Urban Gateways

Financial Report
August 31, 2019

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, 2019 and 2018 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 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, 2019 and 2018 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.

Emphasis of Matter

As described in Note 2 to the financial statements, the Organization adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

January 8, 2020

Statement of Financial Position

August 31, 2019 and 2018

	2019	2018
Assets		
Cash	$ 48,480	$ 127,495
Accounts receivable:		
Accounts receivable	94,140	51,480
Contributions and grants receivable - Net	1,002,575	511,977
Prepaid expenses and deposits	55,192	54,960
Property and equipment - Net	266,742	155,944
Total assets	**$ 1,467,129**	**$ 901,856**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 28,357	$ 4,211
Accrued expenses	3,030	7,210
Deferred revenue	4,420	5,000
Deferred rent	-	11,025
Note payable	46,959	63,572
Total liabilities	82,766	91,018
Net Assets		
Without donor restrictions	324,312	364,712
With donor restrictions	1,060,051	446,126
Total net assets	1,384,363	810,838
Total liabilities and net assets	**$ 1,467,129**	**$ 901,856**

Statement of Activities and Changes in Net Assets

Years Ended August 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Contributions - Urban Gateways Board	$ 187,335	$ 4,250	$ 191,585	$ 235,582	$ 2,000	$ 237,582
Contributions - Individuals	176,923	-	176,923	196,544	-	196,544
Contributions - Corporations	108,225	-	108,225	112,650	-	112,650
Contributions - Foundations	848,870	908,733	1,757,603	779,165	235,542	1,014,707
Community schools (21st CCLC and other)	53,420	-	53,420	21,000	-	21,000
Art residency programs	449,695	-	449,695	468,967	-	468,967
Touring performances	181,730	-	181,730	162,705	-	162,705
Fees and grants from government agencies	111,137	64,068	175,205	98,514	10,668	109,182
Special event revenue - Net	142,679	3,000	145,679	145,071	3,000	148,071
Interest income	-	-	-	11	-	11
Other income	9,434	-	9,434	57	-	57
Total public support and revenue	2,269,448	980,051	3,249,499	2,220,266	251,210	2,471,476
Net Assets Released from Restrictions	366,126	(366,126)	-	469,055	(469,055)	-
Total program support, revenue, and net assets released from restrictions	2,635,574	613,925	3,249,499	2,689,321	(217,845)	2,471,476
Expenses						
Program expenses	1,870,814	-	1,870,814	1,907,557	-	1,907,557
Support services:						
Administrative expenses	402,266	-	402,266	339,915	-	339,915
Fundraising expenses	402,894	-	402,894	424,916	-	424,916
Total support services	805,160	-	805,160	764,831	-	764,831
Total expenses	2,675,974	-	2,675,974	2,672,388	-	2,672,388
(Decrease) Increase in Net Assets	(40,400)	613,925	573,525	16,933	(217,845)	(200,912)
Net Assets - Beginning of year	364,712	446,126	810,838	347,779	663,971	1,011,750
Net Assets - End of year	**$ 324,312**	**$ 1,060,051**	**$ 1,384,363**	**$ 364,712**	**$ 446,126**	**$ 810,838**

Statement of Functional Expenses

Year Ended August 31, 2019

	Program	Administrative	Fundraising	Total
Artist and instructor fees	$ 561,167	$ 356	$ 3,523	$ 565,046
Program supplies	62,513	-	-	62,513
Bus rental	2,852	-	-	2,852
Bad debt	1,800	-	-	1,800
Compensation - Staff	668,235	223,063	269,667	1,160,965
Compensation - Bonus	500	-	500	1,000
Compensation - Temporary	13,894	-	-	13,894
Payroll taxes	55,100	16,340	19,585	91,025
Benefits - Group insurance	122,619	19,049	27,855	169,523
Benefits - Retirement	15,882	5,955	6,786	28,623
Staff professional development	9,445	966	2,581	12,992
Professional fees	12,162	24,919	1,295	38,376
Advertising and promotion	-	58,301	12,138	70,439
Travel, conferences, and meetings	24,808	2,141	7,599	34,548
Depreciation	45,009	3,415	6,830	55,254
Software and equipment expense	34,557	14,925	11,501	60,983
Facilities and utilities	185,936	4,990	10,788	201,714
Finance charges	-	1,363	5,577	6,940
Insurance - General	13,776	1,399	3,794	18,969
Insurance - Workers' compensation	12,956	1,784	3,881	18,621
Interest expenses	2,801	19,267	-	22,068
Office supplies	1,231	401	509	2,141
Other expenses	5,542	1,134	3,812	10,488
Postage and delivery	2,326	535	1,880	4,741
Telephone	15,703	1,963	2,793	20,459
Special event expense	-	-	128,300	128,300
Total functional expenses	**$ 1,870,814**	**$ 402,266**	**$ 531,194**	**$ 2,804,274**

