Urban Gateways

Financial Report

August 31, 2018

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, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses, 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, 2018 and 2017 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 10, 2019

Statement of Financial Position

August 31, 2018 and 2017

	2018	2017
Assets		
Cash	$ 127,495	$ 279,996
Accounts receivable:		
Accounts receivable	51,480	81,190
Contributions and grants receivable - Net	511,977	525,115
Prepaid expenses and deposits	54,960	62,540
Property and equipment - Net	155,944	150,073
Total assets	**$ 901,856**	**$ 1,098,914**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 4,211	$ 5,938
Accrued expenses	7,210	1,849
Deferred revenue	5,000	-
Deferred rent	11,025	-
Note payable	63,572	79,377
Total liabilities	91,018	87,164
Net Assets		
Unrestricted net assets	364,712	347,779
Temporarily restricted net assets	446,126	663,971
Total net assets	810,838	1,011,750
Total liabilities and net assets	**$ 901,856**	**$ 1,098,914**

Urban Gateways

Statement of Activities and Changes in Net Assets

Years Ended August 31, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue						
Contributions - Urban Gateways Board	$ 235,582	$ 2,000	$ 237,582	$ 100,293	$ -	$ 100,293
Contributions - Individuals	196,544	-	196,544	83,208	50,000	133,208
Contributions - Corporations	112,650	235,542	348,192	80,430	219,980	300,410
Contributions - Foundations	779,165	-	779,165	743,896	-	743,896
Community schools (21st CCLC and other)	21,000	-	21,000	67,909	-	67,909
Art residency programs	468,967	-	468,967	741,943	-	741,943
Touring performances	162,705	-	162,705	224,981	-	224,981
Fees and grants from government agencies	98,514	10,668	109,182	19,877	-	19,877
Special event revenue - Net	145,072	3,000	148,072	104,486	-	104,486
Interest income	11	-	11	23	-	23
Other income	57	-	57	27,402	-	27,402
Total public support and revenue	2,220,267	251,210	2,471,477	2,194,448	269,980	2,464,428
Net Assets Released from Restrictions	469,055	(469,055)	-	407,500	(407,500)	-
Total revenue, support, and net assets released from restriction	2,689,322	(217,845)	2,471,477	2,601,948	(137,520)	2,464,428
Expenses						
Program services	1,956,438	-	1,956,438	1,935,021	-	1,935,021
Support services:						
Administrative expenses	291,034	-	291,034	215,074	-	215,074
Fundraising expenses	424,917	-	424,917	430,085	-	430,085
Total support services	715,951	-	715,951	645,159	-	645,159
Total expenses	2,672,389	-	2,672,389	2,580,180	-	2,580,180
Increase (Decrease) in Net Assets	16,933	(217,845)	(200,912)	21,768	(137,520)	(115,752)
Net Assets - Beginning of year	347,779	663,971	1,011,750	326,011	801,491	1,127,502
Net Assets - End of year	**$ 364,712**	**$ 446,126**	**$ 810,838**	**$ 347,779**	**$ 663,971**	**$ 1,011,750**

See notes to financial statements.

Statement of Functional Expenses

Year Ended August 31, 2018

	Program	Administrative and Marketing	Fundraising	Total
Salaries - Staff	$ 633,487	$ 178,638	$ 291,630	$ 1,103,755
Temporary personnel	29,310	-	-	29,310
FICA tax	53,029	12,517	19,706	85,252
Workers' compensation	18,558	2,498	5,710	26,766
Group benefits	99,347	18,972	25,834	144,153
Retirement plan	16,167	5,719	6,273	28,159
Total salaries and related expenses	849,898	218,344	349,153	1,417,395
Artist and instructor fees	613,620	-	-	613,620
Program supplies	68,225	-	-	68,225
Bus rental	1,746	-	-	1,746
Audit fees	-	21,994	-	21,994
Professional and contract fees	24,908	2,736	1,854	29,498
Marketing and promotion	48,880	1,379	12,061	62,320
Office rent and utilities	169,165	9,819	22,038	201,022
Postage	1,120	698	1,124	2,942
Telephone	18,131	1,922	3,837	23,890
Office supplies	2,527	1,934	1,334	5,795
Equipment maintenance and repairs	40,681	13,688	4,599	58,968
General insurance	11,652	1,665	3,329	16,646
Depreciation	54,320	4,121	8,241	66,682
Interest expense	2,938	8,210	-	11,148
Dues and membership	1,005	121	3,313	4,439
Staff training	10,986	89	285	11,360
Other	3,191	1,908	8,033	13,132
Travel and conferences	33,445	2,406	5,716	41,567
Fundraising events	-	-	159,168	159,168
Total functional expenses	**$ 1,956,438**	**$ 291,034**	**$ 584,085**	**$ 2,831,557**

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 membership	4,513	1,069	2,740	8,322
Staff training	6,010	44	929	6,983
Other	631	1,445	7,454	9,530
Travel and conferences	32,239	2,339	5,047	39,625
Fundraising events	-	-	161,182	161,182
Total functional expenses	**$ 1,935,021**	**$ 215,074**	**$ 591,267**	**$ 2,741,362**

