

URBAN MINISTRIES OF DURHAM, INC.
Durham, North Carolina

Audited Financial Statements

Years Ended June 30, 2019 and 2018





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Certified Public Accountants
and Consultants

November 26, 2019

Sheldon Mitchell
Executive Director
Urban Ministries of Durham, Inc.
410 Liberty Street
Durham, NC 27702

Mr. Mitchell:

Please find enclosed the following **final** documents relating to our audit of Urban Ministries of Durham, Inc. (the "Organization") for the year ended June 30, 2019:

1. Audited Financial Statements

2. Report to the Organization's Board of Directors – AU-C 260

This report relates to communications required under AU-C 260, *The Auditor's Communication With Those Charged with Governance*. This statement applies to all nonpublic entities and requires auditors to communicate matters that are significant and relevant to those charged with governance and overseeing the financial reporting process.

Our AU-C 260 report is enclosed as a separate report.

3. Report to the Organization's Board of Directors – AU-C 265

This report relates to communications required under AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*. This statement establishes standards and provides guidance on the auditor's responsibilities for identifying, evaluating, and communicating matters related to an entity's internal control over financial reporting identified in an audit of the financial statements.

Our AU-C 265 report is enclosed as a separate report.

4. Management letter comments

The management letter communicates other matters noted during an audit that do not rise to the level of those required to be communicated under the AU-C 265 report noted above.

There were three (3) management letter comments for the year ended June 30, 2019.

5. Corrected misstatements (audit adjustments)

Professional standards require us to communicate all known and likely misstatements identified during an audit, other than those that are trivial, and communicate them to the appropriate level of management.

An audit adjustment is defined as a proposed correction of the financial statements that may not have been detected except through our auditing procedures.

The three (3) audit adjustments for the year ended June 30, 2019 are enclosed.

6. Uncorrected misstatements (passed audit adjustments)

A passed audit adjustment is an observation detected through our auditing procedures that is not corrected (reported as an audit adjustment) due to its immateriality in relation to the financial statements as a whole.

There were no passed adjustments for the year ended June 30, 2019.

7. Adjusted trial balance (Grouping Schedule Report)

This report, which supports balances in the June 30, 2019 audited financial statements, presents the Organization's trial balance after inclusion of the three (3) audit adjustments for the year ended June 30, 2019.

Form 990 for the year ended June 30, 2019

The Organization's Form 990, originally due November 15, 2019, has been extended to May 15, 2020. A draft of the Form 990 will be sent to you for review and approval.

Payment arrangements

In accordance with our engagement letter, we have enclosed invoice no. 20521 dated November 26, 2019, in the amount of \$4,334 representing our final invoice for professional services rendered on the June 30, 2019 audit plus our out-of-pocket expenses.

Please call me or Diane Haley, senior manager, if you have any questions. I can be reached at (919) 544-0555, extension 105. Diane is at extension 110.

Sincerely,



Bruce L. Thomas, CPA, Esq.
Member

URBAN MINISTRIES OF DURHAM, INC.

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Urban Ministries of Durham, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019 and 2018 and the changes in its net assets, cash flows, and functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

James S. Gillo CPA, PLLC

Durham, North Carolina
November 6, 2019

URBAN MINISTRIES OF DURHAM, INC.
STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents (note 2)	\$ 802,369	\$ 691,525
Grants and contracts receivable (note 5)	235,996	152,300
Accounts receivable	1,352	116,613
Pledges receivable	35,350	21,199
Sales tax receivable	8,595	11,833
Employee advances	1,054	-
Prepaid expenses	7,803	8,146
Beneficial interest in assets held by others (note 8)	-	27,239
Certificates of deposit	133,651	131,553
Other current assets	3,979	-
Total current assets	<u>1,230,149</u>	<u>1,160,408</u>
Non-current assets		
Property and equipment, net (note 6)	1,751,441	1,788,368
Total non-current assets	<u>1,751,441</u>	<u>1,788,368</u>
Total assets	<u>\$ 2,981,590</u>	<u>\$ 2,948,776</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 71,527	\$ 77,783
Accrued payroll liabilities	59,337	45,719
Accrued paid time off (note 22)	27,087	27,823
Obligation under capital lease - current portion (note 14)	4,425	5,256
Note payable - current portion (note 13)	4,213	4,099
Total current liabilities	<u>166,589</u>	<u>160,680</u>
Non-current liabilities		
Note payable (note 13)	30,806	34,967
Obligation under capital leases (note 14)	9,603	13,105
Total non-current liabilities	<u>40,409</u>	<u>48,072</u>
Total liabilities	<u>206,998</u>	<u>208,752</u>
Net assets		
Without donor restrictions		
Board designated (note 16)	553,483	584,889
Undesignated	1,685,226	1,866,824
With donor restrictions (note 10)	535,883	288,311
Total net assets	<u>2,774,592</u>	<u>2,740,024</u>
Total liabilities and net assets	<u>\$ 2,981,590</u>	<u>\$ 2,948,776</u>

