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**NASHVILLE AREA CHAPTER OF
THE AMERICAN RED CROSS**

FINANCIAL STATEMENTS

June 30, 2007 and 2006

**NASHVILLE AREA CHAPTER OF
THE AMERICAN RED CROSS**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Nashville Area Chapter of the
American Red Cross

We have audited the accompanying statements of financial position of the Nashville Area Chapter of the American Red Cross (the "Chapter") as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Chapter's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 2006 summarized comparative information has been derived from the Chapter's 2006 financial statements, and in our report dated August 4, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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 Nashville Area Chapter of the American Red Cross as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean & Howard, PLLC

August 30, 2007

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 426,289	\$ 458,618
Inter-Red Cross receivables	684,886	623,421
Contributions receivable, net	446,012	524,931
Accounts receivable other, net of estimated uncollectibles of \$34,399 in 2007 and \$39,772 in 2006	92,865	105,560
Inventory	34,117	64,350
Other	1,856	-
Total current assets	1,686,025	1,776,880
Noncurrent assets:		
Investments	67,753	62,116
Contributions receivable	6,200	66,945
Land, building and equipment, net	977,390	1,054,947
Total noncurrent assets	1,051,343	1,184,008
Total assets	<u>\$ 2,737,368</u>	<u>\$ 2,960,888</u>
Liabilities and Net Assets		
Current liabilities:		
Inter-Red Cross payables	\$ 25,740	\$ 228,470
Accounts payable and accrued expenses	171,708	184,271
Notes payable - current portion	4,989	9,249
Capital lease obligations - current portion	-	2,683
Total current liabilities	202,437	424,673
Notes payable, net of current portion	1,035	6,022
Total liabilities	<u>203,472</u>	<u>430,695</u>
Net assets:		
Unrestricted	2,032,819	1,051,076
Temporarily restricted	468,077	1,444,117
Permanently restricted	33,000	35,000
Total net assets	<u>2,533,896</u>	<u>2,530,193</u>
Total liabilities and net assets	<u>\$ 2,737,368</u>	<u>\$ 2,960,888</u>

See accompanying notes.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2007
(with summarized financial information for the year ended June 30, 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Monetary contributions	\$ 809,727	\$ 89,228	\$ -	\$ 898,955
Course fees and program materials	781,266	742	-	782,008
Inter-Red Cross revenues	89,480	235,950	-	325,430
Private and government grants	25,000	286,414	-	311,414
Special events, net of expenses of \$21,921 in 2007 and \$40,312 in 2006	276,730	-	-	276,730
United Way and Combined Federal Campaign	78,763	85,056	-	163,819
Investment income	112,100	-	-	112,100
Contracts	63,230	-	-	63,230
Legacies and bequests	35,970	-	-	35,970
Other revenue	11,345	-	-	11,345
Other contributions (in kind)	3,964	-	-	3,964
Endowment income	2,362	-	-	2,362
Net assets released from restrictions - satisfaction of program restrictions	1,675,430	(1,673,430)	(2,000)	-
Total public support and revenue	3,965,367	(976,040)	(2,000)	2,987,327
Expenses:				
Program services:				
Disaster services	1,039,022	-	-	1,039,022
Health and safety services	929,474	-	-	929,474
Community services	230,800	-	-	230,800
Service to military families	157,410	-	-	157,410
International services	51,383	-	-	51,383
Services to chapters	31,032	-	-	31,032
Total program services	2,439,121	-	-	2,439,121
Supporting services:				
Fund-raising and financial development	328,626	-	-	328,626
Management and general	215,877	-	-	215,877
Total supporting services	544,503	-	-	544,503
Total expenses	2,983,624	-	-	2,983,624
Change in net assets	981,743	(976,040)	(2,000)	3,703
Net assets, beginning of year	1,051,076	1,444,117	35,000	2,530,193
Net assets, end of year	\$2,032,819	\$ 468,077	\$ 33,000	\$2,533,896

See accompanying notes.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2007
(with summarized financial information for the year ended June 30, 2006)

