



SALAMA URBAN MINISTRIES, INC.

**Audited Financial Statements
and Supplemental Information**

December 31, 2004 and 2003

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Independent Auditors' Report

the Board of Directors
Salama Urban Ministries, Inc.

We have audited the accompanying statements of financial position of Salama Urban Ministries, Inc. (a nonprofit organization) as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salama Urban Ministries, Inc. as of December 31, 2004 and 2003 and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Price CPAs, PLLC
May 5, 2005

SALAMA URBAN MINISTRIES, INC.

Statements of Financial Position

December 31, 2004 and 2003

ASSETS

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash	\$ 82,274	\$ 142,634
Other Receivable	5,000	5,678
Prepaid Expenses	498	645
	<u>87,772</u>	<u>148,957</u>
 PROPERTY, PLANT AND EQUIPMENT		
Building Improvements	709,792	697,302
Equipment	48,993	44,986
Furniture and Fixtures	33,894	32,364
Vehicles	51,808	51,808
Costumes	16,175	16,175
Accumulated Depreciation	<u>(172,880)</u>	<u>(134,380)</u>
	<u>687,782</u>	<u>708,255</u>
 OTHER ASSETS	<u>99,615</u>	<u>99,615</u>
 TOTAL ASSETS	<u><u>\$ 875,169</u></u>	<u><u>\$ 956,827</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 13,922	\$ 44,583
Line of Credit	150,000	155,000
Note Payable, due within one year	-	85,000
	<u>163,922</u>	<u>284,583</u>
 LONG-TERM LIABILITIES		
Note Payable, due after one year	<u>30,000</u>	<u>-</u>
 Total Liabilities	<u>193,922</u>	<u>284,583</u>
 NET ASSETS		
Unrestricted	583,527	530,336
Temporarily Restricted	<u>97,720</u>	<u>141,908</u>
	<u>681,247</u>	<u>672,244</u>
 TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 875,169</u></u>	<u><u>\$ 956,827</u></u>

See Independent Auditors' Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Statements of Activities
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
Contributions	\$ 529,538	\$ 564,583
Interest Income	238	330
Net Assets Released from Restrictions	154,838	97,704
Total Unrestricted Revenues	<u>684,614</u>	<u>662,617</u>
EXPENSES		
Program	306,834	534,756
Administrative	318,012	145,169
Fundraising	6,577	4,794
Total Unrestricted Expenses	<u>631,423</u>	<u>684,719</u>
 Net Change in Unrestricted Net Assets	 53,191	 (22,102)
 CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	\$ 110,650	\$ 204,324
Net Assets Released from Donor Restrictions	(154,838)	(97,704)
 Net Change In Temporarily Restricted Net Assets	 (44,188)	 106,620
 Increase in Net Assets	 9,003	 84,518
 NET ASSETS AT BEGINNING OF YEAR	 <u>672,244</u>	 <u>587,726</u>
 NET ASSETS AT END OF YEAR	 <u><u>\$ 681,247</u></u>	 <u><u>\$ 672,244</u></u>

See Independent Auditors' Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Statements of Cash Flows
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 9,003	\$ 84,518
Adjustments to Reconcile Net Assets to Net Cash		
Provided by Operating Activities		
Depreciation	38,500	35,021
Increase (Decrease) in Prepaid Expenses	147	(645)
Increase (Decrease) in Accounts Payable	(30,661)	8,481
Net Cash Provided by Operating Activities	<u>16,989</u>	<u>127,375</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Disposal of Property and Equipment	-	(28,346)
Purchase of Property and Equipment	(18,027)	(5,678)
Purchase of Investments	(5,000)	-
Proceeds from Sale on Investments	5,678	-
Purchases of Other Assets	-	(14,615)
Net Cash Used by Investing Activities	<u>(17,349)</u>	<u>(48,639)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable	(55,000)	-
Principal Payments on Line of Credit	(5,000)	-
Net Cash Used by Financing Activities	<u>(60,000)</u>	<u>-</u>
Net Change in Cash	(60,360)	78,736
Cash at Beginning of Year	<u>142,634</u>	<u>63,898</u>
Cash at End of Year	<u><u>\$ 82,274</u></u>	<u><u>\$ 142,634</u></u>
SUPPLEMENTAL INFORMATION		
Non-Cash Investing and Financing Activities		
Other assets acquired through installment note obligation	<u><u>\$ -</u></u>	<u><u>\$ 85,000</u></u>
Cash Paid During the Year for Interest	<u><u>\$ 13,680</u></u>	<u><u>\$ 12,526</u></u>

