

**CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
THE SALVATION ARMY CENTRAL TERRITORY
SEPTEMBER 30, 2009 AND 2008**

CONTENTS

| | Page |
|---|-------------|
| REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS | 3 |
| CONSOLIDATED FINANCIAL STATEMENTS | |
| STATEMENTS OF FINANCIAL POSITION | 4 |
| STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS | 8 |
| STATEMENTS OF FUNCTIONAL EXPENSES | 12 |
| STATEMENTS OF CASH FLOWS | 14 |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS..... | 15 |



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit • Tax • Advisory

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687

T 312.856.0200

F 312.565.4719

www.GrantThornton.com

Board of Trustees
The Salvation Army Central Territory

We have audited the accompanying consolidated statements of financial position of The Salvation Army Central Territory as of September 30, 2009 and 2008, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Salvation Army Central Territory's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of various corps/units included in the consolidated financial statements, which statements reflect total assets of 1%, as of September 30, 2009 and 2008, and total revenues of 10% and 6%, respectively, for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these corps/units, is based solely on the reports of the other auditors.

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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Salvation Army Central Territory's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Salvation Army Central Territory as of September 30, 2009 and 2008, and the consolidated 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.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

Chicago, Illinois
April 5, 2010

The Salvation Army Central Territory
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2009, with comparative totals for 2008
(In thousands)

| ASSETS | 2009 | | | | | | | 2008 total |
|--|----------------------|----------------------|-------------------------------------|---------------------|---------------------------|---------------------------|--------------------|--------------------|
| | Unrestricted | | | Total | Temporarily restricted | Permanently restricted | Total | |
| | General operating | Board- designated | Land, buildings and equipment | | | | | |
| Cash and cash equivalents | \$ 45,240 | \$ - | \$ - | \$ 45,240 | \$ 8,802 | \$ - | \$ 54,042 | \$ 46,283 |
| Collateral received under securities lending program | - | 96,090 | - | 96,090 | - | - | 96,090 | 114,657 |
| Accounts receivable, net | 50,192 | 24,877 | - | 75,069 | 410 | - | 75,479 | 31,830 |
| Legacies and bequests receivable, net | - | 13,963 | - | 13,963 | 979 | 2,032 | 16,974 | 39,909 |
| Pledges receivable, net (note C) | - | - | - | - | 11,097 | 14,456 | 25,553 | 24,378 |
| Due from (to) funds | 94,327 | (32,759) | (18,322) | 43,246 | (32,383) | (10,863) | - | - |
| Inventory | 15,866 | - | - | 15,866 | - | - | 15,866 | 15,183 |
| Prepaid expenses and deferred charges | 4,716 | 204 | - | 4,920 | 215 | - | 5,135 | 5,148 |
| | <u>210,341</u> | <u>102,375</u> | <u>(18,322)</u> | <u>294,394</u> | <u>(10,880)</u> | <u>5,625</u> | <u>289,139</u> | <u>277,388</u> |
| Investments | | | | | | | | |
| Investments at fair value (note D) | 2,982 | 669,480 | - | 672,462 | 209,109 | 358,945 | 1,240,516 | 1,346,028 |
| Securities lent under securities lending program | - | 94,067 | - | 94,067 | - | - | 94,067 | 108,233 |
| Assets held under split-interest agreements | - | - | - | - | 72,891 | 373 | 73,264 | 84,509 |
| Perpetual trusts held by third parties | - | - | - | - | - | 33,905 | 33,905 | 31,162 |
| Land, buildings and equipment | | | | | | | | |
| Land | - | - | 92,924 | 92,924 | - | - | 92,924 | 89,931 |
| Buildings, net of accumulated depreciation of \$242,601 and \$226,726 in 2009 and 2008, respectively | - | - | 674,527 | 674,527 | - | - | 674,527 | 646,479 |
| Furniture, fixtures and equipment, net of accumulated depreciation of \$62,715 and \$59,241 in 2009 and 2008, respectively | - | - | 15,897 | 15,897 | 24 | - | 15,921 | 19,093 |
| Construction in progress | - | - | 64,861 | 64,861 | - | - | 64,861 | 38,754 |
| Land, buildings and equipment, net | - | - | 848,209 | 848,209 | 24 | - | 848,233 | 794,257 |
| TOTAL ASSETS | <u>\$ 213,323</u> | <u>\$ 865,922</u> | <u>\$ 829,887</u> | <u>\$ 1,909,132</u> | <u>\$ 271,144</u> | <u>\$ 398,848</u> | <u>\$2,579,124</u> | <u>\$2,641,577</u> |

The Salvation Army Central Territory
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED
September 30, 2009, with comparative totals for 2008
(In thousands)

| LIABILITIES AND NET ASSETS | 2009 | | | | | | | 2008 total |
|--|----------------------|----------------------|-------------------------------------|---------------------|---------------------------|---------------------------|--------------------|---------------------|
| | Unrestricted | | | Total | Temporarily restricted | Permanently restricted | Total | |
| | General operating | Board- designated | Land, buildings and equipment | | | | | |
| LIABILITIES | | | | | | | | |
| Accounts payable and accrued expenses | \$112,280 | \$ - | \$ 6,435 | \$ 118,715 | \$ 151 | \$ - | \$ 118,866 | \$ 94,823 |
| Liability for split-interest agreements | - | - | - | - | 26,634 | 3,277 | 29,911 | 31,553 |
| Refundable advances and deferred revenue | 2,567 | - | - | 2,567 | 44 | - | 2,611 | 2,058 |
| Conditional asset retirement obligations (note H) | - | 697 | - | 697 | - | - | 697 | 697 |
| Payable under securities lending program (note D) | - | 96,947 | - | 96,947 | - | - | 96,947 | 114,657 |
| Mortgages, notes and bonds payable (note I) | - | 55,000 | 26,696 | 81,696 | - | - | 81,696 | 81,927 |
| Estimated liability for self-insured claims (note G) | - | 20,977 | - | 20,977 | - | - | 20,977 | 19,255 |
| Estimated liability for retirement benefits (note F) | - | 354,605 | - | 354,605 | - | - | 354,605 | 273,499 |
| Total liabilities | 114,847 | 528,226 | 33,131 | 676,204 | 26,829 | 3,277 | 706,310 | 618,469 |
| NET ASSETS (NOTE K) | | | | | | | | |
| Unrestricted | 98,476 | 337,696 | 796,756 | 1,232,928 | - | - | 1,232,928 | 1,337,311 |
| Temporarily restricted | - | - | - | - | 244,315 | - | 244,315 | 303,709 |
| Permanently restricted | - | - | - | - | - | 395,571 | 395,571 | 382,088 |
| Total net assets | 98,476 | 337,696 | 796,756 | 1,232,928 | 244,315 | 395,571 | 1,872,814 | 2,023,108 |
| TOTAL LIABILITIES AND NET ASSETS | \$213,323 | \$ 865,922 | \$ 829,887 | \$ 1,909,132 | \$ 271,144 | \$ 398,848 | \$2,579,124 | \$ 2,641,577 |

*See complete 2008 consolidated statement of financial position on pages 6 and 7.

The accompanying notes are an integral part of this statement.

The Salvation Army Central Territory
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
September 30, 2008
(In thousands)

