

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, 2020

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

Table of Contents

September 30, 2020

Roster of Board of Directors and Leadership.....	1
Independent Auditor’s Report.....	2
Statement of Financial Position.....	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements.....	9
Supplementary Information	
Schedule of Expenditures of Federal Awards	28
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	32
Schedule of Findings and Questioned Costs	35
Schedule of Prior Audit Findings.....	40

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

**Roster of Board of Directors and Leadership
As of September 30, 2020**

Officers of Board of Directors

Tom Stumb	Board Chairperson
Bob Britton	Treasurer
Jeff Gray	Finance Committee Chair

Board of Directors

John Anderson	Derek Miller
Bob Britton	Ric Miller
Charles Bryan	Dortch Oldham Jr.
Helen Cummings	Sidney Pilson
Paul Davidson	Steve Pusey
Ronald Davis	Douglas Remke
William Denny	Paula Roberts
Ben Gambill, Jr.	Lynn Scarola
Ralph Glassford	W.E. Sheriff
Jeff Gray	Cathy Shull
Daniel Green	Rod Spann
Drew Hart	Abby Spaulding
Sam Harwell	Jimmy Spradley
Jane Haynes	Terry Stengel
Robert Hilton	Roddy L. Story
Anthony Holmes	Tom Stumb
Rob Hoskins	Joy Styles
Jeff Jarrett	William E. Turner, Jr.
Walker Mathews	Randy Wolcott
Rod McDaniel	Carolyn Yates Rambo
Lynn McPheeters	Dana Zelenik

Leadership

Majors Ethan and Sue Frizzell	Area Commanders
Captains Nathaniel and Raquel Revaula	South Campus / International Corps Officers
Majors Stephen and Sandra Story	North Campus / Citadel Corps Officers
Captains Jane and Lt. Doug Monroe	East Campus / Berry St. Corps Officer
April Calvin	Director of Social Services
Harold Witherspoon	Executive Director of Development

Independent Auditor's Report

To the Area Commander
The Salvation Army Nashville, Tennessee Area Command,
A Unit of the Salvation Army, A Georgia Corporation
Nashville, Tennessee

Report on Financial Statements

We have audited the accompanying financial statements of The Salvation Army Nashville, Tennessee Area Command, A Unit of the Salvation Army, A Georgia Corporation (the Area Command), a non-profit organization, which comprise the statement of financial position as of September 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Area Command's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

(Auditor's report continued on next page)

effectiveness of the Area Command's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Area Command as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

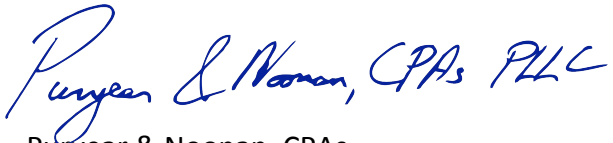
The Roster of Board of Directors and Leadership on page 1, which is the responsibility of management, is of nonaccounting nature and has not been subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide assurance over the roster.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2021 on our consideration of the Area Command's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance

(Auditor's report continued on next page)

and the results of that testing, and not to provide an opinion on the effectiveness of the Area Command's internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Area Command's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Puryear & Noonan, CPAs PLLC". The signature is written in a cursive, flowing style.

Puryear & Noonan, CPAs
Nashville, Tennessee
June 10, 2021

**THE SALVATION ARMY NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Statement of Financial Position
September 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
	<u>Assets</u>		
Current Assets			
Cash and cash equivalents	\$ 691,096	\$ -	\$ 691,096
Accounts receivable	24,050	-	24,050
Pledges receivable, net	-	775,718	775,718
Grants receivable	427,527	-	427,527
Prepaid expenses	4,709	-	4,709
Other current assets - gift cards	<u>113,333</u>	<u>-</u>	<u>113,333</u>
Total Current Assets	1,260,715	775,718	2,036,433
Deposits held by territorial headquarters	5,107,253	16,752,502	21,859,755
Property and equipment, net	6,020,612	-	6,020,612
Pledges receivable, net of current portion	-	5,000	5,000
Assets held under split interest agreements	<u>-</u>	<u>6,784,030</u>	<u>6,784,030</u>
Total Assets	<u>\$ 12,388,580</u>	<u>\$ 24,317,250</u>	<u>\$ 36,705,830</u>
	<u>Liabilities and Net Assets</u>		
Current Liabilities			
Accounts payable	\$ 399,846	\$ -	\$ 399,846
Accrued expenses	2,270	-	2,270
Accrued wages and benefits	49,554	-	49,554
Unearned revenue	<u>442,078</u>	<u>-</u>	<u>442,078</u>
Total Current Liabilities	<u>893,748</u>	<u>-</u>	<u>893,748</u>
Net Assets			
Without donor restrictions	7,589,228	-	7,589,228
Without donor restrictions - Board designated	3,905,604	-	3,905,604
With donor restrictions	<u>-</u>	<u>24,317,250</u>	<u>24,317,250</u>
Total Net Assets	<u>11,494,832</u>	<u>24,317,250</u>	<u>35,812,082</u>
Total Liabilities and Net Assets	<u>\$ 12,388,580</u>	<u>\$ 24,317,250</u>	<u>\$ 36,705,830</u>

See independent auditor's report and accompanying notes to financial statements.

