

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, 2016 AND 2015

AND

INDEPENDENT AUDITORS’ REPORT

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Consolidated Supplementary Information	
Schedules of Functional Expenses	16
Schedule of Expenditures of Federal Awards	18
Notes to Schedule of Expenditures of Federal Awards	19
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 <i>Government Auditing Standards</i>	20
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	22
Schedule of Findings and Questioned Costs for the year ended July 31, 2016	24

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, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, 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 the Urban Arts Partnership and Subsidiary as of July 31, 2016 and 2015 and the changes in its net assets and its 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 accompanying schedule of expenditures of Federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on pages 18 and 19, and the consolidated supplemental schedules on pages 16 and 17 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 March 30, 2017, 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 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 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.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, flowing style.

March 30, 2017

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	July 31,	
	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 223,747	\$ 681,921
Investments in marketable securities	2,850,564	3,461,716
Contracts and contributions receivable	3,414,356	2,353,016
Prepaid expenses	181,457	104,151
Total current assets	6,670,124	6,600,804
Property and equipment, net	499,656	219,020
Security deposits	278,786	40,669
	\$ 7,448,566	\$ 6,860,493
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	\$ 600,000	\$ -
Accounts payable and accrued expenses	309,284	305,902
Deferred revenue	-	219,129
Total current liabilities	909,284	525,031
Commitments and contingencies		
Net assets		
Unrestricted		
Undesignated	5,583,903	5,493,843
Board designated	142,606	209,256
	5,726,509	5,703,099
Temporarily restricted	812,773	632,363
	6,539,282	6,335,462
	\$ 7,448,566	\$ 6,860,493

See notes to consolidated financial statements.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JULY 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions			
Board	\$ 73,025	\$ -	\$ 73,025
Individuals	127,682	-	127,682
Corporations	246,126	-	246,126
Foundations	200,616	1,392,000	1,592,616
Special events, net	311,118	-	311,118
In-kind donations	41,951	-	41,951
	1,000,518	1,392,000	2,392,518
Program service revenues			
Government grants			
State and local	5,260,185	-	5,260,185
Federal	1,596,220	-	1,596,220
Program fees	388,308	-	388,308
Interest and dividend income	123,247	-	123,247
Net realized and unrealized loss on investments	(41,473)	-	(41,473)
	8,327,005	1,392,000	9,719,005
Net assets released from restrictions	1,211,590	(1,211,590)	-
	9,538,595	180,410	9,719,005
Expenses			
Program services	7,749,335	-	7,749,335
Management and general	1,122,650	-	1,122,650
Fundraising	643,200	-	643,200
	9,515,185	-	9,515,185
Change in net assets	23,410	180,410	203,820
Net assets, beginning of year	5,703,099	632,363	6,335,462
Net assets, end of year	\$ 5,726,509	\$ 812,773	\$ 6,539,282

See notes to consolidated financial statements.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JULY 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Contributions			
Board	\$ 110,304	\$ -	\$ 110,304
Individuals	233,780	-	233,780
Corporations	197,606	-	197,606
Foundations	120,598	1,007,000	1,127,598
Special events, net	360,942	-	360,942
In-kind donations	155,386	-	155,386
	1,178,616	1,007,000	2,185,616
Program service revenues			
Government grants			
State and local	4,426,523	-	4,426,523
Federal	662,691	-	662,691
Program fees	1,364,647	-	1,364,647
Interest and dividend income	128,212	-	128,212
Net realized and unrealized loss on investments	(67,211)	-	(67,211)
Other income	64,365	-	64,365
	7,757,843	1,007,000	8,764,843
Net assets released from restrictions	757,554	(757,554)	-
	8,515,397	249,446	8,764,843
Expenses			
Program services	6,710,356	-	6,710,356
Management and general	930,608	-	930,608
Fundraising	712,367	-	712,367
	8,353,331	-	8,353,331
Change in net assets	162,066	249,446	411,512
Net assets, beginning of year	5,541,033	382,917	5,923,950
Net assets, end of year	\$ 5,703,099	\$ 632,363	\$ 6,335,462

