

URBAN MINISTRIES OF DURHAM, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015



C O N T E N T S

JUNE 30, 2016

	PAGE
INDEPENDENT AUDITOR'S REPORT	2 - 3
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5 - 6
STATEMENTS OF FUNCTIONAL EXPENSES	7 - 8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	10 - 20



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Urban Ministries of Durham, Inc.
Durham, North Carolina

We have audited the accompanying financial statements of Urban Ministries of Durham, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional 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 audits 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.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT**CONTINUED****Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Ministries of Durham, Inc. as of June 30, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Raleigh, North Carolina
October 27, 2016

A handwritten signature in black ink that reads "Stanil + Company". The signature is written in a cursive, flowing style with a long, sweeping tail on the word "Company".

URBAN MINISTRIES OF DURHAM, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 671,688	\$ 585,093
Grants and Contracts Receivable	63,159	14,234
Unconditional Promises to Give, Net of Allowance for Doubtful Accounts of \$0 at June 30, 2016 and 2015	43,376	79,803
Sales Tax Receivable	5,365	6,717
Prepaid Expenses	17,025	15,073
Beneficial Interest in Assets Held by Others	24,781	27,253
Certificates of Deposit	128,705	127,563
Total Current Assets	954,099	855,736
Fixed Assets:		
Buildings and Improvements	3,189,770	3,168,244
Equipment and Software	383,208	374,027
Furniture and Fixtures	125,108	131,546
	3,698,086	3,673,817
Less: Accumulated Depreciation	(1,776,856)	(1,631,043)
Total Fixed Assets	1,921,230	2,042,774
Total Assets	\$ 2,875,329	\$ 2,898,510
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable	\$ 22,331	\$ 14,753
Accrued Payroll Liabilities	75,104	61,517
Note Payable - Current Portion	4,100	3,969
Obligations Under Capital Leases - Current Portion	2,826	4,568
Total Current Liabilities	104,361	84,807
Non-Current Liabilities:		
Note Payable	42,922	46,966
Obligations Under Capital Leases	4,918	7,745
Total Non-Current Liabilities	47,840	54,711
Total Liabilities	152,201	139,518
Net Assets:		
Unrestricted	2,216,734	2,329,613
Unrestricted - Board Designated	506,394	429,379
Total Net Assets	2,723,128	2,758,992
Total Liabilities and Net Assets	\$ 2,875,329	\$ 2,898,510