The accompanying notes are an integral part of the financial statements.

URBAN MINISTRIES OF DURHAM, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities:			
Support and revenue			
Donated materials, services and use of space	\$ 1,146,325	\$ -	\$ 1,146,325
Contributions	859,157	170,150	1,029,307
Grants	1,164,916		1,164,916
Special events: (Integral and ongoing)			-
Contributions	83,485	-	83,485
Ticket sales	47,743	-	47,743
Cost of direct benefits to donors	(9,421)	-	(9,421)
Net fundraising revenue	121,807	-	121,807
Fundraising events, net of expenses: (Peripheral and incidental)	17,459	-	17,459
Federated campaigns	46,806	-	46,806
Other income	14,274	-	14,274
Interest income	2,552	-	2,552
Total support and revenue	3,373,296	170,150	3,543,446
Net assets released from restrictions (note 11)	172,578	(172,578)	-
Total support and revenue	3,545,874	(2,428)	3,543,446
Expenses			
Program services	3,332,783	-	3,332,783
Management and general	207,016	-	207,016
Fundraising	219,079	-	219,079
Total expenses	3,758,878	-	3,758,878
Non-operating activities:			
Endowment contribution	-	250,000	250,000
Total non-operating revenue	-	250,000	250,000
Change in net assets	(213,004)	247,572	34,568
Net assets, beginning of year	2,451,713	288,311	2,740,024
Net assets, end of year	\$ 2,238,709	\$ 535,883	\$ 2,774,592

The accompanying notes are an integral part of the financial statements.

URBAN MINISTRIES OF DURHAM, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities:			
Support and revenue			
Donated materials, services and use of space	\$ 1,440,517	\$ -	\$ 1,440,517
Contributions	832,553	-	832,553
Grants	1,128,918	349,382	1,478,300
Special events: (Integral and ongoing)		-	-
Contributions	75,027	-	75,027
Ticket sales	30,585	-	30,585
Cost of direct benefits to donors	(4,660)	-	(4,660)
Net fundraising revenue	100,952		100,952
Fundraising events, net of expenses:			
(Peripheral and incidental)	20,818	-	20,818
Federated campaigns	85,348	-	85,348
Other income	28,574	-	28,574
Realized gain on beneficial interest in assets held by others	1,721	-	1,721
(Loss) on disposal of fixed assets	(3,363)	-	(3,363)
Interest income	1,974	-	1,974
Total support and revenue	3,638,012	349,382	3,987,394
Net assets released from restrictions (note 11)	61,071	(61,071)	-
Total support and revenue	3,699,083	288,311	3,987,394
Expenses			
Program services	3,232,225	-	3,232,225
Management and general	293,936	-	293,936
Fundraising	275,993	-	275,993
Total expenses	3,802,155	-	3,802,155
Change in net assets	(103,072)	288,311	185,239
Net assets, beginning of year	2,554,785	-	2,554,785
Net assets, end of year	<u>\$ 2,451,713</u>	<u>\$ 288,311</u>	<u>\$ 2,740,024</u>

The accompanying notes are an integral part of the financial statements.