| ASSETS | Unrestricted | | | Total | Temporarily restricted | Permanently restricted | Total |
|--|-------------------|-------------------|-------------------------------|---------------------|------------------------|------------------------|---------------------|
| | General operating | Board-designated | Land, buildings and equipment | | | | |
| Cash and cash equivalents | \$ 34,643 | \$ 4,241 | \$ - | \$ 38,884 | \$ 7,222 | \$ 177 | \$ 46,283 |
| Collateral received under securities lending program | - | 114,657 | - | 114,657 | - | - | 114,657 |
| Accounts receivable, net | 18,172 | 12,910 | - | 31,082 | 748 | - | 31,830 |
| Legacies and bequests receivable, net | - | 15,839 | - | 15,839 | 10,147 | 13,923 | 39,909 |
| Pledges receivable, net (note C) | - | - | - | - | 12,662 | 11,716 | 24,378 |
| Due from (to) funds | 117,167 | 1,797 | (35,121) | 83,843 | (39,684) | (44,159) | - |
| Inventory | 15,183 | - | - | 15,183 | - | - | 15,183 |
| Prepaid expenses and deferred charges | 4,729 | 204 | - | 4,933 | 215 | - | 5,148 |
| | <u>189,894</u> | <u>149,648</u> | <u>(35,121)</u> | <u>304,421</u> | <u>(8,690)</u> | <u>(18,343)</u> | <u>277,388</u> |
| Investments | | | | | | | |
| Investments at fair value (note D) | 2,519 | 714,613 | - | 717,132 | 258,776 | 370,120 | 1,346,028 |
| Securities lent under securities lending program | - | 108,233 | - | 108,233 | - | - | 108,233 |
| Assets held under split-interest agreements | - | - | - | - | 81,727 | 2,782 | 84,509 |
| Perpetual trusts held by third parties | - | - | - | - | - | 31,162 | 31,162 |
| Land, buildings and equipment | | | | | | | |
| Land | - | - | 89,931 | 89,931 | - | - | 89,931 |
| Buildings, net of accumulated depreciation of \$226,726 | - | - | 646,479 | 646,479 | - | - | 646,479 |
| Furniture, fixtures and equipment, net of accumulated depreciation of \$59,241 | - | - | 19,062 | 19,062 | 31 | - | 19,093 |
| Construction in progress | - | - | 38,754 | 38,754 | - | - | 38,754 |
| Land, buildings and equipment, net | <u>-</u> | <u>-</u> | <u>794,226</u> | <u>794,226</u> | <u>31</u> | <u>-</u> | <u>794,257</u> |
| TOTAL ASSETS | <u>\$ 192,413</u> | <u>\$ 972,494</u> | <u>\$ 759,105</u> | <u>\$ 1,924,012</u> | <u>\$ 331,844</u> | <u>\$ 385,721</u> | <u>\$ 2,641,577</u> |

The Salvation Army Central Territory
CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED
September 30, 2008
(In thousands)

| LIABILITIES AND NET ASSETS | Unrestricted | | | Total | Temporarily restricted | Permanently restricted | Total |
|--|-------------------|-------------------|-------------------------------|--------------------|------------------------|------------------------|---------------------|
| | General operating | Board-designated | Land, buildings and equipment | | | | |
| LIABILITIES | | | | | | | |
| Accounts payable and accrued expenses | \$ 91,880 | \$ - | \$ 2,768 | \$ 94,648 | \$ 175 | \$ - | \$ 94,823 |
| Liability for split-interest agreements | - | - | - | - | 27,920 | 3,633 | 31,553 |
| Refundable advances and deferred revenue | 2,018 | - | - | 2,018 | 40 | - | 2,058 |
| Conditional asset retirement obligations (note H) | - | 697 | - | 697 | - | - | 697 |
| Payable under securities lending program (note D) | - | 114,657 | - | 114,657 | - | - | 114,657 |
| Mortgages, notes and bonds payable (note I) | - | 55,000 | 26,927 | 81,927 | - | - | 81,927 |
| Estimated liability for self-insured claims (note G) | - | 19,255 | - | 19,255 | - | - | 19,255 |
| Estimated liability for retirement benefits (note F) | - | 273,499 | - | 273,499 | - | - | 273,499 |
| Total liabilities | 93,898 | 463,108 | 29,695 | 586,701 | 28,135 | 3,633 | 618,469 |
| NET ASSETS (NOTE J) | | | | | | | |
| Unrestricted | 98,515 | 509,386 | 729,410 | 1,337,311 | - | - | 1,337,311 |
| Temporarily restricted | - | - | - | - | 303,709 | - | 303,709 |
| Permanently restricted | - | - | - | - | - | 382,088 | 382,088 |
| Total net assets | 98,515 | 509,386 | 729,410 | 1,337,311 | 303,709 | 382,088 | 2,023,108 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 192,413</u> | <u>\$ 972,494</u> | <u>\$ 759,105</u> | <u>\$1,924,012</u> | <u>\$ 331,844</u> | <u>\$ 385,721</u> | <u>\$ 2,641,577</u> |

The accompanying notes are an integral part of this statement.

The Salvation Army Central Territory
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended September 30, 2009, with comparative totals for 2008
(In thousands)

| | 2009 | | | | | | 2008 total* | |
|---|-------------------|------------------|-------------------------------|------------|------------------------|------------------------|-------------|------------|
| | Unrestricted | | | Total | Temporarily restricted | Permanently restricted | | Total |
| | General operating | Board-designated | Land, buildings and equipment | | | | | |
| Support and revenue | | | | | | | | |
| Public support | | | | | | | | |
| Received directly | | | | | | | | |
| Contributions | \$ 184,038 | \$ 2,754 | \$ - | \$ 186,792 | \$ 4,468 | \$ 4,417 | \$ 195,677 | \$ 203,049 |
| Donations in-kind and contributed services | 73,403 | - | - | 73,403 | 41 | - | 73,444 | 66,698 |
| Legacies and bequests | - | 46,075 | - | 46,075 | 2,959 | 3,028 | 52,062 | 77,052 |
| Pledges revenue | - | - | - | - | 2,937 | 2,594 | 5,531 | 679 |
| Contributions from split-interest agreements | - | - | - | - | 4,031 | 145 | 4,176 | 10,292 |
| Changes in value of split-interest agreements | - | - | - | - | (3,590) | 3,377 | (213) | (8,449) |
| Total received directly | 257,441 | 48,829 | - | 306,270 | 10,846 | 13,561 | 330,677 | 349,321 |
| Received indirectly | | | | | | | | |
| Allocated by federated fund-raising organizations | 18,117 | - | - | 18,117 | 3,266 | - | 21,383 | 20,748 |
| Total public support | 275,558 | 48,829 | - | 324,387 | 14,112 | 13,561 | 352,060 | 370,069 |
| Fees and grants from government agencies | 88,711 | - | - | 88,711 | 789 | - | 89,500 | 88,824 |
| Other revenue | | | | | | | | |
| Program service fees | 19,682 | 104 | - | 19,786 | - | - | 19,786 | 20,758 |
| Sales to the public | 120,154 | - | - | 120,154 | - | - | 120,154 | 113,499 |
| Investment income | | | | | | | | |
| Dividends and interest, net of fees of \$7,339 and \$6,732 in 2009 and 2008, respectively | 649 | 18,199 | - | 18,848 | 5,539 | 41 | 24,428 | 36,384 |
| Net realized (losses) gains on sale of investments | - | (69,347) | - | (69,347) | 918 | (25) | (68,454) | 21,446 |
| Net change in unrealized gains (losses) in value of investments | - | 42,374 | - | 42,374 | (26,512) | (94) | 15,768 | (333,025) |
| Gain on sales of land, buildings and equipment | - | 1,098 | - | 1,098 | - | - | 1,098 | 2,510 |
| Other revenue | 1,950 | 5,145 | - | 7,095 | 29 | - | 7,124 | 6,605 |
| Total other revenue | 142,435 | (2,427) | - | 140,008 | (20,026) | (78) | 119,904 | (131,823) |
| Total public support and revenue before reclassifications and transfers | 506,704 | 46,402 | - | 553,106 | (5,125) | 13,483 | 561,464 | 327,070 |
| Net assets reclassified due to fulfillment of donor restrictions (note L) | 10,160 | 53,350 | - | 63,510 | (63,510) | - | - | - |
| Interfund transfers | 194,855 | (262,201) | 67,346 | - | - | - | - | - |
| Total public support and revenue | 711,719 | (162,449) | 67,346 | 616,616 | (68,635) | 13,483 | 561,464 | 327,070 |

