SALAMA URBAN MINISTRIES, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018

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PURYEAR &
NOONAN, CPAs

Independent Auditor's Report

To the Board of Directors of
Salama Urban Ministries, Inc.
Nashville, TN

Report on the Financial Statements
We have audited the accompanying financial statements of Salama Urban Ministries, Inc. (the Organization) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Auditor's report continued on next page)

40 Burton Hills Blvd. | Suite 170 | Nashville, TN 37215 p: (615) 296-0500 | f: (615) 296-0493
Six Corporate Centre, 830 Crescent Centre Drive, Suite 320, Franklin, TN 37067 pn-cpas.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salama Urban Ministries, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Puryear & Noonan, CPAs PLLC

Puryear & Noonan, CPAs
July 24, 2019

Salama Urban Ministries, Inc.
Statement of Financial Position
June 30, 2018

Assets

Current Assets	
Cash	$ 1,883,103
Receivables & Other Current Assets	55,094
Total Current Assets	1,938,197
Property and Equipment	
Equipment	220,156
Furniture & Fixtures	69,000
Vehicles	68,598
Costumes	16,175
Software	64,254
Accumulated Depreciation	(431,123)
Net Property and Equipment	7,060
Total Assets	$ 1,945,257

Liabilities and Net Assets

Current Liabilities	
Accounts Payable & Accrued Expenses	$ 29,020
Total Current Liabilities	29,020
Total Liabilities	29,020
Net Assets	
Without Donor Restrictions	1,907,698
With Donor Restrictions	8,539
Total Net Assets	1,916,237
Total Liabilities and Net Assets	$ 1,945,257

Salama Urban Ministries, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support			
Contributions	$ 404,882	$ 7,780	412,662
In-Kind Contributions	42,000	-	42,000
Government and Foundation Grant Revenue	235,848	3,450	239,298
Fundraising Events	147,609	-	147,609
Tuition Revenue	31,320	-	31,320
Other Revenue	1,497,863	-	1,497,863
Net assets released from Restriction	12,016	(12,016)	-
Total Revenues and Support	2,371,538	(786)	2,370,752
Expenses			
Program Services	538,899	-	538,899
Fundraising	134,586	-	134,586
General and Administrative	164,652	-	164,652
Total Expenses	838,137	-	838,137
Change in Net Assets	1,533,401	(786)	1,532,615
Net Assets, Beginning of the Year	374,297	9,325	383,622
Net Assets, End of the Year	$ 1,907,698	$ 8,539	$ 1,916,237

See Independent Auditor's Report and Notes to the Financial Statements

Salama Urban Ministries, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash Flows from Operating Activities	
Change in Net Assets	$ 1,532,615
Adjustments to Reconcile Change in Net Assets	
to Net Cash Provided by Operating Activities	
Depreciation	8,959
Gain on Sale of Property	(1,492,362)
Changes in Assets and Liabilities	
Increase in Receivables & Other Current Assets	(2,681)
Increase in Accounts Payable & Accrued Expenses	516
Total Adjustments	(1,485,568)
Net Cash Provided by Operating Activities	47,047
Cash Flows from Investing Activities	
Purchase of Equipment	(3,830)
Proceeds from Sale of Property	2,241,360
Net Cash Provided by Investing Activities	2,237,530
Cash Flows from Financing Activities	
Payments on Lines of Credit	(503,218)
Net Cash Provided by Financing Activities	(503,218)
Net Increase in Cash	1,781,359
Cash, Beginning of the Year	101,744
Cash, End of Year	$ 1,883,103
Supplemental Cash Flow Information:	
Interest Paid	$ 11,675

