



SALAMA URBAN MINISTRIES, INC.
Audited Financial Statements
and Supplemental Information
December 31, 2009 and 2008

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Independent Auditor's 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, 2009 and 2008, 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, 2009 and 2008 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 10 and 11, 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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December 3, 2010

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SALAMA URBAN MINISTRIES, INC.**Statements of Financial Position****December 31, 2009 and 2008****ASSETS**

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash	\$ 35,280	\$ 120,651
Investments	5,019	8,966
Other Current Assets	8,480	455
	<u>48,779</u>	<u>130,072</u>
PROPERTY, PLANT AND EQUIPMENT		
Leasehold Improvements	1,145,403	1,140,547
Equipment	206,689	190,297
Furniture and Fixtures	69,000	69,000
Vehicles	68,598	68,598
Costumes	16,174	16,174
Software	64,254	64,254
Accumulated Depreciation	(510,366)	(419,373)
	<u>1,059,752</u>	<u>1,129,497</u>
TOTAL ASSETS	<u>\$ 1,108,531</u>	<u>\$ 1,259,569</u>

LIABILITIES AND NET ASSETS**CURRENT LIABILITIES**

Accounts Payable	\$ 13,427	\$ 26,181
Accounts Payable-Related Party	117,653	15,756
Note Payable, due within one year	421,125	-
Line of Credit	100,500	-
	<u>652,705</u>	<u>41,937</u>

LONG-TERM LIABILITIES

Line of Credit	-	100,500
Note Payable, due after one year	-	421,125
	<u>-</u>	<u>421,125</u>

Total Liabilities	652,705	563,562
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NET ASSETS

Unrestricted	<u>455,826</u>	<u>696,007</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,108,531</u>	<u>\$ 1,259,569</u>
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See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Statements of Activities
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
Contributions	\$ 983,946	\$ 1,110,741
Interest Income	77	480
Net Assets Released from Restrictions	36,980	55,922
Total Unrestricted Revenues	<u>1,021,003</u>	<u>1,167,143</u>
EXPENSES		
Program	905,951	1,124,257
Administrative	205,256	203,787
Fundraising	149,977	55,014
Total Unrestricted Expenses	<u>1,261,184</u>	<u>1,383,058</u>
 Decrease in Unrestricted Net Assets	 (240,181)	 (215,915)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	36,980	40,922
Net Assets Released from Donor Restrictions	(36,980)	(55,922)
 Net Change in Temporarily Restricted Net Assets	 <u>-</u>	 <u>(15,000)</u>
 Decrease in Net Assets	 (240,181)	 (230,915)
 NET ASSETS AT BEGINNING OF YEAR	 <u>696,007</u>	 <u>926,922</u>
 NET ASSETS AT END OF YEAR	 <u><u>\$ 455,826</u></u>	 <u><u>\$ 696,007</u></u>

See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Assets	\$ (240,181)	\$ (230,915)
Adjustments to Reconcile Decrease in Net Assets to		
Net Cash Used by Operating Activities		
Depreciation	90,992	94,902
<i>Changes in Assets and Liabilities:</i>		
Other Receivable - Related Party	-	30,266
Other Current Assets	(8,025)	(9)
Accounts Payable	(12,754)	4,263
Accounts Payable-Related Party	101,897	(3,496)
Net Cash Used by Operating Activities	<u>(68,071)</u>	<u>(104,989)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(21,247)	(1,404)
Purchase of Investments	(5,019)	(8,966)
Proceeds from Sale on Investments	8,966	6,639
Net Cash Used by Investing Activities	<u>(17,300)</u>	<u>(3,731)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	-	100,500
Principal Payments on Line of Credit	-	(20,000)
Net Cash Provided by Financing Activities	<u>-</u>	<u>80,500</u>
Net Decrease in Cash	(85,371)	(28,220)
Cash at Beginning of Year	<u>120,651</u>	<u>148,871</u>
Cash at End of Year	<u><u>\$ 35,280</u></u>	<u><u>\$ 120,651</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ 16,577</u>	<u>\$ 7,864</u>
Property acquired via promissory note	<u>\$ -</u>	<u>\$ 421,125</u>

See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements
December 31, 2009 and 2008

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.

