

**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, 2008 and 2007**

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

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of The Salvation Army Nashville, Tennessee Area Command (the "Area Command"), a unit of The Salvation Army, a Georgia corporation as of September 30, 2008 and 2007, 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, 2008 and 2007, 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*

April 2, 2009

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2008**

	Unrestricted						
			Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	General Operating	Board Designated					
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 347,176	\$1,015,147	\$ -	\$ 1,362,323	\$ 187,973	\$ -	\$ 1,550,296
Accounts receivable	44,941	-	-	44,941	-	-	44,941
Pledges receivable, net	-	-	-	-	183,412	-	183,412
Other	81,493	-	-	81,493	-	-	81,493
Total current assets	473,610	1,015,147	-	1,488,757	371,385	-	1,860,142
Marketable securities, at fair value	2,551,123	969,522	-	3,520,645	522,381	7,723,683	11,766,709
Assets held under split interest agreements	-	-	-	-	-	2,509,262	2,509,262
Noncurrent pledges receivable	-	-	-	-	100,000	-	100,000
Land, buildings and equipment:							
Land	-	-	809,055	809,055	-	-	809,055
Buildings, net of accumulated depreciation of \$2,249,584	-	-	6,483,848	6,483,848	-	-	6,483,848
Equipment, net of accumulated depreciation of \$299,195	-	-	34,333	34,333	-	-	34,333
Total land, buildings and equipment	-	-	7,327,236	7,327,236	-	-	7,327,236
Total assets	<u>\$ 3,024,733</u>	<u>\$1,984,669</u>	<u>\$ 7,327,236</u>	<u>\$12,336,638</u>	<u>\$ 993,766</u>	<u>\$10,232,945</u>	<u>\$ 23,563,349</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, 2008**

	<u>Unrestricted</u>						
			Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<u>General Operating</u>	<u>Board Designated</u>					
<b>Liabilities and Net Assets</b>							
Current liabilities:							
Accounts payable	\$ 171,837	\$ -	\$ -	\$ 171,837	\$ -	\$ -	\$ 171,837
Due to Divisional Headquarters	10,829	-	-	10,829	-	-	10,829
Total current liabilities	182,666	-	-	182,666	-	-	182,666
Net assets:							
Unrestricted:							
Undesignated	2,842,067	-	-	2,842,067	-	-	2,842,067
Board designated:							
Vehicle and equipment	-	19,688	-	19,688	-	-	19,688
Property maintenance and insurance	-	9,214	-	9,214	-	-	9,214
Capital purposes	-	1,955,767	-	1,955,767	-	-	1,955,767
Land, buildings and equipment	-	-	7,327,236	7,327,236	-	-	7,327,236
Temporarily restricted	-	-	-	-	993,766	-	993,766
Permanently restricted	-	-	-	-	-	10,232,945	10,232,945
Total net assets	2,842,067	1,984,669	7,327,236	12,153,972	993,766	10,232,945	23,380,683
Total liabilities and net assets	<u>\$ 3,024,733</u>	<u>\$1,984,669</u>	<u>\$7,327,236</u>	<u>\$ 12,336,638</u>	<u>\$ 993,766</u>	<u>\$ 10,232,945</u>	<u>\$23,563,349</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, 2007**

	<u>Unrestricted</u>						
			Land, Buildings and Equipment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<u>General Operating</u>	<u>Board Designated</u>					
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 412,527	\$ 238,540	\$ -	\$ 651,067	\$ 106,632	\$ -	\$ 757,699
Accounts receivable	17,356	-	-	17,356	-	-	17,356
Pledges receivable, net	-	-	-	-	101,204	-	101,204
Other	3,514	-	-	3,514	-	-	3,514
Total current assets	433,397	238,540	-	671,937	207,836	-	879,773
Marketable securities, at fair value	4,948,972	174,800	-	5,123,772	617,262	7,668,745	13,409,779
Assets held under split interest agreements	-	-	-	-	2,323,937	2,981,012	5,304,949
Land, buildings and equipment:							
Land	-	-	767,805	767,805	-	-	767,805
Buildings, net of accumulated depreciation of \$1,950,256	-	-	6,399,885	6,399,885	-	-	6,399,885
Furniture, fixtures and equipment, net of accumulated depreciation of \$311,194	-	-	39,053	39,053	-	-	39,053
Total land, buildings and equipment	-	-	7,206,743	7,206,743	-	-	7,206,743
Total assets	<u>\$ 5,382,369</u>	<u>\$ 413,340</u>	<u>\$ 7,206,743</u>	<u>\$ 13,002,452</u>	<u>\$ 3,149,035</u>	<u>\$ 10,649,757</u>	<u>\$ 26,801,244</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, 2007**

