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INDEPENDENT AUDITORS' REPORT

Board of Trustees
CityTeam Ministries

We have audited the accompanying Consolidated Statements of Financial Position of CityTeam Ministries (a California nonprofit corporation) as of August 31, 2010 and 2009 and the related Consolidated Statements of Activities, and Consolidated Statements of 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 consolidated financial position of CityTeam Ministries as of August 31, 2010 and 2009 and the consolidated changes in net assets and consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

San Jose, California
March 10, 2011



Seeba & Associates, Inc.
Certified Public Accountants

CITYTEAM MINISTRIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2010 AND 2009

	2010			2009		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
ASSETS						
Current Assets						
Cash and equivalents	\$ 2,331,588	\$ 907,491	\$ 3,239,079	\$ 2,110,616	\$ 744,936	\$ 2,855,552
Investments	742,852	156,931	899,783	641,461	179,829	821,290
Inventory	28,147	1,058,323	1,086,470	49,180	2,675,496	2,724,676
Prepaid expenses and other assets	557,607	-	557,607	355,675	-	355,675
Total Current Assets	<u>3,660,194</u>	<u>2,122,745</u>	<u>5,782,939</u>	<u>3,156,932</u>	<u>3,600,261</u>	<u>6,757,193</u>
Long-Term Assets						
Notes receivable	-	-	-	26,421	-	26,421
Assets held in trust	-	979,614	979,614	-	998,010	998,010
Cash and investments set aside for investment in property and equipment	-	351,874	351,874	-	409,890	409,890
Property and equipment, net	14,046,826	-	14,046,826	14,181,484	-	14,181,484
Total Long-Term Assets	<u>14,046,826</u>	<u>1,331,488</u>	<u>15,378,314</u>	<u>14,207,905</u>	<u>1,407,900</u>	<u>15,615,805</u>
Total Assets	<u>\$ 17,707,020</u>	<u>\$ 3,454,233</u>	<u>\$ 21,161,253</u>	<u>\$ 17,364,837</u>	<u>\$ 5,008,161</u>	<u>\$ 22,372,998</u>

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)
AUGUST 31, 2010 AND 2009

	2010			2009		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
LIABILITIES AND NET ASSETS						
Current Liabilities						
Accounts payable and accrued expenses	\$ 635,926	\$ 6,470	\$ 642,396	\$ 694,983	\$ 4,422	\$ 699,405
Unearned program fees and agency funds	167,256	-	167,256	60,901	-	60,901
Total Current Liabilities	803,182	6,470	809,652	755,884	4,422	760,306
Long-Term Liabilities						
Security deposits	51,950	-	51,950	51,950	-	51,950
Trust beneficiaries' liability	-	811,584	811,584	-	834,844	834,844
Total Long-Term Liabilities	51,950	811,584	863,534	51,950	834,844	886,794
Total Liabilities	855,132	818,054	1,673,186	807,834	839,266	1,647,100
Related Party Transactions (Note 11)						
Net Assets						
Temporarily restricted	-	2,636,179	2,636,179	-	4,168,895	4,168,895
Unrestricted -						
Net investment in property and equipment	14,046,826	-	14,046,826	14,181,484	-	14,181,484
Designated for specified purposes	847,763	-	847,763	847,763	-	847,763
Available for other purposes	1,957,299	-	1,957,299	1,527,756	-	1,527,756
Total Net Assets	16,851,888	2,636,179	19,488,067	16,557,003	4,168,895	20,725,898
Total Liabilities and Net Assets	\$ 17,707,020	\$ 3,454,233	\$ 21,161,253	\$ 17,364,837	\$ 5,008,161	\$ 22,372,998