During 2007, the Organization established the Salama Institute, which 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

Basis of Accounting and Financial Statement Presentation

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting, and in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of Not-for-Profit Organizations*.

The financial statements 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*.

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 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

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

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, 2009 and 2008

Note 2 – Significant Accounting Policies (Continued)

Contributions

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.

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, 2009 and 2008 totaled \$18,636 and \$13,238 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.

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 2009 and 2008 was \$90,992 and \$94,902, 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
Software	3 years

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). Management believes that the Organization is currently designed and operated in compliance with the applicable requirements of the internal revenue code related to tax exempt organizations, and has no income subject to the unrelated business income tax.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2009 and 2008

Note 2 – Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

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.

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.

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 and 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 December 3, 2010, which is the date the financial statements were available to be issued.

Note 3 – Note Payable

During 2008, the Organization established an unsecured promissory note with Regions Bank in the amount of \$421,125, related to the purchase of real property, accruing interest at the bank's prime rate (3.25% at December 31, 2009). The principal balance, together with all accrued and unpaid interest, is due on September 19, 2010. Interest is paid monthly. At December 31, 2009, the balance outstanding is \$421,125. The note is guaranteed by Christ Presbyterian Church. *See note 6.* Effective November 29, 2010, the note payable maturity was extended to December 1, 2012. *See note 8.*

Note 4 – Line of Credit

During 2007, the Organization entered into 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 0.75% (4.00% and 8.00% as of December 31, 2009 and 2008, respectively). Interest is due monthly and the note matured October 19, 2010. There were borrowings on this line of credit of \$100,500 as of December 31, 2009 and 2008. Effective November 18, 2010, the line of credit maturity was extended to November 18, 2013. *See note 8.*

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2009 and 2008

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 is also the guarantor of the note payable with Regions Bank. *See note 3.*

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, 2009 and 2008, the amount of related party contributions totaled \$281,703 and \$281,550 respectively.

As of December 31, 2009 and 2008, the Organization has a balance due to Christ Presbyterian Church in the amount of \$117,653 and \$15,756, respectively, which is included in the Statement of Financial Position as "Accounts Payable – Related Party."

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, 2009 and 2008, the Organization's Executive Director was the beneficiary of the scholarship funds totaling \$16,533 and \$34,958 respectively.

Note 7 – Going Concern

The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. However, the Organization has incurred significant historical decreases in net assets, including \$240,181 and \$230,915, shown in the accompanying financial statements for the years ended December 31, 2009 and 2008, respectively. Furthermore, the Organization sustained negative cash flows from operations of \$68,071 and \$104,989 for the years ended December 31, 2009 and 2008, respectively. Additionally, the Organization's current liabilities exceeded its current assets by approximately \$604,000 as of December 31, 2009.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2009 and 2008

Note 7 – Going Concern (Continued)

Management recognizes that the organization's ability to continue as a going concern is dependent on its ability to generate positive results from its operations, and has taken meaningful action in this regard throughout the current fiscal year. These actions include the extension of the maturities of the line of credit and note payable to 2013 and 2012, respectively, in addition to a significant reduction in operating expenses. As a result, the organization's unaudited 2010 financial results, through the date of the accompanying audit report, reflect positive trends and improved operational results. Cash burn is decreasing and ahead of budget, due largely in part to operating expenses reflecting favorable variances as compared to budget. Management believes revenue growth will reach levels beyond what is necessary to achieve positive cash flow from operations for the year ended December 31, 2010. The financial statements do not include any adjustments that might be necessary if the organization is unable to continue as a going concern.

Note 8 – Subsequent Event

Effective November 18, 2010 and November 29, 2010, the maturities of the line of credit and the note payable have been extended to expire November 18, 2013 and December 1, 2012, respectively. *See notes 3 and 4.*

Note 9 – Prior Period Adjustment

During 2009, management determined certain assets and unrestricted contributions were understated and that reclassification of certain temporarily restricted net assets was required. The following restatements were made to the assets and net assets as of December 31, 2008.