See notes to consolidated financial statements.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	July 31,	
	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 203,820	\$ 411,512
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	81,624	68,685
Realized loss on investments in marketable securities	64,157	2,432
Unrealized loss (gain) on investments in marketable securities	(22,684)	64,779
Changes in assets and liabilities:		
Contracts and contributions receivable	(1,061,340)	116,777
Prepaid expenses	(77,306)	(25,817)
Security deposits	(238,117)	950
Accounts payable and accrued expenses	3,382	78,359
Deferred revenue	(219,129)	200,479
Net cash (used in) provided by operating activities	(1,265,593)	918,156
Cash flows from investing activities		
Purchases of marketable securities	(3,524,198)	(3,107,146)
Proceeds from sale of marketable securities	4,093,877	2,492,748
Acquisition of property and equipment	(362,260)	(107,826)
Net cash provided by (used in) investing activities	207,419	(722,224)
Cash flows from financing activities		
Net borrowings of line of credit	600,000	-
Net cash provided by financing activities	600,000	-
Net (decrease) increase in cash and cash equivalents	(458,174)	195,932
Cash and cash equivalents, beginning of year	681,921	485,989
Cash and cash equivalents, end of year	\$ 223,747	\$ 681,921
Supplemental cash flow disclosures		
Interest paid	\$ 3,820	\$ 7,251

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 is a wholly-owned subsidiary of UAP.

Through its subsidiary, MNMP, the Organization empowers students using the performing arts to develop essential life skills and achieve academic success.

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 as of July 31, 2016 and 2015.

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, 2016 and 2015.

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, 2016 and 2015.

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 funds received in advance of their use.

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, 2016 and 2015, respectively.

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). 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.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Valuation (Continued)

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 March 30, 2017. Management has evaluated subsequent events through this date.

3 - INVESTMENTS

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

	July 31,	
	2016	2015
Equity mutual funds	\$ 310,180	\$ 734,240
Fixed income mutual funds	2,540,384	2,727,476
	\$ 2,850,564	\$ 3,461,716

Investment income is summarized as follows:

	July 31,	
	2016	2015
Interest and dividends	\$ 123,247	\$ 128,212
Realized (loss) gain on investments	(64,157)	(2,432)
Unrealized (loss) gain on investments	22,684	(64,779)
	81,774	61,001
Less - Investment expense	(15,180)	(18,690)
	\$ 66,594	\$ 42,311

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 - CONTRACTS AND CONTRIBUTIONS RECEIVABLE

Contracts and contributions receivable are comprised of the following:

	July 31,	
	2016	2015
Contracts and program services	\$ 3,146,526	\$ 2,148,616
Unconditional promises to give	200,000	75,000
Other	67,830	129,400
	<u>\$ 3,414,356</u>	<u>\$ 2,353,016</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.

5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	July 31,	
	2016	2015
Leasehold improvements	\$ 102,315	\$ 102,315
Furniture and fixtures	63,544	56,751
Office and school equipment	482,057	370,519
Construction in progress	243,929	-
	891,845	529,585
Less - Accumulated depreciation and amortization	(392,189)	(310,565)
	<u>\$ 499,656</u>	<u>\$ 219,020</u>

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, which expired March 18, 2017, but has been extended to March 31, 2017. Borrowings bear interest at 2.1% plus LIBOR (2.60% at July 31, 2016) and require monthly payments of interest only. In the subsequent period, the Organization borrowed \$1,703,000 under this line of credit.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 - TEMPORARILY RESTRICTED NET ASSETS

The balance of temporarily restricted net assets totaling \$812,733 and \$632,363 at July 31, 2016 and 2015, respectively, include unconditional promises to give and contributions received subject to time and purpose restrictions.

