

**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, 2005 and 2004**

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## INDEPENDENT AUDITOR'S REPORT

Area Commander  
The Salvation Army Nashville, Tennessee Area Command

We have audited the accompanying statements of financial position of The Salvation Army Nashville, Tennessee Area Command (the "Area Command"), a unit of The Salvation Army, a Georgia corporation as of September 30, 2005 and 2004, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Area Command's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Salvation Army Nashville, Tennessee Area Command, as of September 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Frasier Dean & Howard, PLLC*

January 30, 2006

THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
STATEMENT OF FINANCIAL POSITION  
September 30, 2005

	Unrestricted						
	General Operating	Board Designated	Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 511,558	\$ 518,798	\$ -	\$ 1,030,356	\$ 236,218	\$ -	\$ 1,266,574
Accounts receivable	108,590	-	-	108,590	-	-	108,590
Pledges receivable, net	-	-	-	-	155,919	-	155,919
Other	5,930	101	-	6,031	-	-	6,031
Total current assets	626,078	518,899	-	1,144,977	392,137	-	1,537,114
Marketable securities, at fair value	3,182,221	149,444	-	3,331,665	490,011	5,468,745	9,290,421
Assets held under split interest agreements	-	-	-	-	2,988,994	2,693,141	5,682,135
Land, buildings and equipment:							
Land	-	-	772,554	772,554	-	-	772,554
Buildings, net of accumulated depreciation of \$1,802,951	-	-	6,464,422	6,464,422	-	-	6,464,422
Furniture, fixtures and equipment, net of accumulated depreciation of \$301,927	-	-	70,758	70,758	-	-	70,758
Total land, buildings and equipment	-	-	7,307,734	7,307,734	-	-	7,307,734
Total assets	<u>\$ 3,808,299</u>	<u>\$ 668,343</u>	<u>\$ 7,307,734</u>	<u>\$ 11,784,376</u>	<u>\$ 3,871,142</u>	<u>\$ 8,161,886</u>	<u>\$ 23,817,404</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, 2005

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

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, 2004

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment			
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 253,871	\$ 560,047	\$ -	\$ 199,631	\$ -	\$ 1,013,549
Accounts receivable	94,983	-	-	-	-	94,983
Pledges receivable, net	-	-	-	163,314	-	163,314
Other	5,781	101	-	-	-	5,882
Total current assets	354,635	560,148	-	362,945	-	1,277,728
Marketable securities, at fair value	2,565,740	132,228	-	187,139	5,468,745	8,353,852
Assets held under split interest agreements	-	-	-	2,793,974	2,566,099	5,360,073
Land, buildings and equipment:						
Land	-	-	772,554	-	-	772,554
Buildings, net of accumulated depreciation of \$1,655,647	-	-	6,611,725	-	-	6,611,725
Furniture, fixtures and equipment, net of accumulated depreciation of \$327,906	-	-	68,733	-	-	68,733
Total land, buildings and equipment	-	-	7,453,012	-	-	7,453,012
Total assets	<u>\$ 2,920,375</u>	<u>\$ 692,376</u>	<u>\$ 7,453,012</u>	<u>\$ 3,344,058</u>	<u>\$ 8,034,844</u>	<u>\$ 22,444,665</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, 2004

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment			
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Accounts payable	\$ 81,107	\$ -	\$ -	\$ -	\$ -	\$ 81,107
Due to Divisional Headquarters	32,600	-	-	-	-	32,600
Total current liabilities	113,707	-	-	-	-	113,707
Net assets:						
Unrestricted:						
Undesignated	2,806,668	-	-	-	-	2,806,668
Board designated:						
Vehicle and equipment	-	88,954	-	-	-	88,954
Property maintenance and insurance	-	17,058	-	-	-	17,058
Capital purposes	-	578,999	-	-	-	578,999
Land, buildings and equipment	-	-	7,453,012	-	-	7,453,012
Other	-	7,365	-	-	-	7,365
Temporarily restricted	-	-	-	3,344,058	-	3,344,058
Permanently restricted	-	-	-	-	8,034,844	8,034,844
Total net assets	2,806,668	692,376	7,453,012	3,344,058	8,034,844	22,330,958
Total liabilities and net assets	<u>\$2,920,375</u>	<u>\$ 692,376</u>	<u>\$7,453,012</u>	<u>\$ 3,344,058</u>	<u>\$8,034,844</u>	<u>\$22,444,665</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, 2005

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

See accompanying notes.



THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (Continued)  
Year ended September 30, 2005

	Unrestricted						
	General Operating	Board Designated	Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets reclassified due to fulfillment of donor restrictions	724,321	-	-	724,321	(724,321)	-	-
Interfund transfers	302,393	(157,115)	(145,278)	-	-	-	-
Total	5,993,749	(24,033)	(145,278)	5,824,438	527,084	127,042	6,478,564
<b>Expenses</b>							
Program services:							
Corps community center	1,238,121	-	-	1,238,121	-	-	1,238,121
Residential and institutional	609,816	-	-	609,816	-	-	609,816
Other social services	2,313,428	-	-	2,313,428	-	-	2,313,428
Total program services	4,161,365	-	-	4,161,365	-	-	4,161,365
Supporting services:							
Management and general	484,728	-	-	484,728	-	-	484,728
Fundraising	492,025	-	-	492,025	-	-	492,025
Total supporting services	976,753	-	-	976,753	-	-	976,753
Total expenses	5,138,118	-	-	5,138,118	-	-	5,138,118
Change in net assets	855,631	(24,033)	(145,278)	686,320	527,084	127,042	1,340,446
Net assets at beginning of year	2,806,668	692,376	7,453,012	10,952,056	3,344,058	8,034,844	22,330,958
Net assets at end of year	<u>\$ 3,662,299</u>	<u>\$ 668,343</u>	<u>\$ 7,307,734</u>	<u>\$ 11,638,376</u>	<u>\$ 3,871,142</u>	<u>\$ 8,161,886</u>	<u>\$23,671,404</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, 2004

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated	Land, Buildings and Equipment			
<b>Public support and revenue</b>						
Public support:						
Received directly:						
Contributions	\$ 1,760,739	\$ -	\$ -	\$ 150,669	\$ -	\$ 1,911,408
Donations-in-kind and contributed services	1,780,722	-	-	-	-	1,780,722
Special events	8,001	-	-	-	-	8,001
Legacies and bequests	-	265,787	-	41,025	-	306,812
Changes in value of split interest agreements	-	-	-	376,832	88,967	465,799
Total received directly	3,549,462	265,787	-	568,526	88,967	4,472,742
Received indirectly:						
Allocated by federated fund-raising organizations	24,916	-	-	163,314	-	188,230
Total public support	3,574,378	265,787	-	731,840	88,967	4,660,972
Fees and grants from government agencies	341,798	-	-	-	-	341,798
Program service fees	399,823	-	-	-	-	399,823
Sales to the public	12,802	-	-	-	-	12,802
Investment income:						
Dividends and interest	126,637	7,880	-	3,183	-	137,700
Net realized gain on sale of investments	305,999	4,902	-	7,773	-	318,674
Net unrealized gain on change in value of investments	440,401	6,894	-	10,771	-	458,066
Other revenue	8,673	-	-	-	-	8,673
Total public support and revenue	5,210,511	285,463	-	753,567	88,967	6,338,508

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, 2004

	Unrestricted						
	General Operating	Board Designated	Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets reclassified due to fulfillment of donor restrictions	425,582	-	-	425,582	(425,582)	-	-
Interfund transfers	240,231	(187,322)	(52,909)	-	-	-	-
Total	5,876,324	98,141	(52,909)	5,921,556	327,985	88,967	6,338,508
<b>Expenses</b>							
Program services:							
Corps community center	1,119,111	-	-	1,119,111	-	-	1,119,111
Residential and institutional	648,696	-	-	648,696	-	-	648,696
Other social services	2,673,447	-	-	2,673,447	-	-	2,673,447
Total program services	4,441,254	-	-	4,441,254	-	-	4,441,254
Supporting services:							
Management and general	504,302	-	-	504,302	-	-	504,302
Fundraising	450,437	-	-	450,437	-	-	450,437
Total supporting services	954,739	-	-	954,739	-	-	954,739
Total expenses	5,395,993	-	-	5,395,993	-	-	5,395,993
Change in net assets	480,331	98,141	(52,909)	525,563	327,985	88,967	942,515
Net assets at beginning of year	2,326,337	594,235	7,505,921	10,426,493	3,016,073	7,945,877	21,388,443
Net assets at end of year	<u>\$ 2,806,668</u>	<u>\$ 692,376</u>	<u>\$ 7,453,012</u>	<u>\$ 10,952,056</u>	<u>\$ 3,344,058</u>	<u>\$ 8,034,844</u>	<u>\$22,330,958</u>

