
**THE URBAN LEAGUE OF
METROPOLITAN ST. LOUIS, INC.**
*FINANCIAL STATEMENTS
DECEMBER 31, 2017*



**Urban League
of Metropolitan St. Louis, Inc.**

Empowering Communities. Changing Lives.

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Independent Auditors' Report

Audit Committee
The Urban League of Metropolitan St. Louis, Inc.
St. Louis, Missouri

Report On Financial Statements

We have audited the accompanying financial statements of The Urban League of Metropolitan St. Louis, Inc., which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Urban League of Metropolitan St. Louis, Inc. as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2018 on our consideration of The Urban League of Metropolitan St. Louis, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Urban League of Metropolitan St. Louis, Inc.'s internal control over financial reporting and compliance.

RubinBrown LLP

July 13, 2018

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2017 And 2016

	December 31,	
	2017	2016
Assets		
Cash and cash equivalents	\$ 2,931,957	\$ 5,156,881
Accounts receivable, net of allowance for doubtful accounts of \$25,883	2,250,178	2,542,087
Pledges receivable, net	2,655,110	2,581,481
Prepaid expenses and other current assets	517,894	440,326
Investments	4,956,725	4,633,753
Deferred pension asset	—	157,602
Intangibles	117,308	140,385
Property and equipment, net	6,701,276	3,377,559
Total Assets	\$ 20,130,448	\$ 19,030,074
Liabilities		
Accounts payable and accrued expenses	\$ 979,672	\$ 1,166,663
Current maturities of notes payable	19,493	18,776
Accrued payroll and related taxes	343,928	353,431
Accrued pension liability	538,454	—
Deferred revenue	557,046	168,080
Long-term notes payable	6,269,426	6,549,860
Less: unamortized debt issuance costs	415,762	426,538
Total Long-Term Notes Payable	5,853,664	6,123,322
Total Liabilities	8,292,257	7,830,272
Net Assets		
Unrestricted	4,245,085	4,165,307
Temporarily restricted	6,887,960	6,356,817
Permanently restricted	705,146	677,678
Total Net Assets	11,838,191	11,199,802
Total Liabilities And Net Assets	\$ 20,130,448	\$ 19,030,074

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

STATEMENT OF ACTIVITIES For The Year Ended December 31, 2017

	Operational	Ferguson Empowerment Center	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support And Revenue						
Public Support:						
Contributions and special purpose revenue	\$ 2,253,599	\$ —	\$ 2,253,599	\$ 2,084,045	\$ —	\$ 4,337,644
United Way of Greater St. Louis: 2017	1,051,952	—	1,051,952	(1,050,365)	—	1,587
United Way of Greater St. Louis: 2018	—	—	—	944,681	—	944,681
Unassociated fund raising	12,964	—	12,964	5,000	—	17,964
Special events income - net of expenses	(183,157)	—	(183,157)	550,000	—	366,843
Membership dues	126,960	—	126,960	—	—	126,960
Net assets released from restrictions	2,115,254	—	2,115,254	(2,115,254)	—	—
Total Public Support	5,377,572	—	5,377,572	418,107	—	5,795,679
Grants from Governmental Agencies	13,462,931	—	13,462,931	—	—	13,462,931
Other Revenue						
Investment income	201,635	—	201,635	—	79,289	280,924
Miscellaneous	292,485	69,750	362,235	113,036	—	475,271
Total Other Revenue (Expense)	494,120	69,750	563,870	113,036	79,289	756,195
Total Support And Revenue	19,334,623	69,750	19,404,373	531,143	79,289	20,014,805
Expenses						
Program Services:						
Economic opportunity	3,396,424	103,425	3,499,849	—	—	3,499,849
Community empowerment	4,409,157	—	4,409,157	—	—	4,409,157
Educational excellence	9,209,873	—	9,209,873	—	—	9,209,873
Total Program Services	17,015,454	103,425	17,118,879	—	—	17,118,879
Supporting Services:						
Management and general	755,027	—	755,027	—	—	755,027
Fundraising and communications	939,725	—	939,725	—	—	939,725
Total Supporting Services	1,694,752	—	1,694,752	—	—	1,694,752
Total Expenses	18,710,206	103,425	18,813,631	—	—	18,813,631
Change In Net Assets From Operating Activities	624,417	(33,675)	590,742	531,143	79,289	1,201,174
Reclassification Of Endowment Balances	51,821	—	51,821	—	(51,821)	—
Pension-Related Costs Other Than Net Periodic Pension Costs	(562,785)	—	(562,785)	—	—	(562,785)
Change In Net Assets	113,453	(33,675)	79,778	531,143	27,468	638,389
Net Assets - Beginning Of Year	4,297,165	(131,858)	4,165,307	6,356,817	677,678	11,199,802
Net Assets - End Of Year	\$ 4,410,618	\$ (165,533)	\$ 4,245,085	\$ 6,887,960	\$ 705,146	\$ 11,838,191