	Balance, August 1, 2015	Contributions	Satisfaction of Restriction	Balance, July 31, 2016
Purpose restriction	\$ 101,779	\$ 367,000	\$ (272,971)	\$ 195,808
Time restriction	455,584	825,000	(863,619)	416,965
Unconditional promises to give	75,000	200,000	(75,000)	200,000
	<u>\$ 632,363</u>	<u>\$ 1,392,000</u>	<u>\$ (1,211,590)</u>	<u>\$ 812,773</u>

	Balance, August 1, 2014	Contributions	Satisfaction of Restriction	Balance, July 31, 2015
Purpose restriction	\$ -	\$ 145,000	\$ (43,221)	\$ 101,779
Time restriction	122,917	712,000	(379,333)	455,584
Unconditional promises to give	260,000	150,000	(335,000)	75,000
	<u>\$ 382,917</u>	<u>\$ 1,007,000</u>	<u>\$ (757,554)</u>	<u>\$ 632,363</u>

8 - IN-KIND DONATIONS

The fair value of donated services and materials included as contributions in the financial statements under support and revenues are as follows:

	July 31,	
	2016	2015
Supplies and equipment	\$ 3,400	\$ 57,953
Professional services	34,500	72,062
Food	4,051	20,871
Rent	-	4,500
	<u>\$ 41,951</u>	<u>\$ 155,386</u>

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. During the years ended July 31, 2016 and 2015, the Organization contributed \$26,593 and \$9,476, respectively.

10 - CONCENTRATIONS

Government Grants

The New York City Department Education contracts with the Organization for program services that total approximately \$4,321,000 (60%) and \$3,453,000 (54%) of total program service revenue for the years ended July 31, 2016 and 2015 respectively.

Contracts and Contributions Receivable

Receivables due from the New York City Department of Education total approximately \$2,414,000 (71%) and \$1,517,000 (64%) of the balance of contracts and contributions receivable at July 31, 2016 and 2015, respectively.

Contributors

The Organization received contributions from two donors, each totaling approximately \$300,000 (13% each) of total contributions for the year ended July 31, 2016.

The Organization received contributions from two donors totaling approximately \$225,000 and \$250,000 (10% and 11% respectively) of total contributions for the year ended July 31, 2015.

11 - COMMITMENTS AND CONTINGENCIES

Lease

On April 21, 2016, the Organization entered into a lease for new office facilities for a ten year five months term. The lease provides for free-rent the first five months following the "Commencement" date which approximates the date of occupancy in October 2016. The lease also includes an optional five-year renewal term.

The rent will be expensed using the straight-line method as of the lease commencement date in the subsequent period.

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,	
2017	\$ 181,157
2018	488,519
2019	503,175
2020	518,270
2021	533,818
Thereafter	3,313,080
	\$ 5,538,019

The Organization's prior office lease expired June 2016. Rent expense for the expired lease totaled \$146,128 and \$130,440 for the years ended July 31, 2016 and 2015 respectively.

Employment Contract

The Organization has an employment contract with the Chief Executive Officer stipulating duties, compensation and benefits that expires July 31, 2018, when it may be renewed for an additional term. The employment contract automatically renews annually unless the employee is terminated.

Other Matters

The Organization receives a significant portion of its revenues from the New York City Department of Education, in connection with the provision of services. A significant amount of this revenue is subject to audit by the New York City Department of Education 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, 2016

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 5,015,236	\$ 591,629	\$ 386,945	\$ 5,993,810
Fringe benefits and payroll taxes	894,670	105,541	69,027	1,069,238
Program supplies and equipment	436,054	4,450	4,450	444,954
Professional development	2,912	12,940	323	16,175
Scholarship	49,607	-	-	49,607
Rent	122,695	16,871	13,803	153,369
Payroll service	861	84,435	862	86,158
Travel and related expenses	170,535	7,335	5,501	183,371
Consultants and professional fees	881,595	114,904	22,558	1,019,057
Public relations and marketing	9,642	1,071	96,414	107,127
Insurance	3,669	5,020	965	9,654
Dues and subscriptions	4,024	32,188	4,024	40,236
Postage and delivery	1,167	4,375	292	5,834
Office expenses	56,738	93,973	26,596	177,307
Credit card and bank fees	-	15,042	1,671	16,713
Depreciation and amortization	65,299	13,876	2,449	81,624
Interest	-	3,820	-	3,820
Investment management fees	-	15,180	-	15,180
In-kind donations	34,631	-	7,320	41,951
	\$ 7,749,335	\$ 1,122,650	\$ 643,200	\$ 9,515,185