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted Net Assets</u>
Revenues and Support:	
Donated Materials, Services and Use of Space	\$ 1,184,675
Contributions - Individuals	532,649
Grants from Private Foundations	418,163
Grants from Government Agencies	400,997
Contributions - Congregations	109,412
Events	177,104
Contributions - School, Civic and Businesses	119,673
Other Income	49,087
Federated Campaigns	67,288
Realized (Loss) on Beneficial Interest in. Assets Held by Others	(862)
Interest Income	2,263
Total Revenues and Support	<u>3,060,449</u>
Expenses:	
Program Services:	
Community Shelter	1,267,364
Community Kitchen	802,608
Mission Society	484,789
Community Outreach	84,882
Community Enrichment	445
Management and General	245,558
Fundraising	210,667
Total Expenses	<u>3,096,313</u>
Changes in Net Assets	(35,864)
Net Assets at Beginning of Year	<u>2,758,992</u>
Net Assets at End of Year	<u><u>\$ 2,723,128</u></u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted Net Assets</u>
Revenues and Support:	
Donated Materials, Services and Use of Space	\$ 1,276,936
Contributions - Individuals	508,667
Grants from Private Foundations	401,405
Grants from Government Agencies	337,908
Contributions - Congregations	119,400
Events	276,459
Contributions - School, Civic and Businesses	75,999
Other Income	39,121
Federated Campaigns	31,231
Realized Gain on Beneficial Interest in Assets Held by Others	1,202
Interest Income	2,175
Total Revenues and Support	<u>3,070,503</u>
Expenses:	
Program Services:	
Community Shelter	1,229,658
Community Kitchen	783,565
Mission Society	492,892
Community Outreach	27,187
Community Enrichment	3,608
Management and General	258,570
Fundraising	193,528
Total Expenses	<u>2,989,008</u>
Changes in Net Assets	81,495
Net Assets at Beginning of Year	<u>2,677,497</u>
Net Assets at End of Year	<u><u>\$ 2,758,992</u></u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services				Support Services		Total Expenses		
	Community Shelter	Community Kitchen	Mission Society	Community Outreach	Community Enrichment	Total Program Services		Management and General	Fundraising
Salaries, Wages and Related Benefits	\$ 778,326	\$ 166,267	\$ 83,696	\$ 48,443	\$ -	\$ 1,076,732	\$ 149,530	\$ 103,351	\$ 1,329,613
Food, Clothing and Kitchen Expense	27,281	562,149	367,027	2,419	-	958,876	173	19	959,068
Rent	190,668	-	-	-	-	190,668	-	-	190,668
Community Outreach & Education	115,876	-	-	2,181	-	118,057	-	27,159	145,216
Depreciation and Amortization	23,941	26,558	25,252	25,252	-	101,003	26,558	26,558	154,119
Repairs and Maintenance	29,492	21,849	676	181	-	52,198	271	213	52,682
Office Supplies and Expense	1,889	114	1,830	441	-	4,274	3,551	11,259	19,084
Events	-	-	152	-	-	152	-	6,863	7,015
Utilities	18,210	16,334	3,055	121	-	37,720	2,929	2,846	43,495
Printing	5,275	2,569	501	1,205	-	9,550	1,542	4,072	15,164
Equipment Rental	1,449	85	45	150	-	1,729	2,605	14,888	19,222
Legal and Professional Fees	-	-	-	-	-	-	16,300	-	16,300
Client/Resident Life Supplies	9,522	-	1,091	-	445	11,058	3	-	11,061
Client Financial Assistance	46,663	-	-	-	-	46,663	28	-	46,691
Staff and Volunteer Development	5,513	424	41	2,079	-	8,057	29,576	151	37,784
Insurance	4,327	3,509	936	936	-	9,708	2,151	585	12,444
Telephone	6,464	388	388	420	-	7,660	1,196	1,164	10,020
Postage and Shipping	355	18	66	39	-	478	444	10,281	11,203
Contract Security	834	2,130	-	-	-	2,964	-	-	2,964
Other Expense	171	101	-	356	-	628	3,768	212	4,608
Interest Expense	5	-	-	-	-	5	1,960	-	1,965
Dues and Subscriptions	110	110	-	258	-	478	2,743	769	3,990
Travel	993	3	33	401	-	1,430	230	277	1,937
Total Expenses	\$ 1,267,364	\$ 802,608	\$ 484,789	\$ 84,882	\$ 445	\$ 2,640,088	\$ 245,558	\$ 210,667	\$ 3,096,313

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	Program Services										Support Services			Total Expenses
	Community Shelter	Community Kitchen	Mission Society	Community Outreach	Community Enrichment	Total Program Services	Management and General	Fundraising	Support Services		Total Expenses			
									Management and General	Fundraising				
Salaries, Wages and Related Benefits	\$ 697,006	\$ 147,040	\$ 78,434	\$ 23,323	\$ -	\$ 945,803	\$ 136,528	\$ 92,818	\$ -	\$ 1,175,149				
Food, Clothing and Kitchen Expense	24,130	551,683	371,779	173	-	947,765	6,134	580	-	954,479				
Rent	190,668	-	-	-	-	190,668	-	-	-	190,668				
Community Outreach & Education	130,643	-	-	-	-	130,643	4,100	55,745	-	190,488				
Depreciation and Amortization	35,025	35,025	35,025	-	-	105,075	35,025	-	-	140,100				
Repairs and Maintenance	28,601	17,672	362	656	-	47,291	2,542	2,186	-	52,019				
Office Supplies and Expense	2,960	338	238	143	23	3,702	37,253	8,688	-	49,643				
Events	43,149	-	-	-	-	43,149	-	-	-	43,149				
Utilities	18,057	18,020	2,752	-	-	38,829	1,888	1,888	-	42,605				
Printing	6,971	3,869	604	953	-	12,397	1,095	6,839	-	20,331				
Equipment Rental	3,439	1,039	281	148	-	4,907	-	13,314	-	18,221				
Legal and Professional Fees	-	-	-	-	-	-	17,133	-	-	17,133				
Client/Resident Life Supplies	10,982	185	2,121	-	3,369	16,657	12	12	-	16,681				
Client Financial Assistance	14,376	-	-	-	-	14,376	-	-	-	14,376				
Staff and Volunteer Development	6,458	314	21	1,076	-	7,869	5,319	173	-	13,361				
Insurance	5,307	3,497	874	-	-	9,678	1,509	546	-	11,733				
Telephone	6,864	357	357	715	-	8,293	1,110	1,117	-	10,520				
Postage and Shipping	348	192	44	-	216	800	1,611	7,136	-	9,547				
Contract Security	4,234	4,234	-	-	-	8,468	-	-	-	8,468				
Other Expense	33	-	-	-	-	33	3,377	1,569	-	4,979				
Interest Expense	35	-	-	-	-	35	2,145	-	-	2,180				
Dues and Subscriptions	-	-	-	-	-	-	1,167	603	-	1,770				
Travel	372	100	-	-	-	472	622	314	-	1,408				
Total Expenses	\$ 1,229,658	\$ 783,565	\$ 492,892	\$ 27,187	\$ 3,608	\$ 2,536,910	\$ 258,570	\$ 193,528	\$ -	\$ 2,989,008				

