



SALAMA URBAN MINISTRIES, INC.
Audited Financial Statements
and Supplemental Information
December 31, 2006 and 2005

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Independent Auditors' Report


To 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, 2006 and 2005, 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, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 9 and 10, inclusive, 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.


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June 19, 2007

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SALAMA URBAN MINISTRIES, INC.
Statements of Financial Position
December 31, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash	\$ 284,156	\$ 116,625
Investments	155,433	8,030
Other Receivable	4,000	-
Prepaid Expenses	700	484
	<u>444,289</u>	<u>125,139</u>
 PROPERTY, PLANT AND EQUIPMENT		
Leasehold Improvements	713,339	709,792
Equipment	63,878	55,010
Furniture and Fixtures	57,024	46,304
Vehicles	68,598	68,598
Costumes	16,175	16,175
Accumulated Depreciation	<u>(246,867)</u>	<u>(207,528)</u>
	672,147	688,351
 OTHER ASSETS	<u>99,615</u>	<u>99,615</u>
 TOTAL ASSETS	<u><u>\$ 1,216,051</u></u>	<u><u>\$ 913,105</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 14,363	\$ 18,796
Accounts Payable-Related Party	10,839	-
Line of Credit	<u>110,000</u>	<u>130,000</u>
	135,202	148,796
 LONG-TERM LIABILITIES		
Note Payable, due after one year	<u>30,000</u>	<u>30,000</u>
 Total Liabilities	165,202	178,796
 NET ASSETS		
Unrestricted	643,631	633,929
Temporarily Restricted	<u>407,218</u>	<u>100,380</u>
	1,050,849	734,309
 TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,216,051</u></u>	<u><u>\$ 913,105</u></u>

See Independent Auditors' Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Statements of Activities
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
Contributions	\$ 641,779	\$ 550,735
Interest Income	1,971	641
Net Assets Released from Restrictions	180,693	182,327
Total Unrestricted Revenues	<u>824,443</u>	<u>733,703</u>
EXPENSES		
Program	557,235	482,371
Administrative	239,364	200,280
Fundraising	18,142	650
Total Unrestricted Expenses	<u>814,741</u>	<u>683,301</u>
Net Change in Unrestricted Net Assets	9,702	50,402
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	487,531	184,987
Net Assets Released from Donor Restrictions	(180,693)	(182,327)
Net Increase in Temporarily Restricted Net Assets	<u>306,838</u>	<u>2,660</u>
Increase in Net Assets	316,540	53,062
NET ASSETS AT BEGINNING OF YEAR	<u>734,309</u>	<u>681,247</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 1,050,849</u></u>	<u><u>\$ 734,309</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 316,540	\$ 53,062
Adjustments to Reconcile Net Assets to Net Cash		
Provided by Operating Activities		
Depreciation	39,639	34,648
Contributions of Property and Equipment	-	(16,790)
<i>Changes in Assets and Liabilities:</i>		
Other Receivable	(4,000)	(3,030)
Prepaid Expenses	(217)	14
Accounts Payable	(4,433)	4,874
Accounts Payable-Related Party	10,839	-
Net Cash Provided by Operating Activities	<u>358,368</u>	<u>72,778</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(23,434)	(18,427)
Purchase of Investments	(155,433)	-
Proceeds from Sale on Investments	8,030	-
Net Cash Used by Investing Activities	<u>(170,837)</u>	<u>(18,427)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Notes Payable	-	-
Principal Payments on Line of Credit	(20,000)	(20,000)
Net Cash Used by Financing Activities	<u>(20,000)</u>	<u>(20,000)</u>
Net Increase in Cash	167,531	34,351
Cash at Beginning of Year	<u>116,625</u>	<u>82,274</u>
Cash at End of Year	<u><u>\$ 284,156</u></u>	<u><u>\$ 116,625</u></u>
Supplemental Disclosures of Cash Flow Information		
Non-cash investing and financing activities		
Property and equipment aquired via contribution	<u>\$ -</u>	<u>\$ 16,790</u>
Cash paid for interest	<u><u>\$ 1,977</u></u>	<u><u>\$ 4,023</u></u>

See Independent Auditors' Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements
December 31, 2006 and 2005

Note 1 – Nature of Activities and Organization

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

Basis of Presentation and Net Assets

The financial statements of Salama Urban Ministries, Inc. are prepared in conformity with the standards promulgated by the Financial Accounting Standards Board in SFAS No. 116 "Accounting for Contributions Received and Contributions Made" and SFAS No. 117 "Financial Statements of Not-for-Profit Organizations."