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, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,340,446	\$ 942,515
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	200,819	197,420
Net unrealized and realized gain on investments	(1,253,524)	(1,242,539)
Changes in operating assets and liabilities:		
Accounts receivable	(13,607)	(27,332)
Pledges receivable, net	7,395	51,921
Other	(149)	(1,750)
Accounts payable	30,138	(22,279)
Due to Divisional Headquarters	2,155	(76,888)
Net cash provided by (used in) operating activities	<u>313,673</u>	<u>(178,932)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	449,744	464,676
Purchases of investments	(454,852)	(170,583)
Purchases of land, buildings and equipment	<u>(55,540)</u>	<u>(144,511)</u>
Net cash (used in) provided by investing activities	<u>(60,648)</u>	<u>149,582</u>
Net change in cash and cash equivalents	253,025	(29,350)
Cash and cash equivalents at beginning of year	<u>1,013,549</u>	<u>1,042,899</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,266,574</u></u>	<u><u>\$ 1,013,549</u></u>

See accompanying notes.

THE SALVATION ARMY  
NASHVILLE, TENNESSEE AREA COMMAND,  
A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended September 30, 2005

	Program Services				Supporting Services			
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services	Total
Direct assistance	\$ -	\$ -	\$ 1,642,404	\$ 1,642,404	\$ -	\$ 4,211	\$ 4,211	\$ 1,646,615
Salaries and allowances	441,312	281,322	172,558	895,192	219,319	229,294	448,613	1,343,805
Occupancy	313,143	74,500	117,796	505,439	85,293	8,864	94,157	599,596
Support services	94,210	46,406	176,011	316,627	-	-	-	316,627
Officer and employee benefits	71,551	58,211	26,272	156,034	31,907	21,634	53,541	209,575
Furnishings and equipment	69,752	59,743	6,021	135,516	32,793	22,551	55,344	190,860
Printing and publications	2,744	90	74,654	77,488	1,847	96,806	98,653	176,141
Supplies	61,621	45,096	23,900	130,617	12,616	9,014	21,630	152,247
Payroll taxes	35,171	28,564	18,148	81,883	15,873	20,798	36,671	118,554
Travel, meals and transportation	59,980	99	8,100	68,179	21,563	3,104	24,667	92,846
Professional fees	9,313	12,895	7,434	29,642	39,043	4,321	43,364	73,006
Postage and shipping	1,322	37	441	1,800	2,068	50,993	53,061	54,861
Conferences, meetings, and major trips	28,932	-	(9)	28,923	6,895	17,563	24,458	53,381
Miscellaneous	20,310	-	31,737	52,047	289	149	438	52,485
Telephone	27,872	2,853	5,841	36,566	6,926	1,624	8,550	45,116
Awards and grants	-	-	2,100	2,100	5,662	-	5,662	7,762
Organization dues	888	-	20	908	2,634	1,099	3,733	4,641
Total expenses	<u>\$ 1,238,121</u>	<u>\$ 609,816</u>	<u>\$ 2,313,428</u>	<u>\$ 4,161,365</u>	<u>\$ 484,728</u>	<u>\$ 492,025</u>	<u>\$ 976,753</u>	<u>\$ 5,138,118</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, 2004

	Program Services				Supporting Services			
	Corps Community Center	Residential and Institutional	Other Social Services	Total Program Services	Management and General	Fund - raising	Total Supporting Services	Total
Direct assistance	\$ -	\$ -	\$ 1,834,806	\$ 1,834,806	\$ -	\$ -	\$ -	\$ 1,834,806
Salaries and allowances	343,043	322,252	283,370	948,665	179,772	225,379	405,151	1,353,816
Occupancy	252,978	74,495	115,024	442,497	107,449	9,242	116,691	559,188
Support services - programs	93,667	45,763	178,177	317,607	-	-	-	317,607
Officer and employee benefits	92,747	65,078	44,901	202,726	30,813	20,032	50,845	253,571
Printing and publications	4,789	-	89,746	94,535	1,703	100,233	101,936	196,471
Supplies	73,278	48,451	35,912	157,641	20,234	7,484	27,718	185,359
Furnishings and equipment	72,427	38,340	6,917	117,684	55,404	6,705	62,109	179,793
Payroll taxes	32,408	31,068	21,507	84,983	12,342	19,733	32,075	117,058
Professional fees	10,760	18,704	12,427	41,891	44,484	21,895	66,379	108,270
Travel, meals and transportation	65,647	12	11,889	77,548	20,060	1,566	21,626	99,174
Miscellaneous	16,916	-	29,583	46,499	-	-	-	46,499
Conferences, meetings, and major trips	32,019	1,193	1,159	34,371	11,113	515	11,628	45,999
Telephone	25,974	3,266	5,727	34,967	8,742	2,057	10,799	45,766
Postage and shipping	1,923	74	322	2,319	4,352	34,631	38,983	41,302
Awards and grants	15	-	1,980	1,995	5,106	-	5,106	7,101
Organization dues	520	-	-	520	2,728	965	3,693	4,213
Total expenses	<u>\$ 1,119,111</u>	<u>\$ 648,696</u>	<u>\$ 2,673,447</u>	<u>\$ 4,441,254</u>	<u>\$ 504,302</u>	<u>\$ 450,437</u>	<u>\$ 954,739</u>	<u>\$ 5,395,993</u>