	2007				2006
	Program Services	Fundraising and Financial Development	Management and General	Total	Total
Salaries and wages	\$ 789,315	\$ 131,735	\$ 100,717	\$ 1,021,767	\$ 1,029,070
Financial and material assistance	471,934	25,109	2,102	499,145	361,737
Contractual services	262,054	93,007	18,535	373,596	260,103
National Chapter assessment	289,649	-	18,547	308,196	280,127
Employee benefits	175,185	25,101	28,924	229,210	226,076
Supplies, materials and printing	236,294	23,239	6,644	266,177	224,289
Inter-Red Cross expenses	126,861	16,612	16,459	159,932	138,912
Depreciation and amortization	51,594	7,417	18,546	77,557	76,642
Travel	26,263	5,956	4,301	36,520	30,895
Equipment repair and maintenance	9,972	450	1,102	11,524	16,800
	<u>\$ 2,439,121</u>	<u>\$ 328,626</u>	<u>\$ 215,877</u>	<u>\$ 2,983,624</u>	<u>\$ 2,644,651</u>

See accompanying notes.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,703	\$ 236,909
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	77,557	76,642
Gain on sale of fixed asset	(500)	-
Unrealized gain on annuities	(88,173)	(31,622)
Provision for doubtful accounts	31,696	43,000
Net unrealized gains on long-term investments	(5,637)	(4,453)
Decrease (increase) in accounts and contributions receivable	147,371	(69,668)
Decrease (increase) in inventory and other assets	28,377	(35,650)
Decrease in payables and accrued expenses	<u>(215,293)</u>	<u>(17,479)</u>
Net cash (used in) provided by operating activities	<u>(20,899)</u>	<u>197,679</u>
Cash flows from investing activities:		
Proceeds from sale of fixed asset	500	-
Purchases of fixed assets	<u>-</u>	<u>(17,575)</u>
Net cash provided by (used in) investing activities	<u>500</u>	<u>(17,575)</u>
Cash flows from financing activities:		
Repayment of capital lease obligation	(2,683)	(19,742)
Proceeds from issuance of notes payable	-	6,910
Principal payment on note payable	<u>(9,247)</u>	<u>(5,689)</u>
Net cash used in financing activities	<u>(11,930)</u>	<u>(18,521)</u>
(Decrease) increase in cash and cash equivalents	(32,329)	161,583
Cash and cash equivalents, beginning of year	<u>458,618</u>	<u>297,035</u>
Cash and cash equivalents, end of year	<u>\$ 426,289</u>	<u>\$ 458,618</u>
Supplemental Disclosure of cash flow information:		
Cash paid for interest	<u>\$ 845</u>	<u>\$ 1,776</u>

See accompanying notes.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The Nashville Area Chapter of the American Red Cross (the “Chapter”) is an operating unit of the American Red Cross. The American Red Cross is a volunteer, not-for-profit emergency service organization comprised of approximately 810 operating units (including chapters, blood service regions and the national sector) located throughout the United States and its territories. The American Red Cross also operates field stations on United States military installations around the world. The American Red Cross is a single corporate legal entity and produces consolidated financial statements for all chapters, blood service regions and the national sector.

The Chapter, as part of the American Red Cross system, has a mission to help prevent and relieve human suffering. Established in 1917, the Chapter provides disaster relief and community disaster education, aid to military servicemen and their families, CPR, First Aid and other related health and safety courses in the community and in the workplace, HIV/AIDS education in the state, international services, and vision and hearing tests in public schools. The Chapter’s jurisdictions are Cheatham, Davidson, DeKalb, Dickson, Macon, Robertson, Smith, Sumner, Trousdale and Wilson Counties in Tennessee.

As stated in their Congressional Charter, the American Red Cross is committed to continue and carry on a system of national and international relief in time of peace and apply the same in mitigating the suffering caused by pestilence, famine, fire, floods and other great natural calamities and devise and carry on measures for preventing the same.

All transactions with the national sector and other operating units are appropriately disclosed in the accompanying financial statements. These transactions include disaster relief, national products and services and shared services with other chapters or regions.

The Chapter is governed by a Board of Directors consisting of forty members of the Nashville community and an Executive Committee consisting of eleven members of the Board of Directors.

The Chapter and the Tennessee Valley Blood Services Region (“Blood Services”) share the headquarters building and certain occupancy costs, but have separate management and support staffs.