	<u>As Previously Stated</u>	<u>As Restated</u>	<u>Effect of Correction</u>
<i>Statement of Financial Position at December 31, 2008</i>			
Cash	\$ 51,144	\$ 120,651	\$ 69,507
Restricted Cash	69,507	-	(69,507)
Unrestricted Net Assets	626,500	696,007	69,507
Temporarily Restricted Net Assets	69,507	-	(69,507)
<i>Statement of Activities and Changes in Net Assets for the year ended December 31, 2008:</i>			
Unrestricted contributions	\$ 1,035,741	\$ 1,110,741	\$ 75,000
Net assets released from restriction	61,415	55,922	(5,493)
Change in unrestricted net assets	(285,422)	(215,915)	69,507
Temporarily restricted contributions	115,922	40,922	(75,000)
Net assets released from restriction	(61,415)	(55,922)	5,493
Change in temporarily restricted net assets	54,507	(15,000)	(69,507)
Decrease in net assets	<u>\$ (230,915)</u>	<u>\$ (230,915)</u>	<u>\$ -</u>



Supplemental Information
December 31, 2009

Salama Urban Ministries, Inc.
Schedule of Expenses
For the Year Ended December 31, 2009

	Program Services			Support	
	Salama Institute	Community Productions & Events	Total Program	Admin & Facility	Fund Raising
Salaries & Wages	\$ 460,804	\$ 26,000	\$ 486,804	\$ 89,385	\$ 87,279
Scholarships	-	-	-	17,171	-
Donations & Benevolence	-	-	-	1,593	-
Supplies & Curriculum	-	15,800	15,800	-	-
College Student Support	2,926	-	2,926	-	-
Activity	3,517	-	3,517	-	-
Refreshments	11,294	-	11,294	-	-
Payroll Taxes	37,782	-	37,782	3,736	6,620
Taxes and Licenses	-	-	-	9,012	-
Group Insurance	-	-	-	665	-
Health Insurance	19,521	-	19,521	-	6,547
Insurance	1,671	-	1,671	4,446	-
Retirement Expense	561	-	561	-	132
Volunteer Expense	-	-	-	1,355	-
Transportation	56,100	-	56,100	1,273	388
Travel	-	8,508	8,508	3,048	-
Costume Company Expense	-	4,239	4,239	-	-
Telephone	2,345	-	2,345	4,149	-
Utilities	37,096	-	37,096	1,670	-
Hospitality	519	2,480	2,999	257	-
Special Events	1,626	-	1,626	-	23,273
Office Supplies	1,785	-	1,785	4,775	195
Staff Expense	316	-	316	2,740	1,159
Staff Development	2,090	-	2,090	6,063	155
Development	-	-	-	2,500	1,967
Public Relations	-	-	-	-	10,723
Printing	7,342	-	7,342	5,827	4,690
Postage	135	-	135	2,226	752
Computer Expenses	2,541	-	2,541	3,583	-
Depreciation	86,442	-	86,442	4,550	-
Equipment Rental	-	1,550	1,550	3,279	-
Repairs and Maintenance	6,841	-	6,841	4,936	-
Miscellaneous Expenses	1,669	226	1,895	5,459	860
Volunteer Gifts	635	1,000	1,635	-	-

See Independent Auditor's Report

Salama Urban Ministries, Inc.
Schedule of Expenses (Continued)
For the Year Ended December 31, 2009

	Program Services			Support	
	Salama Institute	Community Productions & Events	Total Program	Admin & Facility	Fund Raising
Dues and Subscriptions	506	-	506	4,971	1,621
Janitorial Supplies	774	-	774	1,331	-
T-Shirts	313	-	313	-	-
Music	112	362	474	-	-
Professional Fees	19,264	880	20,144	15,256	2,850
Professional Fees - Other	-	37,277	37,277	-	-
Promotion	150	-	150	-	766
Continuous Improvement	24,000	-	24,000	-	-
Rent	375	-	375	-	-
Interest Expense	16,577	-	16,577	-	-
Total Expenses	\$ 807,629	\$ 98,322	\$ 905,951	\$ 205,256	\$ 149,977

See Independent Auditor's Report