Statement of Functional Expenses

Year Ended August 31, 2018

	Program	Administrative	Fundraising	Total
Artist and instructor fees	$ 613,620	$ -	$ -	$ 613,620
Program supplies	68,225	-	-	68,225
Bus rental	1,746	-	-	1,746
Compensation - Staff	633,487	178,638	291,630	1,103,755
Compensation - Temporary	29,310	-	-	29,310
Payroll taxes	53,029	12,517	19,706	85,252
Benefits - Group insurance	99,346	18,971	25,834	144,151
Benefits - Retirement	16,167	5,719	6,273	28,159
Staff professional development	10,986	89	285	11,360
Professional fees	24,908	24,730	1,854	51,492
Advertising and promotion	-	50,259	12,061	62,320
Travel, conferences, and meetings	33,445	2,407	5,717	41,569
Depreciation	54,320	4,121	8,241	66,682
Software and equipment expense	25,765	13,508	4,239	43,512
Facilities and utilities	183,150	10,000	22,398	215,548
Finance charges	260	1,419	7,162	8,841
Insurance - General	11,652	1,665	3,329	16,646
Insurance - Workers' compensation	18,558	2,498	5,710	26,766
Interest expenses	2,938	8,210	-	11,148
Office supplies	2,527	1,934	1,334	5,795
Other expenses	3,939	611	4,182	8,732
Postage and delivery	1,120	698	1,124	2,942
Telephone	18,130	1,921	3,837	23,888
Special event expense	929	-	158,239	159,168
Total functional expenses	**$ 1,907,557**	**$ 339,915**	**$ 583,155**	**$ 2,830,627**

Statement of Cash Flows

Years Ended August 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 573,525	$ (200,912)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	55,254	66,682
Discount on contributions receivable	19,762	(5,542)
Changes in operating assets and liabilities that (used) provided cash:		
Contributions and grants receivable	(510,360)	21,563
Accounts receivable	(42,660)	26,827
Prepaid expenses and deposits	(232)	7,580
Deferred rent	(11,025)	11,025
Accounts payable	24,146	(1,727)
Accrued expenses	(4,180)	5,361
Deferred revenue	(580)	5,000
Net cash provided by (used in) operating activities	103,650	(64,143)
Cash Flows Used in Investing Activities - Purchase of property and equipment	(166,052)	(72,553)
Cash Flows from Financing Activities		
Repayment of note payable	(16,613)	(15,805)
Proceeds from line of credit	395,000	400,000
Payments on line of credit	(395,000)	(400,000)
Net cash used in financing activities	(16,613)	(15,805)
Net Decrease in Cash	(79,015)	(152,501)
Cash - Beginning of year	127,495	279,996
Cash - End of year	**$ 48,480**	**$ 127,495**
Supplemental Cash Flow Information - Cash paid for interest	$ 16,286	$ 11,148

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 based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objective of the Organization.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are released to net assets without restrictions.

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 contributions without donor restrictions. Other restricted gifts are reported as restricted support and net assets with donor restrictions.

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, 2019 and 2018.

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, 2019 and 2018.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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 2019 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.

Expenses that are allocated include the following:

- Compensation and benefits - Time and effort
- Depreciation - Headcount and square footage
- Software and equipment - Headcount
- Facilities and utilities - Headcount and square footage
- Insurance - Headcount
- Telephone - Headcount

Note 2 - Significant Accounting Policies (Continued)

Adoption of New Accounting Principle

As of July 1, 2018, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including net asset classification, liquidity and availability of resources, and details of expenses by natural and functional classification and methods of allocation. This standard requires net assets to be classified into two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. As a result of the adoption of this standard, the financial information for the year ended August 31, 2018 has been restated as follows: management and general expenses have decreased by $48,881 from the amount previously reported, with a corresponding increase to administrative expenses. All applicable changes to the reporting model have been incorporated into the Organization's financial statements as of August 31, 2019, applied retrospectively to all years presented, with the exception of the liquidity and availability of resources disclosures, as allowed by the standard.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued 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 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.

