



Financial Statements

For the Year Ended December 31, 2014

(With Summarized Financial Information for the Year Ended December 31, 2013)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, 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 Foundation as of December 31, 2014, 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 2013 financial statements, and in our report dated May 19, 2014, expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read 'Raffa, P.C.', with a stylized flourish.

Raffa, P.C.

Washington, DC
April 15, 2015

THE URBAN ALLIANCE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2014

(With Summarized Financial Information as of December 31, 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 2,252,615	\$ 1,202,058
Grants and contributions receivable, net	908,032	1,251,508
Investments	1,310,321	1,272,986
Other assets	41,574	35,919
Property and equipment, net	77,296	100,652
TOTAL ASSETS	\$ 4,589,838	\$ 3,863,123
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 90,889	\$ 93,101
Accrued expenses	36,331	83,463
Deferred revenue	1,094,910	759,843
Deferred rent	16,652	13,608
Capital lease obligation	25,185	38,325
TOTAL LIABILITIES	1,263,967	988,340
Net Assets		
Unrestricted		
Board-designated	1,211,000	1,152,001
Undesignated	1,598,709	1,081,182
Total Unrestricted	2,809,709	2,233,183
Temporarily restricted	516,162	641,600
TOTAL NET ASSETS	3,325,871	2,874,783
TOTAL LIABILITIES AND NET ASSETS	\$ 4,589,838	\$ 3,863,123

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, 2014

(With Summarized Financial Information for the Year Ended December 31, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
REVENUE AND SUPPORT				
Grants and contributions	\$ 3,219,964	\$ 2,955,149	\$ 6,175,113	\$ 5,052,294
Donated facilities and services	332,827	-	332,827	225,167
Investment and other income	39,206	-	39,206	113,466
Net assets released from restrictions:				
Satisfaction of purpose restrictions	2,998,878	(2,998,878)	-	-
Satisfaction of time restrictions	<u>81,709</u>	<u>(81,709)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>6,672,584</u>	<u>(125,438)</u>	<u>6,547,146</u>	<u>5,390,927</u>
EXPENSES				
Program Services:				
High School Internship Program	4,072,646	-	4,072,646	3,224,461
Program Development	580,571	-	580,571	602,783
Youth programs	<u>287,004</u>	<u>-</u>	<u>287,004</u>	<u>272,205</u>
Total Program Services	<u>4,940,221</u>	<u>-</u>	<u>4,940,221</u>	<u>4,099,449</u>
Supporting Services:				
Management and general	552,547	-	552,547	340,877
Development and fundraising	<u>603,290</u>	<u>-</u>	<u>603,290</u>	<u>506,258</u>
Total Supporting Services	<u>1,155,837</u>	<u>-</u>	<u>1,155,837</u>	<u>847,135</u>
TOTAL EXPENSES	<u>6,096,058</u>	<u>-</u>	<u>6,096,058</u>	<u>4,946,584</u>
CHANGE IN NET ASSETS	576,526	(125,438)	451,088	444,343
NET ASSETS, BEGINNING OF YEAR	<u>2,233,183</u>	<u>641,600</u>	<u>2,874,783</u>	<u>2,430,440</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,809,709</u></u>	<u><u>\$ 516,162</u></u>	<u><u>\$ 3,325,871</u></u>	<u><u>\$ 2,874,783</u></u>

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, 2014

(With Summarized Financial Information for the Year Ended December 31, 2013)

Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 451,088	\$ 444,343
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized gains on investments	(26,114)	-
Unrealized loss (gains) on investments	21,124	(76,678)
Depreciation and amortization	44,751	46,321
Loss on disposal of property and equipment	-	1,040
Changes in assets and liabilities:		
Grants and contributions receivable	343,476	(523,849)
Other assets	(5,655)	(5,840)
Accounts payable	(2,212)	52,200
Accrued expenses	(47,132)	8,813
Deferred revenue	335,067	273,773
Deferred rent	3,044	7,263
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,117,437	227,386
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(859,540)	(373,598)
Sale of investments	827,195	350,453
Purchase of property and equipment	(21,395)	(31,111)
NET CASH USED IN INVESTING ACTIVITIES	(53,740)	(54,256)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(13,140)	(14,700)
NET CASH USED IN INVESTING ACTIVITIES	(13,140)	(14,700)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,050,557	158,430
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,202,058	1,043,628
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,252,615	\$ 1,202,058

