

URBAN MINISTRIES OF DURHAM, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009



C O N T E N T S

JUNE 30, 2010

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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 statement of financial position of Urban Ministries of Durham, Inc. (a non-profit organization) as of June 30, 2010, and the related statement of activities, functional expenses and cash flows for the year 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 audit. The financial statements of Urban Ministries of Durham, Inc., as of June 30, 2009, were audited by other auditors whose report dated November 20, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides 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, 2010 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Raleigh, North Carolina
September 8, 2010

A handwritten signature in cursive script that reads 'Stancil + Company'.

CERTIFIED PUBLIC ACCOUNTANTS

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URBAN MINISTRIES OF DURHAM, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 243,369	\$ 126,955
Grants and Contracts Receivable	17,715	84,973
Unconditional Promises to Give, Net of Allowance for Doubtful Accounts of \$0 at June 30, 2010 and 2009	35,066	31,481
Other Receivables and Deposits	2,617	368
Inventory	500	500
Prepaid Expenses	6,519	-
Beneficial Interest in Assets Held by Others	23,918	25,188
Intangible Asset, Net of Accumulated Amortization of \$2,167 at June 30, 2009	-	7,833
Total Current Assets	329,704	277,298
Fixed Assets:		
Buildings and Improvements	2,588,821	2,588,821
Furniture and Fixtures	94,173	88,109
Equipment and Software	202,331	188,717
	2,885,325	2,865,647
Less: Accumulated Depreciation	(1,128,580)	(1,024,636)
Total Fixed Assets - Net	1,756,745	1,841,011
Total Assets	\$ 2,086,449	\$ 2,118,309
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable	\$ 11,563	\$ 54,313
Accrued Payroll Liabilities	60,150	52,724
Note Payable - Current Portion	3,375	3,343
Total Current Liabilities	75,088	110,380
Non-Current Liabilities:		
Note Payable	65,578	68,953
Total Non-Current Liabilities	65,578	68,953
Net Assets:		
Unrestricted	1,945,783	1,938,976
Temporarily Restricted	-	-
Total Net Assets	1,945,783	1,938,976
Total Liabilities and Net Assets	\$ 2,086,449	\$ 2,118,309

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, 2010

	<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 Gains :			
Donated Materials, Services and Use of Space	\$ 786,608	\$ -	\$ 786,608
Contributions - Individuals	314,684	-	314,684
Grants from Government Agencies	360,668	-	360,668
Grants from Private Foundations	269,896	-	269,896
Contributions - Congregations	144,177	-	144,177
Contributions - School, Civic and Businesses	86,713	-	86,713
Events	50,830	-	50,830
Resident Fees	12,607	-	12,607
Federated Campaigns	17,349	-	17,349
Contract Services	38,572	-	38,572
Interest Income	371	-	371
Realized Gain (Loss) on Beneficial Interest in Assets Held by Others	(184)	-	(184)
Other Income	9,412	-	9,412
Total Revenues and Gains	2,091,703	-	2,091,703
Net Assets Released from Restrictions	-	-	-
Expenses and Losses:			
Program Services:			
Community Shelter	854,635	-	854,635
Community Kitchen	642,929	-	642,929
Mission Society	233,295	-	233,295
HUD Program	72,564	-	72,564
Enterprise Program	29,180	-	29,180
Management and General	142,495	-	142,495
Fundraising	109,798	-	109,798
Total Expenses and Losses	2,084,896	-	2,084,896
Changes in Net Assets	6,807	-	6,807
Net Assets at Beginning of Year	1,938,976	-	1,938,976
Net Assets at End of Year	\$ 1,945,783	\$ -	\$ 1,945,783

See Independent Auditors' Report and Accompanying Notes to Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	<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 Gains :			
Donated Materials, Services and Use of Space	\$ 1,010,818	\$ -	\$ 1,010,818
Contributions - Individuals	302,541	-	302,541
Grants from Government Agencies	309,164	-	309,164
Grants from Private Foundations	210,745	-	210,745
Contributions - Congregations	137,269	-	137,269
Contributions - School, Civic and Business	93,133	-	93,133
Events	55,484	-	55,484
Resident Fees	19,377	-	19,377
Federated Campaigns	13,440	-	13,440
Contract Services	68,448	-	68,448
Interest Income	1,627	-	1,627
Realized Gain (Loss) on Beneficial Interest in Assets Held by Others	(5,226)	-	(5,226)
Other Income	11,181	-	11,181
Total Revenues and Gains	<u>2,228,001</u>	<u>-</u>	<u>2,228,001</u>
Net Assets Released from Restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Expenses and Losses:			
Program Services:			
Community Shelter	985,266	-	985,266
Community Kitchen	644,170	-	644,170
Mission Society	264,624	-	264,624
HUD Program	66,682	-	66,682
Enterprise Program	207,562	-	207,562
Management and General	119,168	-	119,168
Fundraising	208,042	-	208,042
Total Expenses and Losses	<u>2,495,514</u>	<u>-</u>	<u>2,495,514</u>
Changes in Net Assets	(267,513)	-	(267,513)
Net Assets at Beginning of Year	<u>2,206,489</u>	<u>-</u>	<u>2,206,489</u>
Net Assets at End of Year	<u>\$ 1,938,976</u>	<u>\$ -</u>	<u>\$ 1,938,976</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements

URBAN MINISTRIES OF DURHAM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010

	Program Services					Total Program Services	Support Services		Total Expenses
	Community Shelter	Community Kitchen	Mission Society	HUD Program	Enterprise Program		Management and General	Fundraising	
Salaries, Wages and Related Benefits	\$ 448,804	\$ 138,241	\$ 44,472	\$ 21,251	\$ 19,557	\$ 672,325	\$ 99,110	\$ 84,738	\$ 856,173
Food, Clothing and Kitchen Expense	9,387	390,866	134,035	-	-	534,288	-	-	534,288
Depreciation and Amortization	26,186	26,186	26,186	-	250	78,808	26,186	-	104,994
Community Outreach & Education	34,884	34,884	17,443	-	-	87,211	-	168	87,379
Rent	190,668	-	-	-	-	190,668	-	-	190,668
Legal and Professional Fees	35,528	9,000	3,227	-	-	47,755	5,079	1,684	54,518
Repairs and Maintenance	12,393	6,465	258	-	617	19,733	1,464	140	21,337
Utilities	20,904	9,715	2,389	-	255	33,263	1,571	1,569	36,403
Printing	3,345	1,974	491	-	16	5,826	1,324	2,091	9,241
Insurance	3,324	2,946	1,102	-	138	7,510	500	656	8,666
Janitorial Expense	3,813	4,431	161	-	265	8,670	-	-	8,670
Office Supplies and Expense	15,661	2,138	106	-	123	18,028	2,126	520	20,674
Client/Resident Life Supplies	6,591	890	283	57	-	7,821	-	-	7,821
Equipment Rental	6,776	3,977	963	-	117	11,833	935	794	13,562
Telephone	7,315	1,965	55	-	23	9,358	39	39	9,436
Postage and Shipping	1,945	1,018	234	-	8	3,205	352	1,525	5,082
Staff and Volunteer Development	4,696	1,662	252	-	55	6,665	1,384	6,637	14,686
Client Financial Assistance	8,474	-	-	51,256	-	59,730	-	-	59,730
Interest Expense	1,171	787	227	-	17	2,202	1,446	145	3,793
Events	-	-	-	-	-	-	-	7,914	7,914
Dues and Subscriptions	899	309	65	-	16	1,289	94	58	1,441
Government Fees and Taxes	89	-	-	-	-	89	-	236	325
Loss on Disposal of Franchise Fees	-	-	-	-	7,579	7,579	-	-	7,579
Other Expense	11,782	5,475	1,346	-	144	18,747	885	884	20,516
Total Expenses	\$ 854,635	\$ 642,929	\$ 233,295	\$ 72,564	\$ 29,180	\$ 1,832,603	\$ 142,495	\$ 109,798	\$ 2,084,896