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009**

	2010			2009		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
SUPPORT AND REVENUE						
Support -						
General contributions	\$ 11,105,342	\$ 2,145,549	\$ 13,250,891	\$ 11,035,543	\$ 1,121,557	\$ 12,157,100
Fundraising events, net of direct expenses of \$214,095 for 2010 and \$217,184 for 2009	558,264	44,189	602,453	575,123	58,579	633,702
Donated goods and services	7,558,647	1,179,168	8,737,815	6,080,863	2,729,154	8,810,017
Total Support	<u>19,222,253</u>	<u>3,368,906</u>	<u>22,591,159</u>	<u>17,691,529</u>	<u>3,909,290</u>	<u>21,600,819</u>
Revenue -						
Rental income, net	662,933	-	662,933	664,203	-	664,203
Program income	732,644	-	732,644	832,517	-	832,517
Investment income	23,902	-	23,902	47,753	-	47,753
Other revenue	80,825	5,571	86,396	97,343	8,819	106,162
Total Revenue	<u>1,500,304</u>	<u>5,571</u>	<u>1,505,875</u>	<u>1,641,816</u>	<u>8,819</u>	<u>1,650,635</u>
TOTAL SUPPORT AND REVENUE	<u>20,722,557</u>	<u>3,374,477</u>	<u>24,097,034</u>	<u>19,333,345</u>	<u>3,918,109</u>	<u>23,251,454</u>
RECLASSIFICATION						
Temporarily restricted resources used for operations	4,707,871	(4,707,871)	-	1,823,159	(1,823,159)	-
EXPENSES						
Program Services -						
Program ministries	19,664,474	-	19,664,474	15,942,532	-	15,942,532
Public awareness and education	150,305	-	150,305	133,102	-	133,102
Total Program Services	<u>19,814,779</u>	<u>-</u>	<u>19,814,779</u>	<u>16,075,634</u>	<u>-</u>	<u>16,075,634</u>
Supporting Services -						
General and administrative	2,423,056	-	2,423,056	2,526,299	-	2,526,299
Fundraising -						
Donor cultivation	2,910,726	-	2,910,726	3,232,215	-	3,232,215
Donor acquisition	186,304	-	186,304	659,921	-	659,921
Total Fundraising	<u>3,097,030</u>	<u>-</u>	<u>3,097,030</u>	<u>3,892,136</u>	<u>-</u>	<u>3,892,136</u>
Total Support Services	<u>5,520,086</u>	<u>-</u>	<u>5,520,086</u>	<u>6,418,435</u>	<u>-</u>	<u>6,418,435</u>
TOTAL EXPENSES	<u>25,334,865</u>	<u>-</u>	<u>25,334,865</u>	<u>22,494,069</u>	<u>-</u>	<u>22,494,069</u>
CHANGES IN NET ASSETS BEFORE RECLASSIFICATIONS AND DISCONTINUED OPERATIONS	95,563	(1,333,394)	(1,237,831)	(1,337,565)	2,094,950	757,385

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES

**CONSOLIDATED STATEMENTS OF ACTIVITIES (Continued)
FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009**

	2010			2009		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
RECLASSIFICATIONS						
Temporarily restricted resources released for:						
Acquisition of fixed assets	199,322	(199,322)	-	63,991	(63,991)	-
CHANGES IN NET ASSETS FROM CONTINUING OPERATIONS	294,885	(1,532,716)	(1,237,831)	(1,273,574)	2,030,959	757,385
DISCONTINUED OPERATIONS						
Gain on sale of Seattle assets	-	-	-	963,357	-	963,357
Net (loss) from discontinued Seattle operations	-	-	-	(61,224)	(911)	(62,135)
CHANGES IN NET ASSETS	294,885	(1,532,716)	(1,237,831)	(371,441)	2,030,048	1,658,607
NET ASSETS, beginning of year	16,557,003	4,168,895	20,725,898	16,928,444	2,138,847	19,067,291
NET ASSETS, end of year	<u>\$ 16,851,888</u>	<u>\$ 2,636,179</u>	<u>\$ 19,488,067</u>	<u>\$ 16,557,003</u>	<u>\$ 4,168,895</u>	<u>\$ 20,725,898</u>

The accompanying notes and auditors' report are an integral part of these financial statements.

