



Employing Youth. Inspiring Excellence.

## **THE URBAN ALLIANCE FOUNDATION, INC.**

### **Financial Statements**

*For the Year Ended December 31, 2017*

*(With Summarized Financial Information for the Year Ended December 31, 2016)*



**and  
Report Thereon**





*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
The Urban Alliance Foundation, Inc.

We have audited the accompanying financial statements of The Urban Alliance Foundation, Inc. (the Foundation), which comprise the statement of financial position as of December 31, 2017, and 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 The Urban Alliance Foundation, Inc. as of December 31, 2017, and the changes in its net assets 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 the Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Raffa, P.C.

Washington, DC  
June 4, 2018

THE URBAN ALLIANCE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

(With Summarized Financial Information as of December 31, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 2,501,719	\$ 2,500,369
Investments	2,502,876	1,605,957
Grants, contributions and contracts receivable, net	3,214,807	2,767,976
Other assets	38,151	67,797
Property and equipment, net	<u>53,565</u>	<u>71,960</u>
 TOTAL ASSETS	 <u>\$ 8,311,118</u>	 <u>\$ 7,014,059</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 286,597	\$ 226,848
Deferred revenue	367,324	454,700
Deferred rent	4,464	13,291
Capital lease obligation	<u>52,122</u>	<u>67,014</u>
 TOTAL LIABILITIES	 <u>710,507</u>	 <u>761,853</u>
Net Assets		
Unrestricted		
Undesignated	936,755	1,400,137
Board-designated	<u>2,357,000</u>	<u>1,822,000</u>
 Total Unrestricted	 3,293,755	 3,222,137
Temporarily restricted	<u>4,306,856</u>	<u>3,030,069</u>
 TOTAL NET ASSETS	 <u>7,600,611</u>	 <u>6,252,206</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 8,311,118</u>	 <u>\$ 7,014,059</u>

The accompanying notes are an integral part of these financial statements.

**THE URBAN ALLIANCE FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2017**

**(With Summarized Financial Information for the Year Ended December 31, 2016)**

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
<b>REVENUE AND SUPPORT</b>				
Grants, contributions and contracts	\$ 2,956,471	\$ 4,123,995	\$ 7,080,466	\$ 7,228,265
Federal grants	1,947,282	-	1,947,282	600,651
Donated facilities and services	396,451	-	396,451	426,906
Investment income	98,914	-	98,914	60,492
Net assets released from restrictions:				
Satisfaction of purpose restrictions	2,822,208	(2,822,208)		
Satisfaction of time restrictions	25,000	(25,000)	-	-
	<b>8,246,326</b>	<b>1,276,787</b>	<b>9,523,113</b>	<b>8,316,314</b>
<b>EXPENSES</b>				
Program Services:				
Internship programs	5,461,668	-	5,461,668	4,658,473
Youth programs	1,090,476	-	1,090,476	823,199
Program development	742,960	-	742,960	725,210
	<b>7,295,104</b>	<b>-</b>	<b>7,295,104</b>	<b>6,206,882</b>
Supporting Services:				
Management and general	267,585	-	267,585	185,013
Development and fundraising	612,019	-	612,019	603,661
	<b>879,604</b>	<b>-</b>	<b>879,604</b>	<b>788,674</b>
	<b>8,174,708</b>	<b>-</b>	<b>8,174,708</b>	<b>6,995,556</b>
<b>CHANGE IN NET ASSETS</b>	71,618	1,276,787	1,348,405	1,320,758
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>3,222,137</b>	<b>3,030,069</b>	<b>6,252,206</b>	<b>4,931,448</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 3,293,755</b>	<b>\$ 4,306,856</b>	<b>\$ 7,600,611</b>	<b>\$ 6,252,206</b>

The accompanying notes are an integral part of these financial statements.