URBAN MINISTRIES OF DURHAM, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
Operating activities		
Change in net assets	\$ 34,568	\$ 185,239
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	129,533	138,277
Realized loss (gain) on beneficial interest in assets held by others	-	1,721
Contributions restricted for endowment	(250,000)	-
Loss on disposal of fixed assets	-	3,363
Changes in operating assets and liabilities:		
Grants and contracts receivable, net	(83,696)	(97,102)
Accounts and pledges receivable	103,294	(129,068)
Prepaid expenses	(3,636)	(1,766)
Accounts payable	7,362	14,762
Accrued payroll liabilities	(736)	(478)
Net cash provided (used) by operating activities	(63,311)	114,948
Cash flows from investing activities		
Proceeds from beneficial interest in assets held by others	27,239	(778)
Cash paid for purchases of fixed assets	(92,606)	(78,908)
Reinvestment of interest in certificates of deposit	(2,098)	(1,489)
Net cash provided (used) by investing activities	(67,465)	(81,175)
Cash flows from financing activities		
Payments on capital leases	(4,333)	(8,191)
Principal payments on notes payable	(4,047)	(3,994)
Contributions restricted for endowment	250,000	-
Net cash provided (used) by financing activities	241,620	(12,185)
Net increase (decrease) in cash and cash equivalents	110,844	21,588
Cash and cash equivalents, beginning of year	691,525	669,937
Cash and cash equivalents, end of year	\$ 802,369	\$ 691,525
Supplemental disclosures:		
Cash paid for interest	\$ 2,876	\$ 4,076
Non-cash financing activities	\$ -	\$ 22,224

The accompanying notes are an integral part of the financial statements.

URBAN MINISTRIES OF DURHAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Program Services						Support Services			Total Expenses
	Community Shelter	Community Kitchen	Mission Society	Community Outreach	Total Program Services	Management and General	Fundraising	Total Support Services		
	\$	\$	\$	\$	\$	\$	\$	\$		
Salaries and related benefits	955,613	184,301	74,265	93,358	1,307,537	-	123,424	258,848	1,566,385	
Food, clothing and kitchen expense	17,492	568,231	388,200	120	974,043	7,019	33	7,052	981,095	
Depreciation and amortization	22,013	22,013	20,740	22,013	86,779	22,013	20,741	42,754	129,533	
Contract security	80,733	80,732	-	-	161,465	-	-	-	161,465	
Community outreach and education	98,715	-	-	4,671	103,386	-	17,565	17,565	120,951	
Rent	190,668	-	-	-	190,668	-	-	-	190,668	
Legal and professional services	-	-	-	-	-	18,858	-	18,858	18,858	
Repairs and maintenance	47,347	34,225	179	207	81,958	611	366	977	82,935	
Utilities	22,925	16,153	2,890	123	42,091	2,726	2,683	5,409	47,500	
Printing	1,495	315	445	426	2,681	1,026	14,196	15,222	17,903	
Insurance	4,639	3,765	1,004	1,004	10,412	3,229	627	3,856	14,268	
Office supplies and expense	10,194	163	157	779	11,294	1,805	12,337	14,142	25,436	
Client/resident life supplies	7,570	419	930	433	9,352	-	-	-	9,352	
Equipment rental	1,599	2,618	870	30	5,117	2,884	15,873	18,757	23,874	
Telephone	10,983	666	666	810	13,125	2,142	1,999	4,141	17,266	
Postage and shipping	774	146	468	184	1,572	342	6,329	6,671	8,243	
Staff and volunteer development	9,259	250	229	1,440	11,178	2,194	2,069	4,263	15,441	
Client financial assistance	305,009	7,739	100	-	312,848	19	-	19	312,867	
Interest expense	-	-	-	-	-	2,876	-	2,876	2,876	
Travel	5,782	-	-	-	5,782	86	22	108	5,890	
Events	-	-	-	-	-	-	-	-	-	
Dues and subscriptions	1,064	-	-	50	1,114	3,695	658	4,353	5,467	
Other	381	-	-	-	381	67	157	224	605	
Totals	\$ 1,794,255	\$ 921,736	\$ 491,143	\$ 125,648	\$ 3,332,783	\$ 207,016	\$ 219,079	\$ 426,095	\$ 3,758,878	

The accompanying notes are an integral part of the financial statements.