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

STATEMENT OF ACTIVITIES For The Year Ended December 31, 2016

	Operational	Empowerment Center	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support And Revenue						
Public Support:						
Contributions and special purpose revenue	\$ 1,981,331	\$ —	\$ 1,981,331	\$ 873,810	\$ —	\$ 2,855,141
United Way of Greater St. Louis: 2016	1,053,028	—	1,053,028	(1,053,028)	—	—
United Way of Greater St. Louis: 2017	—	—	—	1,053,028	—	1,053,028
Unassociated fund raising	1,000	—	1,000	—	—	1,000
Special events income - net of expenses	323,648	—	323,648	—	—	323,648
Membership dues	140,800	—	140,800	—	—	140,800
Net assets released from restrictions	1,627,843	—	1,627,843	(1,627,843)	—	—
Total Public Support	5,127,650	—	5,127,650	(754,033)	—	4,373,617
Grants from Governmental Agencies	14,192,796	—	14,192,796	—	—	14,192,796
Other Revenue						
Investment income	93,384	—	93,384	—	35,639	129,023
Miscellaneous	82,873	—	82,873	—	—	82,873
Total Other Revenue And Gain (Loss)	176,257	—	176,257	—	35,639	211,896
Total Support And Revenue	19,496,703	—	19,496,703	(754,033)	35,639	18,778,309
Expenses						
Program Services:						
Economic opportunity	4,179,261	131,858	4,311,119	—	—	4,311,119
Community empowerment	3,703,678	—	3,703,678	—	—	3,703,678
Educational excellence	8,980,869	—	8,980,869	—	—	8,980,869
Total Program Services	16,863,808	131,858	16,995,666	—	—	16,995,666
Supporting Services:						
Management and general	1,141,664	—	1,141,664	—	—	1,141,664
Fundraising and communications	636,532	—	636,532	—	—	636,532
Total Supporting Services	1,778,196	—	1,778,196	—	—	1,778,196
Total Expenses	18,642,004	131,858	18,773,862	—	—	18,773,862
Change In Net Assets From Operating Activities	854,699	(131,858)	722,841	(754,033)	35,639	4,447
Pension-Related Benefits Other Than Net Periodic Pension Costs						
	51,873	—	51,873	—	—	51,873
Change In Net Assets	906,572	(131,858)	774,714	(754,033)	35,639	56,320
Net Assets - Beginning Of Year	3,390,593	—	3,390,593	7,110,850	642,039	11,143,482
Net Assets - End Of Year	\$ 4,297,165	\$ (131,858)	\$ 4,165,307	\$ 6,356,817	\$ 677,678	\$ 11,199,802

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2017

	Program Services				Supporting Services			
	Economic Opportunity	Community Empowerment	Educational Excellence	Total	Management And General	Fundraising And Communications	Total	
Expenses								
Salaries	\$ 1,342,912	\$ 677,375	\$ 3,748,355	\$ 5,768,642	\$ 1,254,820	\$ 544,668	\$ 7,568,130	
Employee health and retirement benefits	231,843	139,614	734,435	1,105,892	46,832	78,430	1,231,154	
Payroll taxes	149,093	57,957	385,393	592,443	128,863	38,326	759,632	
Assistance to individuals	19,474	2,884,433	411,197	3,315,104	43,785	—	3,358,889	
Occupancy	50,343	242,396	1,170,268	1,463,007	84,784	1,072	1,548,863	
Supplies	180,112	26,700	246,578	453,390	73,040	21,155	547,585	
Professional fees	1,054,110	21,757	1,063,723	2,139,590	10,840	7,144	2,157,574	
Local transportation	10,215	5,014	—	15,229	17,360	3	32,592	
Equipment purchases	—	—	22,199	22,199	—	—	22,199	
Telephone	13,727	40,866	66,097	120,690	22,639	4,168	147,497	
Awards and grants	—	—	48,135	48,135	500	—	48,635	
Conferences/meetings	16,627	14,704	40,143	71,474	95,024	19,729	186,227	
Travel	17,625	15,101	4,695	37,421	52,594	643	90,658	
Rental and equipment maintenance	794	26,810	14,252	41,856	37,802	2,309	81,967	
Printing and publications	53,515	31,660	58,285	143,460	36,354	212,716	392,530	
Insurance	37,432	11,292	89,116	137,840	30,903	5,936	174,679	
Postage and shipping	2,146	3,848	364	6,358	5,624	3,421	15,403	
Interest expense	47,509	2,175	—	49,684	—	—	49,684	
Miscellaneous	—	3,036	—	3,036	—	—	3,036	
Membership dues	200	250	4,059	4,509	9,677	5	14,191	
Dues to national organizations	—	—	—	—	15,350	—	15,350	
Total	3,227,677	4,204,988	8,107,294	15,539,959	1,966,791	939,725	18,446,475	
Allocation of depreciation and amortization	63,369	39,453	244,608	347,430	19,726	—	367,156	
Allocation of administrative costs	208,803	164,716	857,971	1,231,490	(1,231,490)	—	—	
Total Expenses	\$ 3,499,849	\$ 4,409,157	\$ 9,209,873	\$ 17,118,879	\$ 755,027	\$ 939,725	\$ 18,813,631	

