



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Urban Ministries of Durham, Inc. (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Ministries of Durham, Inc. as of June 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Stancil & Company*

Raleigh, North Carolina  
September 10, 2012

CERTIFIED PUBLIC ACCOUNTANTS

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**URBAN MINISTRIES OF DURHAM, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**C O N T E N T S**

**JUNE 30, 2012**

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Raleigh, North Carolina  
September 10, 2012

**URBAN MINISTRIES OF DURHAM, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2012 AND 2011**

	2012	2011
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 217,703	\$ 279,385
Grants and Contracts Receivable	77,106	44,085
Unconditional Promises to Give, Net of Allowance for Doubtful Accounts of \$0 at June 30, 2012 and 2011	26,057	38,398
Other Receivables and Deposits	3,555	3,263
Inventory	-	500
Prepaid Expenses	8,596	9,046
Beneficial Interest in Assets Held by Others	25,156	27,364
Certificates of Deposit	124,648	-
<b>Total Current Assets</b>	<b>482,821</b>	<b>402,041</b>
<b>Fixed Assets:</b>		
Buildings and Improvements	2,588,821	2,588,821
Furniture and Fixtures	106,856	104,353
Equipment and Software	326,167	229,402
	3,021,844	2,922,576
Less: Accumulated Depreciation	(1,334,464)	(1,227,298)
<b>Total Fixed Assets - Net</b>	<b>1,687,380</b>	<b>1,695,278</b>
<b>Total Assets</b>	<b>\$ 2,170,201</b>	<b>\$ 2,097,319</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts Payable	\$ 16,027	\$ 11,116
Accrued Payroll Liabilities	48,171	44,698
Deferred Revenue	3,875	-
Note Payable - Current Portion	3,601	3,486
Obligations Under Capital Leases - Current Portion	3,046	2,804
<b>Total Current Liabilities</b>	<b>74,720</b>	<b>62,104</b>
<b>Non-Current Liabilities:</b>		
Note Payable	58,497	62,092
Obligations Under Capital Leases	7,542	10,586
<b>Total Non-Current Liabilities</b>	<b>66,039</b>	<b>72,678</b>
<b>Net Assets:</b>		
Unrestricted	1,970,371	1,962,537
Temporarily Restricted	59,071	-
<b>Total Net Assets</b>	<b>2,029,442</b>	<b>1,962,537</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,170,201</b>	<b>\$ 2,097,319</b>

*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, 2012

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
<b>Revenues and Gains :</b>			
Donated Materials, Services and Use of Space	\$ 1,011,946	\$ -	\$ 1,011,946
Contributions - Individuals	394,705	-	394,705
Grants from Government Agencies	225,540	53,921	279,461
Grants from Private Foundations	353,171	5,150	358,321
Contributions - Congregations	123,512	-	123,512
Contributions - School, Civic and Businesses	89,892	-	89,892
Events	59,431	-	59,431
Resident Fees	6,464	-	6,464
Federated Campaigns	16,773	-	16,773
Contract Services	42,953	-	42,953
Interest Income	1,653	-	1,653
Realized (Loss) on Beneficial Interest in Assets Held By Others	(2,208)	-	(2,208)
Realized (Loss) on Sale of Fixed Assets	(500)	-	(500)
Other Income	30,288	-	30,288
<b>Total Revenues and Gains</b>	<u>2,353,620</u>	<u>59,071</u>	<u>2,412,691</u>
<b>Net Assets Released from Restrictions</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenses and Losses:</b>			
<b>Program Services:</b>			
Community Shelter	942,725	-	942,725
Community Kitchen	671,983	-	671,983
Mission Society	382,795	-	382,795
HUD Program	49,096	-	49,096
Community Outreach Program	8,319	-	8,319
Management and General	135,934	-	135,934
Fundraising	154,934	-	154,934
<b>Total Expenses and Losses</b>	<u>2,345,786</u>	<u>-</u>	<u>2,345,786</u>
Changes in Net Assets	7,834	59,071	66,905
<b>Net Assets at Beginning of Year</b>	<u>1,962,537</u>	<u>-</u>	<u>1,962,537</u>
<b>Net Assets at End of Year</b>	<u>\$ 1,970,371</u>	<u>\$ 59,071</u>	<u>\$ 2,029,442</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, 2011

