Salama

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SALAMA URBAN MINISTRIES, INC.
Audited Financial Statements
and Supplemental Information
December 31, 2012 and 2011

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Salama Urban Ministries, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years 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 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 audit to obtain reasonable assurance about whether the financial statements are free from 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.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Price CPAs

Price CPAs, PLLC
Nashville, TN
September 16, 2013

SALAMA URBAN MINISTRIES, INC.
Statements of Financial Position
December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash	$ 118,069	$ 49,160
Investments	-	12,581
Contribution receivable	-	2,758
Other current assets	964	938
	119,033	65,437
PROPERTY AND EQUIPMENT		
Building	418,967	418,967
Leasehold improvements	730,437	726,436
Equipment	209,753	206,793
Furniture and fixtures	69,000	69,000
Vehicles	68,598	68,598
Costumes	16,175	16,174
Software	64,254	64,254
Accumulated depreciation	(672,370)	(623,641)
	904,814	946,581
OTHER ASSETS		
Loan costs, net	-	1,755
TOTAL ASSETS	$ 1,023,847	$ 1,013,773

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Lines of credit	$ 476,240	$ -
Accounts payable	29,099	5,757
Accounts payable-related party	-	20,000
Deferred revenue	45,168	-
Note payable, due within one year	-	425,336
Other current liabilities	51,471	41,902
	601,978	492,995
LONG-TERM LIABILITIES		
Line of credit	-	100,500
Total Liabilities	601,978	593,495
NET ASSETS		
Unrestricted	421,869	420,278
TOTAL LIABILITIES AND NET ASSETS	$ 1,023,847	$ 1,013,773

See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2012 and 2011

	2012	2011
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE AND SUPPORT		
Contributions	$ 810,952	$ 715,325
In-kind contributions	-	126,005
Grant revenue	29,800	132,567
Tuition revenue	19,462	18,752
Net assets released from restrictions	103,580	15,479
Total Unrestricted Revenues	963,794	1,008,128
EXPENSES		
Program	749,897	776,971
Administrative	102,924	115,134
Fundraising	109,382	85,674
Total Unrestricted Expenses	962,203	977,779
Net Increase in Unrestricted Net Assets	1,591	30,349
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	103,580	15,479
Net assets released from restrictions	(103,580)	(15,479)
Net Change in Temporarily Restricted Net Assets	-	-
Increase in Net Assets	1,591	30,349
NET ASSETS AT BEGINNING OF YEAR	420,278	389,929
NET ASSETS AT END OF YEAR	$ 421,869	$ 420,278

See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 1,591	$ 30,349
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation and amortization	50,484	52,772
Contributed Investments	-	(12,581)
Changes in Assets and Liabilities:		
Contribution receivable	2,758	(2,758)
Other current assets	(26)	300
Accounts payable	23,342	(13,094)
Accounts payable-related party	(20,000)	(64,793)
Deferred revenue	45,168	(61,667)
Other current liabilities	9,569	41,123
Net Cash Provided (Used) by Operating Activities	112,886	(30,349)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(6,962)	(104)
Proceeds from sale of investments	12,581	-
Net Cash Provided (Used) by Investing Activities	5,619	(104)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Payments on lines of credit	(49,596)	-
Net Cash Used by Financing Activities	(49,596)	-
Net Change in Cash	68,909	(30,453)
Cash at Beginning of Year	49,160	79,613
Cash at End of Year	$ 118,069	$ 49,160
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 26,977	$ 32,629

See Independent Auditor's Report and Notes to Financial Statements

Note 1 – Nature of Activities and Organization

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.

Note 2 – Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Presentation and Net Assets

The financial statements of the Organization are prepared in conformity with the standards promulgated by the Financial Accounting Standards Board in FASB ASC 958-605 (formerly SFAS No. 116), *Accounting for Contributions Received and Contributions Made* and FASB ASC 958-225 (formerly SFAS No. 117), *Financial Statements of Not-for-Profit Organizations.*

The financial statements are prepared in accordance with generally accepted accounting principles promulgated in the Unites 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 its Articles of Incorporation and By-laws. The Board of Directors may designate portions of its unrestricted net assets as board designated for various purposes.

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. The Organization currently has no temporarily restricted net assets.

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.

Note 2 – Significant Accounting Policies (Continued)

Revenue Recognition

The Organization recognizes contributions when received and 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. Revenue from cost reimbursement grants and program fees are recognized as revenue in the period in which the costs are incurred and the service is provided.

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 75 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. Tuition revenues for the years ended December 31, 2012 and 2011 totaled $19,462 and $18,752 respectively.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be reserved to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability.

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

- Investments: Investments in marketable securities are valued at quoted market prices for the identical security in the active market.
- Current Assets and Liabilities: The carrying values of these items approximate their fair values due to the short maturities of these instruments.

Note 2 – Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (continued)

- Other Assets and Liabilities: The carrying values of these items reflect cost which management believes approximates fair value.
- Long-Term Debt: The carrying value of long-term debt, based on borrowing rates currently available to the Organization, approximates fair value.

Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

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 2012 and 2011 was $48,729 and $50,667, 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:

Description	Estimated Useful Life
Building and Leasehold Improvements	7 – 39 years
Furniture and Fixtures	5 – 7 years
Equipment and Vehicles	5 years
Costumes	5 years
Software	3 years

Long-lived assets held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Organization has adopted ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, including the position that the Organization continues to qualify to be treated as a tax-exempt entity for both federal and state income tax purposes. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended December 31, 2012, the Organization has no material uncertain tax positions to be accounted for in the financial statements under these rules. The Organization's Forms 990, *Return of Organization Exempt from Income Tax,* are subject to examination by the IRS generally, for three years after they filed. Annual filings with the State of Tennessee are, similarly, subject to examination.