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2016

	Program Services				Supporting Services		
	Economic Opportunity	Community Empowerment	Educational Excellence	Total	Management And General	Fundraising And Communications	Total
Expenses							
Salaries	\$ 1,571,933	\$ 668,080	\$ 3,529,913	\$ 5,769,926	\$ 1,082,752	\$ 399,471	\$ 7,252,149
Employee health and retirement benefits	239,155	146,861	805,573	1,191,589	222,373	66,984	1,480,946
Payroll taxes	206,465	66,750	445,654	718,869	83,748	25,353	827,970
Assistance to individuals	1,543,756	2,372,327	386,074	4,302,157	9,015	—	4,311,172
Occupancy	42,663	189,063	1,123,006	1,354,732	62,022	8,436	1,425,190
Supplies	36,414	19,978	594,247	650,639	80,833	2,389	733,861
Professional fees	233,207	—	946,682	1,179,889	96,824	1,753	1,278,466
Local transportation	16,752	4,049	231,696	252,497	12,447	—	264,944
Telephone	13,001	28,479	57,113	98,593	20,131	3,629	122,353
Awards and grants	—	—	6,176	6,176	29	—	6,205
Conferences/meetings	17,791	16,200	50,197	84,188	65,114	21,619	170,921
Travel	13,757	12,216	10,808	36,781	30,901	104	67,786
Rental and equipment maintenance	5,568	25,297	28,852	59,717	99,328	4,409	163,454
Printing and publications	42,435	20,953	29,579	92,967	(123)	28,519	121,363
Insurance	36,452	16,042	78,914	131,408	18,113	—	149,521
Postage and shipping	1,413	6,222	1,568	9,203	4,470	1,492	15,165
Miscellaneous	11,405	—	28,603	40,008	31,887	17,295	89,190
Membership dues	—	—	2,329	2,329	9,962	85	12,376
Dues to national organizations	—	—	—	—	15,275	—	15,275
Total	4,032,167	3,592,517	8,356,984	15,981,668	1,945,101	581,538	18,508,307
Allocation of depreciation and amortization	53,348	12,570	89,257	155,175	110,380	—	265,555
Allocation of administrative costs	225,604	98,591	534,628	858,823	(913,817)	54,994	—
Total Expenses	\$ 4,311,119	\$ 3,703,678	\$ 8,980,869	\$ 16,995,666	\$ 1,141,664	\$ 636,532	\$ 18,773,862

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

STATEMENT OF CASH FLOWS

	For The Years	
	Ended December 31,	
	2017	2016
Cash Flows From Operating Activities		
Increase in net assets	\$ 638,389	\$ 56,320
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	367,156	297,442
Amortization of debt issuance costs reported as interest expense	10,776	4,018
Net gains on long-term investments	(220,477)	(84,911)
Donation of equity securities	(11,723)	(1,998)
Changes in assets and liabilities:		
Decrease in accounts receivable	291,909	1,324,375
(Increase) decrease in pledges receivable	(73,629)	359,714
Increase in prepaid expenses	(77,568)	(202,385)
(Increase) decrease in deferred pension asset	157,602	(157,602)
Increase (decrease) in accounts payable and accrued expenses	(186,991)	439,692
Increase (decrease) in accrued payroll and related taxes	(9,503)	21,772
(Increase) decrease in accrued pension liability	538,454	(539,822)
Increase (decrease) in deferred revenues	388,966	(157,873)
Net Cash Provided By Operating Activities	1,813,361	1,358,742
Cash Flows From Investing Activities		
Purchase of property and equipment	(3,667,796)	(1,845,172)
Purchases of investments	(477,597)	(3,185,003)
Proceeds from sale or maturity of investments	386,825	504,110
Net Cash Used In Investing Activities	(3,758,568)	(4,526,065)
Cash Flows From Financing Activities		
Proceeds from notes payable	—	7,390,221
Payments on notes payable	(279,717)	(904,753)
Payments for new market tax credit fees	—	(581,028)
Payments for debt issuance costs	—	(56,250)
Net Cash Provided By (Used In) Financing Activities	(279,717)	5,848,190
Net Increase (Decrease) In Cash And Cash Equivalents	(2,224,924)	2,680,867
Cash And Cash Equivalents - Beginning Of Year	5,156,881	2,476,014
Cash And Cash Equivalents - End Of Year	\$ 2,931,957	\$ 5,156,881

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 And 2016

1. Summary Of Significant Accounting Policies

General

The Urban League of Metropolitan St. Louis, Inc. (the League) is a charitable, community services agency. It conducts programs and provides services to the community in education, basic needs, economic empowerment, and civil rights and advocacy. The League's mission is to assist African Americans and others throughout the St. Louis metropolitan area in the achievement of social and economic equality. The League implements its mission through advocacy, coalition building, program services and by promoting communication and understanding between the races.

The League's primary source of revenue is federal and state government grants. The League also receives contributions from the United Way and other charitable organizations and earns revenue from program fees.

The accompanying financial statements include all programs operated by the League. The financial statements are prepared on the accrual basis of accounting.

Use Of Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) of the United States of America requires that management make certain 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 revenues and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for uncollectible receivables and pledges and pension plan assumptions.

Financial Statement Format

The following is a description of the three classes of net assets of the League:

Unrestricted Net Assets

Unrestricted Net Assets represent those net assets whose use is not restricted by donors. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Included in unrestricted net assets are net assets for which outside agencies or government bodies, rather than a donor, have designated for various purposes under grant contracts. These assets are noted as unrestricted contractual net assets. Unrestricted property and equipment net assets represents the net property and equipment of the League that will be depreciated in future years.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (*Continued*)

Temporarily Restricted Net Assets

Temporarily Restricted Net Assets represent those net assets whose use has been limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the League pursuant to those stipulations.

