



SALAMA URBAN MINISTRIES, INC.
Audited Financial Statements
and Supplemental Information
December 31, 2011 and 2010

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Independent Auditor's Report

To the Board of Directors of
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, 2011 and 2010, and the related statements of activities and changes in net assets, 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 audit 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, 2011 and 2010 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 financial statements as a whole. The schedule of functional expenses on page 10 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.

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December 4, 2012

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SALAMA URBAN MINISTRIES, INC.
Statements of Financial Position
December 31, 2011 and 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash	\$ 49,160	\$ 79,613
Investments	12,581	-
Contribution receivable	2,758	-
Other current assets	938	1,238
	<u>65,437</u>	<u>80,851</u>
PROPERTY AND EQUIPMENT		
Building	418,967	418,967
Leasehold improvements	726,436	726,436
Equipment	206,793	206,689
Furniture and fixtures	69,000	69,000
Vehicles	68,598	68,598
Costumes	16,174	16,174
Software	64,254	64,254
Accumulated depreciation	(623,641)	(572,974)
	<u>946,581</u>	<u>997,144</u>
OTHER ASSETS		
Loan costs, net	<u>1,755</u>	<u>3,860</u>
TOTAL ASSETS	<u><u>\$ 1,013,773</u></u>	<u><u>\$ 1,081,855</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 5,757	\$ 18,851
Accounts payable-related party	20,000	84,793
Deferred revenue	-	61,667
Note payable, due within one year	425,336	-
Other current liabilities	41,902	779
	<u>492,995</u>	<u>166,090</u>
LONG-TERM LIABILITIES		
Line of credit	100,500	100,500
Note payable, due after one year	-	425,336
	<u>100,500</u>	<u>525,836</u>
Total Liabilities	593,495	691,926
NET ASSETS		
Unrestricted	<u>420,278</u>	<u>389,929</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,013,773</u></u>	<u><u>\$ 1,081,855</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE AND SUPPORT		
Contributions	\$ 715,325	\$ 594,974
In-kind contributions	126,005	251,759
Grant revenue	132,567	35,415
Tuition revenue	18,752	20,337
Interest income	-	2
Net assets released from restrictions	15,479	26,811
Total Unrestricted Revenues	<u>1,008,128</u>	<u>929,298</u>
EXPENSES		
Program	776,971	812,069
Administrative	115,134	108,057
Fundraising	85,674	75,069
Total Unrestricted Expenses	<u>977,779</u>	<u>995,195</u>
 Net Increase (Decrease) in Unrestricted Net Assets	 30,349	 (65,897)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	15,479	26,811
Net assets released from restrictions	(15,479)	(26,811)
 Net Change in Temporarily Restricted Net Assets	 <u>-</u>	 <u>-</u>
 Increase (Decrease) in Net Assets	 30,349	 (65,897)
 NET ASSETS AT BEGINNING OF YEAR	 <u>389,929</u>	 <u>455,826</u>
 NET ASSETS AT END OF YEAR	 <u><u>\$ 420,278</u></u>	 <u><u>\$ 389,929</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in net assets	\$ 30,349	\$ (65,897)
Adjustments to Reconcile Decrease in Net Assets to		
Net Cash Provided (Used) by Operating Activities		
Depreciation and amortization	52,772	62,960
Contributed Investments	(12,581)	-
<i>Changes in Assets and Liabilities:</i>		
Contribution receivable	(2,758)	-
Other current assets	300	7,241
Accounts payable	(13,094)	5,424
Accounts payable-related party	(64,793)	(32,860)
Deferred revenue	(61,667)	61,667
Other current liabilities	41,123	779
Net Cash Provided (Used) by Operating Activities	<u>(30,349)</u>	<u>39,314</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(104)	-
Proceeds from sale of investments	-	5,019
Net Cash Provided (Used) by Investing Activities	<u>(104)</u>	<u>5,019</u>
Net Change in Cash	(30,453)	44,333
Cash at Beginning of Year	<u>79,613</u>	<u>35,280</u>
Cash at End of Year	<u>\$ 49,160</u>	<u>\$ 79,613</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ 32,629</u>	<u>\$ 22,874</u>

See Independent Auditor's Report and Notes to Financial Statements

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements
December 31, 2011 and 2010

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 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, 2011 and 2010

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. 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, 2011 and 2010 totaled \$18,752 and \$20,337, 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.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2011 and 2010

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 2011 and 2010 was \$50,667 and \$62,608, 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, 2011, the Organization has no material uncertain tax positions to be accounted for in the financial statements under these rules.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2011 and 2010

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, 2010, which consists of grant funds received to support the Salama Institute during 2011.

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 December 4, 2012, which is the date the financial statements were available to be issued.

