Urban Gateways

Financial Report
with Supplemental Information
August 31, 2017

Urban Gateways

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, 2017 and 2016 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, 2017 and 2016 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 13, 2017

Urban Gateways

Statement of Financial Position

	August 31, 2017	August 31, 2016
Assets		
Cash	$ 279,996	$ 94,731
Accounts receivable:		
Accounts receivable - Net	81,190	151,657
Contributions and grants receivable	525,115	776,230
Prepaid expenses and deposits	62,540	29,110
Property and equipment - Net	150,073	84,136
Total assets	**$ 1,098,914**	**$ 1,135,864**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 5,938	$ 1,452
Accrued expenses	1,849	3,060
Deferred revenue	-	3,850
Long-term debt	79,377	-
Total liabilities	87,164	8,362
Net Assets		
Unrestricted	347,779	326,011
Temporarily restricted	663,971	801,491
Total net assets	1,011,750	1,127,502
Total liabilities and net assets	**$ 1,098,914**	**$ 1,135,864**

Urban Gateways

Statement of Activities and Changes in Net Assets

	Year Ended August 31, 2017			Year Ended August 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Contributions:						
Individuals - Urban Gateways Board	$ 100,293	$ -	$ 100,293	$ 127,060	$ -	$ 127,060
Individuals - Other	83,208	50,000	133,208	90,209	-	90,209
Corporations	80,430	-	80,430	79,743	-	79,743
Foundations	743,896	219,980	963,876	687,900	478,991	1,166,891
Special events - Net	104,486	-	104,486	172,417	-	172,417
Total public support	1,112,313	269,980	1,382,293	1,157,329	478,991	1,636,320
Fees and grants from government agencies	19,877	-	19,877	30,255	-	30,255
Program revenue:						
Art residency programs	741,943	-	741,943	537,191	-	537,191
Touring performances	224,981	-	224,981	197,909	-	197,909
Community schools (21st CCLC and other)	67,909	-	67,909	46,470	-	46,470
Total program revenue	1,034,833	-	1,034,833	781,570	-	781,570
Interest income	23	-	23	106	-	106
Other income	27,402	-	27,402	288	-	288
Total public support and revenue	2,194,448	269,980	2,464,428	1,969,548	478,991	2,448,539
Net assets released from restrictions	407,500	(407,500)	-	419,316	(419,316)	-
Total revenue, support, and net assets released from restrictions	2,601,948	(137,520)	2,464,428	2,388,864	59,675	2,448,539
Expenses						
Program services	1,935,021	-	1,935,021	1,661,871	-	1,661,871
Administrative expenses	215,074	-	215,074	212,367	-	212,367
Fundraising expenses	430,085	-	430,085	507,431	-	507,431
Total expenses	2,580,180	-	2,580,180	2,381,669	-	2,381,669
Increase (Decrease) in Net Assets	21,768	(137,520)	(115,752)	7,195	59,675	66,870
Net Assets - Beginning of year	326,011	801,491	1,127,502	318,816	741,816	1,060,632
Net Assets - End of year	**$ 347,779**	**$ 663,971**	**$ 1,011,750**	**$ 326,011**	**$ 801,491**	**$ 1,127,502**

Urban Gateways

Statement of Cash Flows

	Year Ended August 31, 2017	Year Ended August 31, 2016
Cash Flows from Operating Activities		
Change in net assets	$ (115,752)	$ 66,870
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	47,435	27,344
Discount on contribution receivable	(3,070)	11,009
Changes in operating assets and liabilities which provided (used) cash:		
Contributions and grants receivable	254,185	(281,693)
Accounts receivable	70,467	(13,439)
Prepaid expenses and deposits	(33,430)	19,014
Accounts payable	4,486	(5,650)
Accrued expenses	(1,211)	2,004
Deferred revenue	(3,850)	(20,450)
Net cash provided by (used in) operating activities	219,260	(194,991)
Cash Flows from Investing Activities - Purchase of property and equipment	(113,372)	(36,541)
Cash Flows from Financing Activities - Proceeds from issuance of long-term debt - Net	79,377	
Net Increase (Decrease) in Cash	185,265	(231,532)
Cash - Beginning of year	94,731	326,263
Cash - End of year	**$ 279,996**	**$ 94,731**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	**$ 5,884**	**$ -**

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 engage young people in arts experiences to inspire creativity and impact social change. The Organization works to overcome social and economic barriers for youth to access Chicago's artistic and cultural vitality, fostering a more creative and artistically responsive society.

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 and Grants Receivable - The Organization's contributions and grants 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, 2017 and 2016.

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, 2017 and 2016.

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. 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.

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 (ASU) 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 and plans to complete this evaluation by the end of 2018.

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 is currently evaluating which application method it will use and the potential effects of the new standard on the financial statements.

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

In February 2016, the Financial Accounting Standards Board issued ASU No. 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 is expected to increase long-term assets and liabilities on the statement of financial position. The changes in net assets are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including December 13, 2017, which is the date the financial statements were available to be issued.

Note 2 - Asset Purchase Agreement

On January 31, 2017, the Organization entered into an asset purchase agreement with Street-Level Youth Media (SLYM), an organization that operates digital media arts and emerging technologies programs as part of its stated mission to educate and inspire Chicago's under-resourced youth and young adults in school, after school and for those out of school.

