# Greensboro Urban Ministry

Financial Report
June 30, 2016

## Contents

# Independent Auditor's Report

To the Board of Directors
Greensboro Urban Ministry
Greensboro, North Carolina

**Report on the Financial Statements**
We have audited the accompanying financial statements of Greensboro Urban Ministry which comprise the statement of financial position as of June 30, 2016, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

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

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

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greensboro Urban Ministry as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**
We have previously audited Greensboro Urban Ministry's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Greensboro, North Carolina
September 26, 2016

**Greensboro Urban Ministry**

**Statement of Financial Position**
**June 30, 2016**
**(With Comparative Totals for June 30, 2015)**

| | **2016** | 2015 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 1,064,070** | $ 1,284,517 |
| Accounts and pledges receivable | **72,689** | 36,591 |
| Inventory and contributed goods | **137,115** | 129,458 |
| Prepaid expenses | **48,662** | 20,611 |
| Beneficial interest in endowment | **2,868,332** | 4,297,481 |
| Note receivable | **125,000** | 125,000 |
| Property held for sale | **6,800** | 6,800 |
| Investment in related entity | **144,145** | 144,145 |
| Property and equipment, net of accumulated depreciation | **3,751,030** | 3,964,671 |
| | **$ 8,217,843** | $ 10,009,274 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable | **$ 22,552** | $ 39,225 |
| Accrued expenses | **122,546** | 116,381 |
| Other liabilities | **21,050** | 30,000 |
| | **166,148** | 185,606 |
| Net assets: | | |
| Unrestricted | **5,874,134** | 7,311,001 |
| Temporarily restricted | **1,060,563** | 1,395,669 |
| Permanently restricted | **1,116,998** | 1,116,998 |
| | **8,051,695** | 9,823,668 |
| | **$ 8,217,843** | $ 10,009,274 |

See notes to financial statements.

**Greensboro Urban Ministry**

**Statement of Activities**
**Year Ended June 30, 2016**
**(With Comparative Totals for the Year Ended June 30, 2015)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 Total | 2015 Total |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Contributions and bequests | **$ 2,510,341** | **$ 821,053** | **$ -** | **$ 3,331,394** | $ 3,632,105 |
| Food bank donations | **1,613,712** | **-** | **-** | **1,613,712** | 1,512,092 |
| Government grants | **113,143** | **-** | **-** | **113,143** | 104,037 |
| Investment (loss) income | **(137,236)** | **(100,770)** | **-** | **(238,006)** | 33,513 |
| Other revenues | **-** | **-** | **-** | **-** | 1,953 |
| | **4,099,960** | **720,283** | **-** | **4,820,243** | 5,283,700 |
| Net assets released from restrictions | **1,055,389** | **(1,055,389)** | **-** | **-** | - |
| **Total revenue** | **5,155,349** | **(335,106)** | **-** | **4,820,243** | 5,283,700 |
| Expenses: | | | | | |
| Functional expenses: | | | | | |
| Program services | **6,176,384** | **-** | **-** | **6,176,384** | 5,775,915 |
| Management and general | **106,913** | **-** | **-** | **106,913** | 258,629 |
| Fund raising expenses | **262,027** | **-** | **-** | **262,027** | 267,179 |
| **Total functional expenses** | **6,545,324** | **-** | **-** | **6,545,324** | 6,301,723 |
| Rental property expenses, net | **46,892** | **-** | **-** | **46,892** | 46,897 |
| **Total expenses** | **6,592,216** | **-** | **-** | **6,592,216** | 6,348,620 |
| **Change in net assets** | **(1,436,867)** | **(335,106)** | **-** | **(1,771,973)** | (1,064,920) |
| Net assets: | | | | | |
| Beginning of year | **7,311,001** | **1,395,669** | **1,116,998** | **9,823,668** | 10,888,588 |
| End of year | **$ 5,874,134** | **$ 1,060,563** | **$ 1,116,998** | **$ 8,051,695** | $ 9,823,668 |

See notes to financial statements.