**THE SALVATION ARMY NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue			
Contributions	\$ 3,567,318	\$ 100,000	\$ 3,667,318
Donations-in-kind	1,544,036	-	1,544,036
Grant revenue - Federal awards (including pass-through from State)	780,498	-	780,498
Special events income	153,652	-	153,652
Legacies and bequests	582,649	28,997	611,646
Grant revenue - Non-federal awards	695,455	91,000	786,455
Program service fees	59,708	-	59,708
Sales to the public	252,801	-	252,801
Change in value of split interest agreements	-	1,009,730	1,009,730
Investment income, net	146,559	905,877	1,052,436
Grants from other field units	24,562	-	24,562
Miscellaneous	12,603	-	12,603
Net assets released from restrictions	805,919	(805,919)	-
Total Public Support and Revenue	<u>8,625,760</u>	<u>1,329,685</u>	<u>9,955,445</u>
Expenses			
Program Services			
Corps Community Center	778,665	-	778,665
Residential and Institutional	1,064,126	-	1,064,126
Other Social Services	3,797,413	-	3,797,413
Supporting Services			
Fundraising	946,501	-	946,501
Management and general	1,256,870	-	1,256,870
Total Expenses	<u>7,843,575</u>	<u>-</u>	<u>7,843,575</u>
Change in Net Assets	782,185	1,329,685	2,111,870
Net Assets - Beginning of Year	9,695,143	22,987,455	32,682,598
Net assets of Murfreesboro Corps came under the Area Command, effective June 1, 2020	<u>1,017,504</u>	<u>110</u>	<u>1,017,614</u>
Net Assets - End of Year	<u>\$ 11,494,832</u>	<u>\$ 24,317,250</u>	<u>\$ 35,812,082</u>

See independent auditor's report and accompanying notes to financial statements.

THE SALVATION ARMY NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Statement of Functional Expenses
For the Year Ended September 30, 2020

	Program Services			Supporting Services		
	Corps Community Center	Residential and Institutional	Other Social Services	Fundraising	Management and General	Total
Salaries and officers' allowances	\$ 198,408	\$ 382,901	\$ 410,426	\$ 201,976	\$ 444,333	\$ 1,638,044
Officers' and employee benefits	116,231	102,935	85,240	38,846	110,885	454,137
Payroll taxes	6,167	37,611	39,788	17,972	34,651	136,189
Professional fees	3,078	174,543	57,889	92,247	63,750	391,507
Supplies	28,503	116,047	21,929	1,957	42,211	210,647
Telecommunications	27,180	6,020	6,968	3,235	20,799	64,202
Postage and shipping	375	149	1,364	64,644	5,279	71,811
Occupancy	211,784	162,950	262,136	35,188	126,907	798,965
Furnishings and equipment	43,128	49,111	45,450	2,168	85,287	225,144
Printing and publications	1,649	1,412	75,082	300,343	2,198	380,684
Travel, meals, transportation	45,640	507	20,665	1,068	37,927	105,807
Conference, meetings, major trips	7,766	105	56,317	-	7,819	72,007
Specific assistance to individuals	-	-	2,238,884	-	-	2,238,884
Organizational dues	55	-	-	640	2,415	3,110
Awards and grants	13,501	-	-	-	-	13,501
Miscellaneous	23,792	-	52,000	-	2,462	78,254
Support services	51,408	29,835	423,275	186,217	269,947	960,682
Total Expenses	\$ 778,665	\$ 1,064,126	\$ 3,797,413	\$ 946,501	\$ 1,256,870	\$ 7,843,575
Percent of total expenses	<u>10%</u>	<u>14%</u>	<u>48%</u>	<u>12%</u>	<u>16%</u>	<u>100%</u>

See independent auditor's report and accompanying notes to financial statements.

**THE SALVATION ARMY NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Statement of Cash Flows
For the Year Ended September 30, 2020**

Operating Activities

Change in net assets	\$ 2,111,870
Adjustment to Reconcile Change in Net Assets to Net Cash Provided by (Used for) Operating Activities	
Depreciation	248,540
Net unrealized (gains) losses on investments	(173,843)
Net realized (gains) losses on investments	(591,576)
Change in value of split interest agreements	(1,009,730)
Capital campaign pledges	(191,000)
Changes in operating assets and liabilities	
(Increase) decrease in accounts receivable - Unrestricted	11,187
(Increase) decrease in grants receivable	(411,544)
(Increase) decrease in prepaid expenses	(750)
(Increase) decrease in other current assets	16,081
Increase (decrease) in accounts payable	28,674
Increase (decrease) in accrued wages and benefits	49,554
Increase (decrease) in unearned revenue	<u>441,357</u>
Net Cash Provided by (Used for) Operating Activities	<u>528,820</u>

Cash Flows from Investing Activities

(Purchases) sales of investments, net	(448,955)
(Purchases) of land, buildings and equipment	<u>(25,115)</u>
Net Cash Provided by (Used for) Investing Activities	<u>(474,070)</u>

Cash Flows from Financing Activities

Capital campaign receipts	<u>305,073</u>
Net Cash Provided by (Used for) Financing Activities	<u>305,073</u>
Net Change in Cash	359,823
Cash - Beginning of Year	<u>331,273</u>
Cash - End of Year	<u><u>\$ 691,096</u></u>

Non-Cash Transactions

During the year ended September 30, 2020, Murfreesboro Corps came under the Area Command's control and management and transferred its net assets and activities to the Area Command, effective June 1, 2020, and the Area Command received cash of \$141,438. See Note 1.

