

URBAN MINISTRIES OF DURHAM, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010



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JUNE 30, 2011

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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 statements of financial position of Urban Ministries of Durham, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, 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, 2011 and 2010 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.

Raleigh, North Carolina  
September 21, 2011

CERTIFIED PUBLIC ACCOUNTANTS

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## URBAN MINISTRIES OF DURHAM, INC.

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	2011	2010
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 279,385	\$ 243,369
Grants and Contracts Receivable	44,085	17,715
Unconditional Promises to Give, Net of Allowance for Doubtful Accounts of \$0 at June 30, 2011 and 2010	38,398	35,066
Other Receivables and Deposits	3,263	2,617
Inventory	500	500
Prepaid Expenses	9,046	6,519
Beneficial Interest in Assets Held by Others	27,364	23,918
<b>Total Current Assets</b>	<u>402,041</u>	<u>329,704</u>
<b>Fixed Assets:</b>		
Buildings and Improvements	2,588,821	2,588,821
Furniture and Fixtures	104,353	94,173
Equipment and Software	229,402	202,331
	<u>2,922,576</u>	<u>2,885,325</u>
Less: Accumulated Depreciation	<u>(1,227,298)</u>	<u>(1,128,580)</u>
<b>Total Fixed Assets - Net</b>	<u>1,695,278</u>	<u>1,756,745</u>
<b>Total Assets</b>	<u>\$ 2,097,319</u>	<u>\$ 2,086,449</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts Payable	\$ 11,116	\$ 11,563
Accrued Payroll Liabilities	44,698	60,150
Note Payable - Current Portion	3,486	3,375
Obligations Under Capital Leases - Current Portion	2,804	-
<b>Total Current Liabilities</b>	<u>62,104</u>	<u>75,088</u>
<b>Non-Current Liabilities:</b>		
Note Payable	62,092	65,578
Obligations Under Capital Leases	10,586	-
<b>Total Non-Current Liabilities</b>	<u>72,678</u>	<u>65,578</u>
<b>Net Assets:</b>		
Unrestricted	1,962,537	1,945,783
<b>Total Net Assets</b>	<u>1,962,537</u>	<u>1,945,783</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 2,097,319</u>	<u>\$ 2,086,449</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

	<u>Unrestricted</u> <u>Net Assets</u>	<u>Temporarily</u> <u>Restricted</u> <u>Net Assets</u>	<u>Total</u> <u>Net Assets</u>
<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 Businesses	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>	<b>2,269,298</b>	<b>-</b>	<b>2,269,298</b>
<b>Net Assets Released from Restrictions</b>	<b>-</b>	<b>-</b>	<b>-</b>
<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>	<b>2,252,544</b>	<b>-</b>	<b>2,252,544</b>
Changes in Net Assets	16,754	-	16,754
<b>Net Assets at Beginning of Year</b>	<b>1,945,783</b>	<b>-</b>	<b>1,945,783</b>
<b>Net Assets at End of Year</b>	<b>\$ 1,962,537</b>	<b>\$ -</b>	<b>\$ 1,962,537</b>

*See Independent Auditors' Report and Accompanying Notes to 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>
<b>Revenues and Gains :</b>			
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 Business	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 (Loss) on Beneficial Interest in Assets Held by Others	(184)	-	(184)
Other Income	9,412	-	9,412
<b>Total Revenues and Gains</b>	<u>2,091,703</u>	<u>-</u>	<u>2,091,703</u>
<b>Net Assets Released from Restrictions</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenses and Losses:</b>			
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
<b>Total Expenses and Losses</b>	<u>2,084,896</u>	<u>-</u>	<u>2,084,896</u>
Changes in Net Assets	6,807	-	6,807
<b>Net Assets at Beginning of Year</b>	<u>1,938,976</u>	<u>-</u>	<u>1,938,976</u>
<b>Net Assets at End of Year</b>	<u>\$ 1,945,783</u>	<u>\$ -</u>	<u>\$ 1,945,783</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, 2011

	Program Services					Total Program Services	Support Services		Total Expenses
	Community Shelter	Community Kitchen	Mission Society	HUD Program	Community Outreach		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	-	413	33,058	2,346	1,829	37,233
Repairs and Maintenance	16,717	5,993	810	-	50	23,570	1,495	506	25,571
Utilities	20,062	11,576	2,414	-	-	34,052	1,512	1,509	37,073
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
Bad Debts	-	-	-	-	-	-	-	-	-
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.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010

	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	\$ 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
<b>Total Expenses</b>	<b>\$ 854,635</b>	<b>\$ 642,929</b>	<b>\$ 233,295</b>	<b>\$ 72,564</b>	<b>\$ 29,180</b>	<b>\$ 1,832,603</b>	<b>\$ 142,495</b>	<b>\$ 109,798</b>	<b>\$ 2,084,896</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, 2011 AND 2010**

