



THE URBAN ALLIANCE FOUNDATION, INC.

Financial Statements

For the Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)



**and
Report Thereon**



THE URBAN ALLIANCE FOUNDATION, INC.

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For the Year Ended December 31, 2018

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INDEPENDENT AUDITORS' 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, 2018, 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.

Auditors' 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 auditors' 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.

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Opinion

In our opinion, the 2018 financial statements referred to above present fairly, in all material respects, the financial position of The Urban Alliance Foundation, Inc. as of December 31, 2018, 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.

Other Matter

Report on Summarized Comparative Information

The Foundation's 2017 financial statements were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated June 4, 2018, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the statements from which it has been derived.

Marcum LLP

Washington, DC
May 30, 2019

THE URBAN ALLIANCE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

(With Summarized Financial Information as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 3,086,182	\$ 2,501,719
Investments	2,821,377	2,502,876
Grants, contributions and contracts receivable, net	4,165,122	3,214,807
Other assets	71,407	38,151
Property and equipment, net	<u>37,520</u>	<u>53,565</u>
TOTAL ASSETS	<u>\$ 10,181,608</u>	<u>\$ 8,311,118</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 406,523	\$ 286,597
Deferred revenue	865,543	367,324
Deferred rent	18,070	4,464
Capital lease obligation	<u>37,230</u>	<u>52,122</u>
TOTAL LIABILITIES	<u>1,327,366</u>	<u>710,507</u>
Net Assets		
Without donor restrictions		
Undesignated	1,212,368	936,755
Board-designated	<u>2,604,000</u>	<u>2,357,000</u>
Total Without Donor Restrictions	3,816,368	3,293,755
With donor restrictions	<u>5,037,874</u>	<u>4,306,856</u>
TOTAL NET ASSETS	<u>8,854,242</u>	<u>7,600,611</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,181,608</u>	<u>\$ 8,311,118</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, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>	<u>2017 Total</u>
REVENUE AND SUPPORT				
Grants, contributions and contracts	\$ 3,577,415	\$ 4,298,380	\$ 7,875,795	\$ 7,080,466
Federal grants	2,417,213	-	2,417,213	1,947,282
Donated facilities and services	374,853	-	374,853	396,451
Investment income, net	(31,684)	-	(31,684)	98,714
Other income	12,326	-	12,326	-
Net assets released from restrictions:				
Satisfaction of purpose restrictions	3,542,362	(3,542,362)	-	-
Satisfaction of time restrictions	25,000	(25,000)	-	-
TOTAL REVENUE AND SUPPORT	<u>9,917,485</u>	<u>731,018</u>	<u>10,648,503</u>	<u>9,522,913</u>
EXPENSES				
Program Services:				
Workforce development programs	6,322,255	-	6,322,255	5,461,668
Youth programs	1,248,345	-	1,248,345	1,090,476
Program development	1,006,576	-	1,006,576	742,960
Total Program Services	<u>8,577,176</u>	<u>-</u>	<u>8,577,176</u>	<u>7,295,104</u>
Supporting Services:				
Management and general	246,856	-	246,856	267,385
Development and fundraising	570,840	-	570,840	612,019
Total Supporting Services	<u>817,696</u>	<u>-</u>	<u>817,696</u>	<u>879,404</u>
TOTAL EXPENSES	<u>9,394,872</u>	<u>-</u>	<u>9,394,872</u>	<u>8,174,508</u>
CHANGE IN NET ASSETS	522,613	731,018	1,253,631	1,348,405
NET ASSETS, BEGINNING OF YEAR	<u>3,293,755</u>	<u>4,306,856</u>	<u>7,600,611</u>	<u>6,252,206</u>
NET ASSETS, END OF YEAR	<u>\$ 3,816,368</u>	<u>\$ 5,037,874</u>	<u>\$ 8,854,242</u>	<u>\$ 7,600,611</u>