**Greensboro Urban Ministry**

**Statement of Functional Expenses**
**Year Ended June 30, 2016**
**(With Comparative Totals for the Year Ended June 30, 2015)**

| | Program Services | | | | | |
|---|---|---|---|---|---|---|
| | Emergency Assistance | Food Bank | Potters House | Pathways | Beyond GUM | Weaver House / Winter Emergency |
| Direct assistance | $ 115,613 | $ 1,615,376 | $ 181,325 | $ 8,671 | $ 335,328 | $ 61,508 |
| Personnel: | | | | | | |
| Salaries | 171,401 | 136,064 | 108,077 | 195,717 | 393,257 | 359,107 |
| Employee benefits | 44,004 | 32,062 | 25,154 | 31,389 | 83,025 | 74,650 |
| Payroll taxes | 13,245 | 10,475 | 8,266 | 14,759 | 30,766 | 27,507 |
| Contract labor | - | 1,526 | - | - | - | - |
| Allocation – personnel expenses | 99,153 | 99,227 | 99,227 | 99,153 | 99,153 | 99,153 |
| Office expenses: | | | | | | |
| Supplies and postage | 2,115 | 5,709 | 72 | 2,684 | 2,713 | 1,575 |
| Equipment rental and maintenance | 1,741 | 1,804 | - | 11,072 | 10,592 | 1,804 |
| Telephone | 2,932 | 2,932 | 2,932 | 3,664 | 6,833 | 3,101 |
| Legal and accounting | - | - | - | - | 187 | - |
| Miscellaneous office expenses | 264 | 912 | 51 | 461 | 8,545 | 543 |
| Allocation – office expenses | 18,135 | 17,531 | 17,531 | 7,556 | 25,087 | 17,531 |
| Building and equipment: | | | | | | |
| Utilities | - | - | - | 28,784 | - | - |
| Maintenance and repairs | 452 | 13,408 | 14,885 | 38,303 | 1,629 | 12,803 |
| Insurance | 4,338 | 1,731 | 2,278 | 2,040 | 4,388 | 3,256 |
| Security | - | 195 | 62,290 | - | - | 74,937 |
| Allocation – building expenses | 32,968 | 48,825 | 65,935 | - | 16,484 | 148,980 |
| Utility assistance fund | 447,734 | - | - | - | 30,107 | - |
| | 954,095 | 1,987,777 | 588,023 | 444,253 | 1,048,094 | 886,455 |
| Depreciation | 13,227 | 27,530 | 24,128 | 36,691 | 14,417 | 50,772 |
| **Total expenses** | $ 967,322 | $ 2,015,307 | $ 612,151 | $ 480,944 | $ 1,062,511 | $ 937,227 |

See notes to financial statements.

| Program Services | | Supporting Services | | | Total Functional Expenses | |
|---|---|---|---|---|---|---|
| Chaplaincy | Total Program Services | Management and General | Fund Raising | Total Supporting Services | 2016 | 2015 |
| $ 2,159 | $ 2,319,980 | $ 501 | $ - | $ 501 | $ 2,320,481 | $ 2,152,185 |
| - | 1,363,623 | 582,818 | 33,610 | 616,428 | 1,980,051 | 1,793,621 |
| - | 290,284 | 105,698 | 9,417 | 115,115 | 405,399 | 337,990 |
| - | 105,018 | 32,633 | 2,375 | 35,008 | 140,026 | 129,218 |
| 90,648 | 92,174 | - | - | - | 92,174 | 89,390 |
| 1,200 | 596,266 | (596,266) | - | (596,266) | - | - |
| 1,130 | 15,998 | 25,712 | 135,848 | 161,560 | 177,558 | 182,187 |
| - | 27,013 | 59,762 | - | 59,762 | 86,775 | 63,664 |
| - | 22,394 | 3,954 | 363 | 4,317 | 26,711 | 24,256 |
| - | 187 | 22,468 | 720 | 23,188 | 23,375 | 45,907 |
| 1,523 | 12,299 | 37,371 | 78,259 | 115,630 | 127,929 | 114,551 |
| 1,200 | 104,571 | (104,571) | - | (104,571) | - | - |
| - | 28,784 | 72,478 | - | 72,478 | 101,262 | 107,410 |
| - | 81,480 | 170,107 | 374 | 170,481 | 251,961 | 292,371 |
| 396 | 18,427 | 747 | 1,061 | 1,808 | 20,235 | 22,084 |
| - | 137,422 | - | - | - | 137,422 | 113,118 |
| 1,200 | 314,392 | (314,392) | - | (314,392) | - | - |
| - | 477,841 | - | - | - | 477,841 | 655,391 |
| 99,456 | 6,008,153 | 99,020 | 262,027 | 361,047 | 6,369,200 | 6,123,343 |
| 1,466 | 168,231 | 7,893 | - | 7,893 | 176,124 | 189,566 |
| $ 100,922 | $ 6,176,384 | $ 106,913 | $ 262,027 | $ 368,940 | $ 6,545,324 | $ 6,312,909 |