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (35,864)	\$ 81,495
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	154,119	140,100
Realized Loss/(Gain) on Beneficial Interest in Assets Held by Others	862	(1,202)
Change in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	(48,925)	7,333
Unconditional Promises to Give	36,427	69,437
Sales Tax Receivable	1,352	2,831
Prepaid Expenses	(1,952)	5,156
Increase (Decrease) in Liabilities:		
Accounts Payable	7,578	(74,012)
Deferred Revenue	-	(15,350)
Accrued Payroll Liabilities	13,587	6,058
Net Cash Provided by Operating Activities	<u>127,184</u>	<u>221,846</u>
Cash Flows from Investing Activities:		
Proceeds from Beneficial Interest in Assets Held by Others	1,610	2,677
Capital Expenditures	(32,575)	(251,557)
Reinvestment of Interest in Certificates of Deposit	(1,142)	-
Redemption of Certificates of Deposit	-	199,916
Net Cash Used in Investing Activities	<u>(32,107)</u>	<u>(48,964)</u>
Cash Flows from Financing Activities:		
Payment on Long-Term Debt	(3,913)	(3,843)
Payment on Capital Lease Obligations	(4,569)	(5,625)
Net Cash Used in Financing Activities	<u>(8,482)</u>	<u>(9,468)</u>
Net Increase in Cash and Cash Equivalents	86,595	163,414
Cash and Cash Equivalents at Beginning of Year	<u>585,093</u>	<u>421,679</u>
Cash and Cash Equivalents at End of Year	<u>\$ 671,688</u>	<u>\$ 585,093</u>
Supplemental Disclosures:		
Interest	<u>\$ 1,965</u>	<u>\$ 2,180</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****1. NATURE OF OPERATIONS:**

Urban Ministries of Durham, Inc. (the Organization) was founded in 1983 to provide a variety of services to low-income people, such as emergency shelter, food, clothing, and many other supportive services to people in need. The Organization also seeks to inform the public of the plight of low income people in order to spur individual and community action on their behalf.

The program entitled "Food and Clothing Pantry" refers to the Organization's efforts to provide used clothing and groceries to qualified people.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization has presented its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for not-for-profit organizations. Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted Net Assets, Temporarily Restricted Net Assets, and Permanently Restricted Net Assets.

Resources for various purposes are classified for accounting and financial reporting purposes into net asset categories established according to their nature and purpose as follows:

Unrestricted Net Assets: Unrestricted net assets represent funds which are fully available, at the discretion of management and the Board of Trustees, for the Organization to utilize in any of its program or supporting services. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.

Temporarily Restricted Net Assets: Temporarily restricted net assets represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Temporarily restricted net assets are reclassified to unrestricted as their time and/or purpose requirements are met. The Organization did not have any temporarily restricted net assets as of June 30, 2016 and 2015.