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, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	Program Services			Supporting Services			2018 Total	2017 Total	
	Workforce Development Programs	Youth Programs	Program Development	Total Program Services	Management and General	Development and Fundraising			Total Supporting Services
Staff salaries	\$ 2,194,318	\$ 539,359	\$ 326,801	\$ 3,060,477	\$ 88,605	\$ 348,497	\$ 437,102	\$ 3,497,579	\$ 3,015,877
Program intern wages	2,312,987	377,771	-	2,690,758	-	-	-	2,690,758	2,417,254
Employee benefits	672,475	143,041	60,324	875,840	15,405	65,050	80,455	956,295	803,159
Professional fees	132,089	32,328	519,845	684,262	124,748	95,867	220,615	904,877	760,397
Occupancy and utilities	275,577	54,413	43,875	373,865	10,760	24,882	35,642	409,507	355,884
Student training	224,139	16,211	-	240,350	-	-	-	240,350	243,009
Student activities	172,261	20,728	-	192,989	-	-	-	192,989	103,381
Travel	96,824	30,522	25,940	153,286	527	9,289	9,816	163,102	100,982
Computer supplies	79,853	6,346	8,528	94,727	1,227	4,849	6,076	100,803	149,800
Telecommunications	39,388	8,243	3,932	51,563	854	2,425	3,279	54,842	38,525
Printing	22,944	4,282	3,400	30,626	806	6,344	7,150	37,776	40,256
Meals and entertainment	26,621	2,545	4,461	33,627	1,539	2,470	4,009	37,636	28,006
Miscellaneous	21,150	3,367	2,717	27,234	1,146	5,903	7,049	34,283	32,491
Office supplies	17,243	1,036	681	18,960	158	534	692	19,652	18,786
Insurance	13,846	2,734	2,204	18,784	541	1,250	1,791	20,575	17,082
Depreciation and amortization	10,798	2,132	1,719	14,649	421	975	1,396	16,045	18,395
Dues, fees and subscriptions	9,311	3,287	2,149	14,747	119	2,505	2,624	17,371	14,070
Public relations	432	-	-	432	-	-	-	432	17,154
TOTAL EXPENSES	\$ 6,322,255	\$ 1,248,345	\$ 1,006,576	\$ 8,577,176	\$ 246,856	\$ 570,840	\$ 817,696	\$ 9,394,872	\$ 8,174,508

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, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,253,631	\$ 1,348,405
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for doubtful accounts	2,886	3,464
Realized gains on investments	(85)	(2,605)
Unrealized losses (gains) on investments	85,744	(62,849)
Depreciation and amortization	16,045	18,395
Changes in assets and liabilities:		
Grants, contributions and contracts receivable	(953,201)	(450,295)
Other assets	(33,256)	29,646
Accounts payable and accrued expenses	119,926	59,749
Deferred revenue	498,219	(87,376)
Deferred rent	13,606	(8,827)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,003,515	847,707
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(604,160)	(1,253,082)
Sale of investments	200,000	421,617
NET CASH USED IN INVESTING ACTIVITIES	(404,160)	(831,465)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(14,892)	(14,892)
NET CASH USED IN FINANCING ACTIVITIES	(14,892)	(14,892)
NET INCREASE IN CASH AND CASH EQUIVALENTS	584,463	1,350
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,501,719	2,500,369
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,086,182	\$ 2,501,719

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, 2018

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, Northern Virginia (Arlington, Alexandria and Fairfax County) and Detroit, MI. The Foundation mobilizes a variety of community resources to provide youth with otherwise unavailable educational and employment opportunities. Its mission is to empower economically-disadvantaged youth to aspire, work and succeed through paid internships, professional skills 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 operating reserve account and considered to be part of the operating reserve investment portfolio, to be cash equivalents.

Investments

Investments consist of equity and fixed-income bond 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 net 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 net 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, 2018

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, 2018, 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 Foundation's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Foundation at the discretion of the Foundation's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific

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THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2018

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

Net Assets (continued)

purposes, which makes them unavailable for use at management's discretion. The Board has designated \$2,604,000 of net assets without donor restrictions to be used as described in Note 5.

- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of December 31, 2018, the Foundation had no net assets with donor restrictions that are required to be maintained in perpetuity.

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 to have no restrictions on their 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 revenue and support with donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

Grants and contracts treated as exchange transactions, including the federal grants, 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 statement of functional expenses. Expenses directly attributable to a specific functional area have been reported as an expense of that function. Direct salaries and benefits are allocated based on time sheets. Shared costs that benefit multiple functional areas have been allocated among the various functional areas based on the percentage of direct costs to total costs.

Continued

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

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

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.

