

**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, 2015 and 2014

**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
Nashville, Tennessee

We have audited the accompanying financial statements of The Salvation Army Nashville, Tennessee Area Command (the "Area Command"), a unit of The Salvation Army, a Georgia Corporation, which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years 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 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 from material misstatement.

An audit involves performing procedures to obtain 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 entity'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 effectiveness of the entity'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 Salvation Army Nashville, Tennessee Area Command (the "Area Command"), a unit of The Salvation Army, a Georgia Corporation, as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frasier, Dan + Hand, PLLC

Nashville, Tennessee
February 24, 2016

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND,
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
STATEMENT OF FINANCIAL POSITION
September 30, 2015

	Unrestricted			Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment				
Assets							
Current assets:							
Cash and cash equivalents	\$ 379,272	\$ 52,323	\$ -	\$ 431,595	\$ 73,469	\$ -	\$ 505,064
Accounts receivable	52,582	-	-	52,582	-	-	52,582
Pledges receivable, net	-	-	-	-	147,077	-	147,077
Other	60,047	-	-	60,047	-	-	60,047
Total current assets	491,901	52,323	-	544,224	220,546	-	764,770
Deposits held by territorial headquarters	1,205,664	2,282,250	-	3,487,914	5,577,289	7,723,682	16,788,885
Assets held under split interest agreements	-	-	-	-	223,489	4,346,346	4,569,835
Land, buildings and equipment:							
Land	-	-	754,945	754,945	-	-	754,945
Buildings, net of accumulated depreciation of \$3,159,293	-	-	5,159,564	5,159,564	-	-	5,159,564
Equipment, net of accumulated depreciation of \$342,234	-	-	267,903	267,903	-	-	267,903
Total land, buildings and equipment	-	-	6,182,412	6,182,412	-	-	6,182,412
Total assets	\$1,697,565	\$2,334,573	\$6,182,412	\$ 10,214,550	\$ 6,021,324	\$12,070,028	\$28,305,902

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, 2015

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment			
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 125,415	\$ -	\$ -	\$ 125,415	\$ -	\$ 125,415
Total current liabilities	125,415	-	-	125,415	-	125,415
Net assets:						
Unrestricted:						
Undesignated	1,572,150	-	-	1,572,150	-	1,572,150
Board designated:						
Vehicle and equipment	-	43,876	-	43,876	-	43,876
Property maintenance and insurance	-	8,447	-	8,447	-	8,447
Capital purposes	-	2,282,250	-	2,282,250	-	2,282,250
Land, buildings and equipment	-	-	6,182,412	6,182,412	-	6,182,412
Temporarily restricted	-	-	-	-	6,021,324	6,021,324
Permanently restricted	-	-	-	-	12,070,028	12,070,028
Total net assets	1,572,150	2,334,573	6,182,412	10,089,135	6,021,324	28,180,487
Total liabilities and net assets	\$1,697,565	\$2,334,573	\$6,182,412	\$ 10,214,550	\$ 6,021,324	\$12,070,028

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, 2014

	Unrestricted			Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment				
Assets							
Current assets:							
Cash and cash equivalents	\$ 145,978	\$ 39,005	\$ -	\$ 184,983	\$ 167,130	\$ -	\$ 352,113
Accounts receivable	23,160	-	-	23,160	-	-	23,160
Pledges receivable, net	-	-	-	-	174,373	-	174,373
Other	169,099	-	-	169,099	-	-	169,099
Total current assets	<u>338,237</u>	<u>39,005</u>	<u>-</u>	<u>377,242</u>	<u>341,503</u>	<u>-</u>	<u>718,745</u>
Deposits held by territorial headquarters	<u>1,207,420</u>	<u>2,563,835</u>	<u>-</u>	<u>3,771,255</u>	<u>6,845,785</u>	<u>7,723,682</u>	<u>18,340,722</u>
Assets held under split interest agreements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>223,489</u>	<u>4,539,619</u>	<u>4,763,108</u>
Land, buildings and equipment:							
Land	-	-	752,559	752,559	-	-	752,559
Buildings, net of accumulated depreciation of \$3,009,923	-	-	5,220,240	5,220,240	-	-	5,220,240
Equipment, net of accumulated depreciation of \$285,314	<u>-</u>	<u>-</u>	<u>114,282</u>	<u>114,282</u>	<u>-</u>	<u>-</u>	<u>114,282</u>
Total land, buildings and equipment	<u>-</u>	<u>-</u>	<u>6,087,081</u>	<u>6,087,081</u>	<u>-</u>	<u>-</u>	<u>6,087,081</u>
Total assets	<u>\$1,545,657</u>	<u>\$2,602,840</u>	<u>\$6,087,081</u>	<u>\$ 10,235,578</u>	<u>\$ 7,410,777</u>	<u>\$12,263,301</u>	<u>\$29,909,656</u>