Permanently Restricted Net Assets

Permanently Restricted Net Assets represent those net assets whose use has been limited by donor-imposed stipulations that they must be maintained in perpetuity. Interest income is recorded as temporarily restricted for scholarships.

Contributions

Unconditional contributions are recognized when promised or received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. Contributions received with donor-imposed restrictions that are met in the same year as the contribution is received are initially reported as temporarily restricted support and are subsequently released to unrestricted net assets in the same year. Gifts of long-lived assets received without stipulation are recorded as unrestricted support.

Grants From Governmental Agencies

Revenue from governmental grants and certain other contractual contributions is recognized when allowable expenditures are made by the League. Grants received for specific purposes but not yet expended are recorded as deferred revenue.

Cash And Cash Equivalents

Cash equivalents are stated at cost, which approximates market value. The League considers all highly liquid debt instruments with a maturity of three months or less at date of purchase to be cash equivalents. At December 31, 2017, approximately \$2,156,000 in bank deposits exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Pledges Receivable

Pledges receivable are recognized as revenue when they are unconditionally promised. Pledges with a term greater than one year are discounted using a rate of 3.00 to 3.75%.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (Continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investments received as gifts are recorded at estimated fair value at the date of donation. Dividend and interest income are accrued when earned.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statement of financial position.

Investment In Urban League FEC Leverage Lender

The League holds a 50% interest in Urban League FEC Leverage Lender (Leverage Lender). Investment in Leverage Lender is carried at cost of \$2,616,000 adjusted for the League's share of earnings or losses subsequent to acquisition (i.e., the equity method). Losses will not be recorded if they would cause the investment balance to be negative.

The following is a summary of selected financial information for this entity:

	<u>As Of December 31, 2017</u>		
	<u>Total</u>	<u>Total</u>	<u>Total</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
Urban League FEC Leverage Lender	\$ 4,016,000	\$ —	\$ 4,016,000

	<u>For The Year Ended December 31, 2017</u>			
	<u>Ownership</u>			<u>Allocated</u>
	<u>Interest</u>	<u>Revenues</u>	<u>Net Income</u>	<u>Share Of</u>
				<u>Income</u>
Urban League FEC Leverage Lender	50.00%	\$ 40,160	\$ 40,160	\$ 20,080

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements *(Continued)*

	As of December 31, 2016		
	Total Assets	Total Liabilities	Total Equity
Urban League FEC Leverage Lender	\$ 4,033,068	\$ —	\$ 4,033,068

	For The Year Ended December 31, 2016			
	Ownership Interest	Revenues	Net Income	Allocated Share Of Income
Urban League FEC Leverage Lender	50.00%	\$ 17,068	\$ 17,068	\$ 8,534

Intangibles

The League has incurred \$150,000 of fees associated with the new market tax credits. The fees are being amortized using the straight-line method over the 7-year compliance period. As of December 31, 2017 and 2016, amortization expense amounted to \$23,077 and \$9,615, respectively. As of December 31, 2017 and 2016, accumulated amortization amounted to \$32,692 and \$9,615, respectively.

Property And Equipment

Donated property and vehicles are recorded as an addition to the unrestricted property and equipment net assets at fair market value on the date of donation. Major repairs that significantly extend the life of an asset are capitalized. Purchases of property and equipment of \$5,000 or more are capitalized. Property and equipment are depreciated on a straight-line basis over the following estimated useful lives of the assets:

Buildings	40 years
Building improvements	20 years
Furniture, fixtures and equipment	3 - 10 years
Leased building improvements	Shorter of the life of lease or life of asset

The League acquires title to property and equipment purchased with federal grant funds. In certain instances, the federal government retains a reversionary interest in federally funded assets in the event of program termination. As of December 31, 2017 and 2016, the League held title to \$4,891,528 and \$4,178,007, respectively, of property and equipment purchased with federal grant funds. Accumulated depreciation on the federally funded assets amounted to \$3,203,125 and \$2,960,423 as of December 31, 2017 and 2016, respectively.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (*Continued*)

Debt Issuance Costs

Debt issuance costs totaling \$431,029 related to new market tax credit financing were capitalized and are being amortized on a straight-line basis over the term of the related tax credit compliance period. Accumulated amortization totaled \$15,267 and \$4,491, respectively, as of December 31, 2017 and 2016. Amortization expense amounted to \$10,776 and \$4,491 during the year ended December 31, 2017 and 2016, and is included in miscellaneous expenses on the statement of functional expenses. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Indirect Costs

Certain supporting salaries, benefits, worker's compensation, rent, business office fees, legal and audit fees, photocopier usage, postage and consulting, and general utility expenses are allocated to the individual programs to the extent allowable in the grants. These indirect costs are reflected in the allocation of administrative costs in the statements of functional expenses.

Fundraising

The League employs fundraising staff who organize special events and request contributions from donors. No fundraising costs are allocated to programs. Direct costs of special events are recorded as an offset to special event income in the statements of activities and amounted to \$2,142,289 and \$363,810 at December 31, 2017 and 2016, respectively. All other fundraising costs are recorded in the statements of activities and functional expenses.