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, 2014
(With Summarized Financial Information for the Year Ended December 31, 2013)

	Program Services				Supporting Services					
	High School Internship Program	Program Development	Youth Programs	Total Program Services	Management and General	Development and Fundraising	Total Supporting Services	2014 Total	2013 Total	
Staff salaries	\$ 1,449,929	\$ 159,250	\$ 154,393	\$ 1,763,572	\$ 221,820	\$ 393,166	\$ 614,986	\$ 2,378,558	\$ 1,981,951	
Program intern wages	1,515,344	-	56,869	1,572,213	-	-	-	1,572,213	1,225,452	
Employee benefits	452,176	32,104	36,473	520,753	44,682	77,835	122,517	643,270	519,038	
Professional fees	114,059	353,733	7,804	475,596	199,679	19,405	219,084	694,680	490,092	
Occupancy and utilities	182,555	22,121	20,965	225,641	28,741	58,778	87,519	313,160	311,705	
Student activities	114,411	-	1,918	116,329	-	-	-	116,329	113,413	
Student training	77,632	-	28	77,660	-	-	-	77,660	59,381	
Travel	48,697	1,893	645	51,235	2,607	1,230	3,837	55,072	65,300	
Depreciation and amortization	29,897	4,262	2,107	36,266	4,056	4,429	8,485	44,751	46,321	
Public relations	-	-	-	-	12,841	29,962	42,803	42,803	2,795	
Computer supplies	21,113	2,837	1,596	25,546	2,494	3,991	6,485	32,031	28,478	
Miscellaneous	2,597	214	930	3,741	19,907	602	20,509	24,250	7,193	
Printing	15,650	967	559	17,176	2,430	4,152	6,582	23,758	20,265	
Meals and entertainment	8,429	300	299	9,028	9,322	1,350	10,672	19,700	15,200	
Insurance	10,100	1,440	712	12,252	1,370	1,496	2,866	15,118	14,871	
Telecommunications	11,269	124	61	11,454	118	129	247	11,701	12,435	
Office supplies	7,088	349	684	8,121	535	862	1,397	9,518	9,387	
Dues, fees and subscriptions	4,794	394	673	5,861	1,361	1,227	2,588	8,449	13,101	
Postage and delivery	4,145	468	231	4,844	474	1,487	1,961	6,805	5,836	
Bank charges	2,761	115	57	2,933	110	3,189	3,299	6,232	3,330	
Loss on disposal	-	-	-	-	-	-	-	-	1,040	
TOTAL EXPENSES	\$ 4,072,646	\$ 580,571	\$ 287,004	\$ 4,940,221	\$ 552,547	\$ 603,290	\$ 1,155,837	\$ 6,096,058	\$ 4,946,584	

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, 2014

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; Chicago, IL, and Northern Virginia (Arlington and Alexandria). 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 businesses, corporations, nonprofit organizations and community members.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this method, revenue and support are recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market accounts and all highly liquid investments with initial maturities of three months or less.

Accounts Receivable

The Foundation uses the allowance method to record potentially uncollectible accounts receivable.

Investments

Investments consist of equity and fixed-income mutual funds, corporate bonds, certificates of deposit, government and agency securities 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.

Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP) and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2014

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

Fair Value Measurements (continued)

measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby the market participant's assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant's assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy are described 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, 2014, the Foundation's investments, as described in Note 3 of these financial statements, were measured at fair value on a recurring basis.

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 \$500 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. Unrestricted assets are composed of amounts designated by the Board of Directors as an operating reserve, as well as undesignated assets

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2014

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

Net Assets (continued)

available for use. Board-designated net assets represent the operating reserves appropriated by the Foundation's Board of Directors. These funds are to be invested and held until such time as the Foundation deems them necessary to fund normal operations, should current funding sources fall short in a fiscal period. Any use of these funds for normal operations must be approved by the Board of Directors in advance.

