

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION AND
REPORTS IN COMPLIANCE WITH TITLE 2 U.S.
“CODE OF FEDERAL REGULATIONS” PART 200**

YEARS ENDED JULY 31, 2018 AND 2017

AND

INDEPENDENT AUDITORS’ REPORT

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Urban Arts Partnership and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Urban Arts Partnership and Subsidiary (a nonprofit organization), (the "Organization"), which comprise the consolidated statements of financial position as of July 31, 2018 and 2017, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Urban Arts Partnership and Subsidiary as of July 31, 2018 and 2017 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedules of functional expenses on pages 17 and 18, and the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



June 4, 2019

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	July 31,	
	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 272,528	\$ 144,141
Investments in marketable securities	3,206,793	3,108,042
Contracts and contributions receivable	2,253,548	3,181,454
Prepaid expenses	227,447	271,661
Total current assets	5,960,316	6,705,298
Property and equipment, net	1,155,247	1,250,254
Security deposits	244,286	302,542
	\$ 7,359,849	\$ 8,258,094
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	\$ 1,780,000	\$ 1,103,000
Accounts payable and accrued expenses	481,363	323,843
Deferred rent	322,988	285,888
Deferred revenue	-	67,000
Total current liabilities	2,584,351	1,779,731
Commitments and contingencies		
Net assets		
Unrestricted		
Undesignated	4,648,893	5,587,295
Board designated	-	68,952
	4,648,893	5,656,247
Temporarily restricted	126,605	822,116
	4,775,498	6,478,363
	\$ 7,359,849	\$ 8,258,094

See notes to consolidated financial statements.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2018

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions			
Board	\$ 42,203	\$ -	\$ 42,203
Individuals	199,485	-	199,485
Corporations	170,518	-	170,518
Foundations	1,327,188	70,000	1,397,188
Special events, net of direct donor benefits of \$478,996	442,909	-	442,909
	2,182,303	70,000	2,252,303
Program service revenues			
Government grants			
State and local	3,094,501	-	3,094,501
Federal	1,534,800	-	1,534,800
Program fees	653,728	-	653,728
	5,283,029	-	5,283,029
Interest and dividend income	117,442	-	117,442
Net realized and unrealized loss on investments	(24,730)	-	(24,730)
	7,558,044	70,000	7,628,044
Net assets released from restrictions	765,511	(765,511)	-
	8,323,555	(695,511)	7,628,044
Expenses			
Program services	7,088,698	-	7,088,698
Management and general	1,548,707	-	1,548,707
Fundraising	693,504	-	693,504
	9,330,909	-	9,330,909
Change in net assets	(1,007,354)	(695,511)	(1,702,865)
Net assets, beginning of year	5,656,247	822,116	6,478,363
Net assets, end of year	\$ 4,648,893	\$ 126,605	\$ 4,775,498

See notes to consolidated financial statements.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JULY 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions			
Board	\$ 77,224	\$ -	\$ 77,224
Individuals	189,922	-	189,922
Corporations	110,701	-	110,701
Foundations	281,651	1,020,000	1,301,651
Special events, net of direct donor benefits of \$271,281	329,977	-	329,977
In-kind donations	50,000	-	50,000
	1,039,475	1,020,000	2,059,475
Program service revenues			
Government grants			
State and local	6,281,729	-	6,281,729
Federal	1,815,854	-	1,815,854
Program fees	414,942	-	414,942
	8,512,525	-	8,512,525
Interest and dividend income	97,417	-	97,417
Net realized and unrealized gain on investments	94,948	-	94,948
	9,744,365	1,020,000	10,764,365
Net assets released from restrictions	1,010,657	(1,010,657)	-
	10,755,022	9,343	10,764,365
Expenses			
Program services	8,720,927	-	8,720,927
Management and general	1,349,435	-	1,349,435
Fundraising	714,489	-	714,489
	10,784,851	-	10,784,851
Severance expense	40,433	-	40,433
	10,825,284	-	10,825,284
Change in net assets	(70,262)	9,343	(60,919)
Net assets, beginning of year	5,726,509	812,773	6,539,282
Net assets, end of year	\$ 5,656,247	\$ 822,116	\$ 6,478,363