URBAN MINISTRIES OF DURHAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Program Services					Support Services			Total Expenses
	Community Shelter	Community Kitchen	Mission Society	Community Outreach	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries and related benefits	\$ 821,744	\$ 159,997	\$ 99,686	\$ 35,134	\$ 1,116,561	\$ 214,233	\$ 67,521	\$ 281,754	\$ 1,398,315
Food, clothing and kitchen expense	27,668	637,614	356,791	153	1,022,227	36	1	38	1,022,264
Depreciation and amortization	23,046	23,046	23,046	23,046	92,185	23,046	23,046	46,092	138,277
Contract security	53,326	53,326	-	-	106,653	-	-	-	106,653
Community outreach and education	252,190	-	-	3,611	255,801	7,539	114,559	122,098	377,898
Rent	190,668	-	-	-	190,668	-	-	-	190,668
Legal and professional services	-	-	-	-	-	16,500	300	16,800	16,800
Repairs and maintenance	34,482	31,634	6,792	142	73,050	189	177	366	73,416
Utilities	21,398	16,900	2,995	132	41,424	3,177	2,797	5,974	47,398
Printing	1,949	47	638	595	3,229	744	8,930	9,674	12,903
Insurance	4,417	3,581	955	955	9,909	3,156	597	3,752	13,661
Office supplies and expense	17,804	236	1,442	732	20,214	3,287	10,112	13,399	33,613
Client/resident life supplies	5,116	1,985	36	191	7,329	-	-	-	7,329
Equipment rental	137	1,624	-	82	1,843	3,089	15,832	18,921	20,764
Telephone	10,812	714	714	857	13,097	1,196	2,142	3,338	16,435
Postage and shipping	245	186	447	-	878	345	8,213	8,559	9,437
Staff and volunteer development	3,750	282	195	667	4,894	6,034	17,223	23,257	28,151
Client financial assistance	261,321	2,905	-	185	264,411	154	-	154	264,565
Interest expense	-	-	-	-	-	4,076	-	4,076	4,076
Travel	281	-	-	104	385	1,652	41	1,693	2,078
Dues and subscriptions	815	90	-	1,290	2,195	3,848	108	3,955	6,150
Other	5,243	32	-	-	5,275	1,636	4,394	6,030	11,305
Totals	\$ 1,736,410	\$ 934,199	\$ 493,738	\$ 67,877	\$ 3,232,225	\$ 293,936	\$ 275,993	\$ 569,930	\$ 3,802,155

The accompanying notes are an integral part of the financial statements.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 1 – Nature of activities and significant accounting policies

Urban Ministries of Durham, Inc., (the “Organization”) was formed 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 Organization is supported by government and private grants, contributions and in-kind services, facilities and goods.

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

Basis of accounting - The Organization uses the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Basis of presentation - The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). (ASC) 958-205 was effective January 1, 2018.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization’s board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Contributions - Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 1 – Nature of activities and significant accounting policies (continued)

Grants and pledges - Grants and pledges to give future amounts are recognized when the donor makes a promise to give that is, in substance, unconditional. Grants from government agencies are recognized as they are earned over the grant period. 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.

Accounts receivable – Accounts receivable are considered to be fully collectible. Interest is not charged on past due amounts. 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.

Advertising – The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2019 and 2018 totaled \$6,168 and \$1,266, respectively.

Property and equipment – Purchases of furniture and equipment are recorded at cost. 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 capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, ranging from three to thirty-nine years.

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 totaling \$1,146,325 and \$1,440,517 for the years ended June 30, 2019 and 2018, 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 recognition of donated web development and maintenance and marketing services of approximately \$11,340 and \$104,841 for the years ended June 30, 2019 and 2018, 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 28,010 and 27,643 hours of donated services with estimated values of \$712,299 and \$667,302 for the years ended June 30, 2019 and 2018, respectively.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 1 – Nature of activities and significant accounting policies (continued)

Measure of operations - The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

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 functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Allocation method</u>
Salaries and wages	Time and effort
Depreciation	Estimated benefit
Utilities except gas	Square footage
Insurance	Square footage
Other	Time and effort

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes - The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for 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). Consequently, no provision for income taxes has been made in the accompanying statements.

Uncertain tax positions – Income from certain activities not directly related to the Organization's tax-exempt purposes may be subject to taxation as unrelated business income. The Organization currently has no obligation for unrelated business income tax.

New accounting pronouncement - On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 1 – Nature of activities and significant accounting policies (continued)

Pending accounting pronouncements - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires that lessees recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for the Organization for the year ending June 30, 2020. Management is currently evaluating the effect that the standard will have on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

ASU 2018-08 (Topic 958): *Clarifying the Scope & Accounting Guidance for Contributions Received and Contributions Made* is effective for years beginning after December 31, 2019. This standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction and clarifies how a not-for-profit determines whether a resource provider is participating in an exchange transaction,

Note 2 – Cash and cash equivalents

Cash equivalents consist of short-term, highly liquid investments, with original maturities at time of purchase of less than ninety days.