**Greensboro Urban Ministry**

**Statement of Cash Flows**
**Year Ended June 30, 2016**
**(With Comparative Totals for the Year Ended June 30, 2015)**

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (1,771,973) | $ (1,064,920) |
| Adjustment to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 223,019 | 236,464 |
| Loss on sale of property and equipment | - | 170 |
| Loss (income) on beneficial interests in endowment funds | 240,695 | (90,684) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 7,162 | (10,864) |
| Pledge receivable | (43,260) | 10,066 |
| Inventory | (7,657) | (72,181) |
| Prepaid expenses | (28,051) | 3,919 |
| Accounts payable | (16,673) | 29,206 |
| Accrued expenses | 6,165 | 23,676 |
| Other liabilities | (8,950) | 30,000 |
| **Net cash used in operating activities** | (1,399,523) | (905,148) |
| Cash flows from investing activities: | | |
| Distributions from endowment funds | 1,188,454 | 1,838,725 |
| Purchase of property and equipment | (9,378) | (23,533) |
| **Net cash provided by investing activities** | 1,179,076 | 1,815,192 |
| **Net (decrease) increase in cash and cash equivalents** | (220,447) | 910,044 |
| Cash and cash equivalents: | | |
| Beginning of year | 1,284,517 | 374,473 |
| End of year | $ 1,064,070 | $ 1,284,517 |

See notes to financial statements.

## Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** Greensboro Urban Ministry (the Organization) is a nonprofit organization which provides food, shelter and emergency assistance for families and individuals in and around Greensboro, North Carolina. The Organization's services are provided under the following programs:

**Emergency assistance:** Works with families and individuals in crisis to prevent homelessness. Emergency Assistance provides food and financial assistance to individuals and families in need.

**Food bank and food distribution:** Redistributes donated and surplus food from grocers, wholesalers, organizations and individuals to families and individuals who need food assistance.

**Potters House:** A community kitchen that serves free, well-balanced meals on a daily basis to the needy in the community and the guests at the Weaver House.

**Shelter:** Shelter is provided through the following programs:

***Pathways Family Shelter:*** Offers a temporary home to 16 homeless families.

***Beyond GUM:*** Assists individuals and families with obtaining and sustaining housing with financial assistance and case management services. In July 2014, Partnership Village combined with Beyond GUM allowing it to focus on rapid re-housing. Partnership Village has changed to permanent housing with supportive services and case management.

***Weaver House Night Shelter:*** Offers temporary shelter to homeless adults.

***WE! Shelter:*** During the winter months, emergency shelter is provided at various sites for homeless single adults.

**Chaplaincy:** Offers a ministry of presence, counseling, volunteer service, prayer and worship.

A summary of the Organization's significant accounting policies follows:

**Presentation:** Accounting principles generally accepted in the United States of America (GAAP) require that nonprofit organizations classify and report net assets in three groups of net assets based on the existence or absence of donor-imposed restrictions and the nature of those restrictions. In accordance with GAAP, the Organization classifies and reports its net assets as unrestricted, temporarily restricted and permanently restricted:

***Unrestricted net assets:*** Resources related to the Organization's regular activities that are available at the discretion of the Board of Directors.