The Salvation Army Central Territory
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED
Year ended September 30, 2009, with comparative totals for 2008
(In thousands)

| | 2009 | | | | | | | 2008 total* |
|--|----------------------|----------------------|-------------------------------------|--------------|---------------------------|---------------------------|--------------|----------------|
| | Unrestricted | | | Total | Temporarily restricted | Permanently restricted | Total | |
| | General operating | Board- designated | Land, buildings and equipment | | | | | |
| Expenses | | | | | | | | |
| Program services | | | | | | | | |
| Corps community centers | \$ 91,441 | \$ - | \$ - | \$ 91,441 | \$ - | \$ - | \$ 91,441 | \$ 89,850 |
| Rehabilitation | 143,128 | - | - | 143,128 | - | - | 143,128 | 138,573 |
| Residential and institutional | 62,297 | - | - | 62,297 | - | - | 62,297 | 60,305 |
| Other social services | 235,137 | - | - | 235,137 | - | - | 235,137 | 218,603 |
| Total program services | 532,003 | - | - | 532,003 | - | - | 532,003 | 507,331 |
| Supporting services | | | | | | | | |
| Management and general | 62,922 | - | - | 62,922 | - | - | 62,922 | 63,122 |
| Fund-raising | 50,377 | - | - | 50,377 | - | - | 50,377 | 49,635 |
| Total supporting services | 113,299 | - | - | 113,299 | - | - | 113,299 | 112,757 |
| Total expenses | 645,302 | - | - | 645,302 | - | - | 645,302 | 620,088 |
| Increase (decrease) in net assets before pension-related changes other than net periodic pension cost and net asset reclassification due to change in law | 66,417 | (162,449) | 67,346 | (28,686) | (68,635) | 13,483 | (83,838) | (293,018) |
| Pension-related changes other than net periodic pension cost (note F) | (66,456) | - | - | (66,456) | - | - | (66,456) | 20,233 |
| Net asset reclassification due to change in law (note J) | - | (9,241) | - | (9,241) | 9,241 | - | - | - |
| (DECREASE) INCREASE IN NET ASSETS | (39) | (171,690) | 67,346 | (104,383) | (59,394) | 13,483 | (150,294) | (272,785) |
| Net assets at beginning of year | 98,515 | 509,386 | 729,410 | 1,337,311 | 303,709 | 382,088 | 2,023,108 | 2,295,893 |
| Net assets at end of year | \$ 98,476 | \$ 337,696 | \$ 796,756 | \$ 1,232,928 | \$ 244,315 | \$ 395,571 | \$ 1,872,814 | \$ 2,023,108 |

*See complete 2008 consolidated statement of activities and changes in net assets on pages 10 and 11.

The accompanying notes are an integral part of this statement.

The Salvation Army Central Territory
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended September 30, 2008
(In thousands)

| | Unrestricted | | | Total | Temporarily restricted | Permanently restricted | Total |
|---|-------------------|------------------|-------------------------------|------------|------------------------|------------------------|------------|
| | General operating | Board-designated | Land, buildings and equipment | | | | |
| Support and revenue | | | | | | | |
| Public support | | | | | | | |
| Received directly | | | | | | | |
| Contributions | \$183,131 | \$ 3,748 | \$ - | \$ 186,879 | \$ 7,393 | \$ 8,777 | \$ 203,049 |
| Donations in-kind and contributed services | 66,674 | - | - | 66,674 | 24 | - | 66,698 |
| Legacies and bequests | - | 54,209 | - | 54,209 | 11,148 | 11,695 | 77,052 |
| Pledges revenue | - | - | - | - | 679 | - | 679 |
| Contributions from split-interest agreements | - | - | - | - | 10,066 | 226 | 10,292 |
| Changes in value of split-interest agreements | - | - | - | - | (4,685) | (3,764) | (8,449) |
| Total received directly | 249,805 | 57,957 | - | 307,762 | 24,625 | 16,934 | 349,321 |
| Received indirectly | | | | | | | |
| Allocated by federated fund-raising organizations | 16,283 | - | - | 16,283 | 4,465 | - | 20,748 |
| Total public support | 266,088 | 57,957 | - | 324,045 | 29,090 | 16,934 | 370,069 |
| Fees and grants from government agencies | 88,486 | - | - | 88,486 | 338 | - | 88,824 |
| Other revenue | | | | | | | |
| Program service fees | 20,615 | 143 | - | 20,758 | - | - | 20,758 |
| Sales to the public | 113,499 | - | - | 113,499 | - | - | 113,499 |
| Investment income | | | | | | | |
| Dividends and interest, net of fees of \$6,732 | 1,010 | 26,732 | - | 27,742 | 8,590 | 52 | 36,384 |
| Net realized gains on sale of investments | - | 18,474 | - | 18,474 | 2,967 | 5 | 21,446 |
| Net change in unrealized (losses) gains in value of investments | - | (297,038) | - | (297,038) | (35,495) | (492) | (333,025) |
| Gain on sales of land, buildings and equipment | - | 2,510 | - | 2,510 | - | - | 2,510 |
| Other revenue | 1,248 | 5,328 | - | 6,576 | 29 | - | 6,605 |
| Total other revenue | 136,372 | (243,851) | - | (107,479) | (23,909) | (435) | (131,823) |
| Total public support and revenue before reclassifications and transfers | 490,946 | (185,894) | - | 305,052 | 5,519 | 16,499 | 327,070 |
| Net assets reclassified due to fulfillment of donor restrictions (note L) | 11,090 | 35,424 | - | 46,514 | (46,514) | - | - |
| Interfund transfers | 97,713 | (147,685) | 49,972 | - | - | - | - |
| Total public support and revenue | 599,749 | (298,155) | 49,972 | 351,566 | (40,995) | 16,499 | 327,070 |

The Salvation Army Central Territory
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED
Year ended September 30, 2008
(In thousands)

| | Unrestricted | | | Total | Temporarily restricted | Permanently restricted | Total |
|---|-------------------|------------------|-------------------------------|------------------|------------------------|------------------------|------------------|
| | General operating | Board-designated | Land, buildings and equipment | | | | |
| Expenses | | | | | | | |
| Program services | | | | | | | |
| Corps community centers | \$ 89,850 | \$ - | \$ - | \$ 89,850 | \$ - | \$ - | \$ 89,850 |
| Rehabilitation | 138,573 | - | - | 138,573 | - | - | 138,573 |
| Residential and institutional | 60,305 | - | - | 60,305 | - | - | 60,305 |
| Other social services | 218,603 | - | - | 218,603 | - | - | 218,603 |
| Total program services | 507,331 | - | - | 507,331 | - | - | 507,331 |
| Supporting services | | | | | | | |
| Management and general | 63,122 | - | - | 63,122 | - | - | 63,122 |
| Fund-raising | 49,635 | - | - | 49,635 | - | - | 49,635 |
| Total supporting services | 112,757 | - | - | 112,757 | - | - | 112,757 |
| Total expenses | 620,088 | - | - | 620,088 | - | - | 620,088 |
| (Decrease) increase in net assets before pension-related changes other than net periodic pension cost | (20,339) | (298,155) | 49,972 | (268,522) | (40,995) | 16,499 | (293,018) |
| Pension-related changes other than net periodic pension cost (note F) | 20,233 | - | - | 20,233 | - | - | 20,233 |
| (DECREASE) INCREASE IN NET ASSETS | (106) | (298,155) | 49,972 | (248,289) | (40,995) | 16,499 | (272,785) |
| Net assets at beginning of year | 98,621 | 807,541 | 679,438 | 1,585,600 | 344,704 | 365,589 | 2,295,893 |
| Net assets at end of year | \$ 98,515 | \$ 509,386 | \$ 729,410 | \$ 1,337,311 | \$ 303,709 | \$ 382,088 | \$ 2,023,108 |

The accompanying notes are an integral part of this statement.

The Salvation Army Central Territory
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended September 30, 2009, with comparative totals for 2008
(In thousands)