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
<b>Revenues and Gains :</b>			
Donated Materials, Services and Use of Space	\$ 924,056	\$ -	\$ 924,056
Contributions - Individuals	355,812	-	355,812
Grants from Government Agencies	307,059	-	307,059
Grants from Private Foundations	272,729	-	272,729
Contributions - Congregations	144,647	-	144,647
Contributions - School, Civic and Business	87,482	-	87,482
Events	61,948	-	61,948
Resident Fees	11,404	-	11,404
Federated Campaigns	13,211	-	13,211
Contract Services	69,334	-	69,334
Interest Income	1,037	-	1,037
Realized Gain on Beneficial Interest in Assets Held by Others	3,861	-	3,861
Realized Gain on Sale of Fixed Assets	1,000	-	1,000
Other Income	15,718	-	15,718
<b>Total Revenues and Gains</b>	<u>2,269,298</u>	<u>-</u>	<u>2,269,298</u>
<b>Net Assets Released from Restrictions</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenses and Losses:</b>			
Program Services:			
Community Shelter	925,242	-	925,242
Community Kitchen	663,841	-	663,841
Mission Society	346,585	-	346,585
HUD Program	81,342	-	81,342
Community Outreach Program	1,901	-	1,901
Management and General	108,807	-	108,807
Fundraising	124,826	-	124,826
<b>Total Expenses and Losses</b>	<u>2,252,544</u>	<u>-</u>	<u>2,252,544</u>
Changes in Net Assets	16,754	-	16,754
<b>Net Assets at Beginning of Year</b>	<u>1,945,783</u>	<u>-</u>	<u>1,945,783</u>
<b>Net Assets at End of Year</b>	<u>\$ 1,962,537</u>	<u>\$ -</u>	<u>\$ 1,962,537</u>

*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, 2012**

	Program Services					Support Services		Total Expenses	
	Community Shelter	Community Kitchen	Mission Society	HUD Program	Community Outreach	Total Program Services	Management and General		Fundraising
Salaries, Wages and Related Benefits	\$ 532,050	\$ 105,683	\$ 62,394	\$ 2,619	\$ -	\$ 702,746	\$ 94,403	\$ 60,551	\$ 857,700
Food, Clothing and Kitchen Expense	13,826	458,197	283,488	-	-	755,511	-	-	755,511
Depreciation and Amortization	26,771	26,771	26,771	-	-	80,313	26,771	-	107,084
Contract Security	20,866	20,859	-	-	-	41,725	-	-	41,725
Community Outreach & Education	25,350	-	-	-	6,000	31,350	-	57,673	89,023
Rent	190,668	-	-	-	-	190,668	-	-	190,668
Legal and Professional Fees	7,287	4,664	729	-	437	13,117	3,617	729	17,463
Repairs and Maintenance	18,224	19,135	1,283	-	-	38,642	1,503	74	40,219
Utilities	17,444	17,033	2,768	-	-	37,245	1,732	1,730	40,707
Printing	2,592	988	169	-	216	3,965	1,208	7,948	13,121
Insurance	6,477	4,145	1,008	-	29	11,659	647	648	12,954
Office Supplies and Expense	10,720	3,948	617	-	370	15,655	617	617	16,889
Client/Resident Life Supplies	28,283	85	889	-	-	29,257	20	58	29,335
Equipment Rental	9,158	1,695	973	-	165	11,991	2,169	1,206	15,366
Telephone	7,024	336	384	-	301	8,045	1,220	328	9,593
Postage and Shipping	1,187	790	127	-	52	2,156	434	4,308	6,898
Staff and Volunteer Development	2,661	1,703	266	-	160	4,790	266	266	5,322
Client Financial Assistance	8,721	-	-	46,477	-	55,198	-	-	55,198
Interest Expense	2,219	-	-	-	-	2,219	108	-	2,327
Travel	1,901	-	-	-	32	1,933	297	102	2,332
Events	-	-	-	-	-	-	-	17,768	17,768
Dues and Subscriptions	1,137	728	114	-	68	2,047	114	113	2,274
Bad Debts	7,542	4,828	753	-	452	13,575	747	753	15,075
Other Expense	617	395	62	-	37	1,111	61	62	1,234
<b>Total Expenses</b>	<b>\$ 942,725</b>	<b>\$ 671,983</b>	<b>\$ 382,795</b>	<b>\$ 49,096</b>	<b>\$ 8,319</b>	<b>\$ 2,054,918</b>	<b>\$ 135,934</b>	<b>\$ 154,934</b>	<b>\$ 2,345,786</b>