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, 2014

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment			
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 123,038	\$ -	\$ -	\$ 123,038	\$ -	\$ 123,038
Total current liabilities	123,038	-	-	123,038	-	123,038
Net assets:						
Unrestricted:						
Undesignated	1,422,619	-	-	1,422,619	-	1,422,619
Board designated:						
Vehicle and equipment	-	30,558	-	30,558	-	30,558
Property maintenance and insurance	-	8,447	-	8,447	-	8,447
Capital purposes	-	2,563,835	-	2,563,835	-	2,563,835
Land, buildings and equipment	-	-	6,087,081	6,087,081	-	6,087,081
Temporarily restricted	-	-	-	-	7,410,777	7,410,777
Permanently restricted	-	-	-	-	12,263,301	12,263,301
Total net assets	1,422,619	2,602,840	6,087,081	10,112,540	7,410,777	29,786,618
Total liabilities and net assets	\$1,545,657	\$2,602,840	\$6,087,081	\$ 10,235,578	\$ 7,410,777	\$12,263,301
	\$29,909,656					\$29,909,656

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, 2015

	<u>Unrestricted</u>			<u>Total</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
	<u>General</u>	<u>Board</u>	<u>Land, Buildings and Equipment</u>				
Public support and revenue							
Public support:							
Received directly:							
Contributions	\$2,581,420	\$ -	\$ -	\$ 2,581,420	\$ 220,546	\$ -	\$2,801,966
Donations-in-kind and contributed services	1,325,622	-	-	1,325,622	-	-	1,325,622
Special events	280,549	-	-	280,549	-	-	280,549
Legacies and bequests	101,137	84,961	-	186,098	62,486	-	248,584
Changes in value of split interest agreements	-	-	-	-	-	(193,273)	(193,273)
Total received directly	<u>4,288,728</u>	<u>84,961</u>	<u>-</u>	<u>4,373,689</u>	<u>283,032</u>	<u>(193,273)</u>	<u>4,463,448</u>
Received indirectly:							
Allocated by federated fund-raising organizations	157,571	-	-	157,571	-	-	157,571
Total public support	<u>4,446,299</u>	<u>84,961</u>	<u>-</u>	<u>4,531,260</u>	<u>283,032</u>	<u>(193,273)</u>	<u>4,621,019</u>
Fees and grants from government agencies	210,160	-	-	210,160	-	-	210,160
Program service fees	107,522	-	-	107,522	-	-	107,522
Investment income:							
Dividends and interest	8,200	71,610	-	79,810	184,378	-	264,188
Net realized gain on sale of investments	-	-	-	-	659,703	-	659,703
Net unrealized loss on change in value of investments	-	-	-	-	(1,420,664)	-	(1,420,664)
Loss on sale of property	(40,324)	-	-	(40,324)	-	-	(40,324)
Other revenue	<u>71,777</u>	<u>-</u>	<u>-</u>	<u>71,777</u>	<u>-</u>	<u>-</u>	<u>71,777</u>
Total public support and revenue	<u>4,803,634</u>	<u>156,571</u>	<u>-</u>	<u>4,960,205</u>	<u>(293,551)</u>	<u>(193,273)</u>	<u>4,473,381</u>

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, 2015

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment			
Net assets reclassified due to fulfillment of donor restrictions	\$1,095,902	\$ -	\$ -	\$ 1,095,902	\$(1,095,902)	\$ -
Interfund transfers	329,507	(424,838)	95,331	-	-	-
Total	6,229,043	(268,267)	95,331	6,056,107	(1,389,453)	(193,273)
Expenses						
Program services:						
Corps community center	829,999	-	-	829,999	-	829,999
Residential and institutional	844,270	-	-	844,270	-	844,270
Other social services	2,798,174	-	-	2,798,174	-	2,798,174
Total program services	4,472,443	-	-	4,472,443	-	4,472,443
Supporting services:						
Management and general	807,997	-	-	807,997	-	807,997
Fundraising	799,072	-	-	799,072	-	799,072
Total supporting services	1,607,069	-	-	1,607,069	-	1,607,069
Total expenses	6,079,512	-	-	6,079,512	-	6,079,512
Change in net assets	149,531	(268,267)	95,331	(23,405)	(1,389,453)	(193,273)
Net assets at beginning of year	1,422,619	2,602,840	6,087,081	10,112,540	7,410,777	12,263,301
Net assets at end of year	<u>\$1,572,150</u>	<u>\$2,334,573</u>	<u>\$6,182,412</u>	<u>\$10,089,135</u>	<u>\$6,021,324</u>	<u>\$12,070,028</u>