| | 2009 | | | | | | | | | 2008 total* |
|---------------------------------------|-------------------------------|-------------------|-------------------------------------|-----------------------------|------------------------------|---------------------------|------------------|---------------------------------|-------------------|-------------------|
| | Program services | | | | | Supporting services | | | | |
| | Corps community centers | Rehabilitation | Residential and institutional | Other social services | Total program services | Management and general | Fund-raising | Total supporting services | Total | |
| Salaries and allowances | \$ 27,832 | \$ 55,784 | \$ 24,625 | \$ 59,087 | \$ 167,328 | \$ 29,287 | \$ 17,645 | \$ 46,932 | \$ 214,260 | \$ 210,043 |
| Employee and officer benefits | 12,695 | 20,124 | 9,471 | 26,731 | 69,021 | 10,124 | 5,377 | 15,501 | 84,522 | 75,765 |
| Payroll taxes | 2,288 | 5,956 | 2,310 | 5,130 | 15,684 | 2,309 | 1,551 | 3,860 | 19,544 | 18,895 |
| Professional fees | 1,943 | 2,116 | 2,554 | 5,021 | 11,634 | 5,196 | 6,458 | 11,654 | 23,288 | 23,302 |
| Supplies | 5,544 | 9,490 | 3,233 | 6,754 | 25,021 | 1,328 | 1,373 | 2,701 | 27,722 | 28,551 |
| Communications | 1,686 | 1,035 | 360 | 1,287 | 4,368 | 813 | 262 | 1,075 | 5,443 | 5,162 |
| Postage and shipping | 615 | 139 | 95 | 939 | 1,788 | 405 | 3,115 | 3,520 | 5,308 | 4,733 |
| Occupancy | 12,797 | 29,221 | 11,264 | 17,381 | 70,663 | 4,464 | 1,610 | 6,074 | 76,737 | 69,542 |
| Furnishings and equipment | 3,306 | 2,384 | 1,234 | 3,934 | 10,858 | 1,373 | 729 | 2,102 | 12,960 | 12,496 |
| Printing and publications | 1,741 | 2,755 | 300 | 1,979 | 6,775 | 660 | 8,207 | 8,867 | 15,642 | 13,990 |
| Travel and transportation | 4,826 | 5,103 | 539 | 3,814 | 14,282 | 1,745 | 850 | 2,595 | 16,877 | 19,437 |
| Conferences, meetings and major trips | 3,175 | 88 | 119 | 1,120 | 4,502 | 855 | 819 | 1,674 | 6,176 | 7,159 |
| Direct assistance | 5,337 | 1,756 | 2,460 | 81,546 | 91,099 | - | - | - | 91,099 | 86,874 |
| Organization dues | 122 | 8 | 38 | 98 | 266 | 149 | 37 | 186 | 452 | 451 |
| Awards and grants | 1,017 | 72 | 50 | 2,849 | 3,988 | 532 | 42 | 574 | 4,562 | 4,045 |
| World Service Support | - | - | - | 8,290 | 8,290 | - | - | - | 8,290 | 7,189 |
| Interest expense | 139 | 211 | 588 | 346 | 1,284 | 113 | 74 | 187 | 1,471 | 2,443 |
| Depreciation | 5,856 | 4,571 | 2,835 | 8,545 | 21,807 | 3,043 | 1,729 | 4,772 | 26,579 | 25,935 |
| Miscellaneous | 522 | 2,315 | 222 | 286 | 3,345 | 526 | 499 | 1,025 | 4,370 | 4,076 |
| Total expenses | \$ 91,441 | \$ 143,128 | \$ 62,297 | \$ 235,137 | \$ 532,003 | \$ 62,922 | \$ 50,377 | \$ 113,299 | \$ 645,302 | \$ 620,088 |

*See complete 2008 consolidated statement of functional expenses on page 13.

The accompanying notes are an integral part of this statement.

The Salvation Army Central Territory
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended September 30, 2008
(In thousands)

| | Program services | | | | Supporting services | | | | Total |
|---------------------------------------|-------------------------|-------------------|-------------------------------|-----------------------|------------------------|------------------------|------------------|---------------------------|-------------------|
| | Corps community centers | Rehabilitation | Residential and institutional | Other social services | Total program services | Management and general | Fund-raising | Total supporting services | |
| Salaries and allowances | \$ 27,901 | \$ 54,971 | \$ 25,494 | \$ 55,712 | \$ 164,078 | \$ 28,695 | \$ 17,270 | \$ 45,965 | \$ 210,043 |
| Employee and officer benefits | 11,655 | 17,858 | 9,112 | 23,195 | 61,820 | 9,415 | 4,530 | 13,945 | 75,765 |
| Payroll taxes | 2,147 | 5,739 | 2,399 | 4,859 | 15,144 | 2,288 | 1,463 | 3,751 | 18,895 |
| Professional fees | 1,586 | 2,221 | 2,452 | 4,952 | 11,211 | 5,636 | 6,455 | 12,091 | 23,302 |
| Supplies | 5,521 | 9,773 | 3,542 | 7,041 | 25,877 | 1,537 | 1,137 | 2,674 | 28,551 |
| Communications | 1,555 | 799 | 371 | 1,274 | 3,999 | 929 | 234 | 1,163 | 5,162 |
| Postage and shipping | 613 | 61 | 34 | 594 | 1,302 | 399 | 3,032 | 3,431 | 4,733 |
| Occupancy | 12,267 | 28,838 | 9,376 | 13,536 | 64,017 | 4,060 | 1,465 | 5,525 | 69,542 |
| Furnishings and equipment | 3,290 | 2,181 | 1,032 | 3,582 | 10,085 | 1,680 | 731 | 2,411 | 12,496 |
| Printing and publications | 1,755 | 1,818 | 138 | 823 | 4,534 | 567 | 8,889 | 9,456 | 13,990 |
| Travel and transportation | 5,556 | 5,959 | 700 | 4,084 | 16,299 | 2,114 | 1,024 | 3,138 | 19,437 |
| Conferences, meetings and major trips | 3,656 | 62 | 97 | 1,329 | 5,144 | 971 | 1,044 | 2,015 | 7,159 |
| Direct assistance | 4,469 | 1,725 | 1,605 | 79,075 | 86,874 | - | - | - | 86,874 |
| Organization dues | 124 | 10 | 31 | 82 | 247 | 160 | 44 | 204 | 451 |
| Awards and grants | 1,300 | 84 | 57 | 2,231 | 3,672 | 325 | 48 | 373 | 4,045 |
| World Service Support | - | - | - | 7,189 | 7,189 | - | - | - | 7,189 |
| Interest expense | 273 | 415 | 736 | 659 | 2,083 | 210 | 150 | 360 | 2,443 |
| Depreciation | 5,705 | 4,313 | 2,946 | 7,957 | 20,921 | 3,368 | 1,646 | 5,014 | 25,935 |
| Miscellaneous | 477 | 1,746 | 183 | 429 | 2,835 | 768 | 473 | 1,241 | 4,076 |
| Total expenses | \$ 89,850 | \$ 138,573 | \$ 60,305 | \$ 218,603 | \$ 507,331 | \$ 63,122 | \$ 49,635 | \$ 112,757 | \$ 620,088 |

The accompanying notes are an integral part of this statement.

The Salvation Army Central Territory
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended September 30,
(In thousands)

| | 2009 | 2008 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (150,294) | \$ (272,785) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Pension-related changes other than net periodic pension cost | 66,456 | (20,233) |
| Depreciation | 26,579 | 25,935 |
| Net change in unrealized (gains) losses in value of investments | (15,768) | 333,025 |
| Net realized losses (gains) on sale of investments | 68,454 | (21,446) |
| Change in value of split-interest agreements | 213 | 8,449 |
| Gain on sales of land, buildings and equipment | 1,098 | 2,510 |
| Contributions restricted for long-term investment | 844 | (23,098) |
| Contributions restricted for land, buildings and equipment | (2,012) | (11,322) |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | (43,649) | 3,376 |
| Legacies and bequests receivable, net | 22,935 | 13,232 |
| Pledges receivable, net | (1,175) | 689 |
| Inventory | (683) | (837) |
| Prepaid expenses and deferred charges | 13 | (491) |
| Accounts payable and accrued expenses | 24,043 | (33,026) |
| Liability for split-interest agreements | (1,642) | (278) |
| Hurricane Katrina donations received on behalf of affiliated organization | - | 79 |
| Hurricane Katrina donations remitted to affiliated organization | - | (7,362) |
| Refundable advances and deferred revenue | 553 | (397) |
| Conditional asset retirement obligation | - | (24) |
| Estimated liability for self-insured claims | 1,722 | 497 |
| Estimated liability for pension and other retirement benefits | 14,650 | 15,106 |
| Net cash provided by operating activities | 12,337 | 11,599 |
| Cash flows from investing activities | | |
| Purchases of investments | (3,348,705) | (6,236,915) |
| Proceeds from sale of investments | 3,402,388 | 6,208,365 |
| Purchases of land, buildings and equipment | (87,506) | (80,290) |
| Proceeds from sale of land, buildings and equipment | 5,853 | 6,153 |
| Net cash used in investing activities | (27,970) | (102,687) |
| Cash flows from financing activities | | |
| Contributions restricted for long-term investment | 7,445 | 20,472 |
| Contributions restricted for land, buildings and equipment | 2,012 | 11,322 |
| Proceeds from mortgages notes and bonds payable | 351 | 5,213 |
| Payments made on mortgages, notes and bonds payable | (582) | (3,971) |
| Change in collateral received under securities lending program | 17,710 | (55,014) |
| Change in payable under securities lending program | (17,710) | 55,014 |
| Securities lent under securities lending program | 14,166 | 52,994 |
| Net cash provided by financing activities | 23,392 | 86,030 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 7,759 | (5,058) |
| Cash and cash equivalents at beginning of year | 46,283 | 51,341 |
| Cash and cash equivalents at end of year | <u>\$ 54,042</u> | <u>\$ 46,283</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | \$ 1,303 | \$ 2,540 |

The accompanying notes are an integral part of these statements.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009 and 2008

NOTE A - PURPOSE AND 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 consolidated financial statements include all programs and operations of the Central Territory of The Salvation Army (the "Central Territory"). The Central Territory comprises the states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wisconsin. The Central Territory is incorporated in the State of Illinois, with the corporate headquarters located in Des Plaines, Illinois. All intercompany accounts and transactions have been eliminated.