THE URBAN ALLIANCE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

	Program Services			Supporting Services			2017 Total	2016 Total	
	Internship Programs	Program Development	Youth Programs	Total Program Services	Management and General	Development and Fundraising			Total Supporting Services
Staff salaries	\$ 1,544,022	\$ 301,045	\$ 451,793	\$ 2,296,860	\$ 433,893	\$ 285,124	\$ 719,017	\$ 3,015,877	\$ 2,610,326
Program intern wages	2,114,767	-	302,487	2,417,254	-	-	-	2,417,254	1,935,207
Employee benefits	510,245	53,832	113,478	677,555	74,257	51,347	125,604	803,159	712,221
Professional fees	10,576	263,988	24,807	299,371	298,894	162,132	461,026	760,397	638,095
Occupancy and utilities	-	-	-	-	355,884	-	355,884	355,884	358,094
Student training	234,242	-	8,767	243,009	-	-	-	243,009	191,119
Computer supplies and equipment	102,370	2,456	-	104,826	44,799	175	44,974	149,800	82,744
Student activities	81,024	-	22,357	103,381	-	-	-	103,381	107,894
Travel	55,128	16,929	10,762	82,819	9,713	8,450	18,163	100,982	62,684
Printing	77	190	478	745	27,256	12,255	39,511	40,256	28,640
Telecommunications	10,397	250	3,450	14,097	23,828	600	24,428	38,525	29,582
Miscellaneous	4,642	75	16	4,733	24,079	3,879	27,958	32,691	32,979
Meals and entertainment	14,785	2,274	2,139	19,198	7,148	1,660	8,808	28,006	27,902
Office supplies	13,802	32	93	13,927	4,639	220	4,859	18,786	12,653
Depreciation and amortization	-	-	-	-	18,395	-	18,395	18,395	37,750
Public relations	16,718	-	40	16,758	396	-	396	17,154	95,501
Insurance	-	-	-	-	17,082	-	17,082	17,082	15,580
Dues, fees and subscriptions	5,450	760	1,377	7,587	3,612	2,871	6,483	14,070	16,585
	4,718,245	641,831	942,044	6,302,120	1,343,875	528,713	1,872,588	8,174,708	6,995,556
Overhead allocation	743,423	101,129	148,432	992,984	(1,076,290)	83,306	(992,984)	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 5,461,668</b>	<b>\$ 742,960</b>	<b>\$ 1,090,476</b>	<b>\$ 7,295,104</b>	<b>\$ 267,585</b>	<b>\$ 612,019</b>	<b>\$ 879,604</b>	<b>\$ 8,174,708</b>	<b>\$ 6,995,556</b>

The accompanying notes are an integral part of these financial statements.

THE URBAN ALLIANCE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,348,405	\$ 1,320,758
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	3,464	6,600
Loss on disposal of fixed assets	-	6,910
Realized gains on investments	(2,605)	(1,838)
Unrealized gains on investments	(62,849)	(28,387)
Depreciation and amortization	18,395	37,750
Changes in assets and liabilities:		
Grants, contributions and accounts receivable	(450,295)	(1,522,780)
Other assets	29,646	(33,079)
Accounts payable and accrued expenses	59,749	65,837
Deferred revenue	(87,376)	(261,525)
Deferred rent	(8,827)	(2,314)
	<u>847,707</u>	<u>(412,068)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,253,082)	(563,732)
Sale of investments	421,617	530,090
Purchase of property and equipment	-	(2,087)
	<u>(831,465)</u>	<u>(35,729)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(14,892)	(19,491)
	<u>(14,892)</u>	<u>(19,491)</u>
NET CASH USED IN FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,350	(467,288)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,500,369</u>	<u>2,967,657</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,501,719</u>	<u>\$ 2,500,369</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Equipment acquired under capital lease	\$ -	\$ 74,460
Obligation incurred under capital lease	-	(74,460)
TOTAL NONCASH FINANCING AND INVESTING ACTIVITIES	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**THE URBAN ALLIANCE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

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1. Organization and Summary of Significant Accounting Policies

**Organization**

The Urban Alliance Foundation, Inc. (the Foundation) was incorporated on August 11, 1995, under the laws of the District of Columbia. The Foundation was originally founded and created by a small group of volunteers to provide the tools necessary for youth living in under-resourced Washington, DC neighborhoods to excel. The Foundation has expanded to serve youth in Washington, DC; Baltimore, MD; Montgomery County, MD; Chicago, IL, and Northern Virginia (Arlington, Alexandria and Fairfax County). The Foundation mobilizes a variety of community resources to provide youth with otherwise unavailable educational and employment opportunities. Its mission is to empower under-resourced youth to aspire, work and succeed through paid internships, formal training and mentoring. These activities are funded primarily from grants, contributions and contracts from businesses, corporations, nonprofit organizations, community members and the federal government.

**Cash Equivalents**

The Foundation considers money market funds, other than the money market funds held by external investment managers in its investment accounts and considered to be part of the investment portfolio, to be cash equivalents.