***Temporarily restricted net assets:*** Resources that carry a donor-imposed restriction. A donor's restriction is met when a stipulated time restriction ends or a special purpose restriction is accomplished. As those restrictions are met, the contributions are released from temporarily restricted net assets and are transferred to unrestricted net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as temporarily restricted support and as net assets released from restrictions.

***Permanently restricted net assets:*** Contributions that carry donor-imposed restrictions on the use of the funds, which mandate that the principal be maintained in perpetuity. The principal is reported as a permanently restricted net asset. Earnings, gains and losses on permanently restricted net assets are classified as temporarily restricted net assets until appropriated for expenditure.

**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

**Cash and cash equivalents:** For purposes of reporting cash flows, the Organization considers investments with an original maturity of three months or less to be cash equivalents. The Organization has demand deposit accounts in which the balances, at times, exceed federally insured amounts. The Organization has not experienced any losses on these deposits and does not believe it is exposed to significant credit risk on cash and cash equivalents.

**Receivables:** The Organization records receivables at total unpaid balances, which approximate estimated fair values, net of allowances for doubtful accounts. The Organization determines past-due status of individual receivables based on contractual terms and generally does not charge interest on any past-due amounts. The Organization estimates its allowance for doubtful accounts based on a combination of factors, including the Organization's historical loss experience and any anticipated effects related to current economic conditions. Receivables that management believes to be ultimately not collectible are written off upon such determination.

**Inventory:** Inventory consists primarily of food contributed to the Organization. The inventory is recorded at its estimated fair value per pound.

**Property and equipment:** Property and equipment are stated at cost, unless donated. Donated property is recorded at fair market value on the date of the gift. Depreciation is provided on the straight-line method over estimated useful lives of the respective assets. Expenditures for maintenance and repairs that do not improve or extend the life of an asset are charged to expense as incurred; major renewals and betterments are capitalized to the property accounts. Upon retirement or sale of an asset, its cost and related accumulated depreciation are removed from property accounts, and any gain or loss is recorded. It is the policy of the Organization to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**Beneficial interests in endowment funds:** Beneficial interests in endowment funds are recorded at estimated fair value as reported by the foundations holding the endowment funds.

**Revenue recognition**: The Organization recognizes unconditional promises to give in the period the contributions are received or promised, whichever is earlier.

**Donated material and services:** The Organization receives a significant amount of donated material and services which do not meet the recognition criteria under GAAP. Accordingly, the value of these materials and services has not been determined and is not reflected in the accompanying financial statements.

**Estimates:** The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income tax status:** The Organization is a nonprofit organization that is exempt from income taxes under Internal Revenue Code (IRC) Section 501(c)(3). Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

## Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Subsequent events:** All the effects of subsequent events that provide additional evidence about conditions that existed at the financial statement date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. The Organization does not recognize subsequent events that provide evidence about conditions that did not exist at the financial statement date but arose after, but before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the financial statements from being misleading.

The Organization has evaluated its subsequent events (occurring after June 30, 2016) through September 26, 2016, which represents the date the financial statements were available to be issued.

**Recent accounting pronouncements:** In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The updated standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard becomes effective for annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of an annual reporting period beginning after December 15, 2016. The Organization has not selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The amendments in the update increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in the update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019. Early application is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this update make several improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements.