New Accounting Pronouncement Adopted

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The major changes of the ASU affecting the Foundation include (a) requiring the representation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”; and (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources.

2. Investments

The following table summarizes the Foundation’s investments, measured at fair value on a recurring basis, as of December 31, 2018:

	Total <u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets/ Liabilities <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Equity mutual funds	\$ 722,271	\$ 722,271	\$ -	\$ -
Fixed-income bond mutual funds	338,136	338,136	-	-
Certificates of deposit	545,291	-	545,291	-
Corporate bonds	147,158	-	147,158	-
Money market funds	<u>1,068,521</u>	<u>1,068,521</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 2,821,377</u>	<u>\$ 2,128,928</u>	<u>\$ 692,449</u>	<u>\$ -</u>

Continued

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

2. Investments (continued)

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 income for the year ended December 31, 2018, is summarized as follows:

Unrealized losses	\$ (85,744)
Realized gains	85
Interest and dividends	54,175
Investment fees	<u>(200)</u>
Investment Income, Net	<u>\$ (31,684)</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, 2018, but not yet reimbursed. Grants, contributions and contracts receivable were composed of the following as of December 31, 2018:

Federal grants receivable	\$ 793,890
Other grants, contributions and contracts receivable	<u>3,371,232</u>
Grants, Contributions and Contracts Receivable, Net	<u>\$ 4,165,122</u>

Grants, contributions and contracts receivable were due as follows as of December 31, 2018:

Less than one year	\$ 2,930,656
One to five years	<u>1,320,000</u>
Total Grants, Contributions and Contracts Receivable	4,250,656
Less: Discount to Net Present Value	(61,034)
Less: Allowance for Doubtful Accounts	<u>(24,500)</u>
Grants, Contributions and Contracts Receivable, Net	<u>\$ 4,165,122</u>

Continued

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

4. Property and Equipment

Property and equipment consisted of the following at December 31, 2018:

Computer and office equipment	\$ 27,064
Equipment under capital leases	74,460
Software	<u>51,377</u>
Total Property and Equipment	152,901
Less: Accumulated Depreciation and Amortization	<u>(115,381)</u>
Property and Equipment, Net	<u>\$ 37,520</u>

Depreciation and amortization expense totaled \$16,045 for the year ended December 31, 2018.

5. Net Assets

Net Assets Without Donor Restrictions

As of December 31, 2018, the Foundation's net assets without donor restrictions were as follows:

Undesignated	\$ 1,212,368
Board-designated	<u>2,604,000</u>
Total Net Assets Without Donor Restrictions	<u>\$ 3,816,368</u>

The Foundation's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts for an operating reserve. The Board 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 board-designated net assets in the accompanying financial statements. No board-designated funds were used during the year ended December 31, 2018. In December 2018, the Board approved an addition to the board-designated fund of \$200,000. During the year ended December 31, 2018, the Foundation also added \$47,000 of investment earnings to the board-designated fund in accordance with the operating reserve policy.

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

Net Assets With Donor Restrictions

As of December 31, 2018, net assets with donor restrictions were restricted for the following:

Workforce development programs	\$ 4,498,580
Program development	59,412
Matching funds	339,296
Youth programs	23,500
Restricted due to time	<u>117,086</u>
Total Net Assets With Donor Restrictions	<u>\$ 5,037,874</u>

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THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

5. Net Assets (continued)

Net Assets With Donor Restrictions (continued)

Net assets were released from donor restrictions by incurring expenses that satisfied the restricted purposes. For the year ended December 31, 2018, net assets released from restrictions were as follows:

Satisfaction of purpose restrictions:	
Workforce development programs	\$ 2,889,752
Program development	101,812
Matching funds	243,127
Youth programs	243,072
Others	<u>64,599</u>
Total Satisfaction of Purpose Restrictions	3,542,362
Satisfaction of time restrictions	<u>25,000</u>
Total Net Assets Released from Donor Restrictions	<u>\$ 3,567,362</u>

6. Donated Services and Facilities

During the year ended December 31, 2018, the Foundation received donated services and facilities as follows:

Donated professional services	\$ 185,216
Donated facilities – classrooms	160,552
Donated facilities – office space	<u>29,085</u>
Total Donated Facilities and Services	<u>\$ 374,853</u>

7. Commitments and Contingencies

Office Leases

District of Columbia: The Foundation occupies office space under 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 current agreement 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 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.