Note 3 – Investments

Investments consist of a Certificate of Deposit held in a local bank. The certificate has a 12 month term and bears interest at the rate of 2.1%.

Note 4 – Liquidity

The Organization receives significant support through donations. In some cases, a donor's restriction requires resources to be used in a particular manner or in a future period, and the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus certain financial assets may not be available for general expenditures within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, amounts designated by the Board of Director's for liquidity reserve may be drawn upon to meet the immediate need.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 4 – Liquidity (continued)

The following represents the Organization’s financial assets at June 30, 2019 and 2018:

Cash and cash equivalents	\$ 802,369	\$ 691,525
Grants and contracts receivable	235,996	152,300
Pledges receivable	35,350	21,199
Other receivables	10,209	128,446
Prepaid expenses	7,803	8,146
Beneficial interest in assets held by others	-	27,239
Investments	<u>133,651</u>	<u>131,553</u>
Total financial assets	\$ 1,225,378	\$ 1,160,408
Less amounts not available within one year:		
Permanent endowment	\$ (250,000)	\$ -
Time restricted by donor	-	(75,000)
Board designations:		
Amounts set aside for liquidity reserve	(402,483)	(586,987)
Quasi-endowment	<u>(151,000)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 421,895</u>	<u>\$ 498,421</u>

Note 5 – Grants and contracts receivable

During the year ended June 30, 2018, the Organization received an unconditional promise to give of grant funds in the amount of \$200,000. Of this amount \$125,000 was received by June 30, 2019. The balance of \$75,000 is due in the year ended June 30, 2020.

Note 6 – Property and equipment

Property and equipment consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Buildings & improvements	\$ 3,236,117	\$ 3,225,562
Equipment & software	516,510	462,743
Furniture & fixtures	<u>112,778</u>	<u>111,514</u>
Total property and equipment	3,865,405	3,799,819
Less accumulated depreciation	<u>(2,113,964)</u>	<u>(2,011,451)</u>
Property and equipment, net	<u>\$ 1,751,441</u>	<u>\$ 1,788,368</u>

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
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Note 6 – Property and equipment (continued)

The Organization recognized depreciation expense of \$129,533 and \$138,277 for the years ended June 30, 2019 and 2018, respectively.

Note 7 - Fair value measurements

Generally accepted accounting principles (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 hierarchy are as follows:

- Level one inputs – 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, 2018:

	Fair Value Measurement at Reporting Date Using:		
	Level One Inputs	Level Two Inputs	Level Three Inputs
Beneficial interest in assets held by others	\$ -	\$ 27,239	\$ -

The beneficial interest in assets held by others was distributed in full to the Organization during the year ended June 30, 2019 due to the trustee raising the minimum balance for these accounts to \$50,000.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
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Note 8 – Beneficial interest in assets held by others

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 Triangle Community Foundation (the Foundation). The initial gift was \$10,000 and per terms of the agreement, five percent (5%) of the asset balance is available to the Organization for withdrawal each year. As of June 30, 2018, the Fund had a current spendable balance of \$0 related to the liquidation of the account. Based on the criteria established in professional standards, the investment balance as of June 30, 2018 of \$27,239 has been recognized as a “beneficial interest in assets held by others” in the accompanying statements of financial position.

Note 9 – 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, 2019 and 2018. 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, pledges and other receivables and accounts payable, accrued payroll liabilities, and short-term borrowings to approximate their respective carrying values reported on these statements because of their short maturities.

Note 10 – Net assets with donor restrictions

The following net assets with donor restrictions are available for program activities at June 30, as indicated:

	<u>2019</u>	<u>2018</u>
Restricted purpose:		
Workforce education	\$ 63,591	\$ 102,000
Clinical placement program	47,135	98,000
Security system	5,007	88,311
Café renovation	170,150	-
Total restricted purpose	<u>285,883</u>	<u>288,311</u>
Time restricted:		
Endowment	<u>250,000</u>	-
Total net assets with donor restrictions	<u>\$ 535,883</u>	<u>\$ 288,311</u>

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
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Note 11 – Net assets released from restrictions

During the years ended June 30, 2019 and 2018, net assets with donor restrictions totaling \$172,578 and \$61,071, respectively, were released due to satisfaction of purpose restrictions.