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

The Central Territory operates a variety of programs, including corps community centers that provide spiritual, educational and recreational services, homeless and emergency shelters, senior citizens' residences, children's homes and day care centers, adult rehabilitation centers and substance abuse centers, emergency disaster services, assistance for the poor, disabled and retired, jail and hospital visitation, and camping activities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

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

Unrestricted net assets - Not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Trustees.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

General - Continued

Temporarily restricted net assets - Subject to donor-imposed stipulations that may be fulfilled by actions of the Central Territory to meet the stipulations or become unrestricted at the date specified by the donor.

Permanently restricted net assets - Subject to donor-imposed stipulations that they be retained and invested permanently by the Central Territory. The donors require the Central Territory to use all or part of the investment return on these net assets for specified or unspecified purposes.

Support and revenue are reported 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 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. Expirations of temporary restrictions on net assets, that is, the expiration of the donor-imposed stipulated purpose or the elapsing of the specified time period, are reported as reclassifications of net assets.

Contributions subject to donor-imposed restrictions are recorded as temporarily restricted support and are reclassified as unrestricted when the donor-imposed restriction has been fulfilled or the stipulated time period has elapsed. Contributions that are permanently restricted by donors for use as endowments are invested in perpetuity. The income is used for operating purposes when expenditures satisfy the donors' restrictions and such amounts are appropriated for expenditure. Income amounts that exceed related expenditures and appropriations during a fiscal period remain as temporarily restricted net assets. Realized gains from the sale of permanently restricted endowment investments are temporarily restricted until appropriated for expenditure by the Board of Trustees. 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 on the last day of the fiscal year applicable to the years in which the promises are received. Amortization of the discount is recorded as contribution revenue.

Cash and Cash Equivalents

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

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory

Inventory for goods purchased for resale is stated at the lower of cost, on a first-in, first-out basis, or market. Inventory for goods donated for resale is recorded based on estimated fair value.

Split-Interest Agreements

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

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

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 Central Territory receives the assets remaining in the trust. Charitable remainder trusts are recorded as increases to net assets at the fair value of the trust assets, less the present value of the estimated future payments to be made under the specific terms of the trust.

Charitable gift annuities - Donors have contributed assets to the Central Territory in exchange for a promise by the Central Territory to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists as the assets received are held by, and the annuity obligation is an obligation of, the Central Territory.

Pooled (life) income funds - The Central Territory manages a life income fund. The fund is divided into units, and contributions from many donors are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor's entry into the pooled fund. The donor is paid the actual income earned on those units until his or her death. Upon the donor's death, the value of these assigned units reverts to the Central Territory.

The Central Territory recognizes its interest in the assets received as contribution revenue at the fair value of the assets received net of a discount based on the life expectancy of the donor. Split-interest agreements are discounted at rates ranging from 2.8% to 7.6%.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

The Central Territory Headquarters has the responsibility for investment activity for all units within the Central 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 generally designates the use of portions of these excess funds for specified projects within the Central Territory.

Charitable gift annuities are maintained in a separate portfolio and are invested in accordance with applicable laws for such monies.

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

- As increases (decreases) in permanently restricted net assets if the terms of the gift or relevant state law requires that they be added back to the principal of the permanently restricted contributions.
- As increases (decreases) in temporarily restricted net assets until allocated by the Board of Trustees for expenditure in accordance with donor stipulations.

Land, Buildings, Improvements and Equipment

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

Revenue and Support

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

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue and Support - Continued

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

Contributions of temporarily restricted long-lived assets are assumed to be temporarily restricted over the specified period of the restriction.

Donations In-kind and Contributed Services

Material gifts-in-kind items used in The Salvation Army Corps and Unit programs and services (e.g., vehicle, free rent, equipment, etc.) and donated goods distributed (e.g., clothing, furniture, foodstuffs, etc.) are recorded as income and expense at the time the items are placed into service or distributed.

Goods donated for sale in The Salvation Army adult rehabilitation centers and thrift stores are recorded as contributions, and processed as donations in-kind on the basis of a percentage of sales income determined by appraisal studies.

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

Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets, or if they 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 as an expense when such services qualify for cost reimbursement from third-party providers.

Expenses

All expenses are stated on the accrual basis and presented in the accompanying consolidated statements of functional expenses.

Depreciation

Depreciation is provided on buildings, vehicles and equipment at straight-line rates based on their estimated service lives, ranging from 3 to 50 years. A full year of depreciation is charged in the year of acquisition or completion of construction. No depreciation is charged in the year of disposition.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Depreciation - Continued

Depreciation is also provided on equipment used in cost reimbursement programs that provide for reimbursement of depreciation by third-party payors.

A provision is made for major future costs of property maintenance and replacement of vehicles and some equipment by the transfer of operating net assets to Board-designated net assets.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the current-year presentation.

New Accounting Pronouncements

On July 1, 2009, the Financial Accounting Standards Board (“FASB”) issued the Accounting Standards Codification (“ASC”). The ASC became the source of authoritative literature under US GAAP and is effective for reporting periods ending after September 1, 2009.

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “*Fair Value Measurements*,” now incorporated into ASC 820. This pronouncement provides guidance for using fair value to measure assets and liabilities, and applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. This pronouncement clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, and not just the organization’s mark-to-market value. This pronouncement also requires expanded disclosure of the effect on earnings for items measured using unobservable data.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncements - Continued

Under this pronouncement, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. This pronouncement clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. This pronouncement is effective for fiscal years beginning after November 15, 2008.

FASB Staff Position FAS 157-2 delayed the effective date for all nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. Management does not believe that the adoption of ASC 820 for nonfinancial assets and liabilities will have a material impact on the September 30, 2010 consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, “*Subsequent Events*,” now referred to as ASC 855-10, to incorporate the accounting and disclosure requirements for subsequent events into US GAAP. This pronouncement introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the financial statement date. The Central Territory adopted this pronouncement as of September 30, 2009, which was the required effective date.

The Central Territory evaluated its September 30, 2009 financial statements for subsequent events through April 5, 2010, the date the financial statements were available to be issued. The Central Territory is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

NOTE C - PLEDGES RECEIVABLE

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE C - PLEDGES RECEIVABLE - Continued

Pledges receivable at September 30 include the following (in thousands):

| | <u>2009</u> | <u>2008</u> |
|------------------------------|-----------------|-----------------|
| Pledges receivable due in | | |
| Less than one year | \$13,640 | \$14,399 |
| One year to five years | 13,323 | 11,207 |
| More than five years | <u>221</u> | <u>178</u> |
| | 27,184 | 25,784 |
| Less | | |
| Unamortized discount | (685) | (770) |
| Allowance for uncollectibles | <u>(946)</u> | <u>(636)</u> |
| Pledges receivable, net | <u>\$25,553</u> | <u>\$24,378</u> |

Pledges receivable at September 30, 2009 and 2008, were discounted at rates ranging from 2.28% to 6.13%.

NOTE D - INVESTMENTS

Investments at fair value on the consolidated statements of financial position consist of the following at September 30 (in thousands):

| | <u>2009</u> | <u>2008</u> |
|--|--------------------|--------------------|
| Marketable securities | | |
| Cash and cash equivalents | \$ 82,416 | \$ 95,842 |
| Corporate bonds | 128,260 | 95,402 |
| U.S. Government securities | 115,910 | 168,402 |
| Equity securities | 503,050 | 597,762 |
| Other investments | | |
| Commingled funds | 381,331 | 378,896 |
| Hedge funds | 45,412 | 23,862 |
| Private equity | 63,064 | 56,909 |
| Real estate | 26,523 | 55,477 |
| Timber | <u>48,413</u> | <u>40,327</u> |
| | 1,394,379 | 1,512,879 |
| Less | | |
| Assets held under split-interest agreements | (59,796) | (58,618) |
| Securities lent under securities lending program | <u>(94,067)</u> | <u>(108,233)</u> |
| Total | <u>\$1,240,516</u> | <u>\$1,346,028</u> |

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE D - INVESTMENTS - Continued

The Central Territory may lend its securities to certain members of the New York Stock Exchange. The securities on loan are collateralized by cash, which is reinvested, in U.S. government securities. The value of collateral received equals or exceeds 102% of the securities loaned. The Central Territory continues to receive investment income on the loaned securities. The Central Territory received compensation, net of related expenses, for its securities, which is included in the consolidated statements of activities.

