58,720                 | 283                           | 19,517                | 21,177                 | 6,657          | 106,354      |
| Professional fees                      | 7,752                  | 15,707                        | 5,169                 | 29,149                 | 20,972         | 78,749       |
| Conferences, meetings, and major trips | 22,191                 | 115                           | 34,425                | 8,932                  | 5,109          | 70,772       |
| Miscellaneous                          | 16,384                 | -                             | 32,775                | 256                    | 100            | 49,515       |
| Telephone                              | 22,487                 | 3,640                         | 5,549                 | 8,447                  | 2,226          | 42,349       |
| Postage and shipping                   | 1,129                  | 11                            | 498                   | 2,194                  | 36,659         | 40,491       |
| Awards and grants                      | 105                    | -                             | 3,304                 | 22,889                 | -              | 26,298       |
| Organization dues                      | 333                    | -                             | 429                   | 1,846                  | 1,605          | 4,213        |
| Total expenses                         | \$ 1,087,497           | \$ 744,790                    | \$ 3,026,436          | \$ 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  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007 and 2006**

**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, 2007 and 2006**

**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, 2007 and 2006**

**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, 2007 and 2006**

**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, 2007 and 2006**

**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, 2007 and 2006. 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>2007</u>       | <u>2006</u>       |
|--|-------------------|-------------------|
| Unconditional promises to give due in:         |                   |                   |
| Less than one year                             | \$ 101,204        | \$ 137,274        |
| Allowance for uncollectible pledges receivable | <u>-</u>          | <u>-</u>          |
| Net pledges receivable                         | <u>\$ 101,204</u> | <u>\$ 137,274</u> |

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
September 30, 2007 and 2006**

**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 2007 and 2006) of employees' salaries. The Area Command incurred \$34,386 and \$24,105 of expense under this plan in fiscal 2007 and 2006, 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 \$9,000 and \$9,625 in fiscal 2007 and 2006, respectively.

**THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
September 30, 2007 and 2006**

**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 \$369,509 and \$329,718 in fiscal 2007 and 2006, 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 \$23,489 and \$28,541 in fiscal 2007 and 2006, 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 \$174,963 and \$111,557 in fiscal 2007 and 2006, 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 \$108,301 and \$113,645 in fiscal 2007 and 2006 respectively.

**NOTE 5 - NET ASSETS CLASSIFICATIONS**

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

|                                       | <u>2007</u>         | <u>2006</u>         |
|---------------------------------------|---------------------|---------------------|
| Welfare and support for needy persons | \$ 723,894          | \$ 664,351          |
| Time restricted                       | <u>2,425,141</u>    | <u>2,994,294</u>    |
| Total                                 | <u>\$ 3,149,035</u> | <u>\$ 3,658,645</u> |

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

|                                       | <u>2007</u>         | <u>2006</u>         |
|---------------------------------------|---------------------|---------------------|
| Welfare and support for needy persons | <u>\$10,649,757</u> | <u>\$ 8,296,533</u> |

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**September 30, 2007 and 2006**

**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.