See independent auditor's report and accompanying notes to financial statements.

**THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Notes to Financial Statements
September 30, 2020**

Note 1 - Summary of Significant Accounting Policies

Organization and Purpose

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 Salvation Army is an organization exempt from income taxation under Section 501 (a) as an entity described in Section 501 (c)(3) of the Internal Revenue Code of 1986, as amended and is exempt from state income taxes under related state provisions.

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

The Area Command operates a variety of programs including corps community centers that provide spiritual, educational and recreational services; homeless and emergency shelters; adult rehabilitation centers emergency disaster services; assistance for the poor, disabled, and retired; and camping activities.

Effective June 1, 2020, Murfreesboro Corps came under the Area Command's management and control. All assets, liabilities and related activity of Murfreesboro Corps came under the Area Command at book value.

Cash	\$	141,438
Deposits held by territorial headquarters		373,385
Accounts receivable		17,875
Other current assets - gift cards		17,714
Property and equipment, net		699,757
Accounts payable		<u>(232,555)</u>
Net assets	\$	<u>1,017,614</u>

Basis of Accounting

The financial statements of the Area Command are prepared using the accrual basis of accounting, under which revenue is recognized when earned rather than when collected and expenses are recognized when incurred rather than when disbursed.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the national accounting policies of The Salvation Army. These policies are consistent with accounting principles generally accepted in the United States of America (U.S. GAAP).

In order to observe restrictions which donors place on grants and other gifts, as well as designations made by the Board of Trustees, all assets, liabilities and support and revenue are accounted for in the following net asset classifications:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor imposed restrictions and may be designated for specific purposes or locations by actions of the Board of Trustees.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed restrictions that will be fulfilled either by actions of The Salvation Army or the passage of time or that include a stipulation that assets provided be retained and invested in perpetuity while permitting The Salvation Army to use all or part of the investment return on these assets for specified or unspecified purposes.

Measure of Operations

The Statement of Activities and Changes in Net Assets reports changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Area Command's ongoing activities and interest and investment income. Non-operating activities are limited to resources that generate return from other investments, permanently restricted contributions, net assets released for capital expenditures, and other activities considered to be of a more unusual or non-recurring nature.

Split Interest Agreements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) guidelines require that the following instruments be recorded as contributions and net assets at the present value of their ultimate Salvation Army interest.

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

Charitable Remainder Trusts - in which donors have established and funded trusts under which specified distributions are to be made to designated beneficiaries over the trusts' terms. Upon termination of the trusts, Area Command receives a percentage of the assets remaining in the trusts. The assets in the trusts are assumed to earn a rate of 5% over the estimated lives of the trusts and are discounted at a rate of 1.34%.

Program and Supporting Services - Functional Expenses

The following program and supporting services are included in the accompanying financial statements on the Statement of Functional Expenses.

Program Services - includes activities carried out to fulfill the Area Command's mission and are organized around the spiritual, educational and recreational services, residential and institutional assistance, emergency disaster services.

Supporting Services - Management and General - relates to the overall direction of the Area Command. These expenses are not identifiable with a particular program, event or fundraising, but are indispensable to the conduct of those activities and are essential to the Area Command. Specific activities include organizational oversight, operation management, record keeping, budgeting, financing, and other administrative activities.

Supporting Services - Fundraising – includes cost of activities directed toward appeals for financial support and the cost of solicitations and creation and distribution of fundraising materials.

Classifications of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. Direct expenses, incurred for a single function, are allocated entirely to that function. Expenses applicable to more than one function, are allocated on the basis of time and effort, square footage, or headcount. Personnel expense, travel, meetings and conferences are allocated based on time and effort. Professional fees, supplies, telephone, and postage are allocated on headcount, while occupancy, insurance, and depreciation are allocated based on square footage.

Use of Estimates

Management of the Area Command has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. Actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of these statements, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and having original maturities of three months or less.

Pledges Receivable

Unconditional pledges receivable are recorded at net realizable value. Pledges receivable that are expected to be collected after one year are recorded at the present value of estimated future cash flows and discounted using a credit-adjusted discount rate applicable to the year in which the pledge was made. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible pledges receivable is based on management's judgment, including such factors as prior collection history, subsequent collections, credit worthiness of donor and nature of fundraising activity. Pledges are written off when determined to be uncollectible. Conditional pledges receivable are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. At September 30, 2020, there was no allowance for uncollectible pledges and approximately \$122,000 are greater than ninety days old.

Deposits Held by Territorial Headquarters

The Southern Territorial Headquarters has the responsibility for investment activity for all units within the Southern Territory. The portfolios related to net assets with donor restrictions are maintained on a pooled "mutual fund" accounting basis, with the total return being allocated to each participating account on a pro-rata basis.

Investment return earned on portfolios related to net assets without donor restrictions is distributed to the constituent accounts on the basis of a stated percentage of the monthly account balances during the year. Amounts so deposited may be withdrawn when required for use by the centers of operation. The excess (deficit) of investment income earned over amounts distributed is reported as unrestricted board designated income. The Board of Trustees of the Southern Territory of The Salvation Army generally designates the use of portions of these excess funds for specified projects for use within the territory.