Debt and equity securities with a combined fair value of approximately \$94,100,000 and \$108,200,000 were on loan to financial institutions as of September 30, 2009 and 2008, respectively, under the Central Territory's securities lending program.

The Central Territory is obligated under certain investment agreements to advance additional funding periodically, up to specified levels. At September 30, 2009, the Central Territory had unfunded commitments of approximately \$61,753,000. These amounts are not reflected in the financial statements.

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date totals \$15,768,000.

NOTE E - FAIR VALUE MEASUREMENTS

US GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

US GAAP establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This fair value hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.

Level 2: Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE E - FAIR VALUE MEASUREMENTS - Continued

- b. Quoted prices for identical or similar assets in markets that are not active.
- c. Observable inputs other than quoted prices for the asset or liability.
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- e. Investments recorded at net asset value (“NAV”) that may be redeemed at or near the reporting date.

Level 3: Inputs that are unobservable and significant to the overall fair value measurement of the asset or liability or investments recorded at NAV that cannot be redeemed at or near the reporting date. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The Central Territory has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at September 30, 2009 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------|-----------|---------|-----------|
| Assets | | | | |
| Collateral received under securities lending program | \$ 64,535 | \$ 31,555 | \$ - | \$ 96,090 |
| Investments | | | | |
| Cash and cash equivalents | 82,416 | - | - | 82,416 |
| Corporate bonds | 32,065 | 96,195 | - | 128,260 |
| Government bonds | 28,978 | 86,932 | - | 115,910 |
| Equity securities | 503,050 | - | - | 503,050 |
| Other investments | | | | |
| Commingled funds | - | 379,830 | 1,501 | 381,331 |
| Hedge funds | - | 25,107 | 20,305 | 45,412 |
| Private equity | - | - | 63,064 | 63,064 |
| Real estate | - | - | 26,523 | 26,523 |
| Timber | - | - | 48,413 | 48,413 |

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE E - FAIR VALUE MEASUREMENTS - Continued

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|------------------|------------------|------------------|--------------------|
| Investments - Continued | | | | |
| Interest in split-interest agreements held by others | \$ - | \$ - | \$ 13,468 | \$ 13,468 |
| Interest in perpetual trusts held by others | <u>-</u> | <u>-</u> | <u>33,905</u> | <u>33,905</u> |
| Total assets | <u>\$711,044</u> | <u>\$619,619</u> | <u>\$207,179</u> | <u>\$1,537,842</u> |

The following is a rollforward of Level 3 investments, as required under ASC 820, for the year ended September 30, 2009 (in thousands):

| | |
|-------------------|------------------|
| Beginning balance | \$207,389 |
| Unrealized loss | (31,421) |
| Realized loss | (1,162) |
| Net transfers in | 303 |
| Purchases | <u>32,070</u> |
| | <u>\$207,179</u> |

NOTE F - PENSION AND RETIREMENT PLANS

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% for fiscal 2009 and 2008) of employees' salaries. The Central Territory incurred approximately \$6,433,000 and \$6,003,000 of expenses under the Plan in fiscal years 2009 and 2008, respectively. The Central Territory has recorded liabilities of approximately \$1,696,000 and \$1,594,000 as of September 30, 2009 and 2008, respectively, for contributions accrued under the Plan.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE F - PENSION AND RETIREMENT PLANS - Continued

Officers' Retirement Provisions and Other Post-retirement Benefits

The Central Territory has a retirement provision for officers that provides retirement benefits, as defined by The Salvation Army policy governing such 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 of legacy income, by earnings on assets designated for retirement benefits and by special appropriations. Such designated assets, which amounted to approximately \$70,539,000 and \$74,944,000 as of September 30, 2009 and 2008, respectively, are included in unrestricted Board-designated net assets. These assets may be reallocated for other purposes at any time by the Central Territory's Board of Trustees.

The Central Territory also provides certain healthcare and death benefits for retired Salvation Army officers as part of the retirement provision for officers, and a housing and furnishings allowance at the time of retirement. All Central Territory officers and their eligible dependents are eligible for these benefits, as defined by Central Territory policy. Provisions for these benefits are self-funded in a manner similar to officers' retirement benefits.

The following table summarizes the benefit obligations, fair value of assets and funded status of the plans for the years ended September 30 (in thousands):

| | Retirement provisions | | Other post-retirement benefits | |
|---|-----------------------|--------------------|--------------------------------|--------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Benefit obligation at September 30 | \$(150,861) | \$(120,502) | \$(203,744) | \$(152,997) |
| Fair value of plan assets at September 30 | - | - | - | - |
| Funded status at September 30 | <u>\$(150,861)</u> | <u>\$(120,502)</u> | <u>\$(203,744)</u> | <u>\$(152,997)</u> |
| Accrued retirement liability | \$(150,861) | \$(120,502) | \$(203,744) | \$(152,997) |

The amount of contributions and benefit payments from the plans for the years ended September 30 are as follows (in thousands):

| | Retirement provisions | | Other post-retirement benefits | |
|---------------------------|-----------------------|----------|--------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Employer contributions | \$7,365 | \$ 7,075 | \$5,746 | \$ 5,764 |
| Participant contributions | - | - | - | - |
| Benefit payments | (7,365) | (7,075) | (5,746) | (5,764) |

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE F - PENSION AND RETIREMENT PLANS - Continued

Officers' Retirement Provisions and Other Post-retirement Benefits - Continued

The following table provides the components of the net periodic benefit cost recognized as expense for the years ended September 30 (in thousands):

| | Retirement provisions | | Other post-retirement benefits | |
|------------------------------|-----------------------|-----------------|--------------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$3,102 | \$ 3,437 | \$4,325 | \$ 4,538 |
| Interest cost | 8,191 | 7,659 | 10,499 | 9,374 |
| Amortization of unrecognized | | | | |
| Prior service cost | 1,018 | 1,018 | - | - |
| Net actuarial loss | <u>303</u> | <u>1,011</u> | <u>323</u> | <u>908</u> |
| Net periodic benefit cost | <u>\$12,614</u> | <u>\$13,125</u> | <u>\$15,147</u> | <u>\$14,820</u> |

Pension related changes other than net periodic cost for the years ended September 30 consist of the following (in thousands):

| | Retirement provisions | | Other post-retirement benefits | |
|------------------------------------|-----------------------|-------------------|--------------------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net loss (gain) | \$26,430 | \$ (9,113) | 41,670 | \$(8,183) |
| Amortization of prior service cost | (1,018) | (1,018) | - | - |
| Amortization of net loss | <u>(303)</u> | <u>(1,011)</u> | <u>(323)</u> | <u>(908)</u> |
| Net periodic benefit cost | <u>\$25,109</u> | <u>\$(11,142)</u> | <u>\$41,347</u> | <u>\$(9,091)</u> |

Items not yet recognized as a component of net periodic pension cost as of September 30, 2009, consist of the following (in thousands):

| | Retirement provisions | Other post-retirement Benefits |
|------------------------------------|-----------------------|--------------------------------|
| Unrecognized actuarial (gain) loss | \$42,046 | \$61,151 |
| Unrecognized prior service cost | <u>8,786</u> | <u>-</u> |
| | <u>\$50,832</u> | <u>\$61,151</u> |

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE F - PENSION AND RETIREMENT PLANS - Continued

Officers' Retirement Provisions and Other Post-retirement Benefits - Continued

The estimated net loss and prior service credit for the defined benefit pension plan that will be amortized into net periodic benefit cost over the next fiscal year are approximately \$2,111,000 and \$1,018,000, respectively. The estimated prior service credit for the other defined benefit post-retirement plans that will be amortized into net periodic benefit cost over the next fiscal year is approximately \$2,921,000.

