

Urban Gateways

**Financial Report
with Supplemental Information
August 31, 2013**

Urban Gateways

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Independent Auditor's Report

To the Board of Directors
Urban Gateways

We have audited the accompanying financial statements of Urban Gateways (the "Organization"), which comprise the statement of financial position as of August 31, 2013 and 2012 and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Gateways as of August 31, 2013 and 2012 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.

Plante & Moran, PLLC

January 15, 2014

Urban Gateways

Statement of Financial Position

	<u>August 31, 2013</u>	<u>August 31, 2012</u>
Assets		
Cash	\$ 236,975	\$ 67,998
Accounts receivable:		
Accounts receivable - Net	97,722	154,500
Contributions and grants receivable	625,123	897,118
Prepaid expenses and deposits	31,791	11,256
Property and equipment - Net	26,594	39,935
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,018,205</u>	<u>\$ 1,170,807</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 7,770	\$ 36,559
Accrued expenses	3,742	9,779
Borrowings under line of credit	150,000	175,000
	<u> </u>	<u> </u>
Total liabilities	161,512	221,338
Net Assets		
Unrestricted	137,193	10,001
Temporarily restricted	719,500	939,468
	<u> </u>	<u> </u>
Total net assets	856,693	949,469
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 1,018,205</u>	<u>\$ 1,170,807</u>

Urban Gateways

	Year Ended			Total
	August 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Public Support and Revenues				
Contributions:				
Individuals - Urban Gateways Board	\$ 192,619	\$ 948	\$ -	\$ 193,567
Individuals - Other	103,917	-	-	103,917
Corporations	67,070	20,000	-	87,070
Foundations	204,000	57,084	-	261,084
Special events	244,563	-	-	244,563
Total public support	812,169	78,032	-	890,201
Fees and grants from government agencies	209,493	-	-	209,493
Program revenues:				
Art residency programs	539,317	-	-	539,317
Touring performances	105,231	-	-	105,231
Special projects	6,000	-	-	6,000
Community schools (21st CCLC and other)	341,378	-	-	341,378
Total program revenues	991,926	-	-	991,926
Investment income	14	-	-	14
A.R.T. asset purchase agreement revenue	17,618	90,000	-	107,618
Other income	1,125	-	-	1,125
Total public support and revenues	2,032,345	168,032	-	2,200,377
Net assets released from restrictions	388,000	(388,000)	-	-
Total revenue, support, and net assets released from restrictions	2,420,345	(219,968)	-	2,200,377
Expenses				
Program services	1,572,627	-	-	1,572,627
Administrative expenses	253,743	-	-	253,743
Fundraising expenses, including special event cost	466,783	-	-	466,783
Total expenses	2,293,153	-	-	2,293,153
Increase (Decrease) in Net Assets	127,192	(219,968)	-	(92,776)
Net Assets - Beginning of year	10,001	939,468	-	949,469
Net Assets - End of year	\$ 137,193	\$ 719,500	\$ -	\$ 856,693

Statement of Activities and Changes in Net Assets

Year Ended August 31, 2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 416,500	\$ 764,052	\$ -	\$ 1,180,552
104,545	-	-	104,545
187,849	42,000	-	229,849
260,600	133,416	-	394,016
266,686	-	-	266,686
1,236,180	939,468	-	2,175,648
167,374	-	-	167,374
254,201	-	-	254,201
79,485	-	-	79,485
58,400	-	-	58,400
339,763	-	-	339,763
731,849	-	-	731,849
64	-	-	64
-	-	-	-
29,735	-	-	29,735
2,165,202	939,468	-	3,104,670
159,000	(159,000)	-	-
2,324,202	780,468	-	3,104,670
1,526,381	-	-	1,526,381
273,252	-	-	273,252
516,121	-	-	516,121
2,315,754	-	-	2,315,754
8,448	780,468	-	788,916
1,553	159,000	-	160,553
\$ 10,001	\$ 939,468	\$ -	\$ 949,469