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, 2014

	Unrestricted			Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment				
Public support and revenue							
Public support:							
Received directly:							
Contributions	\$2,279,839	\$ -	\$ -	\$ 2,279,839	\$ 323,794	\$ -	\$ 2,603,633
Donations-in-kind and contributed services	1,557,626	-	-	1,557,626	-	-	1,557,626
Special events	221,710	-	-	221,710	-	-	221,710
Legacies and bequests	78,315	120,579	-	198,894	27,422	-	226,316
Changes in value of split interest agreements	-	-	-	-	17,507	321,873	339,380
Total received directly	4,137,490	120,579	-	4,258,069	368,723	321,873	4,948,665
Received indirectly:							
Allocated by federated fund-raising organizations	137,928	-	-	137,928	-	-	137,928
Total public support	4,275,418	120,579	-	4,395,997	368,723	321,873	5,086,593
Fees and grants from government agencies	235,873	-	-	235,873	-	-	235,873
Program service fees	119,300	-	-	119,300	-	-	119,300
Sales to the public	376	-	-	376	-	-	376
Investment income:							
Dividends and interest	7,584	71,966	-	79,550	191,854	-	271,404
Net realized gain on sale of investments	-	-	-	-	916,301	-	916,301
Net unrealized gain on change in value of investments	-	-	-	-	271,669	-	271,669
Gain on sale of property	44,429	-	-	44,429	-	-	44,429
Other revenue	23,538	-	-	23,538	-	-	23,538
Total public support and revenue	4,706,518	192,545	-	4,899,063	1,748,547	321,873	6,969,483

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, 2014

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment			
Net assets reclassified due to fulfillment of donor restrictions	828,621	-	-	(828,621)	-	-
Interfund transfers	4,583	95,657	(100,240)	-	-	-
Total	5,539,722	288,202	(100,240)	919,926	321,873	6,969,483
Expenses						
Program services:						
Corps community center	943,796	-	-	-	-	943,796
Residential and institutional	887,846	-	-	-	-	887,846
Other social services	2,498,466	-	-	-	-	2,498,466
Total program services	4,330,108	-	-	-	-	4,330,108
Supporting services:						
Management and general	715,035	-	-	-	-	715,035
Fundraising	880,880	-	-	-	-	880,880
Total supporting services	1,595,915	-	-	-	-	1,595,915
Total expenses	5,926,023	-	-	-	-	5,926,023
Change in net assets	(386,301)	288,202	(100,240)	919,926	321,873	1,043,460
Net assets at beginning of year	1,808,920	2,314,638	6,187,321	6,490,851	11,941,428	28,743,158
Net assets at end of year	\$1,422,619	\$2,602,840	\$6,087,081	\$ 7,410,777	\$12,263,301	\$29,786,618

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,606,131)	\$ 1,043,460
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	214,012	202,776
Loss (gain) on sale of land, buildings and equipment	40,324	(44,429)
Net unrealized and realized loss (gain) on investments	760,961	(1,187,970)
Change in value of split interest agreements	193,273	(339,380)
Changes in operating assets and liabilities:		
Accounts receivable	(29,422)	14,297
Pledges receivable, net	27,296	(9,583)
Other	109,052	(44,074)
Accounts payable	2,377	(51,525)
	<u>(288,258)</u>	<u>(416,428)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Proceeds from sales of investments	1,602,574	1,445,850
Purchases of investments	(811,698)	(1,423,191)
Proceeds from sale of land, buildings and equipment	-	176,873
Purchases of land, buildings and equipment	(349,667)	(234,980)
	<u>441,209</u>	<u>(35,448)</u>
Net cash provided by (used in) investing activities		
Net change in cash and cash equivalents	152,951	(451,876)
Cash and cash equivalents at beginning of year	<u>352,113</u>	<u>803,989</u>
Cash and cash equivalents at end of year	<u>\$ 505,064</u>	<u>\$ 352,113</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, 2015