*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, 2011**

	Program Services					Support Services		Total Expenses	
	Community Shelter	Community Kitchen	Mission Society	HUD Program	Community Outreach	Total Program Services	Management and General		Fundraising
Salaries, Wages and Related Benefits	\$ 556,242	\$ 120,741	\$ 59,469	\$ 20,130	\$ -	\$ 756,582	\$ 69,523	\$ 73,160	\$ 899,265
Food, Clothing and Kitchen Expense	5,465	464,813	250,181	-	-	720,459	25	28	720,512
Depreciation and Amortization	25,298	25,298	25,298	-	-	75,894	25,298	-	101,192
Community Outreach & Education	27,500	9,666	-	-	-	37,166	-	18,988	56,154
Rent	190,668	-	-	-	-	190,668	-	-	190,668
Legal and Professional Fees	18,414	11,715	2,516	-	-	32,645	2,346	1,829	36,820
Repairs and Maintenance	16,717	5,993	810	-	413	23,933	1,495	506	25,934
Utilities	20,062	11,576	2,414	-	50	34,102	1,512	1,509	37,123
Printing	2,052	1,258	224	-	140	3,674	467	5,552	9,693
Insurance	5,508	3,525	691	-	190	9,914	551	551	11,016
Office Supplies and Expense	5,334	694	248	-	421	6,697	3,897	1,714	12,308
Client/Resident Life Supplies	22,324	275	12	165	-	22,776	-	-	22,776
Equipment Rental	8,465	2,640	417	-	136	11,658	756	1,681	14,095
Telephone	6,356	1,348	248	-	193	8,145	781	193	9,119
Postage and Shipping	503	281	51	52	16	903	603	3,118	4,624
Staff and Volunteer Development	1,343	2,466	3,850	15	273	7,947	857	21	8,825
Client Financial Assistance	7,963	-	-	60,980	-	68,943	-	-	68,943
Interest Expense	2,191	-	-	-	-	2,191	192	-	2,383
Travel	840	53	2	-	45	940	294	24	1,258
Events	-	-	-	-	-	-	-	15,912	15,912
Dues and Subscriptions	540	356	50	-	14	960	140	40	1,140
Other Expense	1,457	1,143	104	-	10	2,714	70	-	2,784
<b>Total Expenses</b>	<b>\$ 925,242</b>	<b>\$ 663,841</b>	<b>\$ 346,585</b>	<b>\$ 81,342</b>	<b>\$ 1,901</b>	<b>\$ 2,018,911</b>	<b>\$ 108,807</b>	<b>\$ 124,826</b>	<b>\$ 2,252,544</b>