## Note 2. Inventory and Contributed Goods

Contributions to the Food Bank are recorded as contribution income in the statement of activities. Items received are primarily food that is charged to expense as served or distributed. A summary of inventory and contributed goods as of and for the year ended June 30, 2016, is as follows:

| | |
|---|---|
| Beginning inventory | $ 129,458 |
| Contributions received | 1,613,712 |
| Amount served or distributed | (1,606,055) |
| Ending inventory | $ 137,115 |

## Note 3. Beneficial Interest in Endowment Funds

The Organization has made organizational endowment contributions to The Community Foundation of Greater Greensboro (the Foundation). The Organization has recorded its beneficial interest in these endowment funds in the accompanying statement of financial position in accordance with GAAP. Management currently expects to accept distributions recommended by the Foundation and may request additional distributions, but not donor-restricted principal, of these funds. Unless approved by both the Foundation and the Organization, endowment assets will be returned to the Organization only in the event of dissolution of the Foundation or if the Foundation fails to meet certain requirements of the IRC. No variance power was specifically granted to the Foundation unless the Organization ever ceases to meet certain requirements of the IRC. However, these assets are administered under the provisions of the governing documents of the Foundation, which generally provide for the transfer of variance power in many cases to the Foundation. The estimated fair value of beneficial interests in these endowment funds as reported by the Foundation was $2,868,332 at June 30, 2016.

## Note 4. Note Receivable

The Organization has made a loan in the amount of $125,000 to Greenbriar Housing, LLC. The note bears interest at the rate of 2% and is due March 15, 2029.

## Note 5. Investment in Greenbriar Housing II, LLC

In 1998, the Organization exchanged land carried on the books at $144,145 for an interest in Greenbriar Housing II, LLC that constructed and manages an affordable housing project on the property, which is used by the Partnership Village program. The Organization is a special member with an interest in the proceeds from the sale and/or refinancing of the housing project, up to the amount of the investment.

## Note 6. Property and Equipment

A summary of property and equipment is as follows:

| | |
|---|---|
| Building and improvements | $ 5,581,635 |
| Vehicles | 45,407 |
| Furniture and equipment | 582,715 |
| Computer software | 35,274 |
| Total depreciable property and equipment | 6,245,031 |
| Accumulated depreciation | (3,329,331) |
| Depreciable property and equipment, net | 2,915,700 |
| Land | 835,330 |
| Total | $ 3,751,030 |

Included in property and equipment are buildings leased to others with a cost of $1,859,039 and accumulated depreciation of $820,394 as of June 30, 2016.

## Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016, are available for the following purposes:

| | | |
|---|---|---|
| Partnership Village Campaign | $ | 297,978 |
| Building maintenance | | 242,356 |
| Unappropriated endowment earnings (see Note 9) | | 520,229 |
| | $ | 1,060,563 |

## Note 8. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support program or supporting services. A summary of permanently restricted net assets at June 30, 2016, is as follows:

| | | |
|---|---|---|
| Undesignated: | | |
| Bryan endowment | $ | 500,000 |
| Snipes endowment | | 337,893 |
| Stern endowment | | 10,000 |
| Campbell endowment | | 5,000 |
| Peterson endowment | | 100,000 |
| Mullin endowment | | 52,158 |
| | | 1,005,051 |
| Designated for the Food Bank and Potters House: | | |
| Eagle Fund endowment | | 111,947 |
| | $ | 1,116,998 |

## Note 9. Endowment Fund

The Organization’s endowment consists of a single fund established to support general activities and special projects. The endowment consists of funds designated by the Board of Directors (BOD) and donor-restricted funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Note 9. Endowment Fund (Continued)**

**Interpretation of relevant law:** The BOD of the Organization has interpreted the North Carolina enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(a) The duration and preservation of the fund
(b) The purposes of the Organization and the donor-restricted endowment fund
(c) General economic conditions
(d) The possible effects of inflation and deflation
(e) The expected total return from income and the appreciation of investments
(f) Other resources of the Organization
(g) The investment policies of the Organization

**Funds with deficiencies:** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016.

**Return objective and risk parameters:** The Organization's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. The Organization recognizes and accepts that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Organization has established a policy portfolio, or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-time horizons based upon long-term expected returns.