	Program Services			Supporting Services			Total	
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising		Total Supporting Services
Direct assistance	\$ -	\$ -	\$ 1,495,897	\$ 1,495,897	\$ -	\$ -	\$ -	\$ 1,495,897
Salaries and allowances	282,171	271,183	393,616	946,970	278,536	241,047	519,583	1,466,553
Occupancy	158,407	132,223	195,943	486,573	63,962	32,566	96,528	583,101
Support services	81,761	59,034	73,350	214,145	192,282	109,531	301,813	515,958
Printing and publications	1,484	926	248,016	250,426	2,434	216,989	219,423	469,849
Officer and employee benefits	98,632	86,176	96,160	280,968	72,641	31,419	104,060	385,028
Professional fees	7,058	179,032	34,938	221,028	75,264	19,724	94,988	316,016
Furnishings and equipment	62,464	47,171	128,661	238,296	27,154	5,901	33,055	271,351
Payroll taxes	18,514	27,370	39,345	85,229	25,479	25,289	50,768	135,997
Supplies	31,568	33,006	19,034	83,608	15,261	6,546	21,807	105,415
Postage and shipping	597	103	522	1,222	1,001	83,940	84,941	86,163
Conferences, meetings, and major trips	18,527	810	45,372	64,709	3,900	13,146	17,046	81,755
Travel, meals and transportation	37,090	185	6,412	43,687	13,304	4,858	18,162	61,849
Telephone	21,434	7,051	15,728	44,213	11,344	6,076	17,420	61,633
Miscellaneous	9,182	-	5,000	14,182	23,995	2,040	26,035	40,217
Organization dues	1,110	-	180	1,290	1,440	-	1,440	2,730
Total expenses	\$ 829,999	\$ 844,270	\$ 2,798,174	\$ 4,472,443	\$ 807,997	\$ 799,072	\$ 1,607,069	\$ 6,079,512

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, 2014

	Program Services			Supporting Services				Total
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services	
Direct assistance	\$ 14,398	\$ -	\$ 1,485,710	\$ 1,500,108	\$ -	\$ -	\$ -	\$ 1,500,108
Salaries and allowances	267,410	360,913	287,563	915,886	265,881	278,848	544,729	1,460,615
Occupancy	230,890	142,628	196,556	570,074	68,797	38,350	107,147	677,221
Printing and publications	778	36	306,722	307,536	1,034	228,007	229,041	536,577
Support services	93,771	39,630	47,272	180,673	166,988	125,155	292,143	472,816
Officer and employee benefits	85,990	109,125	59,571	254,686	63,452	28,811	92,263	346,949
Professional fees	18,096	133,110	16,093	167,299	29,102	15,580	44,682	211,981
Payroll taxes	20,685	35,773	28,414	84,872	23,920	29,462	53,382	138,254
Furnishings and equipment	74,453	15,068	12,912	102,433	18,750	2,367	21,117	123,550
Supplies	32,449	39,150	19,771	91,370	16,821	6,047	22,868	114,238
Postage and shipping	893	281	714	1,888	1,264	98,744	100,008	101,896
Travel, meals and transportation	49,841	590	9,704	60,135	16,488	6,338	22,826	82,961
Conferences, meetings, and major trips	32,277	729	15,710	48,716	4,375	13,009	17,384	66,100
Telephone	21,450	10,813	10,843	43,106	11,894	7,792	19,686	62,792
Miscellaneous	-	-	911	911	24,124	-	24,124	25,035
Organization dues	415	-	-	415	2,145	2,370	4,515	4,930
Total expenses	\$ 943,796	\$ 887,846	\$ 2,498,466	\$ 4,330,108	\$ 715,035	\$ 880,880	\$ 1,595,915	\$ 5,926,023

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, 2015 and 2014

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 Salvation Army 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; adult rehabilitation centers; emergency disaster services; 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 accounting principles generally accepted in the United States of America. 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.

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**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

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 to estimated net present value. Amortization of the discount is recorded as contribution revenue. Management considers all promises to give to be fully collectible at September 30, 2015 and 2014. Accordingly, no allowance for doubtful accounts has been provided.

Split Interest Agreements

Financial Accounting Standards Board Accounting Standards Codification (“FASB 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.

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

Split Interest Agreements (Continued)

Charitable Remainder Trust

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 2.87%.

Deposits with Territorial Headquarters

The Salvation Army's 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.

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 accounting principles generally accepted in the United States of America may be reported for Area Command where appropriate in accustomed terms.