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, 2005 and 2004**

**NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

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

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

**Financial Statement Presentation**

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

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

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

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

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**September 30, 2005 and 2004**

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

**Financial Statement Presentation (Continued)**

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

**Contributions**

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

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

**Split Interest Agreements**

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

**Trusts Held by a Third Party**

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



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

**Split Interest Agreements (Continued)**

**Charitable Remainder Trusts**

Donors have established and funded trusts under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, the Area Command receives the assets remaining in the trust. The assets in the trust are assumed to earn a rate of 5% over the estimated life of the trust and are discounted at a rate of 4.5%.

**Investments**

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

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

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

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

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

**Land, Buildings and Equipment**

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

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

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

**Public Support and Revenue**

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

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

**Donations-in-kind and Contributed Services**

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

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

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

**Expenses**

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

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

**Cash and Cash Equivalents**

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

**Income Taxes**

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

**Use of Estimates**

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

**Bequests**

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

**Concentrations**

Area Command had cash deposits in excess of federally insured limits as of September 30, 2005 and 2004. Credit risk is managed by maintaining all deposits in high quality financial institutions.

**NOTE 2 - PLEDGES RECEIVABLE**

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

Pledges receivable include the following at September 30:

	<u>2005</u>	<u>2004</u>
Unconditional promises to give due in:		
Less than one year	\$ 155,919	\$ 163,314
Allowance for uncollectible pledges receivable	<u>-</u>	<u>-</u>
Net pledges receivable	<u>\$ 155,919</u>	<u>\$ 163,314</u>

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**NOTE 3 - INVESTMENTS**

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

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

**NOTE 4 - PENSION, RETIREMENT AND POSTRETIREMENT BENEFITS**

**Employee Pension Plan**

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

Annual contributions to the Plan are based on a stipulated percentage (5.25% in fiscal 2005 and 2004) of employees' salaries. The Area Command incurred \$34,771 and \$47,937 of expense under this plan in fiscal 2005 and 2004, 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 \$13,875 and \$15,000 in fiscal 2005 and 2004, respectively.

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

**Related Party Transactions**

The Area Command is assessed an administrative charge by The Salvation Army Kentucky-Tennessee Divisional Headquarters for support services provided by the Kentucky-Tennessee Divisional Headquarters and the Southern Territorial Headquarters to the Area Command. Support services provided by Divisional and Territorial Headquarters include program, personnel, business and social services. Expenses reflected for these services were \$316,626 and \$317,606 in fiscal 2005 and 2004, 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 \$37,836 and \$42,106 in fiscal 2005 and 2004, respectively.

Employees of The Salvation Army are provided health benefits under a self-insured program which is administered by a third-party claims administrator. Amounts charged to the Area Command and included in expenses were \$108,048 and \$136,421 in fiscal 2005 and 2004, 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 \$99,820 and \$84,239 in fiscal 2005 and 2004, respectively.

**NOTE 5 - NET ASSETS CLASSIFICATIONS**

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

	<u>2005</u>	<u>2004</u>
Welfare and support for needy persons	\$ 726,229	\$ 386,770
Time restricted	<u>3,144,913</u>	<u>2,957,288</u>
Total	<u>\$ 3,871,142</u>	<u>\$ 3,344,058</u>

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

	<u>2005</u>	<u>2004</u>
Welfare and support for needy persons	<u>\$ 8,161,886</u>	<u>\$ 8,034,844</u>

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**NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS**

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

	<u>2005</u>	<u>2004</u>
Time restricted	\$ 163,314	\$ 215,235
Purpose restriction accomplished:		
Welfare and support for needy persons	<u>561,007</u>	<u>210,347</u>
Total restrictions released	<u>\$ 724,321</u>	<u>\$ 425,582</u>

**NOTE 7 - ALLOCATION OF FUNCTIONAL EXPENSES**

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