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, 2009

	Program Services					Support Services		Total Expenses	
	Community Shelter	Community Kitchen	Mission Society	HUD Program	Enterprise Program	Total Program Services	Management and General		Fundraising
Salaries, Wages and Related Benefits	\$ 495,678	\$ 106,774	\$ 17,997	\$ 18,745	\$ 163,633	\$ 802,827	\$ 62,452	\$ 172,535	\$ 1,037,814
Food, Clothing and Kitchen Expense	7,224	333,889	67,216	909	94	409,332	395	-	409,727
Depreciation and Amortization	25,492	25,492	25,492	-	1,000	77,476	25,492	-	102,968
Community Outreach & Education	141,611	141,611	70,805	-	-	354,027	-	-	354,027
Rent	190,668	-	-	-	-	190,668	-	-	190,668
Legal and Professional Fees	28,154	6,065	1,022	1,065	9,294	45,600	8,547	9,800	63,947
Repairs and Maintenance	7,690	1,571	172	179	1,585	11,197	596	1,780	13,573
Utilities	15,876	12,183	2,358	2,918	1,391	34,726	2,649	1,717	39,092
Printing	2,988	643	108	113	986	4,838	376	1,040	6,254
Insurance	10,973	3,195	1,404	458	3,856	19,886	2,262	3,619	25,767
Janitorial Expense	5,146	2,542	54	89	5,987	13,818	669	-	14,487
Office Supplies and Expense	10,119	2,180	367	383	3,341	16,390	1,275	3,522	21,187
Client/Resident Life Supplies	8,293	175	76,795	9	28	85,300	-	-	85,300
Equipment Rental	6,172	1,329	224	233	2,037	9,995	777	2,148	12,920
Telephone	6,064	1,306	220	229	2,002	9,821	764	2,111	12,696
Postage and Shipping	5,056	1,089	184	191	1,669	8,189	637	1,760	10,586
Staff and Volunteer Development	13,951	1,078	58	60	567	15,714	660	1,349	17,723
Client Financial Assistance	2,443	-	58	40,422	-	42,923	-	-	42,923
Interest Expense	-	-	-	-	-	-	7,198	-	7,198
Travel	1,306	2,862	90	608	3,998	8,864	2,096	59	11,019
Events	-	-	-	-	-	-	-	6,602	6,602
Dues and Subscriptions	165	100	-	-	-	265	575	-	840
Government Fees and Taxes	45	49	-	71	279	444	350	-	794
Bad Debts	-	-	-	-	5,815	5,815	-	-	5,815
Other Expense	152	37	-	-	-	189	1,398	-	1,587
Total Expenses	\$ 985,266	\$ 644,170	\$ 264,624	\$ 66,682	\$ 207,562	\$ 2,168,304	\$ 119,168	\$ 208,042	\$ 2,495,514

URBAN MINISTRIES OF DURHAM, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 6 807	\$ (267,513)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Change in Allowance for Doubtful Accounts	-	(14,500)
Depreciation and Amortization	104 994	102,970
Donation of Property and Equipment	(3 825)	(10,595)
Donated Inventory	-	(500)
Realized (Gain) Loss on Beneficial Interest in Assets Held by Others	1 270	5,226
Loss on Disposal of Franchise Fees	7 579	-
Change in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	67 258	(74,700)
Unconditional Promises to Give	(3 585)	54,996
Other Receivables and Deposits	(2 249)	(62)
Loans Receivable from Employees	-	1,735
Prepaid Expenses	(6 519)	731
Increase (Decrease) in Liabilities:		
Accounts Payable	(42 750)	42,810
Accrued Payroll Liabilities	7 426	7,891
Accrued Interest	-	(414)
Net Cash Provided by (Used In) Operating Activities	<u>136,406</u>	<u>(151,925)</u>
Cash Flows from Investing Activities:		
Proceeds from Beneficial Interest in Assets Held by Others	-	1,964
Capital Expenditures	(16 649)	(12,068)
Net Cash Used in Investing Activities	<u>(16,649)</u>	<u>(10,104)</u>
Cash Flows from Financing Activities:		
Payment on Long-Term Debt	(3 343)	(28,417)
Net Cash Used in Financing Activities	<u>(3,343)</u>	<u>(28,417)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	116,414	(190,446)
Cash and Cash Equivalents at Beginning of Year	<u>126,955</u>	<u>317,401</u>
Cash and Cash Equivalents at End of Year	<u>\$ 243,369</u>	<u>\$ 126,955</u>
Supplemental Disclosure of Cash Payments for:		
Interest	<u>\$ 3,793</u>	<u>\$ 7,612</u>

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

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010****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. The "Enterprise Program", which was discontinued in late 2009, sought to provide employment opportunities to residents on their way to recovery.

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 Chapter 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 Chapter to expend all or part of the income derived from the donated assets.

The Organization reports information regarding its financial position and activities as unrestricted net assets, since it does not have temporarily or permanently restricted net assets.

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

All unconditional promise to give are stated at the amount management expects to collect from outstanding balances based on prior experience and management's best estimate.

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, 2010****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 \$104,744 and \$101,970 for the years ended June 30, 2010 and 2009, respectively.

Intangible Assets

During the year ended June 30, 2007, the Organization purchased a cleaning supplies franchise. This intangible asset is stated at cost, net of accumulated amortization. Amortization is calculated by the straight-line method over the life of the agreement. For the years ended June 30, 2010 and 2009, amortization expense totaled \$250 and \$1,000, respectively. The franchise was discontinued in late 2009. Consequently, the remaining unamortized cost of \$7,579 was expensed in the current period.

Paid Time Off

The Organization's paid time off policy allows employees to carry over paid time off. As of June 30, 2010 and 2009, the estimate liability was \$22,319 and \$18,268, 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, 2010 and 2009, the percentage was three and ten percent, respectively. Retirement expense for the years ended June 30, 2010 and 2009 totaled \$10,014 and \$24,527, 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.

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010****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).

