



SALAMA URBAN MINISTRIES, INC.
Audited Financial Statements
December 31, 2013 and 2012

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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, 2013 and 2012, and the related statements of activities and changes in net assets, function expenses 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.

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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, 2013 and 2012, and the changes in its net assets, functional allocation and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink, appearing to read "Price CPAs", is positioned above the printed name.

Price CPAs, PLLC

Nashville, TN

October 1, 2014

SALAMA URBAN MINISTRIES, INC.
Statements of Financial Position
December 31, 2013 and 2012

ASSETS		
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash	\$ 237,022	\$ 118,069
Other current assets	50	964
	<u>237,072</u>	<u>119,033</u>
 PROPERTY AND EQUIPMENT		
Building	418,967	418,967
Leasehold improvements	730,437	730,437
Equipment	209,753	209,753
Furniture and fixtures	69,000	69,000
Vehicles	68,598	68,598
Costumes	16,175	16,175
Software	64,254	64,254
Accumulated depreciation	(712,193)	(672,370)
	<u>864,991</u>	<u>904,814</u>
 TOTAL ASSETS	 <u><u>\$ 1,102,063</u></u>	 <u><u>\$ 1,023,847</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Lines of credit	\$ 15,000	\$ 476,240
Accounts payable	27,676	29,099
Deferred revenue	86,125	45,168
Other current liabilities	58,317	51,471
	<u>187,118</u>	<u>601,978</u>
 LONG-TERM LIABILITIES		
Line of credit	<u>430,000</u>	<u>-</u>
 Total Liabilities	 617,118	 601,978
 NET ASSETS		
Unrestricted	<u>484,945</u>	<u>421,869</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 1,102,063</u></u>	 <u><u>\$ 1,023,847</u></u>

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE AND SUPPORT		
Contributions	\$ 856,706	\$ 810,952
Grant revenue	110,625	29,800
Tuition revenue	17,752	19,462
Net assets released from restrictions	6,930	103,580
Total Unrestricted Revenues	<u>992,013</u>	<u>963,794</u>
EXPENSES		
Program	618,277	749,897
Administrative	146,200	102,924
Fundraising	164,460	109,382
Total Unrestricted Expenses	<u>928,937</u>	<u>962,203</u>
Net Increase in Unrestricted Net Assets	63,076	1,591
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	6,930	103,580
Net assets released from restrictions	<u>(6,930)</u>	<u>(103,580)</u>
Net Change in Temporarily Restricted Net Assets	<u>-</u>	<u>-</u>
Increase in Net Assets	63,076	1,591
NET ASSETS AT BEGINNING OF YEAR	<u>421,869</u>	<u>420,278</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 484,945</u></u>	<u><u>\$ 421,869</u></u>

See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Schedule of Functional Expenses
For the Year Ended December 31, 2013

	Program Services			Support	
	Salama Institute	Community Productions & Events	Total Program	Administrative & Facility	Fund Raising
Salaries & Wages	335,261	\$ 2,135	\$ 337,396	\$ 91,607	\$ 60,258
Donations & Benevolence	7,221	-	7,221	-	-
Supplies & Curriculum	5,257	-	5,257	-	-
Refreshments	7,120	-	7,120	-	335
Payroll Taxes	24,151	163	24,314	9,006	3,675
Retirement Expense	721	-	721	769	-
Group Insurance	21,125	-	21,125	945	8,583
Insurance	14,722	-	14,722	182	-
Transportation	20,967	-	20,967	1,305	-
Costume Company Expense	-	1,080	1,080	-	-
Telephone	6,257	-	6,257	-	-
Utilities	23,565	-	23,565	1,213	-
Hospitality	409	-	409	1,932	-
Office Supplies	5,865	-	5,865	4,566	206
Staff Development	50	-	50	277	800
Travel and Lodging	267	-	267	-	-
College & Student Support	2,710	-	2,710	-	-
Set Up/Tear Down	-	1,075	1,075	-	-
Printing	-	-	-	-	212
Postage	1,024	-	1,024	244	1,780
Computer Expenses	12,961	-	12,961	1,107	4,432
Depreciation	37,832	-	37,832	1,991	-
Janitorial Services	10,639	-	10,639	-	-
Equipment Rental	11,589	-	11,589	266	-
Trash Removal	1,767	-	1,767	-	-
Repairs and Maintenance	9,189	-	9,189	1,724	-
Miscellaneous Expenses	1,232	-	1,232	2,679	2,639
Dues and Subscriptions	2,939	-	2,939	-	1,238
Taxes and Licenses	-	-	-	700	-
Music	4	882	886	-	-
Professional Fees	20,274	3,500	23,774	24,404	-
Professional Fees - Other	-	2,600	2,600	-	-
Professional Services	500	2,500	3,000	-	-
Promotion	-	-	-	-	12,357
Rent	1,265	-	1,265	-	1,800
Interest Expense	17,459	-	17,459	1,283	-
Special Events	-	-	-	-	66,145
Total Expenses	\$ 604,342	\$ 13,935	\$ 618,277	\$ 146,200	\$ 164,460