- Temporarily restricted net assets represent amounts that are subject to donor-imposed restrictions to be used for a particular purpose or within a specific time period.

Revenue Recognition

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 are recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Revenue recognized on these grants and contracts for which billings have not been presented to or collected from the awarding agency is included in grants and contributions receivable in the accompanying statement of financial position.

The Foundation receives sponsorships for students in its High School Internship Program. Revenue from the non-refundable portion of the sponsorship is recorded and recognized in the year the internship commences, and the balance is recognized in the year the internship ends. Amounts received in advance of the school year (internship period) are recorded as deferred revenue in the accompanying statement of financial position.

Donated Facilities and Services

The value of contributions that enhance a non-financial asset and contributed services which are considered specialized and can be estimated, and would have been purchased if not donated, are reflected in the accompanying financial statements. 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.

THE URBAN ALLIANCE FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

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

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 activities. 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 GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Contributions Receivable

Grants and contributions receivable include unconditional promises to give from foundations and individuals. As of December 31, 2014, grants and contributions receivable of \$908,032 are expected to be received in less than one year. The Foundation has established an allowance of \$13,150 for potentially uncollectible pledges and contributions.

During 2011, the Foundation received a temporarily restricted conditional grant from Venture Philanthropy Partners, Inc. (VPP) for \$1,372,000 in support of the youth_CONNECT initiative, VPP's newly launched pioneering network of government, private philanthropy, nonprofit organizations, and evaluators to dramatically improve opportunities for low-income youth. The grant is contingent upon the Foundation securing matching funds equal to VPP's commitment for three years (Year 1 – Year 3) and the Foundation providing documentation of expenditures directly related to the youth_CONNECT initiative. In February 2014, the Foundation signed a continuation agreement for this grant extending funding for Year 4, through January 2015. For the year ended December 31, 2014, the Foundation raised approximately \$640,000 toward the match and satisfied approximately \$640,000 of the match and expenditure conditions, which is recorded in temporarily restricted revenue in the accompanying statement of activities. As of December 31, 2014, the Foundation expects to use \$785,000 of VPP youth_CONNECT continuation funding through January 31, 2016, which is conditional upon satisfaction of a dollar-for-dollar matching requirement, the expenditure of funds directly related to the initiative and the execution of the Year 5 continuation agreement.

During 2012, the Foundation received a temporarily restricted conditional grant from Venture Philanthropy Partners, Inc. (VPP) for \$2,800,000 to strengthen the Foundation's organizational structure, to expand its operations into Northern Virginia, and to achieve the Foundation's strategic priorities for the next four years. The grant is contingent upon the Foundation's performance in achieving agreed-upon outcomes each year through 2016. For the year ended December 31, 2014, the Foundation received funding of \$840,000 from VPP after achieving agreed-upon grant milestones, which is recorded in temporarily restricted revenue in the accompanying statement of activities.

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

2. Grants and Contributions Receivable (continued)

During 2013, the Foundation entered into a contract with the District of Columbia's Department of Employment Services (DOES) to provide educational and training services to high school youth beginning in June 2013. Of the total contract award of \$315,000, the Foundation is only eligible to receive \$245,000, comprised of both a guaranteed base amount and performance incentives to be determined at the completion of the program. The remaining \$70,000 of the total contract represents incentive payments paid directly to youth participating in the program. For the year ended December 31, 2013, UAF recognized \$122,500 of revenue for the guaranteed portion of the contract which was recorded in temporarily restricted revenue in the accompanying statement of activities. For the year ended December 31, 2014, UA recognized and additional \$14,500 in enrollment incentives over and above the guaranteed portions recognized in 2013. The remaining incentive portion of the contract has not been recognized, as conditions for receipt have not been evaluated by DOES nor communicated to the Foundation as being met as of December 31, 2014.