CITYTEAM MINISTRIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009**

	2010			2009		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Cash Flows from Operating Activities						
Contributions received	\$ 11,663,606	\$ -	\$ 11,663,606	\$ 11,862,370	\$ -	\$ 11,862,370
Proceeds from restricted gifts	-	2,186,922	2,186,922	-	1,225,026	1,225,026
Program income received	732,644	-	732,644	851,037	-	851,037
Rental income received, net	669,485	-	669,485	640,920	-	640,920
Interest and dividend income	23,902	-	23,902	47,753	-	47,753
Auto sales and other revenue received	80,825	5,571	86,396	97,343	8,819	106,162
Transfers to Unrestricted Fund	2,039,527	(2,039,527)	-	1,781,751	(1,781,751)	-
Expenditures for ministry expenses	(14,574,089)	-	(14,574,089)	(16,123,947)	-	(16,123,947)
Net Cash Flows From Operating Activities	<u>635,900</u>	<u>152,966</u>	<u>788,866</u>	<u>(842,773)</u>	<u>(547,906)</u>	<u>(1,390,679)</u>
Cash Flows from Investing Activities						
Proceeds from sales of assets	-	-	-	1,372,984	-	1,372,984
Net short-term investments (purchased)/sold	(101,391)	22,898	(78,493)	538,047	479,165	1,017,212
Fixed assets purchased and/or constructed	(347,283)	(71,325)	(418,608)	(243,030)	(63,991)	(307,021)
Principal received from notes receivable	33,746	-	33,746	-	-	-
Net Cash Flows From Investing Activities	<u>(414,928)</u>	<u>(48,427)</u>	<u>(463,355)</u>	<u>1,668,001</u>	<u>415,174</u>	<u>2,083,175</u>
Cash Flows from Financing Activities						
Net contributions (held)/utilized for long-term purposes	-	58,016	58,016	-	(3,350)	(3,350)
Repayment of debt	-	-	-	(178,016)	-	(178,016)
Net Cash Flows From Financing Activities	<u>-</u>	<u>58,016</u>	<u>58,016</u>	<u>(178,016)</u>	<u>(3,350)</u>	<u>(181,366)</u>
Net Increase (Decrease) in Cash	220,972	162,555	383,527	647,212	(136,082)	511,130
Cash and Cash Equivalents, beginning of year	<u>2,110,616</u>	<u>744,936</u>	<u>2,855,552</u>	<u>1,463,404</u>	<u>881,018</u>	<u>2,344,422</u>
Cash and Cash Equivalents, end of year	<u>\$ 2,331,588</u>	<u>\$ 907,491</u>	<u>\$ 3,239,079</u>	<u>\$ 2,110,616</u>	<u>\$ 744,936</u>	<u>\$ 2,855,552</u>

See Note 3 for supplement disclosures.

The accompanying notes and auditors' report are an integral part of these financial statements.

**CITYTEAM MINISTRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2010 AND 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The consolidated financial statements include the accounts of CityTeam Ministries and Horn of Africa Mission. CityTeam Ministries has a controlling interest on the Board of Directors for Horn of Africa. See Note 13 for additional information regarding the consolidation.

CityTeam Ministries expresses its purpose by the following:

In obedience to Christ, passionately transforming individuals, their families and communities throughout the world.

To glorify God:

- By establishing self-replicating Communities of Believers who will serve people in need, proclaim the Gospel and make disciples in the cities and among the peoples of the world.***
- By mobilizing, training and equipping local believers to meet felt needs, engage families with the Bible, and establish communities of baptized believers who, in radical obedience to the Word of God, are being transformed by Christ, are transforming their communities, and are going to other communities to do the same.***
- By actively partnering with others to catalyze these Kingdom outcomes worldwide.***

As a result of its expressed purposes, CityTeam is providing services to the poor and the homeless which include worship services, drug and alcohol recovery and discipleship programs, food and shelter for the homeless and women in crisis pregnancies, camping programs, family and youth assistance and counseling, church planting and other similar services.

