Urban Gateways

Financial Report
with Supplemental Information
August 31, 2016

Contents

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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, 2016 and 2015 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 opinion.

Opinion

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, 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.

Plante & Moran, PLLC

December 14, 2016

Statement of Financial Position

		August 31, 2016		August 31, 2015
Assets				
Cash	$	94,731	$	326,263
Accounts receivable:				
Accounts receivable - Net		151,657		138,218
Contributions and grants receivable		776,230		505,546
Prepaid expenses and deposits		29,110		48,124
Property and equipment - Net		84,136		74,939
Total assets	**$**	**1,135,864**	**$**	**1,093,090**
Liabilities and Net Assets				
Liabilities				
Accounts payable	$	1,452	$	7,102
Accrued expenses		3,060		1,056
Deferred revenue		3,850		24,300
Total liabilities		8,362		32,458
Net Assets				
Unrestricted		326,011		318,816
Temporarily restricted		801,491		741,816
Total net assets		1,127,502		1,060,632
Total liabilities and net assets	**$**	**1,135,864**	**$**	**1,093,090**

Urban Gateways

Statement of Activities and Changes in Net Assets

	Year Ended August 31, 2016			Year Ended August 31, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Contributions:						
Individuals - Urban Gateways Board	$ 127,060	$ -	$ 127,060	$ 94,753	$ -	$ 94,753
Individuals - Other	90,209	-	90,209	72,742	33,816	106,558
Corporations	79,743	-	79,743	109,049	-	109,049
Foundations	687,900	478,991	1,166,891	303,200	688,000	991,200
Special events - Net	172,417	-	172,417	199,423	-	199,423
Total public support	1,157,329	478,991	1,636,320	779,167	721,816	1,500,983
Fees and grants from government agencies	30,255	-	30,255	36,950	-	36,950
Program revenue:						
Art residency programs	537,191	-	537,191	563,005	-	563,005
Touring performances	197,909	-	197,909	169,453	-	169,453
Community schools (21st CCLC and other)	46,470	-	46,470	92,167	-	92,167
Total program revenue	781,570	-	781,570	824,625	-	824,625
Other income	394	-	394	1,469	-	1,469
Total public support and revenue	1,969,548	478,991	2,448,539	1,642,211	721,816	2,364,027
Net assets released from restrictions	419,316	(419,316)	-	404,899	(404,899)	-
Total revenue, support, and net assets released from restrictions	2,388,864	59,675	2,448,539	2,047,110	316,917	2,364,027
Expenses						
Program services	1,661,871	-	1,661,871	1,557,012	-	1,557,012
Administrative expenses	212,367	-	212,367	213,759	-	213,759
Fundraising expenses	507,431	-	507,431	468,499	-	468,499
Total expenses	2,381,669	-	2,381,669	2,239,270	-	2,239,270
Increase (Decrease) in Net Assets	7,195	59,675	66,870	(192,160)	316,917	124,757
Net Assets - Beginning of year	318,816	741,816	1,060,632	510,976	424,899	935,875
Net Assets - End of year	**$ 326,011**	**$ 801,491**	**$ 1,127,502**	**$ 318,816**	**$ 741,816**	**$ 1,060,632**

Urban Gateways

Statement of Cash Flows

	Year Ended August 31, 2016	Year Ended August 31, 2015
Cash Flows from Operating Activities		
Change in net assets	$ 66,870	$ 124,757
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	27,344	20,136
Discount on contribution receivable	11,009	-
Changes in operating assets and liabilities which (used) provided cash:		
Contributions and grants receivable	(281,693)	(225,947)
Accounts receivable	(13,439)	(16,593)
Prepaid expenses and deposits	19,014	8,364
Accounts payable	(5,650)	(20,613)
Accrued expenses	2,004	(6,285)
Deferred revenue	(20,450)	16,602
Net cash used in operating activities	(194,991)	(99,579)
Cash Flows from Investing Activities - Purchase of property and equipment	(36,541)	(25,741)
Net Decrease in Cash	(231,532)	(125,320)
Cash - Beginning of year	326,263	451,583
Cash - End of year	**$ 94,731**	**$ 326,263**

Note 1 - 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 educate and inspire young people by delivering high-quality, accessible arts experiences that advance their personal and academic growth. 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. The Organization has an allowance for doubtful accounts of $0 as of August 31, 2016 and 2015.