Contributed Services, Materials And Rent

The League records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment. The League received contributed services in the amount of \$549,274 and \$137,925 in 2017 and 2016, respectively. During 2017 and 2016, \$298,945 and \$356,767, respectively, in contributed services were received but were not recorded as they did not meet the criteria for recognition.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (*Continued*)

As more fully described in Note 9, the use of the facilities where the League operates were donated or discounted. Amounts have been recognized as revenues and expenses in the accompanying financial statements for the fair market value of the donated facilities.

Description Of Program Services And Supporting Activities

The following program services and supporting activities are included in the accompanying financial statements:

Economic Opportunity

These programs empower individuals to reach self-sufficiency. Core programs include: employment services, HUD housing counseling, Foreclosure Prevention, Weatherization, St. Louis County Youth Services, Business Training Center classes, Bridging the Digital Divide and Financial Literacy Training.

Community Empowerment

These include impactful programs that change families' lives. Core programs include: Community Outreach, Food Pantry, LIHEAP, Dollar More, Community Clothes Closet, 100 Neediest Cases, utility assistance, and rent/mortgage assistance.

Educational Excellence

These programs empower future leaders. Core programs include: Head Start, college scholarships, GED classes, and Vaughn Cultural Center.

Management And General

Management and general includes the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation of the Organization's program strategy, secure proper administrative functioning of the Board of Directors, maintain competent legal services for the program administration of the Organization, and manage the financial and budgetary responsibilities of the Organization.

Fundraising And Communications

The fundraising and communications function provides the structure necessary to encourage and secure private financial support from individuals, foundations and corporations as well as support from local, state, and federal government agencies.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (Continued)

Tax Status

The League is an organization described in Internal Revenue Code Section 501(c)(3) and has received an Internal Revenue Service (the IRS) determination letter stating that it is exempt from federal tax on income from its related, exempt activities. However, the League is subject to federal income tax on any unrelated business taxable income. The League's federal and state tax returns for tax years 2014 and later remain subject to examination by taxing authorities.

Subsequent Events

Management evaluates subsequent events through the date the financial statements were available for issue, which is the date of the Independent Auditors' Report.

Reclassifications

Certain 2016 balances have been reclassified, where appropriate, to conform to the presentation used in the 2017 consolidated financial statements.

2. Pledges Receivable

Pledges receivable as of December 31, 2017 and 2016 were scheduled for collection as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 2,004,681	\$ 1,740,365
One-five years	717,077	938,481
Total pledges receivable	2,721,758	2,678,846
Discount on pledges receivable	(66,648)	(97,365)
	<u>\$ 2,655,110</u>	<u>\$ 2,581,481</u>

3. Investments

Investments consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Investment in Leverage Lender	\$ 2,616,000	\$ 2,616,000
Mutual funds	2,128,322	1,805,739
Certificates of deposit	212,403	212,014
Total	<u>\$ 4,956,725</u>	<u>\$ 4,633,753</u>

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (Continued)

The League accounts for certain investments at fair value as required by generally accepted accounting principles. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

There are three general valuation techniques that may be used to measure fair value, as described below:

- Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable asset or liabilities.
- Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset.
- Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts.

Investments measured and reported at fair value are classified and disclosed in one of the following three categories:

- Level 1* Quoted prices that are readily available in active markets/exchanges for identical investments.
- Level 2* Pricing inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3* Significant pricing inputs that are unobservable for the investment and includes investments for which there is little, if any, market activity for the investment.

The following are the major categories of assets measured at fair value on a recurring basis at December 31:

Asset Category	Total	Fair Value Measurements At December 31, 2017		
		Level 1	Level 2	Level 3
Mutual funds	\$ 2,128,322	\$ 2,128,322	\$ —	\$ —
Certificates of deposit	212,403	—	212,403	—
Total	\$ 2,340,725	\$ 2,128,322	\$ 212,403	\$ —

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (Continued)

Asset Category	Total	Fair Value Measurements At December 31, 2016		
		Level 1	Level 2	Level 3
Mutual funds	\$ 1,805,739	\$ 1,805,739	\$ —	\$ —
Certificates of deposit	212,014	—	212,014	—
Total	\$ 2,017,753	\$ 1,805,739	\$ 212,014	\$ —

At December 31, 2017 and 2016, the Level 2 assets utilize the following valuation techniques and inputs:

Certificates of Deposit: Certificates of deposit are using observable inputs, including security cost, maturity, and relevant short-term interest rates.

During 2017 and 2016, there were no changes in the methods and/or assumptions utilized to derive the fair value of the League's assets.

Components of investment income include:

	2017	2016
Interest income	\$ 60,447	\$ 44,112
Gain (loss) on investments	220,477	84,911
Investment income (loss)	\$ 280,924	\$ 129,023

4. Property And Equipment

Property and equipment consisted of the following at December 31:

	2017	2016
Land	\$ 559,182	\$ 559,182
Buildings and improvements	8,951,408	5,905,846
Furniture, fixtures and equipment	1,575,395	1,063,419
	11,085,985	7,528,447
Less: Accumulated depreciation	5,292,268	4,948,189
Construction in progress	907,559	797,301
	\$ 6,701,276	\$ 3,377,559

Depreciation and amortization expense amounted to \$344,079 in 2017 and \$255,940 in 2016.