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****Basis of Presentation: (Continued)**

Permanently Restricted Net Assets: Permanently restricted net assets include resources with permanent donor-imposed restrictions, which require the assets to be maintained in perpetuity but permit the Organization to expend all or part of the income derived from the donated assets. The Organization did not have any permanently restricted net assets as of June 30, 2016 and 2015.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Contributions

Under generally accepted accounting principles for not-for-profits organizations, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

Unconditional Promises to Give and Revenue Recognition

Grants from government agencies are recognized as they are earned over the grant period. The Organization reports donor-restricted revenues whose restrictions are met in the same year as unrestricted revenue.

The Organization considers unconditional promises to give to be fully collectible. Accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in income as received.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original value of \$1,000 or more and an estimated useful life of more than one year. Purchased property and equipment are recorded at cost. Donated property and equipment are recorded as revenue at their estimated fair value as of the date of the contribution.

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Property and Equipment (Continued)

Depreciation is provided using the straight-line method over the estimated useful life of the related asset. The following useful lives are used in determining depreciation:

<u>Classification of Property</u>	<u>Estimated Useful Life</u>
Building and Improvements	10 - 39 Years
Furniture and Fixtures	5 - 12 Years
Equipment and Software	3 - 7 Years

Expenditures for repairs and maintenance are charged to expense as incurred. The cost of major renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition of property and equipment, the related asset and accumulated depreciation accounts are removed and any gain or loss is reflected in the statement of activities for the period.

Depreciation expense totaled \$154,119 and \$140,100 for the years ended June 30, 2016 and 2015, respectively.

Paid Time Off

The Organization's paid time off policy allows employees to carry over paid time off. As of June 30, 2016 and 2015, the estimate liability was \$26,629 and \$27,235, respectively.

Retirement Plan

The Organization sponsors an IRS Section 403(b) tax sheltered annuity. Employees are eligible to participate after one year of service for full-time employees. Employees can contribute 10 percent of their salary to the plan. The Organization contributes to the plan based on the employee's salary regardless of whether the employee contributes to the plan. For the years ended June 30, 2016 and 2015, the percentage was three percent. Beginning with the fiscal year ending June 30, 2016, the Organization will contribute an additional 1% if the employee contributes 1%. Retirement expense for the years ended June 30, 2016 and 2015 totaled \$20,515 and \$13,706, respectively.

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****Advertising**

The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2016 and 2015, totaled \$2,471 and \$6,507, respectively. The Organization also received in-kind advertising and marketing costs totaling \$0 and \$40,535 during the years ended June 30, 2016 and 2015, respectively.

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 is not currently under examination by the Internal Revenue Service or the State of North Carolina.

Concentration of Credit Risk*Contributions Receivable*

Financial instruments that potentially subject the Organization to credit risk consist of contributions receivable. Contributions receivable are unconditional promises to give over a period of time. Contributions receivable are unsecured. The potential accounting loss related to the contributions receivable is limited to the balance outstanding at June 30, 2016 and 2015, respectively.

Cash Concentrations

The Organization places its cash and cash equivalents and certificates of deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers up to \$250,000 for substantially all depository accounts. As of June 30, 2016 and 2015, the Organization exceeded these limits by \$165,148 and \$80,311, respectively.

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****Donated Materials, Services, and Use of Space**

Donated materials, services, and use of space are recorded as contributions at their estimated fair market values at the date of receipt. The Organization recognized donated materials, services and use of space in the amounts of \$1,184,675 and \$1,276,937 for the years ended June 30, 2016 and 2015, respectively.

The Organization recognized donated services if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed. The accompanying statement of activities includes the recognition of donated web development and maintenance and marketing services of approximately \$112,376 and \$166,263, and donated legal services of \$0 and \$1,383 for the years ended June 30, 2016 and 2015, respectively.

Other donated services have not been reflected in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America. Nevertheless, a substantial number of volunteers have donated significant amounts of their time. Management estimates that the Organization received 21,704 and 21,755 hours of these donated services, with estimated values totaling \$653,382 and \$583,791 for the years ended June 30, 2016 and 2015, respectively.