	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Change in Net Assets	\$ 16 754	\$ 6 807
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	101 192	104 994
Donation of Property and Equipment	-	( 3 825)
Realized (Gain) on Sale of Fixed Assets	( 1 000)	-
Realized (Gain) Loss on Beneficial Interest in Assets Held by Others	( 3 861)	1 270
Loss on Disposal of Franchise Fees	-	7 579
Change in Assets and Liabilities:		
(Increase) Decrease in Assets:		
Grants and Contracts Receivable	( 26 370)	67 258
Unconditional Promises to Give	( 3 332)	( 3 585)
Other Receivables and Deposits	( 646)	( 2 249)
Prepaid Expenses	( 2 527)	( 6 519)
Increase (Decrease) in Liabilities:		
Accounts Payable	( 447)	( 42 750)
Accrued Payroll Liabilities	( 15 452)	7 426
<b>Net Cash Provided by Operating Activities</b>	<b>64,311</b>	<b>136,406</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Beneficial Interest in Assets Held by Others	414	-
Capital Expenditures	( 23 496)	( 16 649)
<b>Net Cash Used in Investing Activities</b>	<b>(23,082)</b>	<b>(16,649)</b>
<b>Cash Flows from Financing Activities:</b>		
Payment on Long-Term Debt	( 3 375)	( 3 343)
Payment on Capital Lease Obligations	( 1 838)	-
<b>Net Cash Used in Financing Activities</b>	<b>(5,213)</b>	<b>(3,343)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	36,016	116,414
<b>Cash and Cash Equivalents at Beginning of Year</b>	243,369	126,955
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 279,385</b>	<b>\$ 243,369</b>
<b>Supplemental Disclosures:</b>		
Schedule of Noncash Investing and Financing Transactions:		
Capital lease obligation incurred for use of equipment	\$ 15,230	\$ -
Interest	\$ 5,186	\$ 3,793

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

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

JUNE 30, 2011

**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.

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, 2011

### 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 promises 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, 2011****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 \$101,192 and \$104,994 for the years ended June 30, 2011 and 2010, respectively.

**Paid Time Off**

The Organization's paid time off policy allows employees to carry over paid time off. As of June 30, 2011 and 2010, the estimate liability was \$20,799 and \$22,319, 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, 2011 and 2010, the percentage was three percent. Retirement expense for the years ended June 30, 2011 and 2010 totaled \$15,809 and \$10,014, 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 \$1,289 and \$168 for the years ending June 30, 2011 and 2010, respectively.

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

JUNE 30, 2011

**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, 2008 through 2011. The Organization's open tax years for potential examination by the State of North Carolina are for the years ended June 30, 2008 through 2011.

**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, 2011 and 2010, respectively.

**URBAN MINISTRIES OF DURHAM, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2011****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) 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, 2011 and 2010, the Organization did not have any amounts exceeding 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 \$924,506 and \$786,608 for the years ended June 30, 2011 and 2010, 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 \$33,436 and \$90,777, donated accounting services of \$7,232 and \$11,800 and donated legal services of \$15,085 and \$7,560 for the years ended June 30, 2011 and 2010, 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 16,949 and 13,405 hours of donated services for the years ended June 30, 2011 and 2010, respectively.

**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.

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

JUNE 30, 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****Events Occurring After Reporting Date**

The Organization has evaluated events and transactions that occurred between June 30, 2011 and September 21, 2011, 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 2010 financial statements have been reclassified to conform to the 2011 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.

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.

**URBAN MINISTRIES OF DURHAM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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

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

	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	\$ -	\$ 27,364	\$ -
Pledges	-	-	38,398
	\$ -	\$ 27,364	\$ 38,398

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
	\$ -	\$ 23,918	\$ 35,066



**URBAN MINISTRIES OF DURHAM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**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, 2011 and 2010, 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, 2011 and 2010 of \$27,364 and \$23,918, 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 there-from 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, 2011:

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

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>

# URBAN MINISTRIES OF DURHAM, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

### 6. LONG-TERM DEBT:

The Organization has a note payable to a financial institution at June 30, 2011 and 2010, with a principal balance of \$65,578 and \$68,953, 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, 2011 and 2010, 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, 2011 are as follows:

Due June 30:	2012	\$	3,486
	2013		3,601
	2014		3,720
	2015		3,843
	2016		3,969
	Thereafter		46,959
			65,578
		\$	65,578

### 7. OPERATING LEASES:

The Organization leases office equipment under non-cancelable operating leases expiring at various dates through 2016. Expenses under these leases were \$7,916 and \$10,896 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments under these leases are as follows:

Due June 30:	2012	\$	2,889
	2013		2,889
	2014		2,889
	2015		2,889
	2016		482
			12,038
		\$	12,038

**URBAN MINISTRIES OF DURHAM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**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.

The following is a schedule by years of future minimum payments required under the lease, together with their present value, as of June 30, 2011.

2012	\$	3,046
2013		3,046
2014		3,046
2015		3,046
2016		1,845
Total Minimum Payments		14,029
Less Amounts Representing Interest		(639)
Present Value of Capital Lease Obligations		13,390
Less Current Portion of Capital Lease Obligations		(2,804)
Long-Term Portion of Capital Lease Obligations	\$	10,586

**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 statement 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, 2011 and 2010, respectively.

**URBAN MINISTRIES OF DURHAM, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**10. CONCENTRATIONS:**

The Organization received approximately 13 percent and 17 percent of its support from government agencies and 9 and 7 percent from a private foundation for the years ended June 30, 2011 and 2010, respectively. Also, the Organization received approximately 41 percent and 37 percent of its revenue from in-kind contributions for the years ended June 30, 2011 and 2010, 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.

**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 \$12,001 and \$13,175 for the years ended June 30, 2011 and 2010, 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:

	2011	2010
Community Shelter	\$ 6,001	\$ 6,587
Community Kitchen	3,840	4,216
Mission Society	960	1,054
Management and General	600	659
Fundraising	600	659
	<u>\$ 12,001</u>	<u>\$ 13,175</u>

**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 unrestricted net assets is removed when the Organization expends the fund for purposes specified.

	Balance June 30, 2010	Additions	Expended	Balance June 30, 2011
Sustaining Fund	<u>\$ -</u>	<u>\$ 124,031</u>	<u>\$ -</u>	<u>\$ 124,031</u>