5. Net Assets

The League's endowment consists of two individual funds established for scholarship recipients and operational use. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation Of Relevant Law

The Board of Directors of the League has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the League classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the League considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the League and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the League; and
- (7) The investment policies of the League.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements *(Continued)***Endowment Net Asset Composition As Of December 31, 2017:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ —	\$ —	\$ 705,146	\$ 705,146
Board-designated quasi-endowment fund	1,505,168	—	—	1,505,168
	<u>\$ 1,505,168</u>	<u>\$ —</u>	<u>\$ 705,146</u>	<u>\$ 2,210,314</u>

Endowment Net Asset Composition As Of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ —	\$ —	\$ 677,678	\$ 677,678
Board-designated quasi-endowment fund	1,335,922	—	—	1,335,922
	<u>\$ 1,335,922</u>	<u>\$ —</u>	<u>\$ 677,678</u>	<u>\$ 2,013,600</u>

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (Continued)

Changes In Endowment Net Assets For The Fiscal Years Ended December 31, 2017 And 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets -				
January 1, 2016	\$ 1,141,733	\$ —	\$ 642,039	\$ 1,783,772
Investment Return				
Investment income	15,881	—	7,595	23,476
Net realized and unrealized gains	56,808	—	28,044	84,852
Total Investment Return	72,689	—	35,639	108,328
Contributions	121,500	—	—	121,500
Endowment Net Assets -				
December 31, 2016	1,335,922	—	677,678	2,013,600
Investment Return				
Investment income	19,079	—	8,935	28,014
Net realized and unrealized gains	150,167	—	70,354	220,521
Total Investment Return	169,246	—	79,289	248,535
Reclassification Of Endowment Balances	—	—	(51,821)	(51,821)
Endowment Net Assets -				
December 31, 2017	\$ 1,505,168	\$ —	\$ 705,146	\$ 2,210,314

Funds With Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the League to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2017 or 2016.

Return Objectives And Risk Parameters

The League has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the League must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index and Bond index based on asset allocation while assuming a low to moderate level of investment risk. The League expects its endowment funds, over time, to provide a positive rate of return. Actual returns in any given year may vary from this expectation.

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the League relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The League targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy And How The Investment Objectives Relate To Spending Policy

The League has a policy of appropriating for distribution each year up to the total return from permanently restricted funds. The amount of the appropriation is at the discretion of the Board of Directors. Total return is defined as interest, dividends, and realized and unrealized gains and losses, net of fees. In establishing this policy, the League considered the long-term expected return on its endowment. Accordingly, over the long term, the League expects the current spending policy to allow its endowment to grow on an annual basis. This is consistent with the League's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements *(Continued)*

Temporarily restricted net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Administration (United Way)	\$ 944,681	\$ 1,053,028
North County facility (related party)	312,077	37,178
Economic opportunity	1,560,341	555,909
Education excellence	165,950	165,077
Community empowerment	157,768	102,255
Youth development	229,022	229,022
Business training center	—	50,000
IT infrastructure	755,615	1,053,454
Ferguson Community Empowerment Center	1,859,551	1,421,451
Miscellaneous	902,955	1,689,443
	<u>\$ 6,887,960</u>	<u>\$ 6,356,817</u>

Temporarily restricted net assets released from restrictions consist of the following:

	<u>2017</u>	<u>2016</u>
North County facility (related party)	\$ 87,172	\$ 30,216
Economic opportunity	673,404	863,901
Education excellence	46,113	29,208
Community empowerment	217,260	231,160
IT infrastructure	251,822	—
National Urban League Conference	550,000	—
Business training center	75,000	96,016
Miscellaneous	214,483	377,342
	<u>\$ 2,115,254</u>	<u>\$ 1,627,843</u>

6. Notes Payable

During 2012, the League entered into a \$144,000 note payable with monthly installments of \$1,741. The note bears interest at a rate of 3.75% and matures in April 2020. The note payable is collateralized by the related real estate. As of December 31, 2017 and 2016, the balance on the note payable is \$46,490 and \$65,228, respectively.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements *(Continued)*

During July 2016, the League entered into two loans to buy into the Leverage Lender. The first was a bridge loan of \$798,721 that was repaid in August 2016. The second was a loan for \$801,500 that is to be repaid over the next three years as the League receives pledge payments and management fees associated with the Ferguson Empowerment Center (Note 11). The loan bears interest at a rate of 2.75% and matures in July 2019. The note payable is collateralized by substantially all of the League's assets. As of December 31, 2017 and 2016, the balance on the note payable was \$452,500 and \$713,500, respectively.

During July 2016, the League also entered into two QLICI construction loans to fund the Ferguson Empowerment Center project. The first loan was for \$4,016,000 and the second was for \$1,774,000. Both loans bear interest at a rate of .789%, and interest-only payments are required until the loans mature in July 2056. The loans are collateralized by the related real estate, as well as leases and rents from the property when construction is completed. The League has to maintain compliance with the new market tax credit requirements for seven years and then may exercise a put option which would result in the QLICI loans being forgiven (Note 11). Smith & Associates has guaranteed compliance over the seven year compliance period. The full balance of both loans was outstanding as of December 31, 2017 and 2016.

