

URBAN MINISTRIES OF DURHAM, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013



C O N T E N T S

JUNE 30, 2013

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INDEPENDENT AUDITORS' 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, 2014 and 2013, 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.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT**CONTINUED**

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

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, 2014 and 2013 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.

Stancil + Company

Raleigh, North Carolina
October 27, 2014

URBAN MINISTRIES OF DURHAM, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 421,679	\$ 327,377
Grants and Contracts Receivable	21,567	23,830
Unconditional Promises to Give, Net of Allowance for Doubtful Accounts of \$0 at June 30, 2014 and 2013	149,240	33,960
Other Receivables	9,548	3,305
Prepaid Expenses	20,229	20,986
Beneficial Interest in Assets Held by Others	28,728	26,360
Certificates of Deposit	327,479	176,273
Total Current Assets	978,470	612,091
Fixed Assets:		
Buildings and Improvements	2,870,920	2,583,276
Equipment and Software	308,967	305,529
Furniture and Fixtures	107,788	109,161
	3,287,675	2,997,966
Less: Accumulated Depreciation	(1,490,944)	(1,405,784)
	1,796,731	1,592,182
Construction in Progress	134,586	-
Total Fixed Assets	1,931,317	1,592,182
Total Assets	\$ 2,909,787	\$ 2,204,273
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable	\$ 88,765	\$ 11,540
Accrued Payroll Liabilities	55,459	41,904
Deferred Revenue	15,350	-
Note Payable - Current Portion	3,843	3,720
Obligations Under Capital Leases - Current Portion	5,626	2,918
Total Current Liabilities	169,043	60,082
Non-Current Liabilities:		
Note Payable	50,935	54,777
Obligations Under Capital Leases	12,312	4,809
Total Non-Current Liabilities	63,247	59,586
Net Assets:		
Unrestricted	2,350,018	1,873,207
Unrestricted - Board Designated	327,479	176,273
Temporarily Restricted	-	35,125
Total Net Assets	2,677,497	2,084,605
Total Liabilities and Net Assets	\$ 2,909,787	\$ 2,204,273

See Independent Auditors' Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u> <u>Net Assets</u>	<u>Temporarily</u> <u>Restricted</u> <u>Net Assets</u>	<u>Total</u> <u>Net Assets</u>
Revenues and Support:			
Donated Materials, Services and Use of Space	\$ 2,086,690	\$ -	\$ 2,086,690
Contributions - Individuals	643,879	14,980	658,859
Grants from Private Foundations	354,240	179,000	533,240
Grants from Government Agencies	418,253	-	418,253
Contributions - Congregations	124,883	5,500	130,383
Events	87,926	-	87,926
Contributions - School, Civic and Businesses	187,197	9,075	196,272
Other Income	43,324	-	43,324
Federated Campaigns	20,141	-	20,141
Realized Gain on Beneficial Interest in Assets Held By Others	3,274	-	3,274
Interest Income	1,548	-	1,548
Net Assets Released from Restrictions	243,680	(243,680)	-
Total Revenues and Support	<u>4,215,035</u>	<u>(35,125)</u>	<u>4,179,910</u>
Expenses:			
Program Services:			
Community Shelter	1,111,210	-	1,111,210
Community Kitchen	749,472	-	749,472
Mission Society	477,250	-	477,250
Community Outreach	459,844	-	459,844
Community Enrichment	13,484	-	13,484
Management and General	656,374	-	656,374
Fundraising	119,385	-	119,385
Total Expenses	<u>3,587,019</u>	<u>-</u>	<u>3,587,019</u>
Changes in Net Assets	628,017	(35,125)	592,892
Net Assets at Beginning of Year	<u>2,049,480</u>	<u>35,125</u>	<u>2,084,605</u>
Net Assets at End of Year	<u>\$ 2,677,497</u>	<u>\$ -</u>	<u>\$ 2,677,497</u>