During 2014, the Foundation received an option year renewal of the DOES contract beginning June 2014. For the year ended December 31, 2014, UAF recognized \$134,000 of revenue from the guaranteed portion of the contract and enrollment incentives which is recorded in temporarily restricted revenue in the accompanying statement of activities. The remaining incentive portion of the contract has not been recognized as conditions for receipt have not been met as of December 31, 2014.

3. Investments

Investments are recorded at fair value and consist of the following at December 31, 2014:

Equity mutual funds	\$ 495,306
Corporate bonds	151,499
Money market funds	376,658
Fixed-income mutual funds	137,085
Certificates of deposit	<u>149,773</u>
Total Investments	<u>\$ 1,310,321</u>

The following is a summary of investment income for the year ended December 31, 2014:

Unrealized loss	\$ (21,124)
Realized gains	26,114
Interest and dividends	<u>30,868</u>
Total Investment Income	<u>\$ 35,858</u>

Included in interest and dividends above is \$199 earned from cash and cash equivalent accounts.

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

3. Investments (continued)

The following table summarizes the Foundation's assets measured at fair value on a recurring basis as of December 31, 2014:

	<u>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:				
World allocation	\$ 220,912	\$ 220,912	\$ -	\$ -
Large value	101,467	101,467	-	-
Large blend	94,208	94,208	-	-
Foreign large value	<u>78,719</u>	<u>78,719</u>	<u>-</u>	<u>-</u>
Total Equity Mutual Funds	<u>495,306</u>	<u>495,306</u>	<u>-</u>	<u>-</u>
Fixed-income mutual funds:				
Short-term bond funds	137,085	137,085	-	-
Corporate bonds	151,499	151,499	-	-
Money market funds	376,658	376,658	-	-
Certificate of deposit	<u>149,773</u>	<u>-</u>	<u>149,773</u>	<u>-</u>
Total	<u>\$ 1,310,321</u>	<u>\$ 1,160,548</u>	<u>\$ 149,773</u>	<u>\$ -</u>

The Foundation used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Equity and fixed-income mutual funds, corporate bonds and money market funds – Valued based on quoted prices available in active markets for identical assets. These investments are classified within Level 1 of the valuation hierarchy.

Certificates of deposit – Securities with fixed maturities, other than U.S. Treasury securities, generally do not trade on a daily basis. The fair value estimates of such fixed maturity investments are based on observable market information, rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity investments, as provided by the pricing service, are classified within Level 2 of the valuation hierarchy.

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

4. Property and Equipment

Property and equipment consist of the following at December 31, 2014:

Computer and office equipment	\$ 70,549
Equipment under capital leases	60,100
Software	<u>52,561</u>
Property and Equipment	183,210
Less: Accumulated Depreciation and Amortization	<u>(105,915)</u>
Property and Equipment, Net	<u>\$ 77,296</u>

Depreciation and amortization expense totaled \$44,751 for the year ended December 31, 2014.

5. Capital Leases

The Foundation has entered into lease agreements to finance certain equipment that expire at various dates during the next five years. The lease agreements have been classified as capital leases, which are generally accounted for as additions to property and equipment using lease financing.

The present value of the future minimum lease payments is as follows as of December 31, 2014:

For the Year Ending December 31,	
2015	\$ 13,341
2016	<u>12,055</u>
Subtotal	25,396
Less: Amount Representing Interest	<u>(211)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 25,185</u>

As of December 31, 2014, the cost of the equipment capitalized and the related accumulated depreciation totaled \$60,100 and \$34,985, respectively, and is included in property and equipment in the accompanying statement of financial position.

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

6. 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, 2014, net assets released from restrictions were as follows:

Satisfaction of purpose restrictions:	
High School Internship Program	\$ 1,797,463
Program Development	481,450
Contract management, executive training and other	503,443
Youth programs	<u>216,522</u>
Total Purpose Restrictions	2,998,878
Satisfaction of time restrictions	<u>81,709</u>
Total Net Assets Released from Restrictions	<u>\$ 3,080,587</u>

As of December 31, 2014, temporarily restricted net assets are restricted for use in the following programs:

High School Internship Program	\$ 234,309
Time restrictions	119,353
Program Development	110,000
Executive training and other	47,500
Youth programs	<u>5,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 516,162</u>

7. Donated Facilities and Services

The Foundation records all donated facilities and services at fair value at the date of donation.