Basis of Presentation

The financial statements of the Chapter have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

Management of the Chapter has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Chapter considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair market value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Fair market value is determined by using quoted market prices, where available. Where not available, the present value of estimated expected future cash flows or another reasonable method is used. Investments of the permanently restricted net assets class consist of collective funds, managed by the American Red Cross national sector. These investments are stated at market value of \$67,753 at June 30, 2007 and \$62,116 at June 30, 2006, while the cost of these investments at June 30, 2007 and 2006 is \$33,000.

Inventory

Supplies inventory purchased for use in program services is carried at the lower of cost (as determined by average price) or market.

Land, Building and Equipment

Purchases of land, building and equipment having a unit cost in excess of \$2,500 and a useful life of three or more years are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Donated assets are capitalized at the fair market value at the time of receipt. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support.

The cost of the headquarters building has been allocated between the Chapter and Blood Services based primarily upon the Chapter's proceeds from the sale of the former building.

Basis of Presentation

The Chapter has adopted Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Chapter is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Chapter is required to present a statement of cash flows. Net assets of the Chapter are presented as follows:

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Chapter and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Chapter. Generally, donors of these assets may permit the Chapter to use all or part of the income earned for general or specific purposes.

Contributions

All contributions are considered to be available for the general programs of the Chapter unless restricted by the donor. The Chapter reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

Amounts are reported in the financial statements for voluntary donations of services only when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation. A substantial number of volunteers donate significant amounts of their time in the Chapter's program services and its fund-raising campaigns that have not been reported in the accompanying financial statements because the services do not create or enhance non-financial assets and no objective basis is available to measure the value of such donations.

Expense Allocation

General, administrative and public relations expenses have been allocated among functional expense categories based upon estimates by management.

Income Taxes

The Chapter is an operating unit of a national organization exempt from taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in these financial statements.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

The Chapter has included unconditional promises to give as contributions receivable in accordance with the provisions of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions are scheduled to be received as follows at June 30:

	<u>2007</u>	<u>2006</u>
Amount receivable within one year	\$ 506,486	\$ 589,650
Amount receivable in 1 to 5 years	<u>6,200</u>	<u>66,945</u>
	512,686	656,595
Less allowance for uncollectible contributions	<u>(60,474)</u>	<u>(64,719)</u>
Contributions receivable, net	<u>\$ 452,212</u>	<u>\$ 591,876</u>

NOTE 3 – SPLIT INTEREST AGREEMENTS

The Chapter has been named beneficiary of certain charitable gift annuities ("annuities"). Assets contributed related to the annuities are held at national headquarters of the American Red Cross. The difference in the fair value of the assets contributed and the present value of the estimated future distributions to be paid has been recorded as contribution revenue at the time of gift. Amounts included in Inter-Red Cross receivables for annuities were \$619,114 and \$530,941 at June 30, 2007 and 2006 respectively. The annuities increased in value by \$88,173 and \$31,622 for the years ended June 30, 2007 and 2006, respectively.

NOTE 4 – LAND, BUILDING AND EQUIPMENT

A summary of land, building and equipment at June 30 is as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 203,156	\$ 203,156
Building and improvements	1,301,813	1,301,813
Equipment and automobiles	<u>384,839</u>	<u>397,189</u>
	1,889,808	1,902,158
Less accumulated depreciation	<u>(912,418)</u>	<u>(847,211)</u>
Land, buildings and equipment, net	<u>\$ 977,390</u>	<u>\$ 1,054,947</u>

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 5 – LINE OF CREDIT

The Chapter has a line of credit with a financial institution. Borrowings under this agreement bear interest at the bank's index rate (4.75 percent at June 30, 2007) and require monthly payments of interest only. As of June 30, 2007 and 2006, the Chapter had no borrowings on this line of credit. The amount available under the agreement is \$250,000. The note is secured by accounts receivable and matures on October 9, 2007.