See Independent Auditors' Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
Revenues and Support :			
Donated Materials, Services and Use of Space	\$ 1,092,217	\$ -	\$ 1,092,217
Contributions - Individuals	388,731	35,125	423,856
Grants from Private Foundations	365,274	-	365,274
Grants from Government Agencies	293,075	-	293,075
Contributions - Congregations	108,614	-	108,614
Events	85,738	-	85,738
Contributions - School, Civic and Business	80,459	-	80,459
Other Income	35,638	-	35,638
Federated Campaigns	17,740	-	17,740
Realized (Loss) on Beneficial Interest in Assets Held by Others	2,501	-	2,501
Interest Income	2,187	-	2,187
Realized (Loss) on Sale of Fixed Assets	(679)	-	(679)
Net Assets Released from Restrictions	59,071	(59,071)	-
Total Revenues and Support	2,530,566	(23,946)	2,506,620
Expenses:			
Program Services:			
Community Shelter	981,210	-	981,210
Community Kitchen	674,049	-	674,049
Mission Society	358,160	-	358,160
Community Outreach	54,339	-	-
Community Enrichment	41,277	-	41,277
Management and General	152,153	-	152,153
Fundraising	190,269	-	190,269
Total Expenses	2,451,457	-	2,451,457
Changes in Net Assets	79,109	(23,946)	55,163
Net Assets at Beginning of Year	1,970,371	59,071	2,029,442
Net Assets at End of Year	\$ 2,049,480	\$ 35,125	\$ 2,084,605

See Independent Auditors' Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Program Services</u>					<u>Support Services</u>			<u>Total Expenses</u>
	<u>Community Shelter</u>	<u>Community Kitchen</u>	<u>Mission Society</u>	<u>Community Outreach</u>	<u>Community Enrichment</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Community Outreach & Education	\$ 117,986	\$ -	\$ 1,160	\$ 458,561	\$ -	\$ 577,707	\$ 460,662	\$ 21,039	\$ 1,059,408
Salaries, Wages and Related Benefits	634,938	150,377	86,255	-	12,621	884,191	96,246	56,297	1,036,734
Food, Clothing and Kitchen Expense	20,637	521,976	357,806	-	20	900,439	3,260	598	904,297
Rent	190,668	-	-	-	-	190,668	350	-	191,018
Depreciation and Amortization	24,731	24,730	24,730	-	-	74,191	44,037	-	118,228
Utilities	18,426	17,925	2,921	-	-	39,272	1,826	1,825	42,923
Office Supplies and Expense	1,909	308	158	27	56	2,458	29,741	7,926	40,125
Repairs and Maintenance	25,068	9,313	42	-	-	34,423	1,944	91	36,458
Legal and Professional Fees	13,348	8,543	1,335	534	267	24,027	1,336	1,335	26,698
Printing	4,982	2,540	397	159	269	8,347	402	6,846	15,595
Insurance	6,891	4,401	1,074	9	9	12,384	1,973	703	15,060
Client/Resident Life Supplies	12,269	200	713	-	-	13,182	200	-	13,382
Events	-	-	-	-	-	-	1	13,275	13,276
Client Financial Assistance	12,665	-	-	-	-	12,665	79	-	12,744
Equipment Rental	5,357	1,905	186	127	-	7,575	1,766	1,742	11,083
Contract Security	5,850	5,850	-	-	-	11,700	-	-	11,700
Staff and Volunteer Development	3,722	170	23	12	-	3,927	5,948	612	10,487
Telephone	6,207	335	308	373	242	7,465	1,561	923	9,949
Postage and Shipping	1,060	550	113	25	-	1,748	651	5,277	7,676
Travel	2,223	-	-	-	-	2,223	281	653	3,157
Dues and Subscriptions	538	349	29	17	-	933	1,696	243	2,872
Interest Expense	138	-	-	-	-	138	1,984	-	2,122
Other Expense	1,597	-	-	-	-	1,597	430	-	2,027
Total Expenses	\$ 1,111,210	\$ 749,472	\$ 477,250	\$ 459,844	\$ 13,484	\$ 2,811,260	\$ 656,374	\$ 119,385	\$ 3,587,019