SLYM transferred all of its net assets to the Organization as of that date. As a result of this acquisition, the balance of SLYM's assets over liabilities was recognized as other revenue in the amount of $26,627 for the year ended August 31, 2017. 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	$ 50,742
Property and equipment - Net	56,850
Other assets	13,130
Total assets	120,722
Note payable	89,433
Accounts payable	4,662
Net assets acquired	$ 26,627

Note 3 - Contributions Receivable

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

	2017	2016
Due within one year	$ 330,554	$ 607,500
Due in one to five years	202,500	179,739
Less discount on long-term receivable	(7,939)	(11,009)
Total	$ 525,115	$ 776,230

Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2017	2016	Depreciable Life - Years
Technology and office equipment	$ 232,494	$ 247,049	3-10
SLYM program center assets	190,860	-	3-5
Leasehold improvements	428,655	-	5
Total cost	852,009	247,049	
Accumulated depreciation	701,936	162,913	
Net property and equipment	$ 150,073	$ 84,136	

Depreciation expense was $47,435 for 2017 and $27,344 for 2016. Assets acquired from SLYM included approximately $467,000 in fully depreciated assets.

Note 5 - Line of Credit

On July 18, 2014, management entered into an agreement with JPMorgan Chase 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, 2017 and 2016 was 5.75 percent and 5 percent, respectively. The Organization had no outstanding balance on the line of credit as of August 31, 2017 and 2016.

Note 6 - Long-term Debt

Long-term debt at August 31 is as follows:

	2017	2016
Promissory note payable to Illinois Facilities Fund in monthly installments of $1,638 including interest at 5.5 percent. The note was assumed by the Organization as part of the asset purchase of Street-Level Youth Media as described in Note 2. The note is collateralized by the Organization's property and matures on March 1, 2022	$ 79,377	$ -

The balance of the above debt matures as follows:

2018	$ 15,809
2019	16,618
2020	17,469
2021	18,362
2022	11,119
Total	$ 79,377

Interest expense for the year ended August 31, 2017 was $2,973.

Note 7 - Concentrations

Approximately 66 percent and 62 percent of total revenue earned during the years ended August 31, 2017 and 2016, respectively, is from one customer, Chicago Public Schools. The receivable balance from Chicago Public Schools was $34,388 and $132,620 as of August 31, 2017 and 2016, respectively.

Note 8 - 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 and the Organization is not planning on renewing the lease.

In November 2017, the Organization entered into a 24-month lease with WeWork, whereby it would provide the Organization with 12 months of in-kind rent. The lease begins December 1, 2017. All future rent payments, net of in-kind, are reflected in the schedule of future payments below.

Note 8 - Operating Lease (Continued)

As part of the Street-Level Youth Media asset transaction described in Note 2, the Organization entered into a lease with Pinnacle Capital Ashland, LLC that expires on August 31, 2018. In November 2017, the Organization extended the lease through August 31, 2023. Extended rent payments are reflected in the schedule of future payments below.

Rent expenses totaled $75,481 and $72,502 for the years ended August 31, 2017 and 2016, respectively.

The following is a schedule of estimated future minimum rental payments as of the years ending August 31:

2018	$	167,980
2019		115,886
2020		96,540
2021		95,651
2022		98,521
Thereafter		101,477
Total	$	676,055

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2017 and 2016 are restricted for the following:

		2017		2016
Contributions receivable restricted for time purposes	$	527,061	$	751,491
Restricted for time and specific program use		-		10,000
Restricted for specific program use		136,910		40,000
Total temporarily restricted net assets	$	663,971	$	801,491

Note 10 - 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 $28,249 and $25,604 for the years ended August 31, 2017 and 2016, respectively.

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, 2017 and 2016 and have issued our report thereon dated December 13, 2017, 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 13, 2017

Urban Gateways

Statement of Functional Expenses
Year Ended August 31, 2017

	Program	Administrative and Marketing	Fundraising	Total
Salaries - Staff	$ 579,481	$ 130,977	$ 283,736	$ 994,194
Temporary personnel	6,127	-	-	6,127
FICA tax	44,774	9,286	20,157	74,217
Workers' compensation	12,142	1,584	3,871	17,597
Group benefits	96,967	10,080	23,794	130,841
Retirement plan	16,213	3,568	8,468	28,249
Total salaries and related expenses	755,704	155,495	340,026	1,251,225
Artist and instructor fees	794,761	-	-	794,761
Program supplies	79,829	-	-	79,829
Site rental	1,000	-	-	1,000
Bus rental	3,741	-	-	3,741
Audit fees	-	21,400	-	21,400
Professional and contract fees	13,293	819	1,529	15,641
Marketing and promotion	23,815	1,411	17,666	42,892
Office rent and utilities	129,984	8,689	21,549	160,222
Postage	1,463	388	4,079	5,930
Telephone	12,466	1,247	3,047	16,760
Office supplies	3,826	3,273	1,538	8,637
Equipment maintenance and repairs	19,040	10,015	13,139	42,194
General insurance	12,914	1,137	4,118	18,169
Depreciation	37,256	2,955	7,224	47,435
Interest expense	2,536	3,348	-	5,884
Dues and memberships	4,513	1,069	2,740	8,322
Staff training	6,010	44	929	6,983
Other	631	1,445	7,454	9,530
Meetings attended	484	121	465	1,070
Meetings hosted	3,706	246	2,137	6,089
Travel - Local	22,218	1,640	1,632	25,490
Travel - Out of town	5,831	332	813	6,976
Fundraising events	-	-	161,182	161,182
Total functional expenses	**$ 1,935,021**	**$ 215,074**	**$ 591,267**	**$ 2,741,362**

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**