Functional Allocation of Expenses

The cost of providing the program services and other activities has been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

3. FAIR MARKET VALUE MEASUREMENTS:

The Organization applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as 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. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Professional standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level One Inputs) and the lowest priority to measurements involving significant unobservable inputs (Level Three Inputs). The three levels of the fair value hierarchy are as follows:

- Level One Inputs – are unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level Two Inputs – include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly.
- Level Three Inputs – are unobservable and significant to the overall fair value for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2016:

	<u>Fair Value Measurement at Reporting Date Using:</u>		
	<u>Quoted Prices in Active Markets for Identical Assets (Level One Inputs)</u>	<u>Significant Other Observable Inputs (Level Two Inputs)</u>	<u>Significant Unobservable Inputs (Level Three Inputs)</u>
Beneficial Interest in Assets Held By Others	<u>\$ -</u>	<u>\$ 24,781</u>	<u>\$ -</u>

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

3. FAIR VALUE MEASUREMENTS: (Continued)

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2015:

	Fair Value Measurement at Reporting Date Using:		
	Quoted Prices in Active Markets for Identical Assets (Level One Inputs)	Significant Other Observable Inputs (Level Two Inputs)	Significant Unobservable Inputs (Level Three Inputs)
Beneficial Interest in Assets			
Held By Others	\$ -	\$ 27,253	\$ -

The beneficial interest in assets held by others is valued based on a quarterly statement provided by the Triangle Community Foundation, the third party who manages the fund.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS:

Professional standards require disclosure about the fair value for all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about fair value of financial instruments are based on pertinent information available to management as of June 30, 2016 and 2015. Accordingly, the estimates presented in these statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments. Management has estimated that the fair values of cash, grants and contracts receivable, unconditional promises to give, other receivables and deposits, accounts payable, accrued payroll liabilities, and short-term borrowings to be approximately their respective carrying values reported on these statements because of their short maturities.

5. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS:

Professional standards require transactions in which a community organization accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets or both to another entity that is specified by the donor. If a not-for-profit organization establishes a fund at a community organization with its own assets and specifies itself as the beneficiary of that fund, standards require the not-for-profit organization to continue to recognize an asset, and the community organization must account for the transfer of such an asset as a liability (on the community organization's books).

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

5. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS: (Continued)

In 1990, the then St. Philip's Community Kitchen established the Betsy B. Rollins Fund for Hunger in Durham Endowment Fund (the Fund) for the Organization through the Triangle Community Foundation (the Foundation). The initial gift was \$10,000. Per terms of the agreement, 5 percent of the assets from this fund are given to the Organization each year. As of June 30, 2016 and 2015, the Fund had a current spendable balance of \$335 and \$339, respectively. Based on the Criteria established in professional standards, the investment balance as of June 30, 2016 and 2015 of \$24,781 and \$27,253, respectively, has been recognized as a "beneficial interest in assets held by others" in the accompanying statements of financial position.

The Board of Directors of the Foundation has full authority and discretion as to the investment and reinvestment of the assets of the Fund. In the event of the dissolution of the Organization, the Foundation shall thereafter continue to hold the assets constituting the Fund and shall distribute the net income and/or principal to such entities as in the opinion of the Board of Directors most nearly meet the purposes and objectives of the Organization. The Fund shall be administered by the Foundation subject to its charter and by-laws, including the power contained therein for the Board of Directors of the Foundation to modify any restrictions or conditions if in their sole judgment (without the approval of any trustee, custodian, or agent) such restrictions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by the Foundation.

6. UNCONDITIONAL PROMISES TO GIVE:

Unconditional promises to give consist of the following at June 30, 2016:

Receivable in less than one year	<u>\$ 43,376</u>
Total unconditional promises to give	<u><u>\$ 43,376</u></u>

Unconditional promises to give consist of the following at June 30, 2015:

Receivable in less than one year	<u>\$ 79,803</u>
Total unconditional promises to give	<u><u>\$ 79,803</u></u>

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

7. LONG-TERM DEBT:

The Organization has a note payable to a financial institution as of June 30, 2016 and 2015. The note has a principal balance of \$47,022 and \$50,935, respectively. The note is to be paid in sufficient monthly amounts to allow for payment in full by April 2026. The note bears interest at a rate equal to the lending institution's "prime rate" plus one percent, which was 3.25 percent at June 30, 2016 and 2015, respectively. Monthly payments, including interest, are approximately \$465. The note payable is collateralized by substantially all assets of the Organization and the land leased to it by a related party.