The value of the donated facilities and services is as follows for the year ended December 31, 2014:

Donated professional services	\$ 239,181
Donated facilities – classrooms	55,579
Donated facilities – public relations	22,706
Donated facilities – office space	<u>15,361</u>
Total In-Kind Donations	<u>\$ 332,827</u>

8. Commitments and Contingencies

Office Lease

District of Columbia: In October 2012, the Foundation entered into a five-year license and service agreement, which is scheduled to expire on October 31, 2017. The license and service agreement may be terminated by the Foundation or by the licensor with 6 months written notice with no cause. Under the terms of the agreement, the licensing fee, which

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

8. Commitments and Contingencies (continued)

Office Lease (continued)

covers use of office space, utilities, maintenance, office cleaning, kitchen and bathroom supplies, security system, and internet access, escalates by the greater of 2% or the annual increase in the U.S. City Average Consumer Price Index. The office is owned by an LLC that is owned by a member of the Board of the Foundation and the payments made for the space are estimated below fair market value and, therefore, an in-kind contribution from the Board member. Management's estimates of the difference between fair value and the amount being paid by the Foundation have been recorded as in-kind rent contribution and corresponding donated rent expense for this agreement.

Baltimore: The Foundation leases office space under a noncancelable operating lease. The original three-year lease was scheduled to expire on November 30, 2014. The Foundation signed an extension to the lease which commenced on December 1, 2014 and expires on November 30, 2017. Under the terms of the lease, the rent escalates by 3% annually over the term of the lease. 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, 2017. Under the terms of the lease, the rent escalates by 3% annually over the term of the lease. The Foundation also has an option to terminate the lease if the Foundation is not in default and in need of a larger space which the landlord is unable to provide under the terms and conditions of the lease. In addition, the landlord charges additional rent for common areas and building maintenance.

On March 5, 2015, the Foundation received notice that the landlord is terminating the lease in Chicago effective June 8, 2015. The Foundation is actively seeking new office space, but has not yet signed a new lease.

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, subject to increases based on operating expenses, real estate taxes and consumer price index adjustments, are as follows:

For the Year Ending December 31,	
2015	\$ 250,057
2016	17,260
2017	<u>16,059</u>
Total	<u>\$ 283,376</u>

THE URBAN ALLIANCE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
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8. Commitments and Contingencies (continued)

Office Lease (continued)

Rent expense under the lease agreements totaled \$275,608 for the year ended December 31, 2014 and is included in the 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, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2014, the Foundation had approximately \$2,250,000 comprised of demand deposits and money market accounts that exceeded the maximum limit insured by FDIC by approximately \$1,650,000. The Foundation monitors the credit worthiness of these institutions and has not experienced any historical credit losses on its cash and cash equivalents.

9. Related Parties

As discussed in Note 8, during the year ended December 31, 2014, the Foundation paid approximately \$238,533 under a license and service agreement for rent, utilities maintenance, office cleaning and other occupancy fees to an LLC that is owned by a member of the Board of Directors of the Foundation.

10. Pension Plan

The Foundation maintains a defined contribution pension plan under Section 403(b) of the Internal Revenue Code (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 in amounts up to the maximum amount permitted by law. 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, 2014 were \$48,450.

11. Income Taxes

Under 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, 2014, as the Foundation had no taxable net unrelated business income.

The Foundation adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC 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

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

11. Income Taxes (continued)

performed an evaluation of uncertain tax positions for the year ended December 31, 2014, 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, 2014, the statute of limitations for tax years 2011 through 2013 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 uncertain tax positions, if any, in income tax expense. As of December 31, 2014, the Foundation had no accrual for interest and/or penalties.

12. Prior Year Summarized Financial Information

The accompanying 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

13. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 15, 2015, the date the financial statements were available to be issued. There were no subsequent events identified that require recognition of, or disclosure in, these financial statements.