The recognized captions for investments and the categories of earnings related to investments (interest and dividends, net appreciation (depreciation)) are retained in the statements and in the relevant footnotes for all funds held for The Salvation Army at territorial headquarters and divisional headquarters, so that the information required by U.S. GAAP may be reported for Area Command where appropriate in accustomed terms.

Investment income and net appreciation (depreciation) on investments of restricted contributions, 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 other net assets with donor restrictions 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 net assets without donor restrictions in all other cases.
- Contributions to be received after one year are discounted to estimated net present value. Amortization of the discount is recorded as contribution revenue.

Fair Value Measurements

The Area Command follows FASB ASC 820-10, *Fair Value Measurements*, with respect to its financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Area Command groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are as follows:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

U.S. GAAP requires disclosure of an estimate of fair value of certain financial instruments. The Area Command's significant financial instruments are cash and cash equivalents, accounts and grants receivable, pledges receivable, deposits held by territorial headquarters, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value. The fair value measurements and valuation techniques related to the Area Command's financial assets are further discussed in Note 5.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Area Command that is, in substance, unconditional.

Accounts Receivable

The Area Command uses the allowance method to determine uncollectible accounts receivable. Management's estimate of doubtful accounts is based on historical collection experience and a review of the current status of accounts receivable. There was no allowance for doubtful accounts at September 30, 2020. It is reasonably possible that management's estimate of the allowance for doubtful accounts could change. Receivables are charged against the allowance when management believes the collectibility of the receivable is unlikely. For the year ended September 30, 2020, there was no bad debt expense. Accounts receivable are considered delinquent after ninety days. Late fees and interest are not assessed on delinquent accounts. It is not the policy of the Area Command to place a customer on non-accrual status.

Land, Buildings, Improvements and Equipment

The Area Command's property consists of land, building, building improvements, furniture, fixtures, and equipment.

Property and equipment are recorded at cost, or at appraised value if donated. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets. 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. The Area Command capitalizes items that are greater than or equal to \$10,000 and expenses items under \$10,000. The Area Command uses the direct expensing method to account for planned major maintenance activities. 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.

In accordance with FASB ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Area Command reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted

expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. No impairments have been recognized on any property at September 30, 2020.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to the customer in an amount that reflects consideration the Area Command expects to be entitled to in exchange for transferring those goods or services.

Revenue is recognized based on the following five step model:

- Identification of the contract with the customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price
- Recognition of revenue when, or as, the Area Command satisfies a performance obligation

The Area Command's revenues primarily consist of contributions and grants.

Contributions are recognized when received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends, or the purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets related from restrictions.

Grant revenue results from agreements, typically with government agencies, that fund specific activities of the Area Command. The grants are of three primary types: unconditional contributions, conditional contributions, and exchange transactions. An agreement is a contribution if its primary purpose is to enable the Area Command to provide a service to or for the general public rather than to serve the direct needs of the granting or contracting party. In other words, the agreement is a contribution if any benefit to the granting or contracting party is indirect and insubstantial as compared to the public benefit. The Area Command recognizes grant and contract revenue associated with unconditional contributions without donor stipulations as revenue and net assets without donor restrictions. Unconditional contributions with a

donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. The Area Command recognizes grant and contract revenue associated with conditional contributions as earned when the conditions are met (allowable expenses have been incurred or as milestones are met) as net assets without donor restrictions. Any unused funds are forfeited, and if any expenditures are unallowed, the Area Command is required to refund the amounts drawn down. In contrast, if the grant or contract provides a benefit directly to the granting or contracting party, the agreement is an exchange transaction with a customer.

Grant revenue from federal agencies is subject to independent audit under the Uniform Guidance and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of grant, or reductions of future grant funds. Based on prior experience, the Area Command's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Area Command.

Income Taxes

The Salvation Army has obtained a determination letter from the Internal Revenue Service effective October 1955, which qualifies the Area Command as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal or state income taxes. The Area Command is not classified as a private foundation.

The Salvation Army follows FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, as it relates to uncertain tax positions. This applies to positions taken or expected to be taken in a tax return where there is uncertainty about whether a tax position will ultimately be sustained upon examination. The Salvation Army has evaluated its tax positions and determined that it does not have uncertain tax positions that meet this criterion. There are no tax penalties or interest in the accompanying financial statements.

Donation In-Kind and Contributed Services

Material donations in-kind items used in the Area Command's programs (e.g., vehicle, free rent, equipment, etc.) and donated goods distributed (clothing, furniture, foodstuffs, etc.) are recorded at their estimated fair value as income and expense at the time the items are placed into service or distributed.

Contributed land, buildings, and equipment are recorded at fair value at the date of donation as support and revenue without donor restrictions unless the use of such contributed assets is restricted by a donor-imposed restriction.

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

Bequests

The Salvation Army has been named as the 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.

Restricted Endowments Funds

The Uniform Prudent Management Institutional Funds Act (UPMIFA) was enacted in Georgia effective July 1, 2008. The Not-for-Profit topic of the FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a non-profit organization that is subject to an enacted version of UPMIFA. It also requires a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies, and additional disclosures not previously required.