The financial statements are prepared in accordance with generally accepted accounting principals promulgated in the United States of America for not-for-profit organizations. The Organization therefore reports information about its financial position and activities using three classes of net assets that recognize the existence and nature of restrictions on its net assets.

Unrestricted net assets represent resources over which the Board of Directors has unlimited discretionary control to carry out the activities of the organization in accordance with the Articles of Incorporation and By-laws.

Temporarily restricted net assets represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the organization or by the passage of time.

Permanently restricted net assets represent resources whose use is limited by donor-imposed restrictions that require the net assets to be maintained permanently. The Organization currently has no permanently restricted net assets.

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.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2006 and 2005

Note 2 – Significant Accounting Policies (Continued)

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.

Investments

In accordance with SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Market values for investments are based on quoted market prices. Unrealized gains and losses are included in the statement of activities and changes in net assets as part of investment income.

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 2006 and 2005 was \$39,639 and \$34,648, 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

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments approximate the carrying values of such amounts.

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.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (continued)
December 31, 2006 and 2005

Note 2 – Significant Accounting Policies (Continued)

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 has a \$30,000 promissory note with AmSouth Bank related to the purchase of real property (see Note 7), accruing interest at a fixed rate of 6.50%, with monthly interest payments due only. The note matures February 10, 2010 and is secured by real property. At December 31, 2006 and 2005, the balance was \$30,000, respectively.

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, 2006, the Organization had approximately \$88,668 in excess of federally insured limits. At December 31, 2005, balances did not exceed the federally insured limit.

The Organization's major source of revenue is derived from Christ Presbyterian Church (see Note 7), as well as from other individuals in the Nashville area.

Note 5 – Temporarily Restricted Net Assets

As of December 31, 2006 and 2005, temporarily restricted net assets consist of amounts restricted for use for the Summer of Champions and Educational Ministries programs, and the Building for Excellence Capital Campaign of \$407,218 and \$100,380, respectively.

Note 6 – Building Lease

During 2006, the Organization is entered into a non-cancelable operating lease agreement for real property. Rent expense totaled \$15,000 for the year ended December 31, 2006. The lease expires July 31, 2008.

Future minimum lease payments under this lease are as follows:

For the Year Ending <u>December 31,</u>	<u>Amount</u>
2007	\$ 36,000
2008	21,000
	<u>\$ 57,000</u>

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2006 and 2005

Note 7 – 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 no interest and expires December 31, 2007. The balance due at December 31, 2006 and 2005 was \$110,000 and \$130,000, respectively. Effective January 2007, the line of credit has been paid in full. See Note 9.

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. All leasehold improvements are paid for by the Organization and are included in the balance sheet as "Leasehold Improvements."

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 ended December 31, 2006 and 2005, the amount of related party contributions totaled \$265,750 and \$274,121, respectively.

The Organization purchased real property during 2003 for the benefit of Christ Presbyterian Church (see Notes 3 and 8).

As of December 31, 2006, the Organization has a balance due to Christ Presbyterian Church in the amount of \$10,839, which is included in the Statement of Financial Position as "Accounts Payable – Related Party." There were no such amounts due as of December 31, 2005.

Note 8 – Commitment

The Organization acquired real property at a cost of \$99,615 via a loan from AmSouth Bank in the amount of \$85,000 (see Note 3). The property is reflected in the accompanying balance sheet as "Other Assets." 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.

Note 9 – Subsequent Event

Effective January 2007, the line of credit and the note payable have been paid in full. See Notes 3 and 8, respectively