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

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, 2008**

	<u>Unrestricted</u>						
			<u>Land, Buildings and Equipment</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>General Operating</u>	<u>Board Designated</u>					
<b>Public support and revenue</b>							
Public support:							
Received directly:							
Contributions	\$ 2,322,739	\$ -	\$ -	\$ 2,322,739	\$ 332,048	\$ -	\$ 2,654,787
Donations-in-kind and contributed services	1,964,086	-	-	1,964,086	-	-	1,964,086
Special events	141,574	-	-	141,574	-	-	141,574
Legacies and bequests	-	94,584	-	94,584	73,787	54,937	223,308
Changes in value of split interest agreements	-	-	-	-	-	(471,749)	(471,749)
Total received directly	4,428,399	94,584	-	4,522,983	405,835	(416,812)	4,512,006
Received indirectly:							
Allocated by federated fund-raising organizations	189,839	-	-	189,839	-	-	189,839
Total public support	4,618,238	94,584	-	4,712,822	405,835	(416,812)	4,701,845
Fees and grants from government agencies	238,697	-	-	238,697	-	-	238,697
Program service fees	237,438	-	-	237,438	-	-	237,438
Sales to the public	4,283	-	-	4,283	-	-	4,283
Investment income:							
Dividends and interest	258,339	24,704	-	283,043	12,276	-	295,319
Net realized gain on sale of investments	78,823	2,343	-	81,166	3,695	-	84,861
Net unrealized loss on change in value of investments	(2,187,172)	(531,574)	-	(2,718,746)	(110,810)	-	(2,829,556)
Other revenue	111	-	-	111	-	-	111
Total public support and revenue	3,248,757	(409,943)	-	2,838,814	310,996	(416,812)	2,732,998

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, 2008**

	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	663,828	1,802,437	-	2,466,265	(2,466,265)	-	-
Interfund transfers	(299,328)	178,835	120,493	-	-	-	-
Total	3,613,257	1,571,329	120,493	5,305,079	(2,155,269)	(416,812)	2,732,998
<b>Expenses</b>							
Program services:							
Corps community center	1,160,648	-	-	1,160,648	-	-	1,160,648
Residential and institutional	810,671	-	-	810,671	-	-	810,671
Other social services	2,846,742	-	-	2,846,742	-	-	2,846,742
Total program services	4,818,061	-	-	4,818,061	-	-	4,818,061
Supporting services:							
Management and general	639,752	-	-	639,752	-	-	639,752
Fundraising	592,395	-	-	592,395	-	-	592,395
Total supporting services	1,232,147	-	-	1,232,147	-	-	1,232,147
Total expenses	6,050,208	-	-	6,050,208	-	-	6,050,208
Change in net assets	(2,436,951)	1,571,329	120,493	(745,129)	(2,155,269)	(416,812)	(3,317,210)
Net assets at beginning of year	5,279,018	413,340	7,206,743	12,899,101	3,149,035	10,649,757	26,697,893
Net assets at end of year	<u>\$ 2,842,067</u>	<u>\$ 1,984,669</u>	<u>\$ 7,327,236</u>	<u>\$ 12,153,972</u>	<u>\$ 993,766</u>	<u>\$ 10,232,945</u>	<u>\$ 23,380,683</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, 2007**