See Independent Auditor's Report and Notes to the Financial Statements

Salama Urban Ministries, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services	General and Administrative	Fundraising	Total
Salaries & Benefits	$ 299,473	$ 106,396	$ 71,727	$ 477,596
Rent	56,362	2,820	2,820	62,002
Special Events	-	-	45,713	45,713
Depreciation Expense	8,063	448	448	8,959
Utilities	28,118	1,432	-	29,550
Vehicles & Transportation	18,119	328	-	18,447
Professional Fees	35,407	12,747	-	48,154
Interest Expense	9,506	2,169	-	11,675
Repairs & Maintenance	4,454	8,349	-	12,803
Office Expenses	13,632	2,788	39	16,459
Janitorial	13,658	1,792	-	15,450
Other Expenses	3,512	5,284	1,677	10,473
Food Expenses	21,927	-	-	21,927
Software & IT	-	12,484	2,142	14,626
Promotion	-	-	4,073	4,073
Benevolence	3,969	-	-	3,969
Staff Development	1,055	2,797	-	3,852
Insurance	3,437	157	-	3,594
Telephone & Communications	8,059	523	-	8,582
Dues & Subscriptions	1,291	1,740	1,823	4,854
Printing	-	-	2,011	2,011
Equipment Rental	2,632	89	-	2,721
Postage	551	55	1,896	2,502
Hospitality	44	835	217	1,096
Kitchen Expenses	2,314	1,419	-	3,733
Curriculum	1,506	-	-	1,506
Music	1,810	-	-	1,810
Total Functional Expenses	$ 538,899	$ 164,652	$ 134,586	$ 838,137

See Independent Auditor's Report and Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business Activity

For more than 20 years, Salama (Swahili for peace) (the Organization) has served Nashville families and youth through providing life-changing programs that both equip youth with skills needed for success in life and nurture lives of integrity and hope through the foundation of faith.

The Salama Institute, established by the Organization in 2007, is a program that develops value guided leaders through offering a year-round, five-day-per-week experience for youth Pre-K through grade twelve. The program focuses on skill development in the areas of academics, the arts and leadership, all from a faith-based perspective.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting which means that revenues are recognized when earned and expenses are recorded when incurred. The significant accounting policies of the Organization are described below to enhance the usefulness of the financial statements to the reader.

Tuition Revenues

Tuition revenue is recognized in the period in which the related educational instruction is performed. The average monthly enrollment of the Salama Institute averages approximately 70 students. Approximately 2% of instruction and administration expenses of the Institute are paid by tuition. The remaining costs are funded with contributions from various donors, in addition to financial aid and tuition discounts granted by the Organization.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

For financial statement presentation, the Organization reports its financial information according to three classes of net assets (unrestricted net assets, temporarily restricted net assets and permanently restricted net assets) based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be designated for specific purposes by action of the Board of Directors..

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities, contributions, event income and rental income. Non-operating activities are limited to resources that generate return from investments, permanently restricted contributions, net assets released for capital expenditures, and other activities considered to be of a more unusual or non-recurring nature.

Cash and Cash Equivalents

Cash and cash equivalents are liquid assets with minimal interest rate risk and original maturities of three months or less when purchased. Such assets primarily consist of depository account balances and money market funds. The Organization had no cash equivalents at June 30, 2018.

Donated Goods & Services

Donated services that require specialized skills and would be purchased if not provided by the donor are recognized as support and expenses based on the fair value of the services received.

In-kind donations of tangible assets and use of facilities are recognized at fair value when received by the Organization.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line and various accelerated methods based on the following estimated useful lives of the assets:

Description	Estimated Useful Life
Furniture & Fixtures	5 - 7 years
Equipment & Vehicles	5 years
Costumes	5 years
Software	3 years

Depreciation expense for the year ended June 30, 2018 amounted to $8,959. Significant additions and betterments are capitalized. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred.

The Organization sold the land and building they occupied to a third party developer on October 13, 2017 for $2,241,360. A portion of the proceeds from the sale were used to pay off the remaining debt and the line of credit. The Organization is now leasing the building from the developer (See Note 8).

Classification of Expenses
Expenses are classified functionally as a measure of service efforts and accomplishments. Direct expenses, incurred for a single function, are allocated entirely to that function. Joint expenses applicable to more than one function are allocated on the basis of objectively summarized information or management estimates.

Program and Supporting Services – Functional Allocation
The following program and supporting services are included in the accompanying financial statements:

Program services - include activities carried out to fulfill the Organization's mission, resulting in services such as job-training, humane education, pet adoptions through the retail store, housing and case management and other programs conducted by the Organization.

Supporting services

Management and general - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program, event or fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, business management, record keeping, budgeting, financing, and other administrative activities.