Deferred Revenue

Deferred revenue consists of advanced payments received from various sources including private and federal grants and other governmental agencies classified as conditional contributions. Revenue from these grants is recognized as the expenses are incurred and the related services performed.

Advertising

Advertising is expensed as incurred.

Note 2 - Adoption of New Accounting Pronouncements

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This guidance supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition* (Topic 605), and most industry-specific revenue recognition guidance throughout the Industry Topics of the ASC. The updated guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, *Other Assets and Deferred Costs – Contracts with Customers*, which requires deferral of incremental costs of obtaining a

**The Salvation Army Nashville, Tennessee Area Command,
A Unit of The Salvation Army, A Georgia Corporation**
Notes to Financial Statements (Continued)

contract with a customer. Collectively, Topic 606 and Subtopic 340-40 are referred to as the “new standard.” The Salvation Army adopted ASC 606 on October 1, 2019. The results of applying ASC 606 did not have a material impact on the financial position, changes in net assets, cash flows, business processes, controls or systems of The Salvation Army.

Note 3 - Liquidity and Availability

The following reflects the Area Command’s financial assets as of September 30, 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of September 30, 2020. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the Board of Trustees approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the Statement of Financial Position date have not been subtracted as unavailable.

Financial assets, at September 30, 2020	
Cash and cash equivalents	\$ 691,096
Investments	21,859,755
Accounts receivable	24,050
Pledges receivable, net	775,718
Grants receivable	<u>427,527</u>
	23,778,146
Less those unavailable for general expenditures within one year, due to	
Contractual or donor-imposed restrictions	
Restricted by donor with time or purpose restrictions	(17,514,835)
Investments illiquid within one year	(5,780)
Board designations	
Quasi-endowment fund, primarily for long-term investing	(2,501,153)
Amounts set aside for liquidity reserve	<u>(1,404,451)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,351,927</u>

The Area Command is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, The Area Command must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year. As part of The Area Command’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures,

**The Salvation Army Nashville, Tennessee Area Command,
A Unit of The Salvation Army, A Georgia Corporation**
Notes to Financial Statements (Continued)

liabilities and other obligations come due. In addition, the Area Command invests cash in excess of daily requirements in short-term investments. Occasionally, the Board of Trustees designates a portion of any operating surplus to its liquidity reserve, which was \$1,404,451 as of September 30, 2020. There is a fund established by the Board of Trustees that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, The Area Command also could draw upon \$10,000 of available lines of credit or its quasi-endowment fund.

Note 4 - Deposits Held by Territorial Headquarters

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

Assets which are remitted for investment by a center of operation or are designated for the use of a center of operation receive a fixed rate of interest as determined by the Board of Trustees of The Southern Territory of The Salvation Army.

Investment income consists of the following for the year ended September 30, 2020:

Dividend and interest	\$ 289,969
Unrealized gains(losses)	173,843
Realized gains(losses)	<u>591,576</u>
	<u>\$ 1,055,388</u>

Note 5 - Fair Value Measurements

Investments held under split interest agreements are stated at fair value (Level 3) and are summarized at September 30, 2020 as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trust	\$ -	\$ -	\$ 2,517,236	\$ 2,517,236
Beneficial interest in charitable remainder trusts	<u>-</u>	<u>-</u>	<u>4,266,794</u>	<u>4,266,794</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,784,030</u>	<u>\$ 6,784,030</u>

**The Salvation Army Nashville, Tennessee Area Command,
A Unit of The Salvation Army, A Georgia Corporation**
Notes to Financial Statements (Continued)

The amounts invested, market value, and yields at September 30, 2020 are summarized as follows:

	Beneficial Interest in Trust	Beneficial Interest in Charitable Remainder Trusts
Balance - Beginning of year	\$ 2,432,515	\$ 3,341,785
Realized and unrealized gains	84,720	925,010
Purchase, sales, issuance and settlements (net)	-	-
Balance - End of year	<u>\$ 2,517,235</u>	<u>\$ 4,266,795</u>

The Area Command's beneficial interest in trusts and charitable remainder trusts are valued using information obtained from third party sources, including financial statements and other information from detailed listing of holdings from the trusts. These valuations are typically performed annually, based on the present value of the estimated future distributions Area Command expects to receive over the term of the trust.

Note 6 - Pledges Receivable

Pledges receivable at September 30, 2020 include the following:

Capital Campaign	\$ 678,068
United Way	64,178
Other	<u>38,472</u>
	<u>\$ 780,718</u>
Pledges receivable due in	
2021	\$ 775,718
2022	<u>5,000</u>
Total pledges receivable	<u>\$ 780,718</u>

The discount rate is commensurate with the risks associated with the ultimate payment of the receivable, including collectibility. The difference between pledges receivable before and after the discount is immaterial.

**The Salvation Army Nashville, Tennessee Area Command,
A Unit of The Salvation Army, A Georgia Corporation**
Notes to Financial Statements (Continued)

Note 7 - Property and Equipment

At September 30, 2020, the Area Command's building, property, and equipment is recorded as follows:

	Useful Lives (Years)	
Land	-	\$ 1,015,491
Building and improvements	50	9,258,681
Furniture and equipment	3 - 10	<u>609,548</u>
		10,883,720
Less - Accumulated depreciation		<u>(4,863,108)</u>
		<u><u>\$ 6,020,612</u></u>

Depreciation expense for the year ended September 30, 2020 totaled \$248,540.