CityTeam was founded in 1957. It currently has operations in California, Pennsylvania and Oregon and a missionary presence internationally. Its operations in Washington were terminated in December, 2008.

CityTeam Ministries is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and comparable state laws. It is determined by the IRS not to be a private foundation. Contributions to CityTeam Ministries are tax deductible within the limitations prescribed by the IRC. Management has determined that there is no unrelated business income which is taxable to CityTeam.

FINANCIAL STATEMENT PRESENTATION

CityTeam prepares its financial statements using the accrual basis method of accounting in accordance with generally accepted accounting principles. The preparation of these financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 these estimates.

The significant accounting policies used are described as follows:

Classes of Net Assets - The financial statements report amounts separately by class of net assets:

Unrestricted amounts are those currently available at the discretion of the Board of Trustees for use in its ministries, including those resources invested in land, buildings and equipment.

Temporarily restricted amounts are those that are restricted by donors for specific operating purposes or for the acquisition of land, buildings and equipment.

Permanently restricted net assets are those amounts in which the donor has stipulated that the principal remain intact in perpetuity. Income from the principal is considered unrestricted unless further restricted by the donor. CityTeam currently has no permanently restricted net assets.

CITYTEAM MINISTRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2010 AND 2009

All contributions are considered available for unrestricted use, unless specifically restricted by the donor.

Support and Revenue - Unrestricted contributions are recognized when cash or ownership of donated assets is received or unconditionally promised.

Temporarily restricted contributions are recognized as contribution income in the Statement of Activities when cash or ownership of donated assets restricted by the donor for a specific purpose is received or unconditionally promised. These contributions are subsequently released to the Unrestricted Fund when expenses have been incurred in satisfaction of those restrictions.

Pledges are recorded when CityTeam is notified of an unconditional promise to give. All outstanding pledges are reviewed annually and those determined uncollectible are written off. CityTeam currently has no pledges outstanding.

Revenue is recognized when earned.

FUNCTIONAL EXPENSES

The expense of providing the various programs and supporting activities have been summarized on a functional basis in the Statement of Activities in accordance with generally accepted accounting principles. Accordingly, costs have been allocated between the program benefited and their supporting services.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost, if purchased, or at fair market value, if donated. Depreciation is calculated using the straight-line method. Land improvements and buildings are generally depreciated over thirty to fifty years. All other assets are depreciated over two to ten years as appropriate for their estimated useful life.

DONATED GOODS AND SERVICES

Many of the programs are heavily dependent upon the receipt of donated goods and services. Donated goods and services include items such as daily meals served, holiday food baskets, office supplies, vehicle and equipment rentals, clothing and household furnishings, staffing for summer programs, pickup, sorting, and distribution of goods to needy families, neighborhood workers, medical professionals, counselors and various management functions. Inventory consists of items donated but not distributed by the end of the fiscal year. Inventory is valued at its estimated market value.

In accordance with generally accepted accounting principles, only contributed services required by CityTeam, which are performed by professionals or crafts people, or services that result in the creation of an asset, are recognized as income in the financial statements. As the majority of our volunteer services do not meet these requirements, the Client Materials expense category, as described in Note 9, significantly understates the value of these efforts.

USE OF ESTIMATES

The preparation of these financial statements in conformity with generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles require a hierarchy based upon whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from

CITYTEAM MINISTRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2010 AND 2009

independent sources, while unobservable inputs reflect the market assumptions. The Organization is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The components of each level are:

Level 1—Quoted market prices for identical instruments in active markets.

Level 2—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, observable inputs other than quoted prices, inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Valuation models in which significant inputs are unobservable or where there is little market activity, if any.

The carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short-term maturities of these instruments.

SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 10, 2011, which is the date the financial statements were available to be issued.