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, 2022 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 8, 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.

Note 2 - Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and 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, 2020 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 8, 2020, which is the date the financial statements were available to be issued.

Note 3 - Contributions Receivable

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

	2019	2018
Promises to give before discount	$ 1,013,842	$ 514,374
Less net present value discount	(11,267)	(2,397)
Net contributions receivable	$ 1,002,575	$ 511,977
Amounts due in:		
Less than one year	$ 483,842	$ 434,374
One to five years	530,000	80,000
Total	$ 1,013,842	$ 514,374

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018	Depreciable Life - Years
Technology and office equipment	$ 378,528	$ 219,071	3-10
SLYM program center assets	212,991	209,861	3-5
Leasehold improvements	450,858	447,393	5
Total cost	1,042,377	876,325	
Accumulated depreciation	775,635	720,381	
Net property and equipment	$ 266,742	$ 155,944	

Depreciation expense for 2019 and 2018 was $55,254 and $66,682, respectively.

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. During 2019, the Organization increased maximum borrowings from $200,000 to $300,000. 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, 2019 and 2018 was 6.50 percent for both years. The Organization had no outstanding balance on the line of credit as of August 31, 2019 and 2018.

Note 6 - Long-term Debt

Long-term debt at August 31 is as follows:

	2019	2018
Note payable to a bank 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. The note is collateralized by the Organization's property and matures on March 1, 2022	$ 46,959	$ 63,572

The balance of the above debt matures as follows:

Years Ending	Amount
2020	$ 17,474
2021	18,362
2022	11,123
Total	$ 46,959

Interest expense for 2019 and 2018 was $16,286 and $9,946, respectively.

Note 7 - Concentrations

Approximately 21 percent and 19 percent of total revenue earned during the years ended August 31, 2019 and 2018, respectively, is from one customer, Chicago Public Schools. The receivable balance from Chicago Public Schools was $57,422 and $27,850 as of August 31, 2019 and 2018, respectively.

Note 8 - Operating Leases

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 on December 1, 2017. All future rent payments, net of in-kind, are reflected in the schedule of future payments below. The lease expired on December 1, 2019, and the Organization did not renew the lease.

As part of the Street-Level Youth Media asset transaction, 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.

Note 8 - Operating Leases (Continued)

Rent expenses totaled $129,448 and $75,481 for the years ended August 31, 2019 and 2018, respectively.

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

2020	$	96,540
2021		95,651
2022		98,521
2023		101,477
Total	$	392,189

Note 9 - Net Assets

Net assets with donor restrictions as of August 31 are available for the following purposes:

	2019	2018
Purpose restrictions	$ 106,435	$ 10,668
Time restrictions	953,616	435,458
Total	$ 1,060,051	$ 446,126

Net assets in the amount $366,126 and $469,055 were released for program expenses for the years ended August 31, 2019 and 2018, respectively.

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 $28,622 and $28,159 for the years ended August 31, 2019 and 2018, respectively.

Note 11 - Related Party Transactions

The Organization received $191,585 and $237,582 in contributions from its board in 2019 and 2018, respectively. Amounts receivable from the board were $1,500 and $10,922 at August 31, 2019 and 2018, respectively.

Note 12 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Cash and cash equivalents	$ 48,480
Accounts receivable	94,140
Contributions receivable	1,002,575
Financial assets - At year end	1,145,195
Less those unavailable for general expenditures within one year due to - contractual or donor-imposed restrictions - Restricted by donor with time or purpose restrictions	810,051
Financial assets available to meet cash needs for general expenditures within one year	$ 335,144

Note 12 - Liquidity and Availability of Resources (Continued)

The Organization is substantially supported by a mix of program revenue, restricted contributions, and general operating support. In the case of restricted support, because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, some financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of a liquidity need due to the timing of receivables, the Organization could draw upon $300,000 of an available line of credit (as further discussed in Note 5).