The scheduled maturities of long-term notes payable at December 31, 2017 are as follows:

Year	Amount
2018	\$ 19,493
2019	472,736
2020	6,690
2021	—
2022	—
Thereafter	5,790,000
	\$ 6,288,919

7. Commitments And Contingencies

Operating Leases

The League leases office space and office equipment. Rent, including month-to-month leases, amounted to approximately \$365,000 in 2017 and \$429,000 in 2016.

Aggregate future minimum lease commitments at December 31, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 381,813
2019	384,457
2020	348,601
2021	204,129
2022	64,954
	<u>\$ 1,383,954</u>

Litigation

The League has been named as a party to various legal proceedings. In the opinion of management, any liability from claims or proceedings in excess of the amount covered by insurance will not have a material adverse effect on the League's financial position, results of activities, cash flows or functional expenses.

8. Pension Plans

Defined Benefit Plan

The League has a defined benefit pension plan which covers all active full-time employees. The plan provides benefits based on the participant's years of service and compensation. The League's funding policy is to contribute amounts sufficient upon an actuarially determined basis to provide the benefits under the plan in accordance with the minimum funding requirements of the Employee Retirement Income Security Act.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (Continued)

A measurement date of December 31 is used for the defined benefit plan.

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Projected benefit obligation - beginning of year	\$ 13,628,786	\$ 12,373,806
Service cost	654,515	770,820
Interest cost	634,713	596,622
Actuarial gains/losses	1,496,300	432,042
Benefits paid	(431,328)	(544,504)
Projected benefit obligation - end of year	<u>15,982,986</u>	<u>13,628,786</u>
Change in plan assets:		
Fair value of assets - beginning of year	13,786,388	11,833,984
Actual return on assets	1,689,472	1,015,812
Employer contributions	400,000	1,481,097
Benefits paid	(431,328)	(544,505)
Fair value of assets - end of year	<u>15,444,532</u>	<u>13,786,388</u>
Funded status - end of year	<u>(538,454)</u>	<u>157,602</u>
Items not yet recognized as a component of net periodic pension cost - unrecognized loss	<u>\$ 3,557,166</u>	<u>\$ 2,994,380</u>
The components of net periodic benefit cost were as follows:		
Service cost	\$ 654,515	\$ 770,820
Interest cost	634,713	596,622
Expected return on plan assets	(947,841)	(806,486)
Amortization of net gain	191,884	274,589
	<u>\$ 533,271</u>	<u>\$ 835,545</u>

Employer contributions and benefits paid for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Employer contribution	\$ 400,000	\$ 1,481,097
Benefits paid	431,328	544,505
Weighted average assumption		
Discount rate	4.75%	4.75%
Expected return on plan assets	6.5%	7.0%
Rate of compensation increase	3.0%	3.0%

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (Continued)

Plan Assets

The plans' investment strategy is to minimize investment risk while generating acceptable returns.

The fair value of the League's pension plan assets at December 31, 2017 and 2016 by asset category are as follows:

Asset Category	Total	Fair Value Measurements At December 31, 2017		
		Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money markets	\$ 521,948	\$ 521,948	\$ —	\$ —
Equity securities:				
U.S. companies	2,793,925	2,793,925	—	—
Mutual funds	9,463,928	9,463,928	—	—
Corporate bonds	2,664,731	—	2,664,731	—
Total	\$ 15,444,532	\$ 12,779,801	\$ 2,664,731	\$ —

The League's target allocation by asset class versus the actual allocation as of December 31, 2017 and 2016 are as follows:

	Plan Assets		Target Allocation	Actual Allocation	
	2017	2016		2017	2016
Equity securities	\$ 12,257,853	\$ 10,569,761	30 - 70%	79%	77%
Debt securities	2,664,731	1,981,553	30 - 70%	17%	14%
Other	521,948	1,235,074	2 - 6%	4%	9%
	\$ 15,444,532	\$ 13,786,388		100%	100%

The League seeks to manage plan assets in a prudent, conservative yet productive manner seeking to increase the value of plan assets, while recognizing the need to preserve asset value in order to enhance the ability of the plan to meet its obligations to plan participants and their beneficiaries when due. The long-term rate assumption of 7.0% is based upon the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27, *Selection Economic Assumptions for Measuring Pension Obligations*.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements *(Continued)*

Information about the expected cash flows for the defined benefit pension plan is as follows:

Employer contributions 2017 (minimum)	\$	400,000
Expected amortization of net loss		244,858
Expected benefit payments:		
2018		370,000
2019		320,000
2020		630,000
2021		590,000
2022		500,000
2023-2027		<u>3,710,000</u>
	\$	<u>6,120,000</u>

9. Below-Market Leases

The League rents three buildings at below market rates to operate Head Start and other facilities. Contribution revenue and additional occupancy expense is recorded for the difference between the market rate and the reduced rate paid by the League. Three of four leases are for Head Start facilities and contain a clause that allows the League to terminate the lease after 30-day's notice of the Head Start contract termination. Due to the conditional nature of this in-kind rent the future pledged rent reduction for these three leases has not been recorded in the financial statements.