**Strategies employed for achieving objectives:** To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy:** The Organization will appropriate for expenditure in its annual budget a maximum of 5% of the prior year's ending market value of the endowment assets. There may be times when the Organization may opt not to take the maximum spending rate, but rather reinvest some of the annual return. This spending rate is based on the long-term assumption of an average annual total return (net of fees) of at least 5% plus inflation.

## Note 9. Endowment Fund (Continued)

Endowment net asset composition by type of fund as of June 30, 2016, is as follows:

| Description | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted | $ - | $ 520,229 | $ 1,116,998 | $ 1,637,227 |
| Board-designated | 1,231,105 | - | - | 1,231,105 |
| | $ 1,231,105 | $ 520,229 | $ 1,116,998 | $ 2,868,332 |

Changes in endowment net assets for the fiscal year ended June 30, 2016, are as follows:

| Description | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, July 1, 2015 | $ 2,491,955 | $ 688,528 | $ 1,116,998 | $ 4,297,481 |
| Investment income (loss): | | | | |
| Dividends | 49,288 | 42,593 | - | 91,881 |
| Unrealized appreciation | (164,914) | (122,782) | - | (287,696) |
| Management fees | (24,299) | (20,581) | - | (44,880) |
| Total investment income | (139,925) | (100,770) | - | (240,695) |
| Contributions | - | - | - | - |
| Appropriations for expenditures | (1,120,925) | (67,529) | - | (1,188,454) |
| Endowment net assets, June 30, 2016 | $ 1,231,105 | $ 520,229 | $ 1,116,998 | $ 2,868,332 |

## Note 10. Fair Value Measurements

GAAP establishes a framework for measuring fair value. That framework provides 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 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under GAAP are described below:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets at the measurement date.

**Level 2:** Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3:** Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

### Note 10. Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is the description of the valuation methodologies used for assets measured at fair value subsequent to initial recognition. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**Beneficial interest in endowment:** Fair value is the value of the organizational funds established with the Foundation for which the Foundation is obligated to use for the benefit of the Organization. The Foundation invests organizational funds in a diversified portfolio consisting of equity securities, fixed income securities and alternative investments.

The following table sets forth, by level within the fair value hierarchy, the Organization's assets measured at fair value subsequent to initial recognition on a recurring basis.

| | Assets at Fair Value as of June 30, 2016 | | | |
|---|---|---|---|---|
| Description | Level 1 | Level 2 | Level 3 | Total |
| Beneficial interest in endowment | $ - | $ - | $ 2,868,332 | $ 2,868,332 |

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2016.

| | Beneficial Interest In Endowment |
|---|---|
| Balance at July 1, 2015 | $ 4,297,481 |
| Investment income | 91,881 |
| Unrealized appreciation | (287,696) |
| Management fees | (44,880) |
| Distributions | (1,188,454) |
| Balance at June 30, 2016 | $ 2,868,332 |

### Note 11. Retirement Plan

The Organization has a defined contribution retirement plan covering all eligible employees. The Organization matches employee contributions up to a maximum of 3% of salaries. Total matching contributions were approximately $23,400 for the year ended June 30, 2016.

## Note 12. Rental Property

The Organization owns and leases two buildings under bargain lease agreements as follows:

A 9,270-square-foot building leased to Triad Adult and Pediatric Medicine, Inc., a nonprofit organization that provides medical and pharmaceutical needs to individuals. Lease payments are $1 per year, and the lease term is one year with automatic renewals, unless terminated, for consecutive one-year terms beginning each October 1.

A 13,618-square-foot building leased to United Child Development Services, Inc., a nonprofit organization that provides child care and child development programs to the community. Lease payments are $1 per year, and the lease term is one year with automatic renewals, unless terminated, for consecutive one-year terms beginning each May 1.

Rental income and expenses, presented net on the statement of activities, consist of the following for the year ended June 30, 2016:

| | | |
|---|---|---|
| Rental income | $ | 3 |
| Depreciation expense on rental buildings | | (46,895) |
| Rental property expenses, net | $ | (46,892) |

## Note 13. Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.