Fundraising and special events - includes cost of activities directed toward appeals for financial support, including special event costs including food, space rental, entertainment, communication, wait staff, etc. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Income Taxes

The Organization is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and therefore, no provision for federal or state income taxes is applicable.

The Organization has adopted the guidance in Accounting Standard Codification (ASC) 740 on accounting for uncertainty in income taxes. For all tax positions taken by the Organization, management believes it is clear that the likelihood is greater than 50 percent that the full amount of the tax positions taken will be ultimately realized. Therefore management believes that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for the open tax years (2016 – 2018). The Organization identifies its major tax jurisdiction's as the U.S. Federal and the State of Tennessee. However the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions. The Organization is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change in the next twelve months. The Organization incurred no interest or penalties during the year ended June 30, 2018.

Fair Value Measurements

The Organization follows ASC 820-10, Fair Value Measurements, with respect to its financial assets and liabilities. ASC 820-10 defines fair value and establishes a framework for measuring fair value under generally accepted accounting principles. The current practice includes: (1) the definition of fair value, which focuses on an exit price rather than on entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions, and credit standing; and (3) the expanded disclosures about fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

> **Level 1** – Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.
>
> **Level 2** – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Organization's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available. These inputs may be supported by little or no market activity.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

GAAP requires disclosure of an estimate of fair value of certain financial instruments. The Organization's significant financial instruments are cash, accounts receivable, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair values.

NOTE 2 – ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Organization has $1,938,147 of financial assets consisting of cash and accounts receivable, of which $8,539 is subject to donor restrictions, therefore, leaving $1,928,608 available within one year of the Statement of Financial Position date to meet operating needs for general expenditures. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

NOTE 4 – CREDIT RISK

The Organization maintains its cash in bank deposit accounts that at times may exceed the federally insured limit of $250,000.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Organization operated as a ministry of Christ Presbyterian Church for several years until it organized as a separate non-profit 501(c)(3) organization in 1993.

The Organization maintained a lease agreement with Christ Presbyterian Church, which owned a building occupied by the Organization. The rental agreement between the parties called for annual rental payments by Salama Urban Ministries, Inc. of $1. An in-kind gift of $42,000 has been recorded to reflect the value of the donated space. All leasehold improvements to the property were paid for by the Organization and were included in the balance sheet as "Leasehold Improvements". The Organization along with Christ Presbyterian Church sold the land and property to a third party developer in October 2017.

NOTE 6 – LINES OF CREDIT

The Organization paid off a promissory note and an unsecured line of credit in the amount of $503,218, in conjunction with the sale of the land and property. Interest on those notes were paid monthly at the lender's base rate rounded to the nearest 0.125% with a floor of 3.95%.

NOTE 7 – EMPLOYEE POST-RETIREMENT BENEFIT PLAN

The Organization participates in the PCA Retirement plan which is a defined contribution plan. The Organization matches 50% of employee contributions up to 3% of the employee’s salary. Employees are eligible to participate in the plan after 1 year of employment. During fiscal year ended June 30, 2018, the Organization incurred $3,053 of expense related to matching contributions.

NOTE 8 - LEASES

The Organization leases facilities from the third party developer who purchased the property. The lease agreement calls for monthly rent of $1,661 and expires October 13, 2019. Also, the Organization leases several pieces of office equipment. Lease expense for the fiscal year ended June 30, 2018 totaled $23,492. Future minimum lease payments for the leases are as follows:

2019	2020	Thereafter	Total
$28,908	$13,587	$545	$43,040

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 24, 2019, the date that the financial statements were available to be issued.

NOTE 10 – RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. For non-public entities, the new standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, the FASB issued ASU 2015-4, "Revenue from Contracts with Customers (Topic 606) – Deferral of Effective Date," which deferred the effective date for one year. Accordingly, this ASU will be effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating the effect the provisions of ASU 2014-09 will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases" (ASC 842), which requires lessees to recognize assets and liabilities for most leases. The recognition measurement, and presentation of expenses and cash flows arising from a lease by a lessee is not expected to significantly change under such guidance. The standard will be effective for annual reporting periods beginning after December 15, 2019. Accordingly, this ASU will be effective for the Organization for the year ending June 30, 2021. The Organization is currently evaluating the impact that adoption of the ASU will have on the Organization's financial position and results of operations.