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NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Deposits with Territorial Headquarters (Continued)

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.

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.

Land, Buildings and Equipment

Area Command generally capitalizes an asset if its life is estimated to be one year or greater. 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.

Estimated service lives for various classes of assets are as follows:

Buildings	50 years
Equipment	3-10 years

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

Land, Buildings and Equipment (Continued)

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.

Reclassifications

Certain reclassifications have been made to 2014 in order to conform to 2015 presentation.

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

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. The Area Command has been classified as other than a private foundation.

FASB ASC guidance requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. 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 any uncertain tax positions that meet this criterion. There are no tax penalties or interest in the accompanying financial statements.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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, 2015 and 2014.

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

Fair Value Measurement

Area Command has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data, including interest rate yield curves, option volatilities and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while Area Command believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Accounting principles generally accepted in the United States of America have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used at September 30, 2015 and 2014.

The three levels are described below:

Level 1 Inputs to the valuation methodology that are quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs to the valuation methodology include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs that are unobservable, supported by little or no market activity and significant to the fair value measurement.

The fair value measurements and valuation techniques related to the Area Command's financial assets are further discussed in Note 7.

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

Restricted Endowment 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 nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of 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.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable as of September 30, 2015 and 2014 totaled \$147,077 and \$174,373 respectively, and are due in less than one year.

NOTE 3 – 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 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 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 years ended September 30:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 264,188	\$ 271,404
Realized and unrealized gains, net	<u>(760,961)</u>	<u>1,187,970</u>
	<u>\$ 496,773</u>	<u>\$ 1,459,374</u>

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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 Plan is a defined contribution, money purchase plan.

Annual contributions to the Plan are based on a stipulated percentage (6.00% in fiscal 2015 and 5.25% in fiscal 2014) of employees’ salaries. The Area Command incurred \$53,165 and \$48,794 of expense under this plan in fiscal 2015 and 2014, 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 approximately \$26,000 and \$21,000 in fiscal 2015 and 2014, respectively.

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 \$515,958 and \$472,816 in fiscal 2015 and 2014, 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 \$66,396 and \$61,219 in fiscal 2015 and 2014, respectively.

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

Related Party Transactions (Continued)

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 \$235,640 and \$215,937 in fiscal 2015 and 2014, 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 \$133,175 and \$132,436 in fiscal 2015 and 2014, respectively.

NOTE 5 – NET ASSETS CLASSIFICATIONS

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

	<u>2015</u>	<u>2014</u>
Welfare and support for needy persons	\$ 296,958	\$ 390,619
Time restricted	147,077	174,373
Permanently restricted endowment market gains	<u>5,577,289</u>	<u>6,845,785</u>
Total	<u>\$ 6,021,324</u>	<u>\$ 7,410,777</u>

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

	<u>2015</u>	<u>2014</u>
Welfare and support for needy persons	<u>\$ 12,070,028</u>	<u>\$ 12,263,301</u>

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.

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NOTE 7 – FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, Area Command's assets at fair value as of September 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trust	\$ -	\$ -	\$ 2,683,355	\$ 2,683,354
Beneficial interest in charitable remainder trusts	-	-	1,886,480	1,886,480
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,569,835</u>	<u>\$ 4,569,834</u>

The summary of changes in the fair value of Area Command's level 3 assets for the year ended September 30, 2015 is as follows:

	<u>Beneficial Interest in Trust</u>	<u>Beneficial Interest in Charitable Remainder Trusts</u>
Balance, beginning of year	\$ 2,926,993	\$ 1,836,115
Realized and unrealized gains (losses)	(243,638)	50,365
Purchases, sales, issuances and settlements (net)	-	-
Balance, end of year	<u>\$ 2,683,355</u>	<u>\$ 1,886,480</u>

The following table sets forth by level, within the fair value hierarchy, Area Command's assets at fair value as of September 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trust	\$ -	\$ -	\$ 2,926,993	\$ 2,926,993
Beneficial interest in charitable remainder trusts	-	-	1,836,115	1,836,115
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,763,108</u>	<u>\$ 4,763,108</u>

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NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)

The summary of changes in the fair value of Area Command’s level 3 assets for the year ended September 30, 2014 is as follows:

	Beneficial Interest in Trust	Beneficial Interest in Charitable Remainder Trusts
Balance, beginning of year	\$ 2,783,105	\$ 1,640,623
Realized and unrealized gains (losses)	143,888	195,492
Purchases, sales, issuances and settlements (net)	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 2,926,993</u>	<u>\$ 1,836,115</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 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS

The Salvation Army in Nashville, Tennessee 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 Salvation Army in Nashville 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 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:

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NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

The Uniform Prudent Management of Institutional Funds Acts (UPMIFA) as enacted by the State of Georgia applies to all the institutional funds of the Southern Territory unless the donor has specifically directed otherwise. The Board of Trustees interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor restrictions to the contrary. As a result of this interpretation, the Board of Trustees classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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 organization 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 organization.
- The investment policies of the organization.