*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, 2012 AND 2011**

	2012	2011
<b>Cash Flows from Operating Activities:</b>		
Change in Net Assets	\$ 66 905	\$ 16 754
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	107 084	101 192
Donation of Property and Equipment	( 87 597)	-
Realized Loss (Gain) on Sale of Fixed Assets	500	( 1 000)
Realized Loss (Gain) on Beneficial Interest in Assets Held by Others	2 208	( 3 861)
Change in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	( 33 021)	( 26 370)
Unconditional Promises to Give	12 341	( 3 332)
Other Receivables and Deposits	( 292)	( 646)
Prepaid Expenses	450	( 2 527)
Increase (Decrease) in Liabilities:		
Accounts Payable	4 911	( 447)
Deferred Revenue	3 875	( 15 452)
Accrued Payroll Liabilities	3 473	-
<b>Net Cash Provided by Operating Activities</b>	<b>80,837</b>	<b>64,311</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Beneficial Interest in Assets Held by Others	-	414
Capital Expenditures	( 11 587)	( 23 496)
<b>Net Cash Used in Investing Activities</b>	<b>(11,587)</b>	<b>(23,082)</b>
<b>Cash Flows from Financing Activities:</b>		
Purchase of Certificates of Deposit	( 124 648)	-
Payment on Long-Term Debt	( 3 480)	( 3 375)
Payment on Capital Lease Obligations	( 2 804)	( 1 838)
<b>Net Cash Used in Financing Activities</b>	<b>(130,932)</b>	<b>(5,213)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(61,682)	36,016
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>279,385</b>	<b>243,369</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 217,703</b>	<b>\$ 279,385</b>
<b>Supplemental Disclosures:</b>		
Schedule of Noncash Investing and Financing Transactions:		
Capital lease obligation incurred for use of equipment	\$ -	\$ 15,230
Interest	\$ 5,823	\$ 5,186

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

# URBAN MINISTRIES OF DURHAM, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### 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 "Mission Society" refers to the Organization's efforts to provide used clothing and groceries to qualified people.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### **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.

# URBAN MINISTRIES OF DURHAM, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### 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, 2012****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 \$107,084 and \$101,192 for the years ended June 30, 2012 and 2011, respectively.

**Paid Time Off**

The Organization's paid time off policy allows employees to carry over paid time off. As of June 30, 2012 and 2011, the estimate liability was \$15,903 and \$20,799, 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, 2012 and 2011, the percentage was three percent. Retirement expense for the years ended June 30, 2012 and 2011 totaled \$12,191 and \$15,809, 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. Total advertising expenses were \$950 and \$1,289 for the years ended June 30, 2012 and 2011, respectively.

**URBAN MINISTRIES OF DURHAM, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2012****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, 2009 through 2012. The Organization's open tax years for potential examination by the State of North Carolina are for the years ended June 30, 2009 through 2012.

**Concentration of Credit Risk**

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, 2012 and 2011, respectively.

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers up to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transactions accounts. During the year, the Organization from time to time may have had amounts on deposit in excess of the insured limits. As of June 30, 2012 and 2011, the Organization did not exceed these insured limits.

**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 \$1,011,946 and \$924,506 for the years ended June 30, 2012 and 2011, respectively.

**URBAN MINISTRIES OF DURHAM, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2012****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 \$12,851 and \$33,436, donated accounting services of \$900 and \$7,232 and donated legal services of \$1,313 and \$15,085 for the years ended June 30, 2012 and 2011, 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 12,597 and 16,949 hours of these donated services for the years ended June 30, 2012 and 2011, 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. 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, 2012 and September 10, 2012, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**Reclassification**

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation with no effect on previously reported changes in net assets.

**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, 2012**

**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, 2012:

	<u>Fair Value Measurement at Reporting Date Using:</u>		
	Quoted Prices in Active Markets for Identical Assets (Level One Inputs)	Significant Other Observable Inputs (Level Two Inputs)	Significant Unobservable Inputs (Level Three Inputs)
<b>Beneficial Interest in Assets</b>			
Held By Others	\$ -	\$ 25,156	\$ -
Pledges	-	-	26,057
	<u>\$ -</u>	<u>\$ 25,156</u>	<u>\$ 26,057</u>



**URBAN MINISTRIES OF DURHAM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**3. FAIR VALUE MEASUREMENTS: (Continued)**

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2011:

	<u>Fair Value Measurement at Reporting Date Using:</u>		
	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	\$ -	\$ 27,364	\$ -
Pledges	-	-	38,398
	<u>\$ -</u>	<u>\$ 27,364</u>	<u>\$ 38,398</u>

**4. 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).

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, 2012 and 2011, the Fund had a current spendable balance of \$333 and \$364, respectively. Based on the Criteria established in professional standards, the investment balance as of June 30, 2012 and 2011 of \$25,156 and \$27,364, 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

**URBAN MINISTRIES OF DURHAM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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

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.