See notes to consolidated financial statements.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	July 31,	
	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (1,702,865)	\$ (60,919)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	234,533	151,171
Bad debt expense	95,910	-
Realized gain on investments in marketable securities	(15,961)	(21,211)
Unrealized loss (gain) on investments in marketable securities	40,691	(73,737)
Changes in assets and liabilities:		
Contracts and contributions receivable	831,996	232,902
Prepaid expenses	44,214	(90,204)
Security deposits	58,256	(23,756)
Accounts payable and accrued expenses	157,520	14,559
Deferred rent	37,100	285,888
Deferred revenue	(67,000)	67,000
Net cash (used in) provided by operating activities	(285,606)	481,693
Cash flows from investing activities		
Purchases of marketable securities	(1,339,845)	(2,443,297)
Proceeds from sale of marketable securities	1,216,364	2,280,767
Acquisition of property and equipment	(139,526)	(901,769)
Net cash used in investing activities	(263,007)	(1,064,299)
Cash flows from financing activities		
Net borrowings from line of credit	677,000	503,000
Net increase (decrease) in cash and cash equivalents	128,387	(79,606)
Cash and cash equivalents, beginning of year	144,141	223,747
Cash and cash equivalents, end of year	\$ 272,528	\$ 144,141
Supplemental cash flow disclosures		
Interest paid	\$ 30,054	\$ 25,555
Noncash investing activity		
Disposal of fully depreciated property and equipment	\$ -	\$ 360,706

See notes to consolidated financial statements.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 - ORGANIZATION AND NATURE OF ACTIVITIES

Urban Arts Partnership ("UAP") and Manhattan New Music Project, Inc. ("MNMP"), (collectively the "Organization") are both incorporated under the laws of the State of New York. MNMP was a wholly-owned subsidiary of UAP and was merged into UAP as of October 29, 2018. The name of the surviving corporation is Urban Arts Partnership.

The Organization is a leading arts educator in New York City and a contributing innovator in public education reform. The Organization serves more than 100 schools across New York City, advancing the intellectual, social and artistic development of underserved students through arts-integrated education programs to close the achievement gap.

The Organization provides arts-based education programming to influence and affect how subject matter is taught in public school classrooms so that the students will be more engaged in their learning, develop 21st century skills, and be prepared for the modern world. Nearly one hundred percent of the schools served are Title I (high poverty) learning communities. The Organization aims to engage and improve the performance of various student groups, including English Language Learners (recent immigrants), students in temporary housing, students with Individualized Education Plans (IEPs), students with social behavioral problems, students entering school at low achievement levels, and exceptional students who are not provided with opportunities to express their capacity.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting which conforms to accounting principles generally accepted in the United States of America ("GAAP") as applicable to not-for-profit organizations. They include the accounts of UAP and MNMP. All significant intercompany accounts and transactions have been eliminated in consolidation.

Net Assets

The net assets of the Organization and changes therein are classified and reported as unrestricted, temporarily restricted or permanently restricted, depending on the existence and/or nature of any donor restrictions.

Unrestricted net assets consist of assets, public support and program revenues which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Unrestricted board designated net assets is a limit imposed by the Board of Directors representing committed matching funds for grants.

Temporarily restricted net assets include funds with donor-imposed restrictions which permit the Organization to expend the assets as specified and are satisfied either by the passage of time or by actions of the Organization that satisfy the donor's restriction.

There were no permanently restricted net assets as of July 31, 2018 and 2017.

Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Concentration of Credit Risk for Cash and Cash Equivalents

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Contracts Receivable

Contracts receivable are recorded net of an allowance for expected losses. The allowance is estimated based upon historical performance and projections of trends. Contracts receivable are written off against the allowance when they are determined to be uncollectible. The Organization has determined that an allowance is not necessary at July 31, 2018 and 2017.

Contributions Receivable

Unconditional promises to give are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional and is included in temporarily restricted net assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The Organization considers contributions receivable to be fully collectible; accordingly no allowance has been provided.

Deferred Revenue

All unexpended grant revenues are recorded as deferred revenue and recognized over time or usage as qualifying expenditures are incurred. Deferred revenue also includes grants and special event funds received in advance.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

All contributions are generally available for unrestricted use in the year received unless specifically restricted by the donor.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor-imposed restrictions that limit the use of the donated assets. 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 statement of activities as net assets released from restrictions. Restricted grants received and expended in the same fiscal year are reflected as unrestricted revenues.

Program fees are recognized in program service revenue when services are provided.