Note 8 - Pension Plan

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

Annual contributions to the Plan are based on a stipulated percentage (3% in fiscal 2020) of employees' salaries. The Area Command incurred \$29,177 of expense under this plan in fiscal 2020.

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, by earnings on assets designated for retirement benefits, and by special appropriations. Amounts charged to the Area Command and included in expenses for this provision were approximately \$38,000 in fiscal 2020.

**The Salvation Army Nashville, Tennessee Area Command,
A Unit of The Salvation Army, A Georgia Corporation**
Notes to Financial Statements (Continued)

Note 9 - Net Assets With Donor Restrictions

Net assets with donor restrictions as of September 30, 2020 are available for the following purposes:

Time restrictions	\$ 14,633,697
Specific programs	40,628
Welfare and support for needy persons	6,784,030
Building	<u>2,858,895</u>
	<u>\$ 24,317,250</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors at September 30, 2020 as follows:

Time restrictions	\$ 86,251
Building and capital purpose	21,523
Specific programs	<u>698,145</u>
	<u>\$ 805,919</u>

Note 10 - Endowment

The Area Command is a unit of the Southern Territory, which has sole authority for the receipt, management and investment of all endowment funds credited to units in the Southern Territory. The endowment fund credited to The Area Command consists of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds as well as funds designated by the Board of Trustees as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The responsibility for investment of all institutional funds in the Southern Territory is solely the responsibility of the Board of Trustees of the Southern Territory. The interpretation by the Board of Trustees of relevant law is stated as follows:

The Southern Territory is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA/SPMIFA) and thus, classifies earnings in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets

without donor restrictions and thus, classifies earnings in its donor restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees has interpreted UPMIFA/SPMIFA as not requiring the maintenance or purchasing power of the original gift amount contributed to the endowment fund, unless there are explicit donor restrictions to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Southern Territory considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gifts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Southern Territory has interpreted UPMIFA/SPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. Additionally, in accordance with UPMIFA/SPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the The Salvation Army and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the The Salvation Army
- The investment policies of the The Salvation Army

Spending Policy - The spending policy and how the investment objectives relate to the spending policy, which is applicable to the endowments herewith presented, are stated as follows:

The Southern Territory has a policy of appropriating for distribution each year 4% percent of its endowment fund's average fair value over the prior 4 quarters through the calendar year preceding the fiscal year in which the distribution is planned. In establishing this policy, the Southern Territory considered the long-term expected return on its endowment. Accordingly, over the long term, the Southern Territory expects its endowment assets to grow at a pace at least equal to inflation. This is consistent with the Area Command's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**The Salvation Army Nashville, Tennessee Area Command,
A Unit of The Salvation Army, A Georgia Corporation**
Notes to Financial Statements (Continued)

Return Objectives and Risk Parameters - The return objectives and risk parameters applicable to the endowments herewith presented are as follows:

The Southern Territory has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that The Salvation Army must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without putting the assets at imprudent risk.

Strategies Employed for Achieving Objectives - The strategies employed for achieving objectives applicable to the endowments herewith presented are as follows:

To satisfy its long-term objectives, the Southern Territory relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Southern Territory targets a diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Underwater Endowment Funds - From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA/SPMIFA requires The Salvation Army to retain as a fund of perpetual duration.

There's no underwater endowment funds related to the Area Command as of September 30, 2020.

Endowment net asset composition by type of fund as of September 30, 2020 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Board-designated endowment funds	\$ 2,779,934	\$ -	\$ 2,779,934
Donor-restricted endowment funds	<u>-</u>	<u>14,605,872</u>	<u>14,605,872</u>
Total funds	<u>\$ 2,779,934</u>	<u>\$ 14,605,872</u>	<u>\$ 17,385,806</u>

**The Salvation Army Nashville, Tennessee Area Command,
A Unit of The Salvation Army, A Georgia Corporation**
Notes to Financial Statements (Continued)

Changes in endowment net assets as of September 30, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Endowment Assets</u>
Endowment net assets -			
Beginning of year	\$ 2,213,149	\$ 14,256,293	\$ 16,469,442
Investment income (loss)	132,256	140,431	272,687
Contributions	244,600	-	244,600
Additions from Murfreesboro Corps	307,551	-	307,551
Net appreciation (depreciation)	-	765,419	765,419
Appropriations of endowment assets for expenditure	<u>(117,622)</u>	<u>(556,271)</u>	<u>(673,893)</u>
Endowment net assets - End of year	<u><u>\$ 2,779,934</u></u>	<u><u>\$ 14,605,872</u></u>	<u><u>\$ 17,385,806</u></u>

Note 11 - Grant Revenue

For the year ending September 30, 2020, \$780,498 of grant received from Federal (conditional contributions) were recognized as revenue.

Conditional contributions amounts totaling \$442,078 which have been received, and not yet recognized as revenue are included in deferred revenue at September 30, 2020. Conditional contributions which have not been received but promised for future years total approximately \$3,977,000 at September 30, 2020.