Accounts Receivable - Accounts receivable are stated at invoice cost. Account balances are reviewed regularly to determine whether delinquent accounts should be written off. The Organization has an allowance for doubtful accounts of $0 as of August 31, 2016 and 2015.

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.

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

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.

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, as well as in-kind legal services. These amounts are classified as an in-kind donation in the corporation contribution revenue line item in the statement of activities and changes in net assets with a corresponding amount added to rent expense and legal expense, respectively.

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 and changes in net assets because the criteria for recognition of such volunteer efforts under generally accepted accounting principles (GAAP) have not been satisfied.

Use of Estimates - The preparation of financial statements in conformity with GAAP 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).

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.

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

Upcoming Accounting Changes - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending August 31, 2019 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending August 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of activities and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending August 31, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined.

Note 2 - Contributions Receivable

Included in contributions receivable are several unconditional promises to give. They are included as follows:

	2016	2015
Due within one year	$ 607,500	$ 298,046
Due in one to five years	179,739	207,500
Less: discount on long-term receivable	(11,009)	-
Total	$ 776,230	$ 505,546

Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015	Depreciable Life - Years
Furniture and equipment	$ 27,543	$ 27,543	3-10
Technology and equipment	219,506	182,965	3-10
Total cost	247,049	210,508	
Accumulated depreciation	162,913	135,569	
Net property and equipment	$ 84,136	$ 74,939	

Depreciation expense was $27,344 for 2016 and $20,136 for 2015.

Note 4 - Line of Credit

On July 18, 2014, management entered into an agreement with JPMorgan Change Bank, N.A. for a revolving line of credit. This agreement allows for maximum borrowings of $200,000. Interest on this line is charged at the rate of 1.50 percent per annum above the prime rate and is secured by the assets of the Organization. The rate at August 31, 2016 and 2015 was 5 percent. The Organization had no outstanding balance on the line of credit as of August 31, 2016 and 2015.

Note 5 - Concentrations

Approximately 62 percent and 34 percent of total revenue earned during the years ended August 31, 2016 and 2015, respectively, is from one customer, Chicago Public Schools. The receivable balance from Chicago Public Schools was $132,620 and $72,160 as of August 31, 2016 and 2015, respectively.

Note 6 - Operating Lease

Effective April 18, 2012, the Organization entered into a lease with 205 Randolph Investors, LLC., whereby it would provide the Organization with one month of in-kind rent during each year. The in-kind portion is recorded as a contribution from corporations on the statement of activities and changes in net assets and recorded as rent expense on the statement of functional expenses. This lease expires on May 31, 2018.

The Organization acquired a copier lease that began in January 2011 with payments of $828 over 60 months. This lease expired on December 31, 2015 and was not renewed.

Rent expenses totaled $72,502 and $75,190 for the years ended August 31, 2016 and 2015, respectively.

The following is a schedule of estimated future minimum rental payments as of August 31, 2016:

2017	$ 77,385
2018	64,680
Total	$ 142,065

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2016 and 2015 are restricted for the following:

	2016	2015
Contributions receivable restricted for time purposes	$ 751,491	$ 447,266
Restricted for time and specific program use	10,000	20,000
Restricted for specific program use	40,000	274,550
Total temporarily restricted net assets	$ 801,491	$ 741,816

Note 8 - 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 $25,604 and $20,751 for the years ended August 31, 2016 and 2015, respectively.

Note 9 - Subsequent Events

On December 14, 2016 at a special meeting of the board of directors, the Organization approved entering into an asset purchase agreement with Street-Level Youth Media, a not-for-profit organization dedicated to providing digital media arts programs at its location in Chicago.

If fully executed, Street-Level Youth Media will transfer all of its net assets and transfer its facilities lease to the Organization as of January 1, 2017.

At the execution of this acquisition, the balance of Street-Level Youth Media's assets and liabilities will be included in the Organization's financial statement. This transfer will include estimated fixed assets, net of depreciation, of $389,400 and a loan liability with a remaining principal balance of $89,433. The loan was provided to Street-Level Youth Media in October 2011 by IFF (a non-profit Commercial Development Financial Institution) for leasehold improvements. It has a current interest rate of 5.5 percent. The final payment is due on March 1, 2022.