See Independent Auditors' Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements
December 31, 2004 and 2003

Note 1 – Nature of Entity

Salama Urban Ministries, Inc. (the “Organization”) is a community-based, church-sponsored youth organization, located in the Edgehill Community in Nashville, Tennessee, which develops and nurtures Judeo-Christian family values and discipleship. Edgehill youth and their families are instructed and encouraged to embrace Christ-honoring lifestyles and to pursue training and education to prepare for the future. The purpose of this training and education is to equip them to become productive citizens and future leaders in the Edgehill Community and in any community in the world. The Organization serves as a support system for the youth and assists them in developing self-confidence, self-esteem and ultimately self-sufficiency in Christ Jesus.

Note 2 – Significant Accounting Policies

Method of Accounting

The financial statements of the Organization have been prepared utilizing the accrual basis and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

Net Assets

The net assets, as well as, revenues, expenses, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified and reported as follows:

Unrestricted

Unrestricted net assets are those resources available for current operation, with no donor restrictions. To the extent that assets were acquired with monies free of donor restriction, they are reported as unrestricted in the accompanying statement of financial position.

Temporarily Restricted

Temporarily restricted net assets consist of resources that have been restricted by donors for program activities. The Organization has elected to present those temporarily restricted contributions the requirements of which are met in the year of donation, as unrestricted. Assets acquired with monies restricted for that purpose by donors are reported as temporarily restricted.

Permanently Restricted

Permanently restricted net assets are those assets limited by donor-imposed stipulations that neither expire with time or can be fulfilled or otherwise removed by actions. There were no permanently restricted net assets at December 31, 2004.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2004 and 2003

Note 2 – Significant Accounting Policies (Continued)

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash equivalents consist of short-term highly liquid investments that are readily convertible into cash within ninety (90) days of purchase.

Property and Equipment

Property and equipment are carried at cost, or if donated, at the approximate fair value at the date of donation. Depreciation expense for the years ended 2004 and 2003 was \$38,500 and \$35,021, respectively. Routine repairs and maintenance are expensed as incurred. Depreciation is calculated on the straight-line method and various accelerated methods over the estimated useful lives of the assets as follows:

<u>Description</u>	<u>Estimated Useful Life</u>
Buildings and Land Improvements	15 - 39 years
Furniture, Equipment and Vehicles	5 - 7 years

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Financial Instruments

The fair value of the Organization's financial instruments approximates carrying values.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (continued)
December 31, 2004 and 2003

Note 2 – Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been presented on a functional basis in the Schedule of Functional Expenses as supplemental information. Salaries and other expenses which benefit more than one program are allocated to the various programs based on the relative benefit provided. Administrative and other support expenses are allocated to the various programs based on each program's operating expenses.

Use of Estimates

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

Note 3 – Note Payable

The Organization had a \$85,000 promissory note with AmSouth Bank, accruing interest at a fixed rate of 4.75%, with quarterly interest payments due only. The note matured May 26, 2004. At December 31, 2004 and 2003, the balance was \$30,000 and \$85,000, respectively. The note is secured by real property.

On February 10, 2005, the Organization renegotiated the promissory note with AmSouth Bank. The note will have an original principal amount of \$30,000, accruing interest at a fixed rate of 6.5%, with monthly interest payments due only. The note will mature on February 10, 2010.

Note 4 – Concentration of Credit Risk

The Federal Depository Insurance Corporation insures deposits at financial institutions up to \$100,000. The Organization maintains balances at regional financial institutions that may, at times exceed these federally insured limits. At December 31, 2004, balances did not exceed the federally insured limit. At December 31, 2003, the amount in excess of insured limits was approximately \$4,651.