Urban Gateways

Statement of Cash Flows

	Year Ended	
	August 31, 2013	August 31, 2012
Cash Flows from Operating Activities		
Change in net assets	\$ (92,776)	\$ 788,916
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	13,722	16,546
Loss on disposal of fixed assets	6,483	-
Changes in operating assets and liabilities which provided (used) cash:		
Contributions and grants receivable	271,995	(819,435)
Accounts receivable	56,778	65,820
Prepaid expenses and deposits	(20,535)	36,545
Accounts payable	(28,789)	(4,696)
Accrued expenses	(6,037)	(7,567)
Deferred revenue	-	(4,120)
Net cash provided by operating activities	200,841	72,009
Cash Flows from Investing Activities - Purchase of property and equipment	(6,864)	(11,773)
Cash Flows from Financing Activities		
Proceeds from draws on line of credit	150,000	175,000
Repayments on line of credit	(175,000)	(300,000)
Net cash used in financing activities	(25,000)	(125,000)
Net Increase (Decrease) in Cash	168,977	(64,764)
Cash - Beginning of year	67,998	132,762
Cash - End of year	<u>\$ 236,975</u>	<u>\$ 67,998</u>

Note I - Nature of Activities and Significant Accounting Policies

Nature of Organization - Urban Gateways (the "Organization") was incorporated under the laws of the State of Illinois as a not-for-profit organization on March 14, 1963 and operates in Chicago and its surrounding suburbs. The mission of the Organization is to ignite the full creative potential of all young people. The Organization specializes in bringing the best of the visual, literary, media, and performing arts to children in school-based and community settings throughout the Chicago area. The Organization also excels at deepening the artistic experience for all youth by ensuring that the arts play a critical role in every child's education.

Significant accounting policies are as follows:

Classification of Net Assets - Net assets of the Organization are classified as unrestricted or temporarily restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets.

Contributions Receivable - The Organization's contributions receivable are comprised primarily of contribution grants committed from various donors and funding agencies for use in the Organization's activities. Contributions receivable at August 31, 2013 are expected to be collected within one year. The Organization has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are collectible in full.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Revenue - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Revenue from government grants and contracts designated for use in specific activities is recognized in the period during which expenditures were incurred in compliance with the grantor's restrictions.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Program revenue is recognized as services are provided.

Donated Services - Certain donated services are recognized as support in the statement of activities and changes in net assets. The value of these services is determined based on estimated fair value. The Organization receives free rent for certain months as part of its lease agreement with its landlord. The amount is classified as an in-kind donation on the financial statements with a corresponding amount added to rent expense.

In addition, the Organization has volunteers who donate their time and services in performance of the Organization's programs. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer efforts under GAAP have not been satisfied.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of August 31, 2013 and 2012 there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Urban Gateways

Notes to Financial Statements August 31, 2013 and 2012

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including January 15, 2014, which is the date the financial statements were available to be issued.

Note 2 - Asset Purchase Agreement

On July 1, 2013, the Organization entered into an asset purchase agreement with Art Resources in Teaching (A.R.T.), a not-for-profit organization dedicated to providing vibrant visual arts residency programs to children, teachers, and parents in the Chicago area.

A.R.T. transferred all of its net assets to the Organization as of that date. As a result of this acquisition, the balance of A.R.T.'s assets over liabilities was recognized as contribution revenue in the amount of \$107,618. All activities are included in the Organization's financial statements since the date of acquisition. Below are the assets and liabilities transferred at the acquisition date.

Cash and cash equivalents	\$	352,769
Other assets		4,574
Property and equipment - Net		<u>10,951</u>
Total assets	\$	<u>368,294</u>
Liabilities assumed	\$	<u>265,124</u>

Note 3 - Contributions Receivable

Included in contributions receivable are several unconditional promises to give generated from a capital campaign. They are included as follows:

	<u>2013</u>	<u>2012</u>
Due within one year	\$ 375,123	\$ 345,650
Due in one to five years	<u>250,000</u>	<u>552,500</u>
Subtotal	625,123	898,150
Less discount	-	<u>(1,032)</u>
Total	<u>\$ 625,123</u>	<u>\$ 897,118</u>

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Notes to Financial Statements August 31, 2013 and 2012

Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2013	2012	Depreciable Life - Years
Furniture and equipment	\$ 11,422	\$ 22,874	3-10
Technology and equipment	113,792	114,841	3-10
Total cost	125,214	137,715	
Accumulated depreciation	98,620	97,780	
Net property and equipment	<u>\$ 26,594</u>	<u>\$ 39,935</u>	

Depreciation expense was \$13,722 for 2013 and \$16,546 for 2012.