	<u>Unrestricted</u>						
	<u>General</u>	<u>Board</u>	<u>Land,</u>	<u>Total</u>	<u>Temporarily</u>	<u>Permanently</u>	
	<u>Operating</u>	<u>Designated</u>	<u>Buildings</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>
			<u>and</u>				
			<u>Equipment</u>				
<b>Public support and revenue</b>							
Public support:							
Received directly:							
Contributions	\$ 2,150,952	\$ -	\$ -	\$ 2,150,952	\$ 106,632	\$ -	\$ 2,257,584
Donations-in-kind and contributed services	1,955,792	-	-	1,955,792	-	-	1,955,792
Special events	174,278	-	-	174,278	-	-	174,278
Legacies and bequests	14,271	115,871	-	130,142	56,983	1,162,733	1,349,858
Changes in value of split interest agreements	-	-	-	-	504,184	153,224	657,408
Total received directly	4,295,293	115,871	-	4,411,164	667,799	1,315,957	6,394,920
Received indirectly:							
Allocated by federated fund-raising organizations	150,068	-	-	150,068	-	-	150,068
Total public support	4,445,361	115,871	-	4,561,232	667,799	1,315,957	6,544,988
Fees and grants from government agencies	227,935	-	-	227,935	-	-	227,935
Program service fees	191,676	-	-	191,676	-	-	191,676
Sales to the public	3,814	-	-	3,814	-	-	3,814
Investment income:							
Dividends and interest	255,106	8,595	-	263,701	13,721	-	277,422
Net realized gain on sale of investments	803,280	13,493	-	816,773	45,579	-	862,352
Net unrealized gain on change in value of investments	417,544	7,450	-	424,994	27,674	-	452,668
Other revenue	7,228	-	-	7,228	-	-	7,228
Total public support and revenue	6,351,944	145,409	-	6,497,353	754,773	1,315,957	8,568,083

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (Continued)**  
**Year ended September 30, 2007**

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

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, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,317,210)	\$ 2,741,652
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	176,993	187,598
Net unrealized and realized loss/(gain) on investments	3,216,444	(1,972,428)
Changes in operating assets and liabilities:		
Accounts receivable	(27,585)	31,324
Pledges receivable, net	(182,208)	36,070
Other	(77,978)	53,801
Accounts payable	80,542	(137,564)
Due to Divisional Headquarters	(1,227)	5,819
Net cash (used in) provided by operating activities	<u>(132,229)</u>	<u>946,272</u>
Cash flows from investing activities:		
Proceeds from sales of investments	2,559,002	1,492,061
Purchases of investments	(1,336,689)	(2,560,940)
Proceeds from sale of land, building and equipment	-	4,749
Purchases of land, buildings and equipment	<u>(297,487)</u>	<u>(37,867)</u>
Net cash provided by (used in) investing activities	<u>924,826</u>	<u>(1,101,997)</u>
Net change in cash and cash equivalents	792,597	(155,725)
Cash and cash equivalents at beginning of year	<u>757,699</u>	<u>913,424</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,550,296</u></u>	<u><u>\$ 757,699</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, 2008**

	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	\$ 47,893	\$ 16,153	\$ 1,806,575	\$ 1,870,621	\$ -	\$ -	\$ -	\$ 1,870,621
Salaries and allowances	446,519	417,970	164,199	1,028,688	226,184	253,847	480,031	1,508,719
Occupancy	214,584	97,889	83,348	395,821	209,514	11,646	221,160	616,981
Printing and publications	2,214	-	342,640	344,854	643	181,832	182,475	527,329
Support services	50,875	47,753	291,653	390,281	-	-	-	390,281
Officer and employee benefits	91,117	72,052	24,097	187,266	40,755	23,741	64,496	251,762
Supplies	68,924	72,195	31,610	172,729	11,491	2,351	13,842	186,571
Furnishings and equipment	49,464	26,755	19,976	96,195	42,141	9,986	52,127	148,322
Payroll taxes	46,199	41,353	16,270	103,822	17,828	22,406	40,234	144,056
Travel, meals and transportation	74,448	142	15,858	90,448	36,660	8,808	45,468	135,916
Conferences, meetings, and major trips	27,959	180	37,616	65,755	9,897	510	10,407	76,162
Postage and shipping	1,305	109	761	2,175	2,750	67,311	70,061	72,236
Professional fees	12,705	14,403	4,178	31,286	28,197	5,891	34,088	65,374
Telephone	25,198	3,617	6,744	35,559	10,278	2,533	12,811	48,370
Organization dues	519	100	985	1,604	2,165	1,533	3,698	5,302
Miscellaneous	725	-	232	957	1,249	-	1,249	2,206
Total expenses	\$ 1,160,648	\$ 810,671	\$ 2,846,742	\$ 4,818,061	\$ 639,752	\$ 592,395	\$ 1,232,147	\$ 6,050,208