See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 63,076	\$ 1,591
Adjustments to Reconcile Increase in Net Assets to		
Net Cash Provided by Operating Activities		
Depreciation and amortization	39,823	50,484
<i>Changes in Assets and Liabilities:</i>		
Contribution receivable	-	2,758
Other current assets	914	(26)
Accounts payable	(1,423)	23,342
Accounts payable-related party	-	(20,000)
Deferred revenue	40,957	45,168
Other current liabilities	6,846	9,569
Net Cash Provided by Operating Activities	<u>150,193</u>	<u>112,886</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(6,962)
Proceeds from sale of investments	-	12,581
Net Cash Provided by Investing Activities	<u>-</u>	<u>5,619</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on lines of credit	(31,240)	(49,596)
Net Cash Used by Financing Activities	<u>(31,240)</u>	<u>(49,596)</u>
Net Increase in Cash	118,953	68,909
Cash at Beginning of Year	<u>118,069</u>	<u>49,160</u>
Cash at End of Year	<u><u>\$ 237,022</u></u>	<u><u>\$ 118,069</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u><u>\$ 18,742</u></u>	<u><u>\$ 26,977</u></u>

See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements
December 31, 2013 and 2012

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, *Accounting for Contributions Received and Contributions Made* and FASB ASC 958-225, *Financial Statements of Not-for-Profit Organizations*.

The financial statements are prepared in accordance with generally accepted accounting principles 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 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.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

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 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 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. Tuition revenues for the years ended December 31, 2013 and 2012 totaled \$17,752 and \$19,462 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

FASB ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received 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:

- Current Assets and Liabilities: The carrying values of these items approximate their fair values due to the short maturities of these instruments.
- 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.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note 2 – Significant Accounting Policies (Continued)

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 2013 and 2012 was \$39,823 and \$50,484, 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>
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, 2013, 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.

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.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note 2 – Significant Accounting Policies (Continued)

Deferred Revenue

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

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 October 1, 2014 which is the date the financial statements were available to be issued.

Note 3 – Lines of Credit

Effective December 31, 2012, the Organization refinanced a promissory note with an unsecured line of credit 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, 2013 and 2012). The principal balance, together with all accrued and unpaid interest, was due on December 7, 2013. As of January 28, 2014, the line of credit was extended under the same terms until January 28, 2015. *See Note 6.* Total borrowings on this line of credit were \$430,000 as of December 31, 2013 and 2012.

The Organization maintains an unsecured line of credit agreement with a lending institution in the amount of \$100,000. The line of credit accrues interest at the prime rate of the lender plus .75% and 3.00% as of December 31, 2013 and 2012, respectively (4.95% and 6.25% as of December 31, 2013 and 2012, respectively). Interest is due monthly and the note matures November 18, 2014. Total borrowings on this line of credit were \$15,000 and \$46,240 as of December 31, 2013 and 2012, respectively.

Note 4 – 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 believes it is not 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 5*), as well as from other individuals in the Nashville area.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2013 and 2012

Note 5 – 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 2013. All leasehold improvements are paid for by the Organization and are included in the balance sheet as "Leasehold Improvements." *See Note 6*

The Organization also received contributions from Christ Presbyterian Church in the amount of \$185,001 and \$203,302 in the years 2013 and 2012, respectively.

Note 6 – Subsequent Event

Line of Credit

Subsequent to December 31, 2013, the Organization extended the line of credit under the same terms until January 28, 2015. *See Note 3*

Related Party Transactions

Subsequent to December 31, 2013 the Organization renewed the building lease agreement with Christ Presbyterian Church for \$1 through 2014.