2. CASH, CASH EQUIVALENTS & INVESTMENTS

For the purpose of the Statements of Cash Flow, cash and equivalents consist of cash held in checking, savings, and money market accounts and investments in treasury instruments and commercial paper with original maturities of less than ninety days.

Cash, cash equivalents and investments consisted of the following as of August 31, 2010 and 2009:

	2010		2009	
	Balance	Average Rate	Balance	Average Rate
Cash and Equivalents:				
Demand Deposits	\$ 3,222,552	0.35%	\$ 2,841,686	0.45%
Money Market (Comerica)	3,449	0.10%	3,626	0.50%
Money Market (Valley Comm. Bank)	11,009	0.45%	10,240	0.50%
Money Market (Other)	2,069		-	
Total Cash and Equivalents	<u>3,239,079</u>		<u>2,855,552</u>	
Investments:				
Certificates of Deposit (ECCU)	255,117	1.17%	250,000	2.00%
Certificates of Deposit (Valley Comm. Bank)	967,898	0.78%	948,651	1.98%
Accrued Interest on Investments	567		4,454	
Property Held for Sale	28,075		28,075	
Less: Investments Held for Long-Term Purposes	<u>(351,874)</u>		<u>(409,890)</u>	
Total Investments	<u>899,783</u>		<u>821,290</u>	
Assets Held for Long-Term Purposes:				
Investments	<u>351,874</u>		<u>409,890</u>	
Total Assets Held for Long-Term Purposes	<u>351,874</u>		<u>409,890</u>	
Total Cash and Investments	<u>\$ 4,490,736</u>		<u>\$ 4,086,732</u>	

Cash held on deposit, including funds to cover outstanding checks, as of August 31, 2010 included \$80,117 which is not covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the Security Investors Protection Corporation (SIPC). These monies are held in various checking, savings and money market accounts in order to meet daily operational requirements.

CITYTEAM MINISTRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2010 AND 2009

Investments are carried at cost plus accrued interest, which approximates market value. See Note 7 regarding investments managed under a trust arrangement.

3. STATEMENT OF CASH FLOW SUPPLEMENTAL DISCLOSURES

The Statements of Cash Flows have been prepared using the direct method of reporting cash flows from operations. The direct method provides reporting of major classes of gross cash receipts and gross cash payments. The reconciliation of Changes in Net Assets in the Statements of Activities to Net Cash Flows from Operating Activities in the Statements of Cash Flows is as follows:

	2010	2009
Change in net assets	\$ (1,237,831)	\$ 1,658,607
Adjustments for noncash (revenue) and expenses -		
Gain on fixed assets sold	-	(963,357)
Depreciation	666,214	711,373
Property, fixed assets, supplies and stock contributed	(127,997)	(46,506)
(Increase) decrease in donated inventory	1,638,206	(2,635,284)
(Increase) decrease in assets held in trust	18,396	230,455
(Increase) decrease in receivables and prepaid expenses	(232,922)	48,495
Increase (decrease) in liability to trust beneficiaries	(23,260)	(196,904)
Increase (decrease) in payables and accrued expenses	(18,295)	(70,877)
Increase (decrease) in deferred gifts	106,355	(126,681)
Net cash flows from operating activities	\$ 788,866	\$ (1,390,679)

While significant noncash activity affecting the Statement of Activities has been removed as shown above, there was no significant noncash activity solely affecting the Statement of Financial Position which needs to be disclosed here.