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with the former Statement of Financial Accounting Standards (SFAS) 109, *Accounting for Income Taxes*, now FASB Accounting Standards Codification (ASC) 740, *Income Taxes*. FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that a position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. The guidance in FSP FIN 48-3 deferred the provisions of FIN 48 until fiscal years beginning after December 15, 2008. The Organization adopted the provisions of FIN 48 effective for the fiscal period ended June 30, 2010. There was no material impact on the Organization's results of operations or financial condition upon adoption of FIN 48.

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, 2007 through 2009. The Organization's open tax years for potential examination by the State of North Carolina are for the years ended June 30, 2007 through 2009.

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, 2010 and 2009, respectively.

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****Concentration of Credit Risk (Continued)**

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) temporarily increased coverage to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage for depository accounts was scheduled to expire on December 31, 2013. The temporary unlimited coverage under the Transaction Account Guaranty Program remains in effect until December 31, 2010 for those participating institutions choosing not to opt out of the program. As of year end, the Organization did not have amounts exceeding these insured limits.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law, which, in part, permanently raised the FDIC current standard maximum deposit insurance amount to \$250,000.

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 \$786,608 and \$1,010,818 for the years ended June 30, 2010 and 2009, respectively.

The Organization recognized donated services if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not contributed. The accompanying statement of activities includes the recognition of donated web development and maintenance and marketing services of approximately \$90,777 and \$354,000, donated accounting services of \$11,800 and \$11,800 and donated legal services of \$7,560 and \$5,000 for the years ended June 30, 2010 and 2009, 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 13,405 and 17,142 hours of donated services for the years ended June 30, 2010 and 2009, respectively.

URBAN MINISTRIES OF DURHAM, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****Functional Allocation of Expenses**

The cost of providing the program services and other activities has been summarized on a functional basis in the statement 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, 2010 and September 8, 2010, 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 2009 financial statements have been reclassified to conform to the 2010 presentation with no effect on previously reported changes in net assets and 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.

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.

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

3. FAIR VALUE MEASUREMENTS: (Continued)

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, 2010:

Fair Value Measurements 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	\$ 23,918	\$ -	\$ -
Pledges	-	-	35,066
	<u>\$ 23,918</u>	<u>\$ -</u>	<u>\$ 35,066</u>

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2009:

Fair Value Measurements 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	\$ 25,188	\$ -	\$ -
Pledges	-	-	31,481
	<u>\$ 25,188</u>	<u>\$ -</u>	<u>\$ 31,481</u>

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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, 2010 and 2009, the Fund had a current spendable balance of \$364 and \$390, respectively. Based on the Criteria established in SFAS 136, the investment balance as of June 30, 2010 and 2009 of \$23,918 and \$25,188, respectively, has been recognized as a "beneficial interest in assets held by others" in the accompanying statement 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 therefrom 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, 2010:

Receivable in less than one year	\$ 35,066
Total unconditional promises to give	<u>\$ 35,066</u>

Unconditional promises to give consist of the following at June 30, 2009:

Receivable in less than one year	\$ 31,481
Total unconditional promises to give	<u>\$ 31,481</u>

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

6. LONG-TERM DEBT:

The Organization has a note payable to a financial institution at June 30, 2010 and 2009, with a principal balance of \$68,953 and \$72,296, 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, 2010 and 2009, 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, 2010 are as follows:

2011	\$	3,375
2012		3,486
2013		3,601
2014		3,720
2015		3,843
Thereafter		50,928
	\$	<u>68,953</u>

7. OPERATING LEASES:

The Organization leases office equipment under non-cancelable operating leases expiring at various dates through 2015. Expenses under these leases were \$13,562 and \$10,896 for the years ended June 30, 2010 and 2009, respectively.

Future minimum lease payments under these leases are as follows:

Due June 30,		
2011	\$	4,864
2012		2,889
2013		2,889
2014		2,889
2015		2,889
	\$	<u>16,420</u>

URBAN MINISTRIES OF DURHAM, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

8. 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 statement of activities. Total contributions from the Church (including the donated use of space) were \$28,668 and \$17,377 for the years ended June 30, 2010 and 2009, respectively.

9. CONCENTRATIONS:

The Organization received approximately 15 percent and 14 percent of its support from government agencies and 7 percent from a private foundation for the years ended June 30, 2010 and 2009, respectively. Also, the Organization received approximately 47 percent and 46 percent of its revenue from in-kind contributions for the years ended June 30, 2010 and 2009, 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.

10. 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 \$13,175 and \$16,840 for the years ended June 30, 2010 and 2009, 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:

	2010	2009
Community Shelter	\$ 6,587	\$ 6,736
Community Kitchen	4,216	5,052
Mission Society	1,054	1,684
Management and General	659	1,684
Fundraising	659	1,684
	<u>\$ 13,175</u>	<u>\$ 16,840</u>