The Organization's major source of revenue is derived from Christ Presbyterian Church (see Note 6), as well as from other individuals in the Nashville area.

Note 5 – Temporarily Restricted Net Assets

As of December 31, 2004 and 2003, temporarily restricted net assets consist of amounts restricted for use for the Summer of Champions and Educational Ministries programs of \$97,720 and \$141,908, respectively.

Note 6 – Related Party Transactions

The Organization maintains a line of credit with Christ Presbyterian Church in the amount of \$300,000. The line of credit accrues interest at rate of 6.75% and expires December 31, 2005. The balance due at December 31, 2004 and 2003 was \$150,000 and \$155,000, respectively.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2004 and 2003

Note 6 – Related Party Transactions (Continued)

The Organization maintains a lease agreement with Christ Presbyterian Church, which owns the building occupied by the Organization. The rental agreement between the parties calls for annual rental payments by Salama Urban Ministries, Inc. of \$1 through 2012.

The Organization receives contributions from Christ Presbyterian Church sufficient to cover the Organization's administrative payroll and related expenses. These amounts are recorded as unrestricted revenue and allocated accordingly among the program expenses. For the years ending December 31, 2004 and 2003, the amount of related party contributions totaled \$258,082 and \$260,199, respectively.

The Organization purchased real property during 2003 for the benefit of Christ Presbyterian Church (note 7).

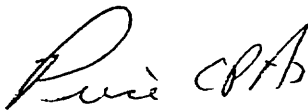
Note 7 – Commitment

During 2003, the Organization acquired real property at a cost of \$99,615 via an unsecured loan from AmSouth Bank in the amount of \$85,000. The property is to be held by a Trustee until the note has been paid in full, at which time the Trustee will assign all title and interest in the real property to Christ Presbyterian Church, with no monetary consideration to be paid by Christ Presbyterian Church.

Independent Auditors' Report on Supplemental Information

To the Board of Directors
Salama Urban Ministries, Inc.

Our report on our audit of the basic financial statements of Salama Urban Ministries, Inc. for the years ended December 31, 2004 and 2003 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following information on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Price CPAs, PLLC
May 5, 2005

Salama Fellowship Urban Ministries, Inc.
Schedule of Functional Expenses
For the Year Ended December 31, 2004