	2019	2018
Security system	\$ 83,304	\$ 61,071
Workforce education	38,409	-
Clinical placement	50,865	-
	\$ 172,578	\$ 61,071

Note 12 – Endowment funds

The Organizations endowment consists of funds held in an interest bearing bank account. The endowment includes both donor-restricted endowment funds which are classified and reported based on the existence or absence of donor-imposed restrictions and funds designated by the Board of Trustees to function as endowment.

The Organization is subject to the North Carolina Prudent Management of Institutional Funds Act (NCPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted in perpetuity or until the Board of Trustees appropriates such amounts for expenditure. The Board of Trustees has interpreted NCPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to the endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted NCPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with NCPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2019 and 2018

Note 12 – Endowment funds (continued)

Endowment net asset composition by type of fund as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 250,000	\$ 250,000
Board designated endowment funds	151,000	-	\$ 151,000
Total	<u>\$ 151,000</u>	<u>\$ 250,000</u>	<u>\$ 401,000</u>

Changes in endowment net assets for the year ended June 30, 2019:

Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Contributions	-	250,000	250,000
Other changes:			
Transfers to create board-designated endowment funds	151,000	-	151,000
Endowment net assets, end of year	<u>\$ 151,000</u>	<u>\$ 250,000</u>	<u>\$ 401,000</u>

The Organization has not yet determined its investment or spending policies related to the endowment.

Note 13 – Note payable

The Organization has a note payable to a financial institution as of June 30, 2019 and 2018. The note has a principal balance of \$35,019 and \$39,066, respectively, with 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 5.5% and 4.75% at June 30, 2019 and 2018, 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.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
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Note 13 – Note payable (continued)

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

Year	Amount
2020	\$ 4,213
2021	4,437
2022	4,675
2023	4,927
2024	5,190
Thereafter	11,577
	\$ 35,019

Note 14 – Lease commitments

The Organization is the lessee of office equipment under a capital lease expiring in the year ended June 30, 2022. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. The terms of the lease require 60 monthly payments of \$438 including interest. The equipment is being financed at 6.0% per year.

Following is a summary of property held under capital leases:

Office equipment	\$ 22,224
Accumulated amortization	(13,334)
	\$ 8,890

Future minimum payments, by year and in aggregate, under this lease are as follows at June 30, 2019:

Year Ending June 30	Amount
2020	\$ 5,256
2021	5,256
2022	5,057
Less: amounts representing interest	(1,541)
	14,028
Less: current portion	(4,425)
	\$ 9,603

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
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Note 15 – Credit risk

The Organization holds its cash and cash equivalents in North Carolina based banks. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. There are uninsured cash account balances of \$419,860 and \$206,260 at June 30, 2019 and 2018, respectively.

Financial instruments that potentially subject the Organization to credit risk consist of contributions receivable. Contributions receivable are unsecured, unconditional promises to give over a period of time. The potential accounting loss related to contributions receivable is limited to the balance outstanding at June 30, 2019 and 2018.

Note 16 – 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 included in the Organization's total unrestricted net assets at June 30, 2019 and 2018 are \$553,483 and \$584,889, respectively.

Note 17 – Related party transactions

The Organization's by-laws provide that the Rector of St. Phillip's Episcopal Church (the "Church") will have a permanent seat on the Board of Directors as long as the Organization leases property from the Church. The lease is \$1 per year through 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 \$24,611 and \$23,583 for the years ended June 30, 2019 and 2018, respectively.

Note 18 – Concentrations

The Organization received approximately 17% and 15% of its support from government agencies and 14% and 24% from private foundations for the years ended June 30, 2019 and 2018, respectively. Also, the Organization received approximately 30% and 37% of its revenue from in-kind contributions for the years ended June 30, 2019 and 2018, 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. Approximately 53% of its outstanding receivables were from one entity at June 30, 2019 and 2018, respectively.