Note 5 - Line of Credit

On May 30, 2012, the Organization entered into a new agreement for a line of credit. The line is secured by all assets of the Organization with Nonprofit Finance Fund with maximum borrowings of \$255,000. Per this agreement, the line will be repaid when designated pledges receivable are paid. Interest on this line was charged at the rate of prime plus 3.5 percent with a minimum rate of 6.75 percent. The outstanding balance at August 31, 2012 was \$175,000.

On March 11, 2013, Nonprofit Finance Fund extended the existing line of credit with an expiration date of March 1, 2014. At that time, management will evaluate the necessity of extending the agreement. The outstanding balance at August 31, 2013 was \$150,000 with an effective interest rate of 6.75 percent.

Note 6 - Concentrations

Approximately 76 percent and 63 percent of program revenues earned during the years ended August 31, 2013 and 2012, respectively, are from one customer, Chicago Public Schools. The receivable balance from Chicago Public Schools was \$24,151 and \$82,059 as of August 31, 2013 and 2012, respectively.

Also in 2012, approximately 46 percent of total public support was received from one donor. The receivable balance from this donor was \$750,000 at August 31, 2012. There was no concentration of public support revenue in 2013.

Note 7 - Operating Lease

Effective April 18, 2012, the Organization entered into a lease with 205 Randolph Investors, LLC, whereby it would provide the Organization with in-kind rent during the year. This lease expires on May 31, 2018.

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Notes to Financial Statements August 31, 2013 and 2012

Note 7 - Operating Lease (Continued)

On September 19, 2011, the Organization reached an agreement to reinstate an equipment lease for various copy machines under new payment terms. During the year ended August 31, 2013, this lease was paid in full.

As part of the A.R.T. acquisition described in Note 2, the Organization acquired a copier lease that began in January 2011 with payments of \$828 over 60 months. This lease will expire on December 31, 2015.

Rent expenses totaled \$77,668 and \$94,545 for the years ended August 31, 2013 and 2012, respectively.

The following is a schedule of estimated future minimum rental payments as of August 31, 2013:

2014	\$	81,865
2015		83,680
2016		75,570
2017		77,385
2018		64,680
Total	\$	<u>383,180</u>

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2013 and 2012 are restricted for the following:

	<u>2013</u>	<u>2012</u>
Contributions receivable restricted for time purposes	\$ 462,500	\$ 868,968
Restrictions carried over from A.R.T. acquisition for specific program use	90,000	-
Restricted for time and specific program use	15,000	-
Restricted for specific program use	<u>152,000</u>	<u>70,500</u>
Total temporarily restricted net assets	<u>\$ 719,500</u>	<u>\$ 939,468</u>

Note 9 - Profit Sharing Plan

On August 20, 2007, the Organization adopted a qualified profit sharing plan (401(k)) for all eligible employees. Employee contributions were matched by the Organization up to a maximum limit of 4 percent. The Organization contributed \$0 for the years ended August 31, 2013 and 2012, respectively.

Supplemental Information

Independent Auditor's Report on Supplemental Information

To the Board of Directors
Urban Gateways

We have audited the financial statements of Urban Gateways as of and for the years ended August 31, 2013 and 2012 and have issued our report thereon dated January 15, 2014, which contained an unqualified opinion on those financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses is presented for the purpose of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Plante & Moran, PLLC