Street-Level Youth Media facilities lease expires in September 2018 with the following schedule of estimated future minimum rental payments:

January 2017 - August 2017	$59,067
September 2017 - August 2018	$88,600

Supplemental Information

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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, 2016 and 2015 and have issued our report thereon dated December 14, 2016, which contained an unmodified 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

December 14, 2016

Urban Gateways

Statement of Functional Expenses
Year Ended August 31, 2016

	Program	Administrative and Marketing	Fundraising	Total
Salaries - Staff	$ 512,617	$ 136,320	$ 315,447	$ 964,384
Temporary personnel	5,593	75	298	5,966
FICA tax	36,692	9,657	22,445	68,794
Workers' compensation	12,027	2,005	6,014	20,046
Unemployment compensation	1,220	-	8,870	10,090
Group benefits	64,583	11,119	29,790	105,492
Retirement plan	14,920	1,166	9,518	25,604
Total salaries and related expenses	647,652	160,342	392,382	1,200,376
Artist and instructor fees	716,248	-	-	716,248
Program supplies	61,633	-	-	61,633
Site rental	28,100	-	-	28,100
Bus rental	3,371	-	-	3,371
Audit fees	-	21,000	-	21,000
Professional and contract fees	18,002	3,851	5,232	27,085
Marketing and promotion	33,333	583	21,841	55,757
Office rent and utilities	51,993	7,686	29,455	89,134
Postage	2,442	357	6,046	8,845
Telephone	8,860	1,410	3,144	13,414
Office supplies	3,917	2,314	2,371	8,602
Equipment maintenance and repairs	23,268	2,528	16,360	42,156
General insurance	9,775	1,438	5,138	16,351
Depreciation	17,774	2,461	7,109	27,344
Dues and memberships	3,259	491	2,717	6,467
Staff training	4,836	821	1,500	7,157
Other	367	1,976	6,009	8,352
Meetings attended	1,404	46	2,119	3,569
Meetings hosted	2,379	259	1,462	4,100
Travel - Local	18,554	1,361	3,899	23,814
Travel - Out of town	4,704	3,443	647	8,794
Fundraising events	-	-	160,690	160,690
Total functional expenses	**$ 1,661,871**	**$ 212,367**	**$ 668,121**	**$ 2,542,359**

Urban Gateways

Statement of Functional Expenses
Year Ended August 31, 2015

	Program	Administrative and Marketing	Fundraising	Total
Salaries - Staff	$ 484,942	$ 134,157	$ 274,410	$ 893,509
Temporary personnel	1,842	639	297	2,778
FICA tax	29,808	8,787	17,156	55,751
Workers' compensation	17,145	2,857	8,573	28,575
Unemployment compensation	3,356	-	-	3,356
Group benefits	59,616	9,817	36,504	105,937
Retirement plan	11,233	1,076	8,442	20,751
Total salaries and related expenses	607,942	157,333	345,382	1,110,657
Artist and instructor fees	709,426	-	-	709,426
Program supplies	47,620	-	-	47,620
Site rental	3,801	382	403	4,586
Bus rental	3,186	-	-	3,186
Audit fees	-	22,700	-	22,700
Professional and contract fees	20,824	2,433	8,888	32,145
Office rent and utilities	52,779	8,797	26,390	87,966
Postage	1,081	775	5,665	7,521
Telephone	7,377	1,230	3,689	12,296
Office supplies	3,994	1,578	2,478	8,050
Equipment maintenance and repairs	12,763	945	8,230	21,938
Equipment and furniture	786	445	265	1,496
Equipment rental and leasing	9,095	1,591	4,548	15,234
General insurance	6,906	6,703	6,702	20,311
Depreciation	12,081	2,014	6,041	20,136
Dues and memberships	1,650	295	2,571	4,516
Urban Gateways merchandise	2,509	-	2,509	5,018
Publications and subscriptions	-	130	135	265
Outside printing	8,659	231	16,815	25,705
Photography and video	125	-	175	300
Staff training	5,773	1,138	2,988	9,899
Other	3,839	799	8,618	13,256
Shipping and messenger	297	302	859	1,458
Meetings attended	3,670	188	2,419	6,277
Meetings hosted	5,887	272	4,675	10,834
Travel - Local	17,397	1,402	7,173	25,972
Travel - Out of town	7,545	2,076	881	10,502
Fundraising events	-	-	125,222	125,222
Total functional expenses	**$ 1,557,012**	**$ 213,759**	**$ 593,721**	**$ 2,364,492**