The assumptions used in the measurement of the benefit obligations are as follows as of September 30:

| | Retirement provisions | | Other post-retirement benefits | |
|---|-----------------------|------|--------------------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted-average assumed discount rate | 5.5% | 7.0% | 5.5% | 7.0% |
| Weighted-average rate of compensation increase | N/A | N/A | N/A | N/A |
| Weighted-average expected rate of return on plan assets | N/A | N/A | N/A | N/A |

Other actuarial assumptions used as of September 30, 2009, were as follows:

| | |
|--|--------------------------|
| Projected healthcare cost trend rate | 8.5% - 2009 9% - 2008 |
| Ultimate healthcare cost trend rate | 5% |
| Year ultimate healthcare cost trend rate is achieved | 2016 |

The estimated future benefit payments as of September 30, 2009, are projected to be as follows (in thousands):

| | Retirement provisions | Other post-retirement benefits |
|-------------------|-----------------------|--------------------------------|
| 2010 | \$ 7,120 | \$ 6,893 |
| 2011 | 7,590 | 7,489 |
| 2012 | 8,319 | 8,136 |
| 2013 | 7,394 | 8,510 |
| 2014 | 8,561 | 9,083 |
| Years 2015 - 2018 | 48,463 | 54,701 |

Because the plans are unfunded, the 2009 future benefit payments also represent the expected contributions to the plans for that year.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE G - INSURANCE PROGRAMS

The Central Territory maintains self-insurance programs for general liability, automobile, workers' compensation, property and medical coverage. The programs, which are administered by the Central Territory Headquarters, are intended to provide coverage for claims arising in all centers of operations. Funding for these programs is obtained through assessments to all centers of operations for each line of coverage and through earnings on designated assets held to pay claims. Investments designated by the Central Territory Board of Trustees for insurance programs amounted to approximately \$19,742,000 and \$23,135,000 as of September 30, 2009 and 2008, respectively, and were included in unrestricted Board-designated net assets and may be reallocated for other purposes at any time by the Central Territory Board of Trustees. As of September 30, 2009 and 2008, the actuarially determined liability associated with those programs was approximately \$20,977,000 and \$19,255,000, respectively, and is reflected as estimated liability for self-insured claims in the accompanying consolidated statements of financial position.

NOTE H - CONDITIONAL ASSET RETIREMENT OBLIGATIONS

US GAAP requires conditional asset retirement obligations should be recognized when incurred if their fair values can be reasonably estimated. Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Central Territory records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Central Territory relieves the ARO liabilities when the related obligations are settled.

As of September 30, 2009 and 2008, the Central Territory was unable to estimate the range of settlement dates and the related probabilities for certain remediation AROs. These conditional AROs are not subject to abatement unless the buildings are demolished or if the Central Territory performs major renovations of certain existing buildings. Because these conditional obligations have indeterminate settlement dates, the Central Territory could not develop a reasonable estimate of their fair values. The Central Territory will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available. At September 30, 2009 and 2008, the conditional ARO liability was approximately \$697,000.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE I - MORTGAGES, NOTES AND BONDS PAYABLE

Six residential service center properties held within the Central Territory are financed by mortgage notes payable with the Department of Housing and Urban Development (“HUD”). Four of the HUD notes, however, require no principal or interest payments unless the Central Territory defaults on the HUD agreements, in which case they are payable on demand. The two remaining HUD notes will mature between the years 2017 and 2032, with interest rates ranging from 7.00% to 8.375%.

Other notes payable consist of nineteen separate loans. Three of the loans, however, require no principal or interest payments unless the Central Territory defaults on the agreements, in which case they are payable on demand. The remaining loans mature between 2011 and 2037, with interest rates ranging from 1.00% to 8.75%.

Principal payments on mortgages and notes payable as of September 30, 2009 are as follows (in thousands):

Years ending September 30,

| | |
|---------------------|-----------------|
| 2010 | \$ 526 |
| 2011 | 550 |
| 2012 | 468 |
| 2013 | 3,570 |
| 2014 | 200 |
| 2015 and thereafter | <u>21,382</u> |
| Total | <u>\$26,696</u> |

Pursuant to loan agreements dated October 7, 2003 and February 17, 2004, with Bank of New York Capital Markets, Inc., the Central Territory issued 30-year bonds in the amounts of \$20,000,000 and \$40,000,000, respectively, which are due at maturity. The interest rate during fiscal year 2009 ranged from 1.25% to 4.28%. On March 1, 2006, a partial repayment of \$5,000,000 was made against the 2003 bonds. At September 30, 2009, investments of approximately \$75,100,000 have been pledged as collateral on the remaining loans. The proceeds from the bonds are being used by the Central Territory to finance capital projects.

In connection with the above loan agreements, the Central Territory established letters of credit for approximately \$55,633,000 to support the liquidity requirements of this variable rate debt. The letters of credit expire every three years and must be renewed while the bonds are outstanding. These letters of credit had no outstanding balance at September 30, 2009.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE J - ENDOWMENTS

The Central Territory's endowment fund consists of approximately 400 individual donor-restricted funds established for different of purposes. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), as enacted by the State of Illinois, applies to all the institutional funds of The Salvation Army, an Illinois Corporation, unless the donor has specifically directed otherwise. The Board of Trustees interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor restrictions to the contrary. As a result of this interpretation, the Board of Trustees classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The State of Illinois adopted a version of UPMIFA on June 30, 2009. As a result, the Central Territory reclassified approximately \$9,241,000 of unrestricted endowment fund net assets to temporarily restricted. In accordance with UPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Spending Policy

The Central Territory has a policy of making available for distribution each year 5% of its endowment fund's average fair value over the prior 20 quarters. In establishing this policy, the Central Territory considered the long-term expected return on its endowment. Accordingly, over the long term, the Central Territory expects the current spending policy to allow its endowment

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE J - ENDOWMENTS - Continued

Spending Policy - Continued

to grow at an average real rate of return greater than inflation. This is consistent with the Central Territory's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Return Objectives and, Risk Parameters

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

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

Funds with Deficiencies

From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Central Territory to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately \$12,400,000 as of September 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Endowment net asset composition by type of fund is as follows as of September 30, 2009:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|----------------------------------|-------------------|---------------------------|---------------------------|------------------|
| Donor-restricted endowment funds | \$(12,444) | \$21,192 | \$336,500 | \$345,248 |
| Term endowment funds | - | 1,004 | - | 1,004 |
| Total endowment funds | <u>\$(12,444)</u> | <u>\$22,196</u> | <u>\$336,500</u> | <u>\$346,252</u> |

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE J – ENDOWMENTS - Continued

Changes in endowment fund net assets are as follows for the fiscal year ended September 30, 2009:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| Endowment net assets, beginning of year | \$ 9,241 | \$ 30,415 | \$325,122 | \$364,778 |
| Net asset reclassification based on change in law | <u>(9,241)</u> | <u>9,241</u> | <u>-</u> | <u>-</u> |
| Endowment net assets, after reclassification | - | 39,656 | 325,122 | 364,778 |
| Investment return | | | | |
| Investment income | - | 5,382 | 19 | 5,401 |
| Net depreciation, realized and unrealized | <u>(9,004)</u> | <u>(17,157)</u> | <u>(138)</u> | <u>(26,299)</u> |
| Total investment return | (9,004) | (11,775) | (119) | (20,898) |
| Contributions | - | - | 11,497 | 11,497 |
| Appropriation of endowment for expenditure | <u>(3,440)</u> | <u>(5,685)</u> | <u>-</u> | <u>(9,125)</u> |
| Endowment net assets, end of year | <u>\$(12,444)</u> | <u>\$ 22,196</u> | <u>\$336,500</u> | <u>\$346,252</u> |

Endowment net asset composition by type of fund is as follows as of September 30, 2008:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|------------------|
| Donor-restricted endowment funds | \$9,241 | \$29,035 | \$325,122 | \$363,398 |
| Term endowment funds | <u>-</u> | <u>1,380</u> | <u>-</u> | <u>1,380</u> |
| Total endowment funds | <u>\$9,241</u> | <u>\$30,415</u> | <u>\$325,122</u> | <u>\$364,778</u> |

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE J - ENDOWMENTS - continued

Changes in endowment fund net assets are as follows for the fiscal year ended September 30, 2008:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|------------------|
| Endowment net assets, beginning of year | \$ 23,924 | \$ 50,943 | \$304,980 | \$379,847 |
| Investment return | | | | |
| Investment income | 1,764 | 8,028 | 21 | 9,813 |
| Net depreciation, realized and unrealized | <u>(14,788)</u> | <u>(25,679)</u> | <u>(487)</u> | <u>(40,954)</u> |
| Total investment return | (13,024) | (17,651) | (466) | (31,141) |
| Contributions | - | - | 20,608 | 20,608 |
| Appropriation of endowment for expenditure | <u>(1,659)</u> | <u>(2,877)</u> | <u>-</u> | <u>(4,536)</u> |
| Endowment net assets, end of year | <u>\$ 9,241</u> | <u>\$ 30,415</u> | <u>\$325,122</u> | <u>\$364,778</u> |