See Independent Auditors' Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

	Program Services					Total Program Services	Support Services		Total Expenses
	Community Shelter	Community Kitchen	Mission Society	Community Outreach	Community Enrichment		Management and General	Fundraising	
Salaries, Wages and Related Benefits	\$ 556,989	\$ 107,774	\$ 47,922	\$ -	\$ 38,851	\$ 751,536	\$ 84,405	\$ 79,098	\$ 915,039
Food, Clothing and Kitchen Expense	37,790	470,859	267,224	-	-	775,873	-	-	775,873
Rent	190,668	-	-	-	-	190,668	-	-	190,668
Depreciation and Amortization	29,441	29,441	29,440	-	-	88,322	29,440	-	117,762
Marketing and Advertising	-	-	-	51,295	-	51,295	-	51,295	102,590
Utilities	16,815	15,866	4,333	-	-	37,014	1,771	1,673	40,458
Office Supplies and Expense	4,039	51	51	447	447	5,035	746	6,974	12,755
Repairs and Maintenance	20,672	8,338	1,548	-	-	30,558	1,730	363	32,651
Legal and Professional Fees	7,905	5,059	791	316	316	14,387	3,320	632	18,339
Printing	1,171	215	35	210	210	1,841	931	7,536	10,308
Insurance	8,836	2,434	592	29	29	11,920	593	380	12,893
Client/Resident Life Supplies	25,048	363	164	-	-	25,575	-	-	25,575
Events	300	2,069	-	-	-	2,369	-	14,968	17,337
Client Financial Assistance	9,127	-	-	-	-	9,127	-	-	9,127
Equipment Rental	2,080	762	90	75	76	3,083	997	855	4,935
Contract Security	7,546	7,545	-	-	-	15,091	-	-	15,091
Staff and Volunteer Development	26,035	1,217	2,340	211	211	30,014	350	395	30,759
Telephone	6,627	391	282	306	306	7,912	1,240	525	9,677
Postage and Shipping	2,103	1,358	259	61	61	3,842	509	4,014	8,365
Travel	1,262	-	-	28	28	1,318	257	3	1,578
Dues and Subscriptions	630	540	-	125	125	1,420	206	604	2,230
Interest Expense	699	-	-	-	-	699	1,452	-	2,151
Other Expense	-	-	-	-	-	-	4,212	-	4,212
Contract Services	25,427	19,767	3,089	1,236	617	50,136	6,609	20,954	77,699
Bad Debt Expense	-	-	-	-	-	-	13,385	-	13,385
Total Expenses	\$ 981,210	\$ 674,049	\$ 358,160	\$ 54,339	\$ 41,277	\$ 2,109,035	\$ 152,153	\$ 190,269	\$ 2,451,457

See Independent Auditors' Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 592,892	\$ 55,163
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	118,228	117,762
Donation of Property and Equipment	(22,642)	-
Realized Loss on Sale of Fixed Assets	-	679
Realized Loss (Gain) on Beneficial Interest in Assets Held by Others	(3,274)	(2,501)
Change in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	2,263	53,276
Unconditional Promises to Give	(115,280)	(7,903)
Other Receivables and Deposits	(6,243)	250
Prepaid Expenses	757	(12,390)
Increase (Decrease) in Liabilities:		
Accounts Payable	77,225	(4,487)
Deferred Revenue	15,350	(3,875)
Accrued Payroll Liabilities	13,555	(6,267)
Net Cash Provided by Operating Activities	672,831	189,707
Cash Flows from Investing Activities:		
Proceeds from Beneficial Interest in Assets Held by Others	906	1,297
Capital Expenditures	(434,721)	(23,243)
Net Cash Used in Investing Activities	(433,815)	(21,946)
Cash Flows from Financing Activities:		
Purchase of Certificates of Deposit	(151,206)	(51,625)
Payment on Long-Term Debt	(3,719)	(3,601)
Payment on Capital Lease Obligations	(3,782)	(2,861)
Proceeds from Capital Lease	13,993	-
Net Cash Used in Financing Activities	(144,714)	(58,087)
Net Increase (Decrease) in Cash and Cash Equivalents	94,302	109,674
Cash and Cash Equivalents at Beginning of Year	327,377	217,703
Cash and Cash Equivalents at End of Year	\$ 421,679	\$ 327,377
Supplemental Disclosures:		
Interest	\$ 2,122	\$ 2,151

See Independent Auditors' Report and Accompanying Notes to the Financial Statements

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****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.

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, 2014 and 2013.

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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.

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

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****Property and Equipment (Continued)**

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 \$117,412 and \$117,762 for the years ended June 30, 2014 and 2013, respectively.

Paid Time Off

The Organization's paid time off policy allows employees to carry over paid time off. As of June 30, 2014 and 2013, the estimate liability was \$24,786 and \$18,399, 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, 2014 and 2013, the percentage was three percent. Retirement expense for the years ended June 30, 2014 and 2013 totaled \$14,441 and \$12,922, 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.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2014 and 2013, totaled \$7,206 and \$2,153, respectively. The Organization also received in-kind advertising and marketing costs totaling \$917,723 and \$100,437 during the years ended June 30, 2014 and 2013, respectively.

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****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. The Organization's taxable years that are open for potential examination by the Internal Revenue Service are for the years ended June 30, 2011 through 2014. The Organization's open tax years for potential examination by the State of North Carolina are for the years ended June 30, 2011 through 2014.

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, 2014 and 2013, respectively.