Note 19 – Allocation of joint costs

Through June 30, 2018, the Organization produced newsletters that included requests for contributions as well as program and management and general components. The cost of conducting these activities totaled \$26,057 of joint costs not specifically attributable to particular components of the activities for the year ended June 30, 2018. Beginning with the year ended June 30, 2019, the newsletter transitioned to an electronic format and total expenses are not material. These joint costs have been allocated as follows based on the content of the newsletters:

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
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Note 19 – Allocation of joint costs (continued)

	2019	2018
Community shelter	\$ -	\$ 13,028
Community kitchen	-	8,338
Mission society	-	1,042
Management and general	-	1,303
Fundraising	-	1,303
Community outreach	-	1,043
	\$ -	\$ 26,057

Note 20 – Description of program services

For nearly 35 years, Urban Ministries of Durham (UMD) has served the needs of the Triangle’s most vulnerable residents: the poor, hungry, and homeless. By offering food, shelter, and a future to our neighbors in need, UMD helps hundreds of individuals and families each year find emergency shelter, obtain groceries and clothing, develop job skills, and connect to life-changing services offered by more than a dozen partner agencies. From July 1, 2018 through June 30, 2019, UMD helped 246 people end their homelessness and served more than 250,000 meals at its downtown Durham location.

Community Shelter - UMD’s community shelter accommodates up to 149 men, women, and children each night, with 19 overflow mats available during evenings with severe weather. New arrivals receive a bed for 14 nights, as well as access to hygiene products and showers, apparel from the Clothing Closet, and meals at the Community Cafe. UMD accepts referrals from nonprofits, churches, and other service organizations 24 hours a day, 7 days a week.

Rapid Rehousing - UMD implements a rapid re-housing model focused on helping individuals and families move quickly into permanent housing, usually within 30 days. By providing a tailored package of assistance that includes case management, housing location services, and financial assistance for housing-related expenses (e.g. rent assistance, moving costs), UMD is able to decrease homelessness in the local community, reduce the amount of time that clients stay in shelters, prevent clients from returning to homelessness, and increase clients’ self-sufficiency.

Workforce Preparedness Initiative - Launched in 2015, UMD’s workforce programs focus on empowering homeless adults with chronic barriers to employment who are not disabled and must pay for their own permanent housing. UMD’s campus serves as a training ground for clients to develop commercial kitchen, maintenance, commercial laundry, and retail skills, with additional support from case managers to help them prepare for, find, and keep jobs. Ultimately, the goal of these programs is to help marginalized single homeless adults--many of whom have long periods of unemployment, prior criminal convictions, educational deficiencies, and other barriers to employment--rejoin society through working.

URBAN MINISTRIES OF DURHAM, INC.
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Note 20 – Description of program services (continued)

Community Cafe - UMD's Community Cafe serves three meals a day, seven days a week, 365 days a year to shelter residents and anyone else in need of a meal. Volunteers provide over 90% of labor, and community partners donate over 90% of food.

Food Pantry and Clothing Closet - UMD's Food Pantry and Clothing Closet meets community members' basic emergency needs for food, clothing, diapers, and hygiene supplies. Guests--the majority of whom are not homeless but trying to stretch limited resources--may receive supplies once every 30 days provided that they meet income eligibility requirements and provide documentation. Volunteers assisting guests also watch for signs that a family is in danger of becoming homeless and can provide referrals to case managers and financial assistance providers for additional support.

Diversion Programs - UMD uses a number of diversion assistance efforts to prevent individuals and families from becoming homeless. UMD's Diversion Program provides families with financial assistance for needed costs such as rent/utility assistance, apartment deposits, and transportation. These supports prevent families from needing emergency shelter, and a great number of clients who receive diversion assistance "self-resolve" the challenges making them vulnerable to homelessness.

Note 21 – Contingencies

The Organization receives grant funds. Such funds are subject to final approval by the grantor agencies and deficiencies, if any, are the responsibility of the Organization.

The Organization has the usual obligations of a contractor for performance in connection with contracts for work performed and to be performed. Management does not anticipate any significant losses in connection with these grants.

Note 22 -- Retirement plan

The Organization provides retirement benefits to its participating employees through a defined contribution plan. The Organization contributes three percent of each eligible participant's compensation to the plan. In addition, the Organization contributes one percent of compensation for employees who elect contributions to the plan. The Organization's contributions to the plan during the years ended June 30, 2019 and 2018 were \$24,373 and \$23,381, respectively.

Note 22 – Accrued paid time off

The Organization has a leave policy in which employees are allowed to carry over 10 days of accrued leave into the subsequent year. Accrued paid time off was \$27,087 and \$27,823 as of June 30, 2019 and 2018, respectively.

URBAN MINISTRIES OF DURHAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Note 23 – Subsequent events

The Organization has evaluated subsequent events occurring after June 30, 2019 through November 6, 2019, which is the date the financial statements were available to be issued.