Descriptions of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows as of September 30:

| | <u>2009</u> | <u>2008</u> |
|--|------------------|------------------|
| Permanently restricted net assets - the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA | <u>\$336,500</u> | <u>\$325,122</u> |
| Total endowment funds classified as permanently restricted net assets | <u>\$336,500</u> | <u>\$325,122</u> |
| Temporarily restricted net assets | | |
| Term endowment funds | \$ 1,000 | \$ 1,380 |
| The portion of perpetual endowment funds subject to a time restriction under UPMIFA | <u>21,192</u> | <u>29,035</u> |
| Total endowment funds classified as temporarily restricted net assets | <u>\$ 22,196</u> | <u>\$ 30,415</u> |

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE K - NET ASSET CLASSIFICATIONS

As of September 30, temporarily restricted net assets are available for the following purposes or periods (in thousands):

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|------------------|------------------|
| Character-building/social programs | \$ 35,557 | \$ 54,339 |
| Split-interest agreements | 21,558 | 32,736 |
| Building/capital purposes | 183,090 | 209,880 |
| Time restricted | <u>4,110</u> | <u>6,754</u> |
| | <u>\$244,315</u> | <u>\$303,709</u> |

As of September 30, permanently restricted net assets are restricted as to investment in perpetuity, the income from which is expendable to support (in thousands) as follows:

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|------------------|------------------|
| Character-building/social programs | \$387,821 | \$374,839 |
| Educational and scholarship | 5,279 | 5,061 |
| Other | <u>2,471</u> | <u>2,188</u> |
| | <u>\$395,571</u> | <u>\$382,088</u> |

NOTE L - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors for the years ended September 30 were as follows (in thousands):

| | <u>2009</u> | <u>2008</u> |
|------------------------------------|-----------------|-----------------|
| Purpose restrictions accomplished | | |
| Character-building/social programs | \$16,473 | \$12,562 |
| Building/capital purposes | <u>31,184</u> | <u>25,997</u> |
| | 47,657 | 38,559 |
| Time restriction expired | <u>15,853</u> | <u>7,955</u> |
| Total restrictions released | <u>\$63,510</u> | <u>\$46,514</u> |

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments appearing on the accompanying consolidated statements of financial position for which it is practicable to estimate that value.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.

Collateral Received Under Securities Lending Program and Payable Under Securities Lending Program

The amounts under securities lending transactions are reported at the original transaction amounts, which approximate fair value.

Accounts Receivable

The carrying amount reported is recorded net of allowance for uncollectible amounts and approximates its fair value.

Pledges, Legacies and Bequests Receivable

The fair value of pledges, legacies and bequests receivable, after allowances for uncollectible pledges, was determined by discounting the expected future cash flows by a risk-free rate of return.

Investments

Investments in marketable securities are stated principally at published market prices. The fair value of other investments is based upon the most recent information obtained from the fund managers.

Assets Held Under Split-Interest Agreements

Assets held by third parties under split-interest agreements consist of numerous arrangements in which a donor establishes and funds a perpetual trust administered by an individual or organization other than the Central Territory. These trusts are recorded at the fair value of the assets contributed to the trust.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Liability for Split-Interest Agreements

The fair value of the liability for split-interest agreements was determined by discounting the expected future cash flows using interest rates for instruments with similar terms and maturities.

Mortgages Notes and Bonds Payable

The fair values of mortgages and notes payable are significantly impacted by the terms of their agreements with HUD for mortgages payable and the deferred payment terms for notes payable. Accordingly, the fair values of these instruments are not readily determinable. The fair value of the variable bonds payable is presumed to approximate the carrying value.

Estimated Liability for Self-Insured Claims

The fair value of the estimated liability for self-insured claims was determined by discounting the expected future cash flows using quoted market interest rates.

NOTE N - CONCENTRATION OF CREDIT RISK

Certain financial instruments subject the Central Territory to concentrations of credit risk. Those financial instruments consist primarily of cash and cash equivalents, receivables, investments and assets held under split-interest agreements. The Central Territory places its cash and cash equivalents with high-credit-quality financial institutions. All of the investments are managed within the guidelines established by the Board of Trustees of the Central Territory which, as a matter of policy, limit the amounts to be invested in various types of securities. Concentration of credit risk with respect to receivables and assets held under split-interest agreements is limited due to the large number of accounts and donors. As of September 30, 2009 and 2008, the Central Territory had no significant concentration of credit risk.

NOTE O - RELATED-PARTY TRANSACTIONS

For fiscal years 2009 and 2008, the Central Territory provided to The Salvation Army National Headquarters (“NHQ”) approximately \$7,308,000 and \$6,036,000, respectively, for World Service Support and approximately \$1,374,000 and \$1,340,000, respectively, for NHQ administrative expenses.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE P - CONTINGENCIES AND COMMITMENTS

Litigation

The Central Territory is a defendant in several lawsuits arising in the normal course of operations. While outside counsel cannot predict the outcome of such litigation, management does not expect the outcome to have a material effect upon the financial position or results of operations of the Central Territory.

Letters of Credit

The Central Territory has three outstanding letters of credit totaling \$5,100,000. These letters of credit were obtained for certain mortgages and to meet legal requirements for a Minnesota state health insurance requirement. The letters of credit are collateralized by the Central Territory's investment portfolio and expire in November and December 2009. The two mortgage-related letters of credit, for \$2,750,000 and \$1,350,000, were subsequently renewed with an expiration date of May 2010. A letter of credit for \$1,000,000 for the Minnesota state health insurance requirement was subsequently renewed with an expiration date of March 2010. No amounts have been drawn against these letters of credit.

Construction Commitments

At September 30, 2009, the Central Territory had commitments for the construction of new corps, camps, family thrift stores and adult rehabilitation centers totaling approximately \$19,732,000.

Other Commitments

The Central Territory has entered into deductible and security agreements with two insurance companies that obligate the Central Territory to provide security of payments under the policies. To meet the request for security, the Central Territory has hypothecated approximately \$12,166,000 of marketable securities. No amounts have been drawn against these securities.

The Salvation Army Central Territory
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
September 30, 2009 and 2008

NOTE P - CONTINGENCIES AND COMMITMENTS - Continued

Leases

The Central Territory leases certain buildings for use in its adult rehabilitation center operations. Future minimum rental payments as of September 30, 2009 are as follows (in thousands):

Years ending September 30.

| | |
|---------------------|-----------------|
| 2010 | \$ 10,681 |
| 2011 | 8,725 |
| 2012 | 6,382 |
| 2013 | 3,569 |
| 2014 | 1,617 |
| 2015 and thereafter | <u>3,774</u> |
| Total | <u>\$34,748</u> |

Total rent expense under these agreements was \$14,365,000 and \$13,195,000 and for fiscal years 2009 and 2008 respectively.

NOTE Q - GIFT FROM THE JOAN B. KROC TRUST

In October 2003, NHQ was notified by legal counsel to philanthropist Joan B. Kroc that The Salvation Army National Corporation (the "National Corporation") was the residual beneficiary of an inter vivos trust (the "Trust") established by Mrs. Kroc that became irrevocable upon her death. The Trust agreement provides that the National Corporation is to receive any assets remaining in the Trust after payment of specific bequests, debts, claims and expenses. Expenses payable by the Trust include estate, inheritance and transfer taxes associated with Mrs. Kroc's entire estate. Assets distributable to the National Corporation are to be allocated and transferred in equal shares to the four Territories of The Salvation Army in the United States, to be used for certain purposes described in the Trust agreement.

As of September 30, 2008, the trustees had distributed approximately \$1.73 billion to the National Corporation, with the Central Territory receiving \$431,925,000. In 2009, the trustees distributed the residual of the trust to the National Corporation totaling approximately \$78,500,000, with the Central Territory receiving \$19,623,000. In February 2010, the National Corporation distributed an additional \$2,800,000, with the Central Territory receiving \$700,000. The Central Territory has recorded \$350,000 of this additional amount in temporarily restricted legacy contribution income and \$350,000 in permanently restricted legacy contribution income in the accompanying 2009 consolidated statement of activities.