**5. UNCONDITIONAL PROMISES TO GIVE:**

Unconditional promises to give consist of the following at June 30, 2012:

Receivable in less than one year	\$ 26,057
Total unconditional promises to give	<u>\$ 26,057</u>

Unconditional promises to give consist of the following at June 30, 2011:

Receivable in less than one year	\$ 38,398
Total unconditional promises to give	<u>\$ 38,398</u>

**6. LONG-TERM DEBT:**

The Organization has a note payable to a financial institution at June 30, 2012 and 2011, with a principal balance of \$62,098 and \$65,578, 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, 2012 and 2011, 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 FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**6. LONG-TERM DEBT: (Continued)**

Future maturities of long-term debt at June 30, 2012 are as follows:

Due June 30:	2013	\$	3,601
	2014		3,720
	2015		3,843
	2016		3,969
	2017		4,100
	Thereafter		42,865
		<b>\$</b>	<b>62,098</b>

**7. OPERATING LEASES:**

The Organization leases office equipment under non-cancelable operating leases expiring at various dates through 2016. Expenses under these leases were \$4,756 and \$7,916 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments under these leases are as follows:

Due June 30:	2013	\$	2,700
	2014		2,700
	2015		2,700
	2016		450
		<b>\$</b>	<b>8,550</b>

**8. CAPITAL LEASES:**

In October 2010, the Organization leased office equipment from NEC Financial Services of Saddle Brook, New Jersey under a capital lease. The economic substance of the lease is that the Organization is financing the acquisition of the asset through the lease and accordingly, is recorded in the Organization's assets and liabilities. 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. 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.

**URBAN MINISTRIES OF DURHAM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**8. 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, 2012.

2013	\$	3,046
2014		3,046
2015		3,046
2016		1,845
Total Minimum Payments		<u>10,983</u>
Less Amounts Representing Interest		<u>(395)</u>
Present Value of Capital Lease Obligations		10,588
Less Current Portion of Capital Lease Obligations		<u>(3,046)</u>
Long-Term Portion of Capital Lease Obligations	\$	<u><u>7,542</u></u>

**9. 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. Total contributions from the Church (including the donated use of space) were \$26,612 and \$28,668 for the years ended June 30, 2012 and 2011, respectively.

**10. CONCENTRATIONS:**

The Organization received approximately 17 percent and 13 percent of its support from government agencies and 15 and 9 percent from a private foundation for the years ended June 30, 2012 and 2011, respectively. Also, the Organization received approximately 43 percent and 41 percent of its revenue from in-kind contributions for the years ended June 30, 2012 and 2011, 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.

# URBAN MINISTRIES OF DURHAM, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

### 11. 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 \$15,949 and \$12,001 for the years ended June 30, 2012 and 2011, 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:

	2012	2011
Community Shelter	\$ 7,974	\$ 6,001
Community Kitchen	5,105	3,840
Mission Society	1,276	960
Management and General	797	600
Fundraising	797	600
	\$ 15,949	\$ 12,001

### 12. BOARD DESIGNATED NET ASSETS:

During the year ended June 30, 2011, the Board of Directors established a sustaining fund to ensure the stability of the mission, programs, employment, and ongoing operations of the Organization. This designation of board designated net assets is removed when the Organization expends the fund for purposes specified. There have been no expenditures made since the inception of the sustaining fund. These board designated net assets are included in the Organization's total unrestricted net assets.

	Balance June 30, 2011	Additions	Expended	Balance June 30, 2011
Sustaining Fund	\$ 124,031	\$ 617	\$ -	\$ 124,648