Revenue from government contracts and grants are recognized in program service revenue either when costs are incurred or services are performed, under the terms of the contract. Such revenues are subject to audit by the corresponding agency. No provision for any disallowance is reflected in the financial statements, since management does not anticipate any material adjustments.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the programs and supporting services benefited, in accordance with bases that best reflect, in management's judgment, the proportionate benefit derived by the program or administrative unit.

Property and Equipment

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts, less accumulated depreciation. The Organization capitalizes all fixed assets over \$1,000 with an estimated useful life greater than one year. Maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the straight-line and accelerated methods over estimated useful asset lives which range from five to seven years. Leasehold improvements are amortized using the straight-line method over estimated useful lives or the term of the lease, whichever is shorter.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. If long-lived assets are deemed impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds fair value. There were no impairment losses recorded during the years ended July 31, 2018 and 2017, respectively.

Deferred Rent

The Organization has a lease agreement for its office which qualifies as an operating lease. Scheduled rent increases are recognized on a straight-line basis over the lease term, and deferred rent is recognized on the balance sheet.

Donated Services and Materials

Donated services that meet the requirement for recognition and other non-cash donations are recorded as contributions at their estimated fair value at the date of donation. Such donations are recorded as in-kind donations with the same amounts recorded as expense primarily in fundraising and program services.

A substantial number of volunteers have donated significant amounts of their time to the Organization; however, no amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services.

Income Taxes

The Organization is exempt from Federal and state income taxes under Internal Revenue Code Section 501(c)(3) and similar state provisions.

Investment Valuation

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Valuation (Continued)

Under GAAP, the three levels of the fair value hierarchy are described as follows:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect management's own assumptions.

The Organization's investments in marketable securities consist entirely of mutual funds. The funds are valued at the daily closing price as reported by the fund. Mutual funds are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds are deemed to be actively traded and classified as level 1.

Realized and unrealized gains and losses are determined by a comparison of specific costs at acquisition to the proceeds at the time of disposal, or to the fair values at year-end, and are reflected in the accompanying statements of activities. The underlying cost basis of investments is the purchase price.

Subsequent Events

These financial statements were approved by management and available for issuance on June 4, 2019. Management has evaluated subsequent events through this date.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 - INVESTMENTS

The following table summarizes investment assets measured at fair value (level 1) and classified as available-for-sale:

	July 31,	
	2018	2017
Equity mutual funds	\$ 706,495	\$ 1,333,977
Fixed income mutual funds	2,357,560	1,285,604
Alternative investment mutual funds	142,738	488,461
	<u>\$ 3,206,793</u>	<u>\$ 3,108,042</u>

Investment income is summarized as follows:

	July 31,	
	2018	2017
Interest and dividends	\$ 117,442	\$ 97,417
Realized gain on investments	15,961	21,211
Unrealized gain (loss) on investments	(40,691)	73,737
	92,712	192,365
Less - Investment expense	(17,745)	(16,793)
	<u>\$ 74,967</u>	<u>\$ 175,572</u>

4 - CONTRACTS AND CONTRIBUTIONS RECEIVABLE

Contracts and contributions receivable are comprised of the following:

	July 31,	
	2018	2017
Contracts and program services	\$ 2,114,837	\$ 2,952,891
Unconditional promises to give	-	100,000
Other	138,711	128,563
	<u>\$ 2,253,548</u>	<u>\$ 3,181,454</u>

Contracts and program services receivable consist of receivables under various programs and grants. All amounts are expected to be collected within the next year.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	July 31,	
	2018	2017
Leasehold improvements	\$ 809,712	\$ 795,759
Furniture and fixtures	147,392	127,904
Office and school equipment	631,826	525,741
	1,588,930	1,449,404
Less - Accumulated depreciation and amortization	(433,683)	(199,150)
	\$ 1,155,247	\$ 1,250,254

6 - LINE OF CREDIT

The Organization has a line of credit with JP Morgan Chase Bank that has a maximum borrowing limit of \$2,000,000. The line is secured by the Organization's assets, and expires June 18, 2019. Borrowings bear interest at 3.74% plus LIBOR (5.826% at July 31, 2018) and require monthly payments of interest only. The line of credit requires an annual pay down for a period of thirty (30) consecutive days.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 - TEMPORARILY RESTRICTED NET ASSETS

The balance of temporarily restricted net assets totaling \$126,605 and \$822,116 at July 31, 2018 and 2017, respectively, include unconditional promises to give and contributions received subject to time and purpose restrictions.