	Program Services																Support	
	Children's Ministry	Children's Institute	Youth Ministry	College	Adult	Scholarship Program	Special Projects	Summer of Champions Performing Arts	Summer of Champions	Summer of Champions Enhancement	Performing Arts Broadway Shows	Performing Arts Institute	Performing Arts Series	Community Services	Costume Company	Total Program	Administration & Facility	Fund Raising
Direct Expenses																		
Salaries & Wages	\$ 6,000	\$ 600	\$ 5,585	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,376	\$ 19,511	\$ -	\$ 14,630	\$ -	\$ -	\$ -	\$ 69,702	\$ 6,000	\$ -
Scholarships	-	-	-	1,000	-	3,736	-	-	-	-	-	-	-	-	-	4,736	-	-
Donations & Benevolence	-	-	-	570	3,884	-	3,192	-	-	-	-	-	-	100	-	7,746	-	-
Supplies & Curriculum	2,497	707	827	-	-	344	-	993	1,530	3,855	-	567	1,049	-	-	12,369	-	-
Activity	349	-	1,033	-	-	-	-	-	-	-	-	5,000	5,000	-	-	11,382	-	-
Refreshments	235	-	864	-	-	-	-	595	9	9	-	2,851	-	-	-	4,563	-	-
Payroll Taxes	461	46	427	-	-	-	-	-	1,824	1,529	-	1,119	-	-	-	5,406	-	-
Taxes and Licenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,000	-
Group Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,000	-
Retreats/Camps	-	-	-	-	-	-	-	-	-	5,357	-	-	-	-	-	5,357	-	-
Christmas	696	-	-	-	-	-	-	-	-	-	-	-	-	-	-	696	-	-
Mother's Day Celebration	420	-	-	-	-	-	-	-	-	-	-	-	-	-	-	420	-	-
Make and Take	-	303	-	-	-	-	-	-	-	-	-	-	-	-	-	303	-	-
GNC Birthday Club	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Diversity Education	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Volunteer Expense	957	-	-	-	-	-	-	-	625	125	-	-	-	27	-	1,734	500	-
Transportation	-	-	-	-	-	-	-	580	1,202	1,514	-	-	7,100	-	-	10,396	7,200	-
Costume Company Expense	-	-	-	-	-	-	-	488	-	-	-	839	-	-	-	1,327	-	-
Telephone	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,200	-
Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	113,700	-
Internet Expense	-	-	-	-	-	239	-	-	-	-	-	-	-	-	-	239	-	-
Institute Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,300	-
Staff Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,900	-
Student Incentives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fund Raising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,500
Set Up/Tear Down	-	-	-	-	-	-	-	310	-	-	-	-	-	-	-	310	-	-
Printing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,100	-
Postage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,000	-
Computer Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,200	-
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,000	-
Equipment Rental	-	-	-	-	-	-	-	1,660	-	-	-	531	200	-	-	2,391	3,300	-
Repairs and Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,000	1,000	110,000	-
Miscellaneous Expenses	80	-	176	100	-	-	-	-	50	29	-	194	14	-	-	643	400	-
Missions	-	-	-	-	125	-	350	-	-	-	-	-	-	-	-	475	-	-
Dues and Subscriptions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	700	-
Teacher Expenses	-	-	-	-	-	-	-	227	227	227	-	-	-	-	-	681	-	-
Pictures	-	-	-	-	-	-	-	-	31	31	-	-	-	-	-	62	-	-
T-Shirts	-	-	-	-	-	-	-	772	427	439	-	-	-	-	-	1,638	-	-

Salama Fellowship Urban Ministries, Inc.
Schedule of Functional Expenses
For the Year Ended December 31, 2004

	Program Services																Support	
	Children's Ministry	Children's Institute	Youth Ministry	College	Adult	Scholarship Program	Special Projects	Summer of Champions Performing Arts	Summer of Champions	Summer of Champions Enhancement	Performing Arts Broadway Show	Performing Arts Institute	Performing Arts Series	Community Services	Costume Company	Total Program	Administrative & Facility	Fund Raising
Direct Expenses																		
Field Trips	-	-	-	-	-	-	-	1,984	387	-	-	-	-	-	-	2,371	-	-
Closing Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Music	-	-	-	-	-	-	-	890	-	-	-	224	482	-	-	1,596	-	-
Instrument Rental	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees	860	2,200	(25)	-	-	-	-	-	1,008	1,008	402	3,500	1,300	-	-	10,253	5,275	-
Professional Fees - Other	-	-	-	-	-	-	-	25,829	-	-	-	16,800	11,400	-	-	54,029	-	-
Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Promotion	-	-	-	-	-	-	-	440	477	477	17	2,926	320	-	-	4,657	1,889	-
Rent	-	-	-	-	-	-	-	1,350	-	-	-	-	1,135	-	-	2,485	5,588	-
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,680	-
In-Kind Contributed Expenses	37,420	-	17,782	-	-	-	-	-	-	-	-	32,665	-	-	-	87,867	170,215	-
Total Direct Expenses	49,975	3,856	26,669	1,670	4,009	4,319	3,542	36,118	31,173	34,111	419	81,846	28,000	127	1,000	306,834	318,012	6,577
Indirect Expenses																		
Administrative	51,796	3,996	27,641	1,731	4,155	4,476	3,671	37,434	32,309	35,354	433	84,828	29,020	132	1,036	318,012	(318,012)	-
Total Expenses	\$ 101,771	\$ 7,852	\$ 54,310	\$ 3,401	\$ 8,164	\$ 8,795	\$ 7,213	\$ 73,552	\$ 63,482	\$ 69,465	\$ 852	\$ 166,674	\$ 57,020	\$ 259	\$ 2,036	\$ 624,846	\$ -	\$ 6,577