**Investments**

Investments consist of equity and fixed-income mutual funds, certificates of deposit, corporate bonds and money market funds. Investments are reported at fair value in the accompanying financial statements. Fair value is 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.

The change in unrealized appreciation or depreciation of investments is included in investment income in the accompanying statement of activities. Realized gains and losses on sales of investments are computed on an average cost method, and are recorded on the trade date of the transaction and included in investment income in the accompanying statement of activities.

**Fair Value Measurement**

In accordance with the accounting standards for fair value measurement for those assets and liabilities measured at fair value on a recurring basis, the Foundation has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

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1. Organization and Summary of Significant Accounting Policies (continued)

**Fair Value Measurement (continued)**

The applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

*Level 3* – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of December 31, 2017, only the Foundation's investments, as described in Note 2 of these financial statements, were measured at fair value on a recurring basis.

**Grants, Contributions and Contracts Receivable**

Grants, contributions and contracts receivable that are expected to be collected within one year are recorded at net realizable value. Grants, contributions and contracts receivable that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. The Foundation uses the allowance method to record potentially uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific receivables.

**Property and Equipment and Related Depreciation and Amortization**

Property and equipment are recorded at cost. The Foundation capitalizes expenditures for property and equipment that are in excess of \$1,250 and that have useful lives of more than one year. Depreciation on computers, office equipment and licenses is provided for on a straight-line basis over the estimated useful lives of the assets, which range from two to five years. The cost of property and equipment retired or disposed of is removed from the accounts, along with the related accumulated depreciation and amortization, and any gain or loss is reflected in revenue and support or expense in the accompanying statement of activities. Major additions are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

**Net Assets**

The net assets of the Foundation are classified as follows:

- Unrestricted net assets represent funds that are available for support of the Foundation's operations or that have been designated by the Board of Directors for particular purposes.
- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or future periods.

**THE URBAN ALLIANCE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

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1. Organization and Summary of Significant Accounting Policies (continued)

**Revenue Recognition**

Grants and contributions are reported as revenue in the year in which the payments are received and/or unconditional promises to give are made. Grants and contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted revenue and support. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Conditional promises to give are not included as grants and contributions until the conditions are substantially met.

Grants and contracts treated as exchange transactions, including the federal funds, are recognized as costs are incurred or deliverables are met on the basis of direct costs plus allowable indirect expenses. Revenue recognized for such work for which payments have not been received is reflected as grants and contracts receivable in the accompanying statement of financial position. Funds received but not yet expended for the purpose specified by the funder are reflected in the accompanying statement of financial position as deferred revenue.

**Donated Facilities and Services**

In-kind contributions are recognized as revenue and expense in the accompanying statement of activities at their estimated fair value, as provided by the donor, at the date of receipt. In-kind contributions consist of contributed professional services and facilities that benefit both program and supporting services.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated proportionately among the programs and supporting services to which they relate on the basis of direct costs.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**THE URBAN ALLIANCE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

2. Investments

The following table summarizes the Foundation's investments, measured at fair value on a recurring basis, as of December 31, 2017:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Equity mutual funds	\$ 669,295	\$ 669,295	\$ -	\$ -
Fixed-income bond mutual funds	334,375	334,375	-	-
Certificates of deposit	339,046	-	339,046	-
Corporate bonds	197,232	-	197,232	-
Money market funds	<u>962,928</u>	<u>962,928</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,502,876</u>	<u>\$ 1,966,598</u>	<u>\$ 536,278</u>	<u>\$ -</u>

The Foundation used the following methods and significant assumptions to estimate fair value:

*Equity and fixed-income bond mutual funds and money market funds* – Valued based on quoted prices available in active markets for identical assets.

*Certificates of deposit* – Valued at amortized cost which approximates fair value.