	Balance, August 1, 2017	Contributions	Satisfaction of Restriction	Balance, July 31, 2018
Purpose restriction	\$ 496,750	\$ 70,000	\$ (513,911)	\$ 52,839
Time restriction	225,366	-	(151,600)	73,766
Unconditional promises to give	100,000	-	(100,000)	-
	<u>\$ 822,116</u>	<u>\$ 70,000</u>	<u>\$ (765,511)</u>	<u>\$ 126,605</u>

	Balance, August 1, 2016	Contributions	Satisfaction of Restriction	Balance, July 31, 2017
Purpose restriction	\$ 195,808	\$ 620,000	\$ (319,058)	\$ 496,750
Time restriction	416,965	400,000	(591,599)	225,366
Unconditional promises to give	200,000	-	(100,000)	100,000
	<u>\$ 812,773</u>	<u>\$ 1,020,000</u>	<u>\$ (1,010,657)</u>	<u>\$ 822,116</u>

8 - IN-KIND DONATIONS

The fair value of donated services and materials included as contributions in the financial statements under support and revenues totaled \$50,000 for the year ended July 31, 2017.

9 - RETIREMENT PLAN

The Organization maintains a Section 403(b) tax deferred annuity plan which is a retirement savings program that allows eligible employees to set aside a portion of their respective compensation on a pre-tax basis limited to the maximum allowed by the law. The Organization matches employees' contributions up to a maximum of 3.0% of the respective compensation, as defined. During the years ended July 31, 2018 and 2017, the Organization contributed \$55,775 and \$46,624, respectively.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 - CONCENTRATIONS

Government Contracts and Receivables

Customer	July 31,							
	2018				2017			
	Program Service Revenue		Accounts Receivable		Program Service Revenue		Accounts Receivable	
	\$	%	\$	%	\$	%	\$	%
NYCDYCD	\$1,992,000	38%	\$1,510,000	67%	*	*	\$435,000	14%
US DOE	\$1,441,000	27%	*	*	*	*	*	*
NYC DOE	*	*	*	*	\$2,661,000	31%	\$1,618,000	51%

Contributions

Donor	July 31,			
	2018		2017	
	Contribution Revenue		Contribution Revenue	
	\$	%	\$	%
A	\$525,000	23%	\$550,000	27%
B	*	*	200,000	10%
C	\$250,000	11%	*	*

*Less than 10%

11 - COMMITMENTS AND CONTINGENCIES

Lease

The Organization leases office facilities with a term of ten years and five months. The lease provides free-rent for the first five months following the “Commencement” date, fixed as August 1, 2016. The lease also includes an optional five-year renewal term.

Rent is expensed using the straight-line method as of the lease commencement date. Rent expense totals \$527,430 for each of the years ended July 31, 2018 and 2017. The related deferred rent liability included on the accompanying balance sheets is \$322,988 and \$285,888 as of July 31, 2018 and 2017, respectively.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11 - COMMITMENTS AND CONTINGENCIES (Continued)

Lease (Continued)

Future minimum annual lease payments for the initial ten year term are as follows:

Year Ending July 31,	
2019	\$ 505,041
2020	520,192
2021	535,797
2022	551,871
2023	568,428
Thereafter	2,124,817
	\$ 4,806,146

The Organization’s prior office lease expired June 2016. Rent expense for the expired lease totaled \$35,778 for the year ended July 31, 2017.

Employment Contract

The Organization has an employment contract with the Chief Executive Officer (“CEO”) stipulating duties, compensation and benefits. The employment contract automatically renews annually unless the CEO resigns or is terminated.

Other Matters

The Organization receives a significant portion of its revenues from the New York City Departments of Youth and Community Development and Education (“DOE” and “DYCD”), in connection with the provision of services. A significant amount of this revenue is subject to audit by the New York City DOE and DYCD and other governmental units. In the opinion of management, any possible disallowances by the related governmental agencies, resulting from their audit, will not have a material effect on the accompanying financial statements.