4. PROPERTY AND EQUIPMENT

Property, equipment and accumulated depreciation as of August 31, 2010 and 2009 are as follows:

	2010	2009
Land	\$ 4,751,933	\$ 4,751,933
Land Improvements	329,601	279,071
Buildings	15,168,026	14,968,433
Leasehold Improvements	213,883	213,883
Furniture and Equipment	2,753,822	2,744,159
Vehicles	823,282	809,551
Construction in Progress	305,593	121,072
	24,346,140	23,888,102
Less-Accumulated Depreciation	10,299,314	9,706,618
Total	\$ 14,046,826	\$ 14,181,484

CityTeam leases to a tenant a portion of the administrative offices it owns which is a two-building site located in San Jose, California. The monthly base rental income on the first building is \$36,882 per month as of August 31, 2010. The lease expires August 31, 2013. The second building is partly occupied by CityTeam, with 10,000 square feet that was rented until May 31, 2010 at an income of \$12,500 per month. The 10,000 square feet lease was not renewed. An additional 2,500 square feet is leased on a month-to-month basis. The cost basis of this property is \$4,460,751 and the associated accumulated depreciation is \$1,342,445.

An additional leased property is also located in San Jose, California. As of August 31, 2010, the monthly base rental income is \$18,540. This lease expires in 2014. The cost basis of the property is \$1,674,878 and the associated accumulated depreciation is \$322,646.

CITYTEAM MINISTRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2010 AND 2009

Leasehold Improvements are related to property leased for CityTeam's use in San Francisco, California. These items are being amortized over the life of the lease, plus lease renewal options of seven years. When CityTeam vacates the property, these improvements will become the property of the lessor. Accumulated amortization on the leasehold improvements is \$116,496 as of August 31, 2010.

5. NOTES PAYABLE

The Organization had a two-year, interest-only note of \$178,016 at a rate of 6.06% that was secured by an investment held at the same institution. The note was paid in full when it came due in April 2009.

A \$250,000 line of credit is available. It bears interest at the bank's reference rate plus 0.25%. No amounts were borrowed or outstanding on this line of credit as of August 31, 2010.

6. RETIREMENT PLANS

The employee retirement plan, which qualifies as a 403(b) plan, covers all employees who have completed one year of service, are at least twenty-one years old and work at least an average of twenty hours a week. Employer contributions vest to the employee over six years, but employees' contributions are always fully vested. Age and service requirements do not apply to the employees' ability to make salary reduction contributions to this plan. The housing portion of certain ministers' wages is not considered in calculating the CityTeam contribution or the matching portion of their retirement.

In 2009 the plan provides for CityTeam to contribute 3% of the qualified employee's compensation and a 50% matching of employee contributions up to a maximum of an additional 2% of the qualified employee's compensation. Contributions on behalf of all qualified employees totaled \$161,146 for 2009. In 2010 the plan was amended to suspend all CityTeam contributions. See Note 17 for changes to the plan subsequent to 2010.

7. ASSETS HELD IN TRUST

Based upon generally accepted accounting principles, the assets of the irrevocable split-interest trusts for which CityTeam is the trustee are reported on the financial statements. These assets are reported at their present value. The liability for the Income Beneficiaries is discounted at an average earnings rate over the Trust's term or the grantor's life expectancy. The liability for Remainder Beneficiaries, other than CityTeam, is combined with the Income Beneficiaries' liability on the Statement of Financial Position. The portion of the trusts attributable to the irrevocable future interest of CityTeam have been recorded in the Statement of Activities as temporarily-restricted contributions in the period received or as the value changes.

The balance of the trusts assets, liabilities and current changes for the year ended August 31, 2010 are:

	<u>Total</u>	<u>Income & Remaindermen Beneficiary Interest</u>	<u>CityTeam Interest</u>
Fair Market Value			
As of August 31, 2010	\$ 979,614	\$ 818,054	\$ 161,560
	<u>Total</u>	<u>Remainder Interest</u>	<u>CityTeam Interest</u>
Present Value of Remainder Interest			
As of August 31, 2009	\$ 385,074	\$ 226,330	\$ 158,744
Actuarial Adjustment	3,516	700	2,816
As of August 31, 2010	\$ 388,590	\$ 227,030	\$ 161,560

CITYTEAM MINISTRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2010 AND 2009

8. RESTRICTED AND DESIGNATED NET ASSETS

Temporary restricted net assets at August 31, 2010 consist of monies and inventory received for various restricted projects totaling \$2,636,179. The nature and amount of the restrictions are as follows:

Capital	\$	351,874
Inventory for Distribution		1,058,323
International Programs		312,085
Domestic Programs		752,337
Trusts		161,560
Total Restricted Net Assets	\$	2,636,179

Additionally, \$847,763 has been designated for expansion, fixed asset acquisition and liquidity as of August 31, 2010. This is shown in the Statement of Financial Position as Net Assets-Designated for Specified Purposes.