Cash Concentrations

The Organization places its cash and cash equivalents and certificates of deposit with financial institutions in the United States. Effective January, 1, 2013, the Federal Deposit Insurance Corporation (FDIC) covers up to \$250,000 for substantially all depository accounts. As of June 30, 2014 and 2013, the Organization exceeded these limits by \$258,644 and \$73,703, respectively.

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 \$2,086,690 and \$1,092,217 for the years ended June 30, 2014 and 2013, respectively.

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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 \$1,005,723 and \$148,868, donated accounting services of \$0 and \$375 and donated legal services of \$11,646 and \$1,800 for the years ended June 30, 2014 and 2013, 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 21,755 and 14,757 hours of these donated services for the years ended June 30, 2014 and 2013, 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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2014 and October 27, 2014, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

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.

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

3. FAIR VALUE MEASUREMENTS: (Continued)

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, 2014:

	<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>\$ 28,728</u>	<u>\$ -</u>

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

3. FAIR VALUE MEASUREMENTS: (Continued)

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2013:

	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	\$ -	\$ 26,360	\$ -

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, 2014 and 2013. 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).

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014 and 2013, the Fund had a current spendable balance of \$332 and \$323, respectively. Based on the Criteria established in professional standards, the investment balance as of June 30, 2014 and 2013 of \$28,728 and \$26,360, 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, 2014:

Receivable in less than one year	\$ 149,240
Total unconditional promises to give	<u>\$ 149,240</u>

Unconditional promises to give consist of the following at June 30, 2013:

Receivable in less than one year	\$ 33,960
Total unconditional promises to give	<u>\$ 33,960</u>

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

7. LONG-TERM DEBT:

The Organization has a note payable to a financial institution as of June 30, 2014 and 2013. The note has a principal balance of \$54,778 and \$58,497, 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, 2014 and 2013, 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, 2014 are as follows:

Due June 30:	2015	\$	3,843
	2016		3,969
	2017		4,100
	2018		4,235
	2019		4,375
	Thereafter		34,256
		\$	54,778

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:

	2014	2013
Sustaining Fund	\$ 327,479	\$ 176,273

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes at June 30:

	2014	2013
Capital Campaign Contributions	\$ -	\$ 34,625
Carolina Preserve Cares	-	500
	\$ -	\$ 35,125

Net assets of \$35,125 and \$59,071 were released from restrictions during the fiscal years ended June 30, 2014 and 2013, respectively.

10. CAPITAL LEASES:

In October 2010, the Organization leased office 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 \$3,046 and \$3,046 at June 30, 2014 and 2013, 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.

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 \$816 for the year ended June 30, 2014. The terms of the lease require 60 monthly payments of \$253 including interest. The equipment is being financed at 3.25% per year.

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

10. CAPITAL LEASES: (Continued)

The following is a schedule by years of future minimum payments required under the lease, together with their present value, as of June 30, 2014.

2015	\$	6,082
2016		4,881
2017		3,036
2018		3,036
2019		2,024
Total Minimum Payments		<u>19,059</u>
Less Amounts Representing Interest		<u>(1,121)</u>
Present Value of Capital Lease Obligations		17,938
Less Current Portion of Capital Lease Obligations		<u>(5,626)</u>
Long-Term Portion of Capital Lease Obligations	\$	<u><u>12,312</u></u>

11. OPERATING LEASES:

The Organization leases office equipment under an operating lease expiring in 2016. In March 2014, the operating lease was terminated so that a capital lease on similar equipment with the same vendor could be set up. Expenses under the lease totaled \$4,808 and \$4,937 for the years ended June 30, 2014 and 2013, respectively.

12. 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, 2014 and 2013, respectively.

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

13. CONCENTRATIONS:

The Organization received approximately 12 percent and 12 percent of its support from government agencies and 13 and 15 percent from private foundations for the years ended June 30, 2014 and 2013, respectively. Also, the Organization received approximately 50 percent and 43 percent of its revenue from in-kind contributions for the years ended June 30, 2014 and 2013, 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 55% and 31% of its outstanding receivables coming from one entity as of June 30, 2014 and 2013, respectively.

14. 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 \$10,914 and \$15,949 for the years ended June 30, 2014 and 2013, 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:

	2014	2013
Community Shelter	\$ 5,457	\$ 7,713
Community Kitchen	3,492	4,936
Mission Society	873	1,234
Management and General	546	771
Fundraising	546	771
	\$ 10,914	\$ 15,425

15. RECLASSIFICATIONS:

Certain reclassifications have been made to the 2013 balances to conform to the 2014 presentation. The reclassifications have no effect on net assets of the Organization.