Note 12 - 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 \$960,682 in fiscal 2020.

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 \$259,245 in fiscal 2020.

The Salvation Army maintains self-insurance programs for general liability, automobile, workers' compensation and property coverage. The programs, which are administered by the Southern 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 \$235,758 in fiscal 2020.

Note 13 - Board Designated Restrictions

At September 30, 2020, the Board has designated a total of \$3,842,186 of investments and cash and cash equivalents for capital improvement and general operating needs which is included in net assets without donor restrictions. At September 30, 2020, the Board has also designated \$63,418 of cash for property and equipment maintenance for the subsequent year, which is also included in net assets without donor restrictions.

Note 14 - Concentrations of Credit Risk

At September 30, 2020, one (1) organization represents 53% of grants receivable, one (1) organization and one (1) individual represents 41% of pledge receivable.

Note 15 - Risk on Uninsured Cash

The standard Federal Deposit Insurance Corporation insurance amount is \$250,000 per depositor, per insured bank; and therefore, amounts in excess of \$250,000 held by the Area Command during the year ended September 30, 2020 were uninsured and uncollateralized. The Area Command has not experienced any losses in such accounts and management believes the Area Command is not exposed to any significant credit risk related to cash.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Area Command's securities is covered by the Securities Investor Protection Corporation (SIPC), which provides limited protection to investors. SIPC coverage is limited to specified investor-owned securities (notes, bonds, mutual funds, investment company securities, and registered securities) held by an insolvent SIPC member at the time a supervising trustee is appointed. The SIPC also protects against unauthorized trading in the Area Command's security account. SIPC coverage is limited to \$500,000 per customer, including \$250,000 for cash that is on deposit as the result of a security transaction. The SIPC protection does not insure against market risk.

Note 16 - Commitments and Contingencies

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. In March 2020, the Area Command began having virtual consulting sessions, and fund raising events were canceled for the rest of the fiscal year. Future potential impacts may

include disruptions or restrictions on the Area Command's employees' ability to work, or the Area Command's participants' ability to participate in the consulting sessions. Changes to the operating environment may increase operating costs. The further effects of these issues are unknown.

Note 17 - Subsequent Events

The Area Command has evaluated subsequent events through June 10, 2021, the date which the financial statements were available to be issued.

During February through April 2021, a Mission Essential campaign was implemented by the Area Command with goal of raising \$300,000 for liquidity needs from increased services. As of end of April, approximately \$338,000 was raised.

Note 18 - Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842), which requires lessees to recognize assets and liabilities for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee is not expected to significantly change under such guidance. The standard, as amended, will be effective for annual reporting periods beginning after December 15, 2021. Accordingly, this ASU will be effective for the Area Command for the year ending September 30, 2023. The Area Command is currently evaluating the impact that adoption of this ASU will have on the Area Command's financial position and results of operations.

SUPPLEMENTARY INFORMATION

THE SALVATION ARMY NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

<u>Federal Grantor Agency/ Pass-Through Grantor Agency/ State or Local Program Title</u>	<u>Program Name</u>	<u>CFDA No.</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
Federal Awards				
U.S. Department of Homeland Security:				
Through United Way	Emergency Food and Shelter Program	97.024	765200-001	\$ 115,683
	Total U. S. Department of Homeland Security			<u>115,683</u>
U.S. Department of Health and Human Services:				
Through State of Tennessee, Department of Human Services	Two-Generation Approach Services	93.558	34530-73120	<u>368,913</u>
	Total U. S. Department of Health and Human Services			<u>368,913</u>
U.S. Department of Treasury:				
Through United Way of Greater Nashville	COVID-19 - Coronavirus Relief	21.019	N/A	7,922
Through State of Tennessee, Department of Human Services	COVID-19 - Coronavirus Relief	21.019	N/A	<u>40,647</u>
	Sub-total 21.019			<u>48,569</u>
	Total U. S. Department of Treasury			<u>48,569</u>
U.S. Department of Housing and Urban Development				
Direct Award Office of Community Planning and Development	Continuum of Care Program	14.267	TN0288L4J041801	210,944
Through Metropolitan Development and Housing Agency	Emergency Solutions Grants Program	14.231	N/A	<u>95,689</u>
	Total U. S. Department of Housing and Urban Development			<u>306,633</u>
Total Federal Awards				<u>\$ 839,798</u>

See notes to Schedule of Expenditures of Federal Awards.

THE SALVATION ARMY NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Schedule of Expenditures of Federal Awards (Continued)
Year Ended September 30, 2020

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Area Command under programs of the federal government received directly and passed through from the State of Tennessee as well as other state and local assistance for the year ended September 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Area Command, it is not intended to and does not present the financial position, changes in net assets (deficit), or cash flows of the Area Command.

The Schedule is prepared on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. the Area Command has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

The Area Command did not pass any awards through to sub-recipients for the year ended September 30, 2020.

Effective June 1, 2020, Murfreesboro Corps came under the Area Command's management and control. There are \$59,300 of eligible expenditures that were released during October 1, 2019 to May 31, 2020 included in the Schedule.

Note 2 - Contingencies

These programs are subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time, although the Area Command expects such amounts, if any, to be immaterial.