9. SCHEDULE OF EXPENSES

The natural classification of the expenses presented in the Statements of Activities for the years ended August 31, 2010 and 2009 are shown below:

	<u>Program Services</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Total Expense</u>
2010				
Staff	\$ 5,394,784	\$ 1,863,208	\$ 1,499,880	\$ 8,757,872
Property and Equipment	1,025,739	271,092	70,457	1,367,288
Client Materials	12,030,478	6,279	-	12,036,757
Vehicle	220,837	9,111	834	230,782
General	629,062	246,190	153,492	1,028,744
Marketing	12,286	-	1,367,359	1,379,645
Depreciation	501,593	27,176	5,008	533,777
Total Operating Expenses	\$ 19,814,779	\$ 2,423,056	\$ 3,097,030	\$ 25,334,865
2009				
Staff	\$ 5,774,815	\$ 1,953,535	\$ 1,765,595	\$ 9,493,945
Property and Equipment	1,100,236	220,718	61,409	1,382,363
Client Materials	8,022,693	199	-	8,022,892
Vehicle	216,113	14,855	595	231,563
General	714,380	324,468	173,623	1,212,471
Marketing	18,616	107	1,978,072	1,996,795
Depreciation	534,163	29,829	5,399	569,391
Totals	16,381,016	2,543,711	3,984,693	22,909,420
Less Direct Expenses for Discontinued Operations	305,382	17,412	92,557	415,351
Total Operating Expenses	\$ 16,075,634	\$ 2,526,299	\$ 3,892,136	\$ 22,494,069

10. FUTURE RENTAL INCOME

CityTeam has rental leases for real property with four tenants. The term of these leases was originally 18 months to 5 years. The current base rental income projection from these leases is as follows:

CITYTEAM MINISTRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2010 AND 2009

2011		\$	696,564
2012			708,444
2013			710,664
2014			243,108
Total			\$ 2,358,780

11. RELATED PARTY TRANSACTIONS

In March 2003 the Organization made a loan of \$60,000 to a staff member for the purchase of a home. The terms include interest charged at 6.625%, with monthly payments due through July 2013, and the outstanding balance due August 2013. As of August 31, 2009, the balance due was \$33,746 and was paid in full in December 2009.

In the fiscal year ending August 31, 2009, CityTeam contracted to have new roofs installed on six buildings at the camp facility in Santa Cruz County for the amount of \$45,720. The contract was awarded in an arms length transaction to the low bidder, a firm in which the spouse of a CityTeam executive is a principal. The Chairman of the Finance & Audit Committee of the Board of Trustees approved the transaction. Subsequent to August 31, 2010, CityTeam again contracted for roof installations with the same vendor. See Note 17 for additional information.

12. DISASTER RESPONSE EFFORTS

In September 2005, the Board of Trustees approved CityTeam Ministries' plan to respond to the disaster rendered by Hurricane Katrina in Louisiana and Mississippi. Initial emergency relief efforts included feeding, sheltering, counseling and meeting other basic needs of victims in both states. The work in Mississippi, which was discontinued in 2009, included helping families rebuild their homes to make them habitable, plus beginning celebration recovery and church planting groups within the community. During 2010, CityTeam assisted earthquake victims in Haiti by providing shelter and medical services to victims as well as supporting an orphanage. The financial activity for these events are as summarized below:

	2010	2009	Total
Direct Disaster Income			
Haiti Income	\$ 278,987	\$ -	\$ 278,987
Katrina Income	-	80,605	80,605
Other Response Efforts	120	42,231	42,351
Total per Year	\$ 279,107	\$ 122,836	\$ 401,943
Direct Disaster Expense			
Haiti Expense	\$ 166,392	\$ -	\$ 166,392
Katrina Expense	57	80,605	80,662
Other Response Effort Expense	-	42,531	42,531
Total per Year	\$ 166,449	\$ 123,136	\$ 289,585

13. HORN OF AFRICA MISSION

CityTeam received control of Horn of Africa Mission (HOAM) on June 17, 2008. HOAM was incorporated in February 2003 as a public benefit corporation within the meaning of Section 501(c)(3), Internal Revenue Code, to organize medical services, alleviate suffering, provide preventive medicine, drug rehabilitation, work with HIV/AIDS prevention throughout the world, and to establish viable, reproducible, culturally-relevant churches in order to see Jesus Christ worshipped in every language and people group of the Horn of Africa and beyond. Income of \$37,448 and expenses of \$338,655 were included in the Statement of Activities for the year ended August 31, 2009.

HOAM has a fiscal year end of June 30. Because the fiscal years of the two organizations are within three months, accounting rules allow for the consolidation of the financial statements at each organization's fiscal year end. The difference was resolved early in CityTeam's fiscal year 2009 when the \$179,894 of HOAM

CITYTEAM MINISTRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2010 AND 2009

assets on hand at June 30, 2008 had been fully expended. Income associated with HOAM of \$37,448 and expenses of \$158,761 for July and August 2008 were removed from the August 31, 2008 Statement of Activities and included in the August 31, 2009 Statement of Activities. HOAM had no activity for the year ending June 30, 2010.

14. DONATED INVENTORY

During the years ending August 31, 2010 and 2009, CityTeam received significant donations of goods that are recorded as temporarily-restricted donated goods income and temporarily-restricted inventory in the financial statements in the year received. The items received in 2009 were distributed during 2010, and the items received in 2010 will be distributed in the August, 2011 fiscal year, per the donor's restriction. Subsequent to the end of the August, 2010 fiscal year, CityTeam received another significant donation. See Note 17 for additional information.

15. FAIR VALUE MEASUREMENTS

The following table presents the financial instruments as stated on the Statement of Position as of August 31, 2010:

	Level 3 Significant Unobservable Inputs	Total
Assets:		
Funds Held in Split Interest Trusts	\$ 979,614	\$ 979,614
Assets held for sale	28,075	28,075
Total Assets	\$ 1,007,689	\$ 1,007,689
Liabilities:		
Split-interest obligations	\$ 811,584	\$ 811,584
Total Liabilities	\$ 811,584	\$ 811,584

There are no investments or other financial instruments that should be classified as Level 1 or Level 2 financial instruments.

16. DISCONTINUED OPERATIONS

In December 2008, CityTeam Ministries discontinued operations of its Seattle, Washington ministry. In the year ending August 31, 2009, the ministry generated \$353,000 of income and \$415,000 of expense for an operating loss of \$62,000. In that same year, CityTeam sold its assets located in Seattle, Washington. The sale resulted in a gain of \$963,000.

17. SUBSEQUENT EVENTS

CityTeam contracted to have new roofs installed on additional buildings at the camp facility in Santa Cruz County for the amount of \$60,182. The contract was awarded in an arms-length transaction to the low bidder, a firm in which the spouse of a CityTeam executive is a principal. The Chairman of the Finance & Audit Committee of the Board of Trustees approved the transaction.

CityTeam received a significant donation of goods that will be recorded as temporarily-restricted donated goods income and temporarily-restricted inventory in the financial statements in the year received. The items received in 2011 will be distributed during 2012 per the donor's restriction.

The employee retirement plan, which qualifies as a 403(b) plan, covers all employees who have completed one year of service, are at least twenty-one years old and work at least an average of twenty hours a week. For fiscal year 2011 the plan was amended to provide for CityTeam to contribute 2.3% of the qualified employee's compensation.