See independent auditors' report.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JULY 31, 2015

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 4,447,502	\$ 495,306	\$ 419,812	\$ 5,362,620
Fringe benefits and payroll taxes	724,938	80,734	68,429	874,101
Program supplies and equipment	521,910	6,878	6,878	535,666
Professional development	8,490	27,013	3,087	38,590
Scholarship	70,448	-	-	70,448
Rent	119,876	16,483	13,486	149,845
Payroll service	205	20,066	205	20,476
Travel and related expenses	26,558	1,142	857	28,557
Consultants and professional fees	477,640	45,168	59,105	581,913
Public relations and marketing	8,667	963	86,666	96,296
Insurance	10,902	14,918	2,869	28,689
Dues and subscriptions	1,702	13,619	1,702	17,023
Postage and delivery	1,513	3,632	908	6,053
Office expenses	81,129	134,366	38,029	253,524
Credit card and bank fees	373	15,847	2,424	18,644
Depreciation	54,948	8,242	5,495	68,685
Interest	-	7,251	-	7,251
Investment management fees	-	18,690	-	18,690
Bad debt expense	1,449	20,290	2,415	24,154
In-kind donations	152,106	-	-	152,106
	\$ 6,710,356	\$ 930,608	\$ 712,367	\$ 8,353,331

See independent auditors' report.

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JULY 31, 2016

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	\$ 756,638
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	551,560
National Endowment for the Arts Promotion of the Arts Grants to Organizations and Individuals	45.024	15-5100-7134	8/1/15 - 7/31/16	42,000
Total Federal Financial Assistance				\$ 1,350,198

URBAN ARTS PARTNERSHIP AND SUBSIDIARY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JULY 31, 2016

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* (CFR) 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 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 per cent *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 (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of July 31, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2017.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, 0716-1.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's 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.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, slightly stylized font.

Certified Public Accountants

East Hanover, New Jersey
March 30, 2017

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'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, 2016. 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 grants applicable to its major program.

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, 2016.

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
March 30, 2017

URBAN ARTS PARTNERSHIP AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JULY 31, 2016

I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major program:	
• Material weakness(es)?	_____ Yes <u> √ </u> No
• Significant deficiency(ies) identified that are not considered to be material weakness(es) reported?	_____ Yes <u> √ </u> No

Federal Awards

Internal control over major program:	
• Material weakness(es)?	_____ Yes <u> √ </u> No
• Significant deficiency(ies) identified that are not considered to be material weakness(es) reported?	_____ Yes <u> √ </u> No

Identification of major program:

Name of Federal Program or Cluster	CFDA Number
U.S. Department of Education, Office of Innovation and Improvement, Arts in Education	84.351D

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?	_____ Yes <u> √ </u> No
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URBAN ARTS PARTNERSHIP AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JULY 31, 2016

II - FINANCIAL STATEMENT FINDINGS

None

III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant deficiencies in internal control over financial reporting disclosed during the audit of the financial statements are as follows:

0716-1 Cut-off issues

Condition: Expenses for services provided in the prior period were recorded as current period expenses.

Criteria: Internal controls should be in place that provide reasonable assurance to record expenses for services in the corresponding period.

Cause: Procedures to communicate with the accounting department were not followed by program directors.

Effect: When reimbursable expenses are not recorded in the correct period it is possible that reported expenses will be understated and the Organization will not be able to recover those costs.

Recommendation: A purchase order process should be implemented. All staff making requisitions for goods and services should submit a complete purchase order that includes adequate information to enable the accounting department to record the transaction in the correct program and period. The accounting department should generate a report of unmatched purchase orders at the end of a reporting period to identify potential accruals for unrecorded expenditures. Program managers and directors should be held accountable for their budgets. The accounting department should generate monthly or quarterly budget versus actual reports for each program and variances should be explained.

Views of Responsible Officials and Planned Corrective Actions: The Organization agrees with the finding and the recommended procedures have been implemented.

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

Not Applicable