CONSOLIDATED SUPPLEMENTARY INFORMATION

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JULY 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 4,281,041	\$ 619,406	\$ 451,927	\$ 5,352,374
Fringe benefits and payroll taxes	748,081	86,926	59,996	895,003
Program supplies and equipment	363,364	3,708	3,708	370,780
Programmatic events	21,646	-	37,683	59,329
Professional development	24,756	31,089	1,727	57,572
Scholarship	63,789	-	-	63,789
Rent	437,683	60,181	49,239	547,103
Payroll service	663	64,976	663	66,302
Travel and related expenses	169,204	7,278	5,458	181,940
Consultants and professional fees	861,490	111,655	10,504	983,649
Public relations and marketing	1,280	142	12,803	14,225
Insurance	15,289	20,922	4,023	40,234
Dues and subscriptions	1,516	10,866	12,888	25,270
Postage and delivery	1,517	4,779	1,289	7,585
Office expenses	48,127	154,622	22,559	225,308
Credit card and bank fees	-	45,512	16,692	62,204
Depreciation and amortization	49,252	182,936	2,345	234,533
Bad debt expense	-	95,910	-	95,910
Interest	-	30,054	-	30,054
Investment management fees	-	17,745	-	17,745
	\$ 7,088,698	\$ 1,548,707	\$ 693,504	\$ 9,330,909

See independent auditors' report.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JULY 31, 2017

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 5,457,035	\$ 638,798	\$ 440,891	\$ 6,536,724
Fringe benefits and payroll taxes	868,171	100,880	69,627	1,038,678
Program supplies and equipment	471,276	4,809	4,809	480,894
Programmatic events	134,683	-	10,137	144,820
Professional development	20,537	25,536	1,421	47,494
Scholarship	37,950	-	-	37,950
Rent	451,841	62,128	50,832	564,801
Payroll service	679	66,550	679	67,908
Travel and related expenses	180,408	7,759	5,820	193,987
Consultants and professional fees	978,675	120,242	62,821	1,161,738
Public relations and marketing	1,035	115	10,349	11,499
Insurance	8,882	12,154	2,337	23,373
Dues and subscriptions	1,504	10,572	12,664	24,740
Postage and delivery	1,620	5,105	1,376	8,101
Office expenses	74,396	123,223	34,873	232,492
Credit card and bank fees	-	11,293	4,840	16,133
Depreciation and amortization	32,235	117,923	1,013	151,171
Interest	-	25,555	-	25,555
Investment management fees	-	16,793	-	16,793
	<u>\$ 8,720,927</u>	<u>\$ 1,349,435</u>	<u>\$ 714,489</u>	<u>\$ 10,784,851</u>

See independent auditors' report.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JULY 31, 2018

Grantor/Program Title	Federal CFDA Number	Grant Number	Award period	Expenditures
U.S. Department of Education Office of Innovation and Improvement Arts in Education	84.351D	N/A	10/1/14 - 9/30/18	\$ 420,990
U.S. Department of Education Office of Innovation and Improvement Investing in Innovation (i3) Fund	84.411C	N/A	1/1/15 - 6/30/19	1,020,027
National Endowment for the Arts Promotion of the Arts Grants to Organizations and Individuals	45.024	17-5100-7176	8/1/17 - 7/31/18	50,000
Total Federal Financial Assistance				\$ 1,491,017

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JULY 31, 2018

1 - GENERAL INFORMATION

The accompanying schedule of expenditures of federal awards present the activities in all the federal financial award programs of Urban Arts Partnership. All financial assistance received directly from federal agencies, as well as financial assistance passed through other governmental agencies or not-for-profit organizations, are included on the schedule.

2 - BASIS OF ACCOUNTING

Expenditures reported on the schedule are reported on a grant reporting basis. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* "Uniform Guidance", wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial awards are reported in the statement of activities as Federal grant revenue. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the schedule of expenditures of federal awards due to program expenditures exceeding grant or contract budget limitations, which are not included as federal awards.

4 - INDIRECT COST RATE

The Organization has elected to use the 10 percent *de minimus* indirect cost rate as allowed under the Uniform Guidance.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
of Urban Arts Partnership and Subsidiary

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Urban Arts Partnership and Subsidiary (the "Organization") (a nonprofit organization), which comprise the consolidated statement of financial position as of July 31, 2018, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questions costs, item 2018-001, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-002.