Note 3 – Note Payable

The Organization has an unsecured promissory note with Regions Bank in the amount of \$425,336, related to the purchase of real property, accruing interest at 6% per year. The principal balance, together with all accrued and unpaid interest, is due on December 1, 2012. Interest is paid monthly. At December 31, 2011 and 2010, the balance outstanding was \$425,336. The note is guaranteed by Christ Presbyterian Church. (*See note 6*). Subsequent to December 31, 2011, the promissory note was refinanced with Pinnacle Bank in the amount of \$430,000. The promissory note with Pinnacle bank is due December 7, 2013. (*See note 7*)

Note 4 – Line of Credit

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, 2011 and 2010). Interest is due monthly and the note matures November 18, 2013. Total borrowings on this line of credit were \$100,500 as of December 31, 2011 and 2010, respectively.

SALAMA URBAN MINISTRIES, INC.
Notes to Financial Statements (Continued)
December 31, 2011 and 2010

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 in-kind contributions from Christ Presbyterian Church, which are recorded as unrestricted revenue and allocated accordingly among the program expenses. In-kind contributions are 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, 2011 and 2010 totaled \$126,005 and \$251,759 respectively. The Organization also received contributions from Christ Presbyterian Church in the amount of \$125,981 in the year 2011.

As of December 31, 2011 and 2010, the Organization has a balance due to Christ Presbyterian Church in the amount of \$0 and \$74,793, 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, 2011 and 2010, the Organization's Executive Director was the beneficiary of the scholarship funds totaling \$6,019 and \$8,256 respectively.

As of December 31, 2011 and 2010, the Organization has a balance due to the Organization's Executive Director totaling \$20,000 and \$10,000, respectively, which is included in the Statement of Financial Position as "Accounts Payable – Related Party."

Note 7 – Subsequent Events

Subsequent to December 31, 2011, the Organization refinanced its promissory note in the amount of \$430,000 with Pinnacle Bank. The principal amount of the loan plus all accrued unpaid interest, is due December 7, 2013.



Supplemental Information
December 31, 2011

SALAMA URBAN MINISTRIES, INC.
Schedule of Functional Expenses
For the Year Ended December 31, 2011

				Support	
	Salama Institute	Community Productions & Events	Total Program	Administrative & Facility	Fund Raising
Salaries & Wages	\$ 365,512	\$ 30,732	\$ 396,244	\$ 54,516	\$ 28,000
Tuition Discount	-	-	-	6,019	-
Donations & Benevolence	8,799	-	8,799	-	-
Supplies & Curriculum	5,482	-	5,482	-	-
Activity	-	700	700	-	-
Refreshments	8,802	-	8,802	-	903
Payroll Taxes	25,083	2,403	27,486	3,940	1,963
Group Insurance	32,877	-	32,877	4,040	9,820
Insurance	11,284	-	11,284	3,220	-
Volunteer Expense	6	-	6	-	-
Transportation	37,232	-	37,232	1,229	-
Costume Company Expense	-	5,400	5,400	-	-
Telephone	6,828	-	6,828	420	-
Utilities	28,203	-	28,203	1,215	-
Hospitality	41	-	41	1,367	-
Office Supplies	4,662	-	4,662	1,148	152
Staff Development	233	-	233	531	90
Travel and Lodging	2,207	-	2,207	-	-
College & Career Prep	650	-	650	-	-
College & Student Support	24,086	-	24,086	-	-
Retirement Expense	1,634	-	1,634	450	-
Set Up/Tear Down	-	7,634	7,634	-	-
Printing	76	-	76	162	5,181
Postage	475	-	475	284	964
Computer Expenses	1,900	-	1,900	1,802	2,550
Depreciation and Amortization	50,134	-	50,134	2,639	-
Janitorial Services	8,750	-	8,750	-	-
Equipment Rental	12,696	-	12,696	317	-
Trash Removal	1,232	-	1,232	-	-
Repairs and Maintenance	13,136	-	13,136	565	-
Miscellaneous Expenses	735	3,584	4,319	3,734	776
Dues and Subscriptions	1,106	-	1,106	-	641
Taxes and Licenses	-	-	-	830	-
Field Trips	-	-	-	-	-
Music	117	28	145	-	-
Professional Fees	200	600	800	75	4,563
Professional Fees - Other	20,450	4,955	25,405	-	-
Professional Services	-	13,697	13,697	25,000	-
Promotion	-	-	-	-	4,160
Rent	1,200	-	1,200	-	-
Interest Expense	30,998	-	30,998	1,631	-
Special Events	-	412	412	-	25,911
Total Expenses	\$ 706,826	\$ 70,145	\$ 776,971	\$ 115,134	\$ 85,674

See Independent Auditor's Report