The Board of Trustees considers the effect of inflation and deflation on the original gift value from the effective date of UPMIFA, July 1, 2008, or the gift date, whichever is later. Endowment funds are appropriated as of the date of disbursement from the invested asset.

Endowment Net Asset Composition by Type of Fund as of September 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 2,937,067	\$ 12,070,028	\$ 15,007,095

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NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Changes in Endowment Net Assets for the Year Ended September 30, 2015:

Endowment net assets, beginning of year	\$ <u>-</u>	\$ <u>3,926,408</u>	\$ <u>12,263,301</u>	\$ <u>16,189,709</u>
Investment return:				
Investment income	-	144,930	-	144,930
Contributions	-	200	-	200
Net appreciation (realized and unrealized)	<u>-</u>	<u>(634,532)</u>	<u>(193,273)</u>	<u>(827,805)</u>
Total investment return	-	(489,402)	(193,273)	(682,675)
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(499,939)</u>	<u>-</u>	<u>(499,939)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>2,937,067</u>	\$ <u>12,070,028</u>	\$ <u>15,007,095</u>

Endowment Net Asset Composition by Type of Fund as of September 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ <u>-</u>	\$ <u>3,926,408</u>	\$ <u>12,263,301</u>	\$ <u>16,189,709</u>

Changes in Endowment Net Assets for the Year Ended September 30, 2014:

Endowment net assets, beginning of year	\$ <u>-</u>	\$ <u>3,223,995</u>	\$ <u>11,941,428</u>	\$ <u>15,165,423</u>
Investment return:				
Investment income	-	151,700	-	151,700
Contributions	-	-	-	-
Net depreciation (realized and unrealized)	<u>-</u>	<u>989,289</u>	<u>321,873</u>	<u>1,311,162</u>
Total investment return	-	1,140,989	321,873	1,462,862
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(438,576)</u>	<u>-</u>	<u>(438,576)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>3,926,408</u>	\$ <u>12,263,301</u>	\$ <u>16,189,709</u>

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NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Spending Policy

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 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 allocating an amount available for appropriation for spending each year equal to the weighted average of the prior-year's spending allocation adjusted for inflation plus a percentage of the endowment fund's fair value at the calendar year-end preceding the fiscal year in which the appropriation is planned. The prior year's spending allocation is weighted at 60% and the percentage of the fund's fair value is weighted at 40%. The percentage of the fund's fair value varies in a band from 0% to 7%, depending on the ratio of the fund's fair value to the purchasing power of the endowment gifts as measured by changes in CPI-U. The median percentage is 4%, and the minimum and maximum of the band are reached at 50% and 200% ratios of the fund's fair value to the endowment gift's(s') purchasing power, respectively. With long-term real growth expected through investment returns, the expected long-term average percentage rate is 4.5%. Accordingly, over the long-term, the Southern Territory expects the current spending policy to allow its endowments to maintain or grow 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.

Return Objectives and Risk Parameters

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 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 organization 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.

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NOTES TO FINANCIAL STATEMENTS (Continued)
September 30, 2015 and 2014**

NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Strategies Employed for Achieving Objectives

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 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.

Funds with Deficiencies

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 Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$0 as of September 30, 2015 and 2014. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

NOTE 9 – COMMITMENT

During the year ended September 30, 2015, the Organization entered into an operating lease for retail space. The lease requires a base rent, property taxes, and common area charge each month for 63 months, ending August 2020. Rent expense totaled \$8,800 for the fiscal year 2015. Future minimum lease payments under this lease are as follows for the years ending September 30:

2016	\$ 105,600
2017	105,600
2018	105,600
2019	105,600
2020	<u>105,600</u>
	<u>\$ 528,000</u>

THE SALVATION ARMY
NASHVILLE, TENNESSEE AREA COMMAND
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)
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NOTE 9 – SUBSEQUENT EVENTS

Area Command evaluated subsequent events through February 24, 2016, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the financial statements.