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2007</u>	<u>2006</u>
Notes payable, equipment, payable to bank. The notes provide for interest at rates ranging from 4.99% to 8.41%. The notes require monthly principal and interest payments of \$743 with maturity dates from October 2007 through January 2009. The notes are collateralized by vehicles.	<u>\$ 6,024</u>	<u>\$ 15,271</u>

Scheduled principal payments of notes payable are as follows:

<u>Year Ended</u>	
2008	\$ 4,989
2009	<u>1,035</u>
	<u>\$ 6,024</u>

NOTE 7 – NET ASSETS

Unrestricted net assets are comprised of the following at June 30:

	<u>2007</u>	<u>2006</u>
Undesignated net surplus (deficit)	\$ 737,690	\$ (287,865)
Investment in land, building and equipment	977,390	1,054,947
Designated for quasi-endowment	317,739	28,990
Designated for capital improvements and maintenance	<u>-</u>	<u>255,004</u>
	<u>\$ 2,032,819</u>	<u>\$ 1,051,076</u>

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 7 – NET ASSETS (Continued)

Temporarily restricted net assets are comprised of the following at June 30:

	<u>2007</u>	<u>2006</u>
Disaster services	\$ 34,869	\$ 436,684
Health and safety services	1,953	11,922
Community services	-	37,671
Buildings and equipment	-	66,449
Time restrictions	302,026	692,391
Other	<u>129,229</u>	<u>199,000</u>
	<u>\$ 468,077</u>	<u>\$ 1,444,117</u>

Permanently restricted net assets are comprised of the following at June 30:

	<u>2007</u>	<u>2006</u>
Investments in perpetuity, income from which is expendable to support general operations	\$ 33,000	\$ 33,000
Due from unrestricted fund	<u>-</u>	<u>2,000</u>
	<u>\$ 33,000</u>	<u>\$ 35,000</u>

NOTE 8 – RETIREMENT PLAN

The Chapter participates in a defined-benefit retirement plan administered by the Retirement System of the American Red Cross that covers substantially all employees. Chapter participation in the Retirement System is voluntary; however, most chapters with paid employees have elected to join the plan. For funding purposes under the plan, normal pension costs are determined by the projected unit credit method and are funded currently. The plan provides a pension funded by the employer. Voluntary contributions may be made by active members to fund an optional annuity benefit. Defined benefits are based on years of service and/or age and the employee's final average compensation, which is calculated using the highest consecutive 48 months of the last 120 months' service before retirement.

NASHVILLE AREA CHAPTER OF THE AMERICAN RED CROSS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 8 – RETIREMENT PLAN (Continued)

The Retirement System includes numerous participating chapters and blood services regions. It is not practicable for the actuary to compute accumulated and projected benefit obligations for individual chapters or blood services regions. Accumulated and projected benefit obligations and other required disclosures for the entire American Red Cross (including all participating chapters, blood services regions, and the national sector) are presented in consolidated financial statements of the American Red Cross. Payments to the Retirement System on behalf of the participants of the Chapter were \$33,048 and \$34,162 during the years ended June 30, 2007 and 2006, respectively.

NOTE 9 – POST-RETIREMENT BENEFITS

The American Red Cross provides medical and dental benefits to eligible retirees and their eligible dependents. Generally, retirees and employer units pay a portion of the premium costs. The American Red Cross has the right to modify cost-sharing provisions at any time.

In addition, life insurance benefits of \$5,000 are provided with no contributions required from the retirees. Life insurance benefits are generally provided by insurance contracts.

Post-retirement benefits are accrued over the period the employee provides services to the organization. Since the American Red Cross is a single corporate legal entity and most retirees participate in the single American Red Cross benefits plan, providing separate disclosures for retirees associated with individual chapters or blood services regions is not practicable. Annual post-retirement benefits expenses are recorded and disclosed for the entire American Red Cross in its consolidated financial statements.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Beginning August 1, 2005, the Chapter elected to participate in a defined contribution retirement plan sponsored by the American Red Cross for the benefit of all permanent employees, under which they are allowed to make contributions on a pre-tax basis. Employee contributions are further matched based on certain other provisions of the plan, not to exceed a total Chapter contribution of 4% of eligible compensation. Total contributions to the plan by the Chapter amounted to \$23,646 and \$14,352 in 2007 and 2006, respectively.

NOTE 11 – NATIONAL CHAPTER ASSESSMENT

The Board of Governors of the American Red Cross established \$83.5 million as the net financial requirements for all services provided by the American Red Cross national sector ("NHQ") on behalf of all chapters for the year ended June 30, 2007. The Chapter's portion of the assessment for the fiscal year ending June 30, 2007 was established at \$308,196.

NOTE 12 – CONCENTRATIONS

The Chapter maintains cash in excess of federally insured limits. In management's opinion, risk related to such deposits is minimal based on the credit rating of its depositories.