Urban Arts Partnerships and Subsidiary Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

East Hanover, New Jersey

June 4, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
of Urban Arts Partnership and Subsidiary

Report on Compliance for Each Major Federal Program

We have audited Urban Arts Partnership and Subsidiary's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program ("major program") for the year ended July 31, 2018. The Organization's major program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the Organization's major program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major program for the year ended July 31, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a major program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a major program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a major program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants
East Hanover, New Jersey
June 4, 2019

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JULY 31, 2018

I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
• Material weakness(es) identified?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Noncompliance material to financial statements noted:	<input type="checkbox"/> yes <input checked="" type="checkbox"/> No

Federal Awards

Internal control over major program:	
• Material weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
• Significant deficiency(ies) identified that are not considered to be material weakness(es) reported?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Identification of major program:	CFDA Number
Name of Federal Program or Cluster	
U.S. Department of Education, Office of Innovation and Improvement, Investing in Innovation (i3) Fund	84.411C

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 750,000</u>
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Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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URBAN ARTS PARTNERSHIP AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JULY 31, 2018

II - FINANCIAL STATEMENT FINDINGS

Finding 2018-001 – Unauthorized credit card charges CFDA Nos.: All

Criteria: Procedures should be implemented to prevent, detect and deter fraud.

Condition: The former controller did not comply with accounting policies and procedures to authorize payment that requires the CEO to physically sign-off on any invoice in the amount of \$10,000 and above. Additionally, the former controller, who misappropriated assets, attempted to obscure the unauthorized use of the Company credit card by splitting up individual charges and allocating them across program classes.

Cause: The existing policy was not enforced.

Effect: There was a misappropriation of assets identified totaling \$102,679.

Recommendation: Management should conduct a thorough assessment of the adequacy and completeness of the Organization's internal financial reporting processes including implementing policies to increase management oversight. The assessment should result in development of new policies and procedures and/or reinforcement of existing policies and procedures by personnel such as:

- Enhance approval process of credit card charges including supporting documentation
- Require two signatures on every check
- Store CEO signature stamp in locked drawer accessible only to CEO
- Eliminate payment of bills by bank debit
- Provide detail list of receipts and disbursements as part of weekly management review
- Require management review and sign-off of monthly internal financial reports including bank reconciliation

View of responsible officials and planned corrective actions: The Organization agrees with this finding and will adhere to the corrective action plan in this audit report.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JULY 31, 2018

III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2018-002 – The Data Collection Form was not filed within nine (9) months of the year-end CFDA Nos.: All

Criteria: The Data Collection Form is required to be filed the earlier of 30 days after the audit is issued or within 9 months of the year-end.

Condition: The Data Collection Form was not filed timely.

Cause: The audit was issued within 9 months of the year-end, but due to a clerical error, the Data Collection Form was filed late.

Recommendation: Management should ensure that the accounting firm initiates the Data Collection Form filing on a timely basis.

View of responsible officials and planned corrective actions: The Organization agrees with this finding and will advise the accounting firm to initiate the Data Collection Form filing to ensure timely filing.

IV - STATUS OF PRIOR YEAR FINDING - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None



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CORRECTIVE ACTION PLAN

NAME OF GRANTEE: URBAN ARTS PARTNERSHIP

FISCAL YEAR: July 31, 2018

Finding 2018-01: Financial Reporting – CFDA No.: All

RECOMMENDATION:

Management should conduct a thorough assessment of the adequacy and completeness of the Organization's internal financial reporting processes including implementing policies to increase management oversight. The assessment should result in development of new policies and procedures and/or reinforcement of existing policies and procedures by personnel.

CORRECTIVE ACTION:

Management has established a shared finance account for submission of all grant-funded program services. Signed attendance reports are transmitted electronically to the finance account. All invoices for community school programs are copied electronically to the program director.

Management has updated the expense reimbursement form including step-by-step instructions that includes enforcement of the policy requiring supervisory staff to sign-off on the form indicating approval up to \$1,000. Any expense reimbursement exceeding the \$1,000 threshold requires executive-level approval.

Management has implemented a mandatory credit card reconciliation process, whereby receipts and expense descriptions are submitted to the finance department on a monthly basis. The credit limit for each cardholder is limited to \$6,000. An Amazon Business Prime account was established and licenses were assigned to cardholders so all business credit card expenditures are viewable and consolidated under a single Organization account.

Management has conducted an overhaul of all known subscription and vendor services and terminated unused or duplicative accounts and services. All vendor information has been consolidated into a master list. All vendor login credentials have been updated to reflect current contact email associated with the account. Generic company email accounts have been established to ensure emails are received by the correct department.

These policy changes will facilitate the objective of increasing management oversight with respect to internal financial reporting and reinforcement of compliance with policies by personnel.

PERSON(S) RESPONSIBLE:

Philip Courtney, CEO
Jura Chung, COO

COMPLETION DATE:

May 21, 2019

Philip Courtney, CEO



Date