*Corporate bonds* – Valued based upon estimates using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Investment returns for the year ended December 31, 2017, are summarized as follows:

Unrealized gains	\$ 62,849
Realized gains	2,605
Interest and dividends	<u>33,460</u>
Total Investment Income	<u>\$ 98,914</u>

3. Grants, Contributions and Contracts Receivable

Grants and contributions receivable represent amounts due from federal agencies and foundations, corporations and individual donors. Contracts receivable include amounts earned for services performed as of December 31, 2017, but not yet reimbursed. Grants, contributions and contracts receivable were composed of the following as of December 31, 2017:

Federal awards receivable	\$ 572,126
Other grants, contributions and contracts receivable	<u>2,642,681</u>
Total Grants, Contributions and Contracts Receivable, Net	<u>\$ 3,214,807</u>

Continued

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

3. Grants, Contributions and Contracts Receivable (continued)

Grants, contributions and contracts receivable were due as follows as of December 31, 2017:

Less than one year	\$ 2,219,615
One to five years	<u>1,055,000</u>
Total Grants, Contributions and Contracts Receivable	3,274,615
Less: Discount to Net Present Value (2.2%)	(38,194)
Less: Allowance for Doubtful Accounts	<u>(21,614)</u>
Grants, Contributions and Contracts Receivable, Net	<u>\$ 3,214,807</u>

4. Property and Equipment

Property and equipment consisted of the following at December 31, 2017:

Computer and office equipment	\$ 31,740
Equipment under capital leases	74,460
Software	<u>51,377</u>
Total Property and Equipment	157,577
Less: Accumulated Depreciation and Amortization	<u>(104,012)</u>
Property and Equipment, Net	<u>\$ 53,565</u>

Depreciation and amortization expense totaled \$18,395 for the year ended December 31, 2017.

5. Net Assets

**Board-Designated Net Assets**

The Board of Directors of the Foundation has established an operating reserve fund to provide for future financial needs and special projects of the Foundation. Such funds, including all allocable investment income on the funds, are reflected as unrestricted board-designated net assets in the accompanying financial statements. No board-designated funds were used during the year ended December 31, 2017. In December 2017, the Board of Directors approved an addition to the board-designated fund of \$500,000. During the year ended December 31, 2017, the Foundation also added \$35,000 of investment earnings to the board-designated fund in accordance with the operating reserve policy. The board-designated fund was \$2,357,000 as of December 31, 2017.

The Foundation does not consider its board-designated fund to be a quasi-endowment fund.

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

5. Net Assets (continued)

**Temporarily Restricted Net Assets**

Net assets were released from donor-imposed restrictions by incurring expenses that satisfied the restricted purposes. For the year ended December 31, 2017, net assets released from restrictions were as follows:

Satisfaction of purpose restrictions:	
Internship programs	\$ 2,072,802
Program development	139,191
Matching funds	240,516
Youth programs	<u>369,699</u>
Total Purpose Restrictions	2,822,208
Satisfaction of time restrictions	<u>25,000</u>
Total Net Assets Released from Restrictions	<u>\$ 2,847,208</u>

As of December 31, 2017, temporarily restricted net assets were available for the following programs and time periods:

Internship programs	\$ 3,504,045
Program development	23,038
Matching funds	634,474
Youth programs	<u>145,299</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,306,856</u>

6. Donated Services and Facilities

During the year ended December 31, 2017, the Foundation received donated services and facilities as follows:

Donated professional services	\$ 195,612
Donated facilities – classrooms	153,239
Donated public relations	14,459
Donated facilities – office space	31,141
Donated facilities – other	<u>2,000</u>
Total Donated Facilities and Services	<u>\$ 396,451</u>

7. Commitments and Contingencies

**Office Leases**

*District of Columbia:* In October 2012, the Foundation entered into a five-year agreement for office space and related services from a limited liability company owned by one of the Foundation's board members. The lease expired on October 31, 2017. In October 2017, the

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

7. Commitments and Contingencies (continued)

**Office Leases (continued)**

Foundation entered into a five-year amendment to the original agreement. The current amendment expires on October 31, 2022. The agreement can be terminated by either party with six months' written notice without cause. Under the terms of the agreement, the fee for the space and office services escalates annually by the greater of 2% or the annual increase in the U.S. City Average Consumer Price Index. The payments required for the space and services are estimated to be below fair market value. Management's estimate of the difference between fair value and the amount paid by the Foundation has been recorded as an in-kind contribution and corresponding donated rent expense.

*Baltimore:* The Foundation leases office space under a noncancelable operating lease that expired on November 30, 2017. The Foundation entered into a lease amendment in October 2017 with the same landlord and the amended lease expires on November 30, 2020. The rent escalates by 3% annually beginning December 1, 2018. In addition, the landlord charges additional rent for common areas and building maintenance.