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

7. Commitments and Contingencies (continued)

Office Leases (continued)

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 five-year operating lease which is scheduled to expire on August 31, 2023. Under the terms of the lease, rent escalates annually per an established schedule in accordance with the lease term. The lease provides for three months of rent abatement. In addition, the landlord charges additional amounts for utilities.

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 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>	
2019	\$ 301,532
2020	308,737
2021	314,171
2022	282,841
2023	<u>56,864</u>
Total	<u>\$ 1,264,145</u>

Rent expense under all of these lease agreements, exclusive of the in-kind rent recognized, totaled \$380,421 for the year ended December 31, 2018, and is included in occupancy and utilities in the accompanying statement of functional expenses.

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, 2018, the Foundation's balance in excess of the amount guaranteed by the FDIC was approximately \$1,980,000.

Continued

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

7. Commitments and Contingencies (continued)

Compliance Audit

The Foundation has received federal grants that are subject to review, audit and adjustment by various federal agencies for qualified expenses charged to the grants. Such audits could lead to requests for reimbursement to the federal agencies for any expenditures or claims disallowed under the terms of the agreements. The amount of expenditures which may be disallowed by the federal agencies cannot be determined at this time although the Foundation expects such amounts, if any, to be insignificant.

8. Availability and Liquidity

The Foundation's financial assets available within one year of the statement of financial position date for general expenditures were as follows:

Financial assets at year-end:	
Cash and cash equivalents	\$ 3,086,182
Investments	2,821,377
Grants, contributions, and contracts receivable	<u>4,165,122</u>
Total Financial Assets at Year-End	10,072,681
Less amount not available to be used within one year:	
Amounts unavailable for general expenditures within one year due to donors' restrictions	(1,807,897)
Amounts unavailable for general expenditures within one year due to management's designation of use	(67,500)
Amounts unavailable to management without Board approval:	
Board-designated	<u>(2,604,000)</u>
Financial Assets Available to Meet	
General Expenditures Within One Year	<u>\$ 5,593,284</u>

Amounts unavailable for general expenditures within one year due to donors' restrictions includes grants, contributions and contracts receivable due in more than one year of \$1,320,000 and amounts restricted by donors that the Foundation plans on spending beyond fiscal year 2019 of \$487,897. Amounts unavailable for general expenditures within one year due to management's designation of use of \$67,500 represent amounts management has reserved to fulfill certain matching requirements.

The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on ensuring the financial liquidity of the Foundation throughout the year. The Foundation monitors its cash flow needs on quarterly basis and is aware of the cyclical nature of cash flows related to the timing of the Foundation's various funding sources and programmatic expenditures. As part of the Foundation's liquidity plan,

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8. Availability and Liquidity (continued)

excess cash is invested in short-term investment vehicles, including money market funds and certificates of deposit. The Foundation can liquidate these cash equivalents at any time to make funds available for current cash flow needs. Additionally, the Foundation has a board-designated operating reserve fund that could be liquidated and made available for current operations with Board approval, if necessary.

9. Related Parties

As disclosed in Note 7, during the year ended December 31, 2018, the Foundation leased office space from a limited liability company owned by one of the Foundation's board members. The Foundation paid approximately \$245,000 under this agreement for rent, utilities, maintenance, office cleaning and other occupancy fees.

10. 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, 2018, totaled \$68,618.

11. Income Taxes

Under IRC Section 501(c)(3), the Foundation is exempt from federal taxes on income other than net unrelated business income. A provision for income taxes owed for qualified transportation benefits provided to employees has been made as of December 31, 2018 in the accompanying financial statements.

The Foundation has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB 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, 2018, 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, 2018, the statute of limitations for tax years 2015 through 2017 remained 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 or interest expense. There are currently no examinations pending or in progress, regarding the Foundation's tax returns.

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

12. Reclassifications

Certain 2017 amounts have been reclassified to conform to the current year presentation.

13. 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, 2017, from which the summarized information was derived.

14. Subsequent Events

In preparing these financial statements, the Foundation's management has evaluated events and transactions, for potential recognition or disclosure, through May 30, 2019. There were no subsequent events that require recognition or disclosure in these financial statements.