See accompanying notes.

**THE SALVATION ARMY**  
**NASHVILLE, TENNESSEE AREA COMMAND,**  
**A UNIT OF THE SALVATION ARMY, A GEORGIA CORPORATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended September 30, 2007**

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

See accompanying notes.

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**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2008 and 2007**

**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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NOTES TO FINANCIAL STATEMENTS (Continued)  
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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**

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

**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.

**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.

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

**Land, Buildings and Equipment (Continued)**

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

Buildings	50 years
Equipment	3-10 years

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. The Organization has been classified as other than a private foundation.

**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, 2008 and 2007. Credit risk is managed by maintaining all deposits in high quality financial institutions.

**NOTE 2 - PLEDGES RECEIVABLE**

Pledges receivable are recorded at net realizable value. Pledges receivable include the following at September 30:

	<u>2008</u>	<u>2007</u>
Unconditional promises to give due in:		
Less than one year	\$ 183,412	\$ 101,204
1-2 years	100,000	-
Allowance for uncollectible pledges receivable	<u>-</u>	<u>-</u>
Net pledges receivable	<u>\$ 283,412</u>	<u>\$ 101,204</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.

Investment income consists of the following for the years ended September 30:

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 295,319	\$ 277,422
Realized and unrealized (loss) gains, net	<u>(2,744,695)</u>	<u>1,315,020</u>
	<u>\$ (2,449,376)</u>	<u>\$ 1,592,442</u>

Subsequent to September 30, 2008 and through December 31, 2008, the investment market experienced a significant decline in value, which materially affected the value of the investments held by the Area Command. Through December 31, 2008 investment balances declined an additional \$1.1 million.

**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 (5.25% in fiscal 2008 and 2007) of employees' salaries. The Area Command incurred \$35,733 and \$34,386 of expense under this plan in fiscal 2008 and 2007, 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

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

**Officers' Retirement Provision (Continued)**

retirement benefits. Retirement allowances are determined based upon active officer allowances and length of service. They are self-funded principally by annual assessments to all centers of operation, by designated portions from legacy income, earnings on assets designated for retirement benefits, and special appropriations. Amounts charged to the Area Command and included in expenses for this provision were \$9,000 in fiscal 2008 and 2007.

**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 \$390,281 and \$369,509 in fiscal 2008 and 2007, 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 \$26,972 and \$23,489 in fiscal 2008 and 2007, 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 \$180,056 and \$174,963 in fiscal 2008 and 2007, 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 \$104,677 and \$108,301 in fiscal 2008 and 2007 respectively.

The Area Command received a pledge from the Southern Territorial Headquarters in 2008 for \$300,000 for the Berry Street Corps. In 2008, \$100,000 was received by Area Command and the remaining balance is classified as a pledge receivable.

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**NOTE 5 - NET ASSETS CLASSIFICATIONS**

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

	<u>2008</u>	<u>2007</u>
Welfare and support for needy persons	\$ 659,711	\$ 723,894
Time restricted	283,412	2,425,141
Berry Street worship center	<u>50,643</u>	<u>-</u>
Total	<u>\$ 993,766</u>	<u>\$ 3,149,035</u>

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

	<u>2008</u>	<u>2007</u>
Welfare and support for needy persons	<u>\$10,232,945</u>	<u>\$10,649,757</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.