Statement of Cash Flows

Years Ended August 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ (200,912)	$ (115,752)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	66,682	47,435
Discount on contributions receivable	(5,542)	(3,070)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions and grants receivable	21,563	254,185
Accounts receivable	26,827	70,467
Prepaid expenses and other deposits	7,580	(33,430)
Deferred rent	11,025	-
Accounts payable	(1,727)	4,486
Accrued expenses	5,361	(1,211)
Deferred revenue	5,000	(3,850)
Net cash (used in) provided by operating activities	(64,143)	219,260
Cash Flows Used in Investing Activities - Purchase of property and equipment	(72,553)	(113,372)
Cash Flows from Financing Activities		
(Repayment of) proceeds from debt	(15,805)	79,377
Proceeds from line of credit	400,000	-
Payments on line of credit	(400,000)	-
Net cash (used in) provided by financing activities	(15,805)	79,377
Net (Decrease) Increase in Cash	(152,501)	185,265
Cash - Beginning of year	279,996	94,731
Cash - End of year	**$ 127,495**	**$ 279,996**
Supplemental Cash Flow Information - Cash paid for interest	$ 11,148	$ 5,884

See notes to financial statements.

Note 1 - Nature of Business

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.

Note 2 - Significant Accounting Policies

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.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

Contributions

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.

The Organization's contributions and grants receivable are primarily composed of contribution grants committed from various donors and funding agencies for use in the Organization's activities. Contributions and grants receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

The Organization also evaluates the collectibility of all promises to give in the future. The Organization has an allowance for doubtful accounts of $0 as of August 31, 2018 and 2017.

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, 2018 and 2017.

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

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.

Note 2 - Significant Accounting Policies (Continued)

Donated Services and Assets

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 received free rent for certain months in 2017 as part of its lease agreement with its landlord. These amounts were 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 a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Functional Allocation of Expenses

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. Costs have been allocated between the various programs and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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. The Organization is currently evaluating which application method it will use and the potential effects of the new standard on the financial statements.

Note 2 - Significant Accounting Policies (Continued)

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-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 operations 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 new lease standard is expected to have a significant effect on the Organization’s financial statements as a result of the Organization's operating leases, as disclosed in Note 9, that will be reported on the statement of financial position at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations 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.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. 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 has determined that the standard will have an impact on its financial statements, specifically on the classifications of net assets and the addition of liquidity and availability disclosures. The Organization is currently gathering the appropriate information to implement these changes in a timely manner.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization’s year ending August 31, 2021 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 10, 2019, which is the date the financial statements were available to be issued.

Note 3 - 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.

Note 3 - Asset Purchase Agreement (Continued)

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 4 - Contributions Receivable

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

	2018	2017
Promises to give before discount	$ 514,374	$ 533,054
Less net present value discount	(2,397)	(7,939)
Net contributions receivable	$ 511,977	$ 525,115
Amounts due in:		
Less than one year	$ 434,374	$ 330,554
One to five years	80,000	202,500
Total	$ 514,374	$ 533,054

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Technology and office equipment	$ 219,071	$ 232,494	3-10
SLYM program center assets	209,861	190,860	3-5
Leasehold improvements	447,393	428,655	5
Total cost	876,325	852,009	
Accumulated depreciation	720,381	701,936	
Net property and equipment	$ 155,944	$ 150,073	

Depreciation expense for 2018 and 2017 was $66,682 and $47,435, respectively. Assets acquired from SLYM included approximately $467,000 in fully depreciated assets.

Note 6 - 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, 2018 and 2017 was 6.50 percent and 5.75 percent, respectively. The Organization had no outstanding balance on the line of credit as of August 31, 2018 and 2017.

Note 7 - Long-term Debt

Long-term debt at August 31 is as follows:

	2018	2017
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 3. The note is collateralized by the Organization's property and matures on March 1, 2022	$ 63,572	$ 79,377

The balance of the above debt matures as follows:

Years Ending	Amount
2019	$ 16,618
2020	17,469
2021	18,362
2022	11,123
Total	$ 63,572

Interest expense for 2018 and 2017 was $9,946 and $2,973, respectively.

Note 8 - Concentrations

Approximately 19 percent and 28 percent of total revenue earned during the years ended August 31, 2018 and 2017, respectively, is from one customer, Chicago Public Schools. The receivable balance from Chicago Public Schools was $27,850 and $34,388 as of August 31, 2018 and 2017, respectively.

Note 9 - Operating Leases

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 expired on May 31, 2018, and the Organization did not renew 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 began December 1, 2017. All future rent payments, net of in-kind, are reflected in the schedule of future payments below.

As part of the Street-Level Youth Media asset transaction described in Note 3, the Organization entered into a lease with Pinnacle Capital Ashland, LLC that expired 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 $129,448 and $75,481 for the years ended August 31, 2018 and 2017, respectively.

Note 9 - Operating Leases (Continued)

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

2019	$ 115,886
2020	96,540
2021	95,651
2022	98,521
2023	101,477
Total	$ 508,075

Note 10 - Net Assets

Temporarily restricted net assets as of August 31 are available for the following purposes:

	2018	2017
Purpose restrictions	$ 10,668	$ 136,910
Time restrictions	435,458	527,061
Total temporarily restricted net assets	$ 446,126	$ 663,971

Note 11 - 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 $28,159 and $28,249 for the years ended August 31, 2018 and 2017, respectively.

Note 12 - Related Party Transactions

The Organization received $237,582 and $100,293 in contributions from its board in 2018 and 2017, respectively. Amounts receivable from the Board were $10,922 and $750 at August 31, 2018 and 2017, respectively.