**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Area Commander
The Salvation Army Nashville, Tennessee Area Command,
A Unit of the Salvation Army, A Georgia Corporation
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Salvation Army Nashville, Tennessee Area Command, A Unit of the Salvation Army, A Georgia Corporation (the Area Command), a nonprofit organization, which comprise the statement of financial position as of September 30, 2020, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Area Command's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Area Command's internal control. Accordingly, we do not express an opinion on the effectiveness of the Area Command's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

(Auditor's report continued on next page)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Area Command's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned as items 2020-001 and 2020-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned as item 2020-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Area Command's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Area Command's Response to Findings

The Area Command's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Area Command's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Area Command's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Area Command's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Puryear & Noonan, CPAs
Nashville, Tennessee
June 10, 2021



**Independent Auditor's Report on Compliance for Each Major Federal Program and on
Internal Control Over Compliance Required by the Uniform Guidance**

To the Area Commander
The Salvation Army Nashville, Tennessee Area Command,
A Unit of the Salvation Army, A Georgia Corporation
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited The Salvation Army Nashville, Tennessee Area Command, A Unit of the Salvation Army, A Georgia Corporation's (the Area Command), a nonprofit organization, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Area Command's major federal programs for the year ended September 30, 2020. The Area Command's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its Federal Awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Area Command's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Area Command's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

(Auditor's report continued on next page)

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Area Command's compliance.

Opinion on Each Major Federal Program

In our opinion, the Area Command complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of the Area Command is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audits of compliance, we considered the Area Command's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Area Command's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Auditor's report continued on next page)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Puryear & Noonan, CPAs PLLC". The signature is written in a cursive, flowing style.

Puryear & Noonan, CPAs
Nashville, Tennessee
June 10, 2021

**THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION**
**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020**

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes no

Significant deficiencies identified that
are not considered to be material
weakness(es)?

 X yes

Noncompliance material to financial
statements noted?

 yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes X no

Significant deficiencies identified that
are not considered to be material
weakness(es)?

 yes X none reported

Type of auditor's report issued on
compliance for major programs:

Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with the Uniform Guidance?

 yes X no

Identification of major programs:

CFDA Number(s)

93.558

Name of Federal Program or Cluster

Two-Generation Approach Services

(Continued on next page)

**THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION**
**Schedules of Findings and Questioned Costs
For the Year Ended September 30, 2020**

Dollar threshold used to distinguish
between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

Section II Financial Statement Findings

Finding No. 2020-001

- ***Criteria or specific requirement:*** The Area Command should record split interest agreement activities in the general ledger.
- ***Condition:*** The Area Command has not historically included in its internal financial statements certain beneficial interests in several split interest agreements.
- ***Effect:*** The accounting records do not reflect the beneficial interests in split interest agreements that are related to the Area Command.
- ***Cause:*** Same as above.
- ***Recommendation:*** Split interest agreements and corresponding activity should be recorded in the general ledger to ensure that all assets and activities of the Area Command are properly maintained.
- ***Views of responsible officials and planned corrective actions:*** The split interest agreement activities are recorded by the Southern Territory of The Salvation Army at the Territorial level. The local area commands are not required to record split interest agreement activities.

Finding No. 2020-002

- ***Criteria or specific requirement:*** The Area Command should record building improvements capitalized in 2016 and previous audits.

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Schedules of Findings and Questioned Costs
For the Year Ended September 30, 2020

- **Condition:** The Area Command has not recorded building improvements capitalized in 2016 and previous audits. These improvements are not maintained on the property ledger by Divisional or Territorial headquarters.
- **Effect:** The accounting records do not reflect the building improvements capitalized during prior periods.
- **Cause:** Same as above.
- **Recommendation:** All property capitalized should be recorded and maintained on the property ledger in order to accurately reflect the Area Command's assets.
- **Views of responsible officials and planned corrective actions:** The decision to record building improvements capitalized in prior periods are made at the Territorial headquarters level. We will seek their approval to record these items at local level.

Finding No. 2020-003

- **Criteria or specific requirement:** The Area Command should prepare its year-end financial statements and related notes.
- **Condition:** While the Area Command does closely review, approve, and take responsibility for the year-end audited financial statements, it relies on the independent auditors to draft all the financial statements and related notes.
- **Effect:** The independent auditors draft all the financial statements and related notes.
- **Cause:** Same as above.
- **Recommendation:** The Area Command management should evaluate the cost and time effectiveness for the Area Command to draft the annual financial statement reports.

(Continued on next page)

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- ***Views of responsible officials and planned corrective actions:*** Management believes it is not cost or time effective for the Area Command to draft the annual financial statement report.

The Area Command provides the auditors with the information needed to prepare the year-end financial statements and related notes; and reviews, approves, and takes responsibility for the report. Therefore, management believes it is more cost effective for the independent auditors to prepare the report.

The Territorial Headquarters of The Salvation Army fulfill the requirements of year-end financial reporting; however, the local area commands are not required to prepare year-end financials as separate entities. All year-end reporting is consolidated at the Territorial Headquarter level.

**THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Schedules of Findings and Questioned Costs
For the Year Ended September 30, 2020**

Section III Federal Award Findings and Questioned Costs

No matters were reported.

**THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY,
A GEORGIA CORPORATION
Schedule of Prior Audit Findings
Year Ended September 30, 2020**

Not applicable