*Chicago:* The Foundation leases office space under a three-year operating lease which is scheduled to expire on July 31, 2018. Under the terms of the lease, rent escalates annually per an established schedule in accordance with the lease term. In addition, the landlord charges additional rent for common areas, building maintenance and taxes. In March 2018, the Foundation executed a new five-year operating lease commencing August 1, 2018, in a new location.

Under GAAP, scheduled rent increases over a lease term are recognized on a straight-line basis over the term of the lease. The difference between the GAAP rent expense and the required lease payments is recorded as deferred rent in the accompanying statement of financial position.

Future minimum lease payments for the stated terms of these leases (which for the District of Columbia office lease assume 10 months in 2018), subject to increases based on operating expenses, real estate taxes and consumer price index adjustments, are as follows:

<u>For the Year Ending December 31,</u>	
2018	\$ 283,358
2019	248,215
2020	239,970
2021	235,186
2022	<u>199,908</u>
Total	<u>\$ 1,206,637</u>

Rent expense under all of these lease agreements, exclusive of the in-kind rent recognized, totaled \$324,743 for the year ended December 31, 2017, and is included in occupancy and utilities in the accompanying statement of functional expenses.

Continued

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017

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7. Commitments and Contingencies (continued)

**Concentration of Credit Risk**

The Foundation maintains its cash and cash equivalents with certain commercial financial institutions. While the amounts, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution, the Foundation monitors the creditworthiness of these institutions and has not experienced, nor does it anticipate, any loss of funds. As of December 31, 2017, the Foundation's balance in excess of the amount guaranteed by the FDIC was approximately \$2,249,000.

**Potential Lawsuit**

In February 2017, a former employee of the Foundation filed a complaint against the Foundation with the DC Office of Human Rights. The management of the Foundation is of the opinion that the claim has no merit and intends to vigorously defend its position. Management believes the outcome of this action will have no material effect on the financial statements.

**Office of Management and Budget Uniform Guidance**

The Foundation has instructed its independent auditors to audit its applicable federal programs for the year ended December 31, 2017, in compliance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), issued by the U.S. Office of Management and Budget (OMB). Until such audits are reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal or state agencies of the independent auditor's reports for the year ended December 31, 2017, will not have a material effect on the Foundation's financial position as of December 31, 2017, or its results of operations for the year then ended.

**Provisional Indirect Cost Rates**

Billings under cost-reimbursable government contracts and grants are calculated using provisional rates that permit recovery of indirect costs. These rates are subject to audit by the U.S. Department of Education (DOE), the Foundation's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create a liability for indirect cost recovery for amounts billed in excess of the actual rates, or may allow for additional billings for unbilled indirect costs. DOE has yet to audit the cost and indirect rate for the year ended December 31, 2017. Management believes the cost disallowance, if any, arising from DOE's audit of the indirect cost rate for the years ended December 31, 2017, will not have a material effect on the Foundation's financial position as of December 31, 2017, or its results of operations for the year then ended.

8. Related Parties

As disclosed in Note 7, during the year ended December 31, 2017, the Foundation leased office space from a limited liability company owned by one of the Foundation's board members. The Foundation paid approximately \$252,000 under this agreement for rent, utilities, maintenance, office cleaning and other occupancy fees.

**THE URBAN ALLIANCE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
For the Year Ended December 31, 2017**

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9. Pension Plan

The Foundation maintains a defined contribution pension plan under Section 403(b) of the Internal Revenue Code (the IRC) that covers substantially all of the Foundation's full-time employees. Employees may elect to defer and contribute to the plan a portion of their compensation up to the federal tax limitation. The Foundation matches employee contributions to the plan up to 3% of an employee's annual salary. The Foundation's matching contributions for the year ended December 31, 2017, totaled \$64,402.

10. Income Taxes

Under the IRC Section 501(c)(3), the Foundation is exempt from federal taxes on income other than net unrelated business income. No provision for income taxes is required as of December 31, 2017, as the Foundation had no taxable net unrelated business income.

The Foundation has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Foundation evaluated its uncertainty in income taxes for the year ended December 31, 2017, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2017, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Foundation files tax returns. It is the Foundation's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

11. Prior Year Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

12. Subsequent Events

In preparing these financial statements, the Foundation's management has evaluated events and transactions, for potential recognition or disclosure, through June 4, 2018. Except as disclosed in Note 7 under office leases, there were no subsequent events that require recognition or disclosure in these financial statements.