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, as determined by management. Administrative and other support expenses are allocated to the various programs based on each program's operating expenses.

Deferred Revenue

Deferred revenue is comprised of funds held as of December 31, 2012, which consists of grant funds received to support the Salama Institute during 2013.

Contributed Services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in providing their programs, but these services do not meet the criteria for recognition in the financial statements.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Date of Management's Review

Subsequent events have been evaluated through September 16, 2013, which is the date the financial statements were available to be issued.

Note 3 – Note Payable

As of December 31, 2011, the Organization had an unsecured promissory note with Regions Bank in the amount of $425,336, accruing interest of 6% per year. The note was guaranteed by Christ Presbyterian Church.

Note 4 – Lines of Credit

Effective December 31, 2012, the Organization refinanced its promissory note (Note 3) with an unsecured line of credit with Pinnacle Bank in the amount of $430,000. Interest is paid monthly at the greater of the lender's base rate rounded to the nearest 0.125% or 3.95% (3.95% at December 31, 2012). The principal balance, together with all accrued and unpaid interest, is due on December 7, 2013.

Note 4 – Lines of Credit (Continued)

The Organization maintains an unsecured line of credit agreement with a lending institution in the amount of $100,500. The line of credit accrues interest at the prime rate of the lender plus 3.00% (6.25% as of December 31, 2012 and 2011). Interest is due monthly and the note matures November 18, 2013. Total borrowings on this line of credit were $46,240 and $100,500 as of December 31, 2012 and 2011, respectively.

Note 5 – Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts at regional financial institutions, which at times, may exceed the FDIC limit. The Organization has not experienced any losses in such accounts, therefore, management does not believe the Organization is exposed to any significant credit risk related to cash and cash equivalents.

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 6 – Related Party Transactions

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." Christ Presbyterian Church was also the guarantor of the note payable with Regions Bank. (*See note 3*).

During 2011, the Organization received in-kind contributions from Christ Presbyterian Church, which were recorded as unrestricted revenue and allocated accordingly among the program expenses. In-kind contributions were recorded at their estimated fair value and consist of salaries, payroll taxes and benefits of the Organization's management. Related party in-kind contributions for the years ended December 31, 2012 and 2011 totaled $0 and $126,005 respectively. The Organization also received contributions from Christ Presbyterian Church in the amount of $203,302 and $125,981 in the years 2012 and 2011, respectively.

Scholarship contributions are segregated into a restricted fund to be used for the benefit of selected employees of the Organization. Individuals covered by the scholarship fund may apply for reimbursement of a child's tuition and/or room and board expense as it is incurred or in arrears, as determined by the Board of Directors of the Organization. For the years ended December 31, 2012 and 2011, the Organization's Executive Director was the beneficiary of the scholarship funds totaling $0 and $6,019, respectively.

As of December 31, 2011, the Organization had a balance due to the Organization's Executive Director totaling $20,000, which is included in the Statement of Financial Position as "Accounts Payable – Related Party."

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Supplemental Information
December 31, 2012

SALAMA URBAN MINISTRIES, INC.
Schedule of Functional Expenses
For the Year Ended December 31, 2012

	Program Services			Support	
	Salama Institute	Community Productions & Events	Total Program	Administrative & Facility	Fund Raising
Salaries & Wages	366,893	$ 16,365	$ 383,258	$ 59,317	$ 46,646
Donations & Benevolence	3,318		3,318		
Supplies & Curriculum	5,473		5,473		
Activity	100		100		
Refreshments	8,097		8,097		386
Payroll Taxes	27,374	1,252	28,626	5,186	3,287
Group Insurance	37,062		37,062	6,996	4,697
Insurance	11,605		11,605	1,807	
Volunteer Expense	65		65		
Transportation	41,022		41,022	3,978	
Costume Company Expense		5,074	5,074		
Telephone	7,328		7,328		
Utilities	22,478		22,478	1,183	
Hospitality	626		626	1,316	
Office Supplies	4,733		4,733	1,212	32
Staff Development	60		60	282	
Travel and Lodging	3,653		3,653		
College & Career Prep	350		350		
College & Student Support	2,110		2,110		
Set Up/Tear Down		7,097	7,097		
Printing			-	516	2,030
Postage	854		854	220	1,836
Computer Expenses	1,713		1,713	1,276	3,545
Depreciation	47,960		47,960	2,524	
Janitorial Services	10,692		10,692	-	
Equipment Rental	8,777		8,777	127	
Trash Removal	1,733		1,733	-	
Repairs and Maintenance	8,626		8,626	349	
Miscellaneous Expenses	1,736	1,238	2,974	1,684	1,786
Dues and Subscriptions	2,134		2,134		1,076
Bad Debt Expenses			-	2,820	
Taxes and Licenses			-	130	
Music	68	1,354	1,422		
Professional Fees	11,282	1,000	12,282	10,511	2,250
Professional Fees - Other	24,600	7,900	32,500		
Professional Services	500	11,997	12,497	86	
Promotion	207		207		5,243
Rent	1,460		1,460		
Interest Expense	31,331		31,331	1,404	
Special Events	-	600	600		36,568
Total Expenses	$ 696,020	$ 53,877	$ 749,897	$ 102,924	$ 109,382

See Independent Auditor's Report