January 15, 2014

Urban Gateways

Statement of Functional Expenses Year Ended August 31, 2013

	Program	Administrative and Marketing	Fundraising	Total
Salaries - Staff	\$ 357,936	\$ 159,649	\$ 231,045	\$ 748,630
Temporary personnel	19,592	282	-	19,874
FICA tax	24,819	11,270	16,722	52,811
Workers' compensation	15,212	3,804	3,803	22,819
Unemployment compensation	7,665	7,327	1,288	16,280
Group benefits	72,332	12,495	31,743	116,570
Retirement plan	1,564	390	391	2,345
Total salaries and related expenses	499,120	195,217	284,992	979,329
Artist and instructor fees	817,634	-	1,350	818,984
Program supplies	66,831	-	-	66,831
Site rental	-	-	300	300
Audit fees	-	21,700	-	21,700
Professional and contract fees	34,659	-	6,509	41,168
Legal fees	-	4,800	-	4,800
Office rent and utilities	56,068	14,017	14,016	84,101
Postage	903	181	5,841	6,925
Telephone	9,247	2,313	2,312	13,872
Office supplies	2,296	545	1,420	4,261
Equipment maintenance and repairs	8,779	1,061	7,641	17,481
Equipment and furniture	825	73	291	1,189
Equipment rental and leasing	16,038	4,010	4,010	24,058
General insurance	7,943	2,043	8,171	18,157
Depreciation	1,909	5,100	6,714	13,723
Loss on disposal of fixed assets	6,483	-	-	6,483
Interest expense	5,349	1,070	4,279	10,698
Dues and memberships	1,100	-	2,215	3,315
Publications and subscriptions	30	-	103	133
Outside printing	4,040	-	6,360	10,400
Staff training	-	-	1,000	1,000
Bus rental	3,035	-	-	3,035
Bank service charges	995	199	796	1,990
Payroll service charges	1,373	344	343	2,060
Credit card service charges	3,145	629	3,570	7,344
Other	5,010	325	850	6,185
Shipping and messenger	134	19	620	773
Bad debt	-	70	19,150	19,220
Meetings attended	2,145	-	1,495	3,640
Meetings hosted	1,902	-	2,895	4,797
Travel - Local	12,756	27	4,347	17,130
Travel - Out of town	2,878	-	470	3,348
Fundraising event	-	-	74,723	74,723
Total functional expenses	\$ 1,572,627	\$ 253,743	\$ 466,783	\$ 2,293,153

Urban Gateways

Statement of Functional Expenses Year Ended August 31, 2012

	Program	Administrative and Marketing	Fundraising	Total
Salaries - Staff	\$ 360,357	\$ 148,596	\$ 195,191	\$ 704,144
Temporary personnel	16,024	3,846	27,242	47,112
FICA tax	27,452	10,272	15,833	53,557
Workers' compensation	8,289	1,980	2,103	12,372
Unemployment compensation	6,821	-	-	6,821
Total salaries and related expenses	418,943	164,694	240,369	824,006
Group benefits	69,169	14,126	29,219	112,514
Retirement plan	1,581	377	401	2,359
Artist and instructor fees	775,005	103	11,765	786,873
Program supplies	54,838	1	4	54,843
Site rental	170	34	136	340
Audit fees	-	24,500	-	24,500
Professional and contract fees	31,791	28,082	57,882	117,755
Legal fees	6,283	6,094	6,098	18,475
Office rent and utilities	68,660	16,396	17,421	102,477
Postage	609	122	3,724	4,455
Telephone	9,026	2,155	2,290	13,471
Office supplies	3,154	1,230	1,119	5,503
Equipment maintenance and repairs	8,796	745	5,837	15,378
Equipment and furniture	1,182	398	1,219	2,799
Equipment rental and leasing	16,726	3,994	4,244	24,964
General insurance	5,600	1,120	4,480	11,200
Depreciation	8,273	1,655	6,618	16,546
Interest expense	6,079	1,216	4,864	12,159
Dues and memberships	646	129	2,601	3,376
Publications and subscriptions	221	4	91	316
Outside printing	2,611	510	4,992	8,113
Photography and video	9	2	215	226
Bus rental	5,471	-	600	6,071
Bank service charges	1,341	1,063	266	2,670
Payroll service charges	1,292	309	328	1,929
Credit card service charges	5,248	1,020	8,550	14,818
Other	4,387	1,238	672	6,297
Shipping and messenger	131	23	310	464
Meetings attended	1,812	56	866	2,734
Meetings hosted	2,753	205	3,833	6,791
Travel - Local	13,329	1,651	7,322	22,302
Travel - Out of town	1,245	-	-	1,245
Fundraising event	-	-	87,785	87,785
Total functional expenses	\$ 1,526,381	\$ 273,252	\$ 516,121	\$ 2,315,754