Future maturities of long-term debt at June 30, 2016 are as follows:

Due June 30:	2017	\$ 4,100
	2018	4,235
	2019	4,375
	2020	4,520
	2021	4,669
	Thereafter	25,123
		<u>\$ 47,022</u>

8. BOARD DESIGNATED NET ASSETS:

In 2011, the Board of Directors established a sustaining fund to ensure the stability of the mission, programs, employment, and ongoing operations of the Organization. The board designated net assets are included in the Organization's total unrestricted net assets at June 30:

	2016	2015
Sustaining Fund	\$ 506,394	\$ 429,379

9. CAPITAL LEASES:

In October 2010, the Organization leased phone equipment from NEC Financial Services of Saddle Brook, New Jersey under a capital lease. The actual cost of the equipment is \$15,230, which is included in the equipment and software line item of the accompanying statements of financial position. Depreciation expense totaled \$1,015 and \$3,046 at June 30, 2016 and 2015, respectively. The terms of the lease require 64 monthly payments of \$254, including interest, with a \$1 bargain purchase option available at the end of the lease. The equipment is being financed at 2% per year.

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

9. CAPITAL LEASES: (Continued)

In March 2014, the Organization leased a copier from CEI under a capital lease. The actual cost of the equipment is \$13,993, which is included in the equipment and software line item of the accompanying statements of financial position. Depreciation expense totaled \$2,799 and \$2,799 for the years ended June 30, 2016 and 2015, respectively. The terms of the lease require 60 monthly payments of \$253 including interest. The equipment is being financed at 3.25% per year.

The following is a schedule by years of future minimum payments required under the lease, together with their present value, as of June 30, 2016.

2017	\$ 3,036
2018	3,036
2019	<u>2,024</u>
Total Minimum Payments	8,096
Less Amounts Representing Interest	<u>(352)</u>
Present Value of Capital Lease Obligations	7,744
Less Current Portion of Capital Lease Obligations	<u>(2,826)</u>
Long-Term Portion of Capital Lease Obligations	<u><u>\$ 4,918</u></u>

10. RELATED PARTY TRANSACTIONS:

The Organization's by-laws state that the Rector of St. Phillip's Episcopal Church (the Church) will have a permanent seat on the Board of Directors for as long as the Organization is leasing property from the Church. The lease is for \$1 per year through the year 2024 and is treated as donated use of space in the accompanying statements of activities. Contributions from the Church (excluding the donated use of space) totaled \$21,322 and \$21,322 for the years ended June 30, 2016 and 2015, respectively.

11. CONCENTRATIONS:

The Organization received approximately 13 percent and 10 percent of its support from government agencies and 14 and 11 percent from private foundations for the years ended June 30, 2016 and 2015, respectively. Also, the Organization received approximately 39 percent and 51 percent of its revenue from in-kind contributions for the years ended June 30, 2016 and 2015, respectively. A significant reduction in these levels of support, if they were to occur, could have a significant effect on the Organization's programs and activities. The Organization had approximately 56% and 69% of its outstanding receivables coming from one entity as of June 30, 2016 and 2015, respectively.

See Independent Auditor's Report

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

12. ALLOCATION OF JOINT COSTS:

The Organization produces newsletters that include requests for contributions, as well as program and management and general components. The cost of conducting these activities included a total of \$22,788 and \$17,997 for the years ended June 30, 2016 and 2015, respectively, of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows based on content of the newsletters:

	2016	2015
Community Shelter	\$ 11,394	\$ 8,998
Community Kitchen	7,292	5,759
Mission Society	912	1,440
Management and General	1,139	900
Fundraising	1,139	900
Community Outreach	912	-
	\$ 22,788	\$ 17,997

13. EVENTS OCCURRING AFTER REPORTING DATE:

The Organization has evaluated events and transactions that occurred between June 30, 2016 and October 27, 2016, which is the date that the financial statements were available for issue, for possible recognition or disclosure in the financial statements.

See Independent Auditor's Report