Two of the leases are with two members of the Board of Directors, one of which includes the lease of the League's North County Administrative Office, as well as a Head Start facility. The North County Administrative Office portion of the lease is non-cancelable. The fair market value of the contributed rent is recorded as a pledge receivable and temporarily restricted contribution. At December 31, 2017 and 2016, the discounted pledge totaled \$291,756 and \$127,520, respectively.

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

Notes To Financial Statements (Continued)

The additional contributions and occupancy expense recorded in the financial statements are as follows:

Facility	Lease Expiration Date	Term Of Lease	Additional Contributions And Occupancy Expense For The Years Ended December 31,	
			2017	2016
Jennings Station (related party)	July 2021	5 years	\$ 235,448	\$ 220,932
Mt. Zion (related party)	May 2021	5 years	7,918	12,531
911 N. Spring	May 2021	5 years	273,125	262,437
			<u>\$ 516,491</u>	<u>\$ 495,900</u>

10. Related-Party Transactions

The League has an affiliate relationship with its charter organization, the National Urban League. During the years ended December 31, 2017 and 2016, the League received grants as a result of its affiliate relationship.

The federally funded grant for the Foreclosure Mitigation Program, passed through the National Urban League, totaled \$46,535 and \$30,089 in 2017 and 2016, respectively. These amounts are included in the combining statements of activities and changes in net assets as unrestricted contractual grants from governmental agencies for the years ended December 31, 2017 and 2016.

The League paid \$15,350 and \$15,275 in 2017 and 2016, respectively, to the National Urban League which is included as operational supporting services - management and general in the statement of activities for each of the years ended December 31, 2017 and 2016.

Members of the Board of Directors of the League and employers of the Board of Directors of the League made contributions of approximately \$120,000 and \$3,393,000, respectively, for the year ended December 31, 2017. These contributions are included in the statement of activities for the year ended December 31, 2017 as contributions and special-purpose revenue.

Members of the Board of Directors of the League and employers of the Board of Directors of the League made contributions of approximately \$94,000 and \$1,476,000, respectively, for the year ended December 31, 2016. These contributions are included in the statement of activities for the year ended December 31, 2016 as contributions and special-purpose revenue.

11. Ferguson Empowerment Center

The League, along with The Salvation Army, US Bancorp Community Development Corporation and others closed on the Ferguson Empowerment Center project (the Project) on July 28, 2016. The Project benefited from debt that the League entered into (Note 6), as well as from new market tax credits (NMTC). In order to facilitate the transfer and holding of the funds for the construction of the building, the Leverage Lender was formed in July 2016 (Note 1). The transaction also included a Put and Call Agreement between the Leverage Lender and U.S. Bancorp Community Development Corporation (USBCDC), which includes both a “put” and a “call” option. These options are expected to be exercised and will ultimately result in the Leverage Lender owning USBCDC’s interest in Twain Investment Fund 166, LLC, including the two QLICI loans to the League (Note 6). This ownership acquisition will allow the League to “collapse” the NMTC deal and repay all outstanding obligations with no additional capital outlay.

Independent Auditors' Report On Supplementary Information

Audit Committee
The Urban League of Metropolitan St. Louis, Inc.
St. Louis, Missouri

We have audited the basic financial statements of The Urban League of Metropolitan St. Louis, Inc. as of and for the years ended December 31, 2017 and 2016, and our report thereon dated July 13, 2018, which expressed an unqualified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of weatherization program schedule of revenue and expenditures, and weatherization program fund balance reconciliation, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

RubinBrown LLP

July 13, 2018

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

**WEATHERIZATION PROGRAM SCHEDULE OF REVENUE AND EXPENDITURES
For The Period Beginning January 1, 2016 And Ended December 31, 2017**

Program Subgrantee Number Program Year Ended	Dept of Energy Weatherization G-16-EE0006164-4-08 6/30/2017	Dept of Energy Weatherization G-17-EE0007930-08 6/30/2018	Ameren MO Weatherization G17-14-0258-2-08 10/31/2017	Ameren MO Weatherization G18-14-0258-3-08 10/31/2018	LIHEAP Weatherization G-17-LIHEAP-17-08 9/30/2017	LIHEAP Weatherization G-18-LIHEAP-18-08 9/30/2018	Laclede Gas Weatherization G17-10-0171-6-08 10/31/2017	Laclede Gas Weatherization G18-10-0171-7-08 10/31/2018
Energy Center								
Beginning Agency Fund Balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Grant income	485,940	264,850	264,119	60,584	593,079	185,084	223,300	44,989
Expenditures								
Administration	24,298	13,146	26,412	6,052	29,682	9,232	22,330	4,495
Insurance	1,216	846	775	103	1,558	348	549	77
Financial Audit	1,500	559	1,216	—	3,080	—	972	—
Leveraging	24,298	9,850	—	—	—	—	—	—
T&TA	2,608	1,161	—	—	650	—	—	—
Program Operations	432,020	239,288	235,716	54,429	558,109	175,504	199,449	40,417
Total expenditures	485,940	264,850	264,119	60,584	593,079	185,084	223,300	44,989
Ending Agency Fund Balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Subgrantee								
Beginning Agency Fund Balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Grant income	485,940	264,850	264,119	60,584	593,079	185,084	223,300	44,989
Expenditures								
Administration	24,298	13,146	26,412	6,052	29,682	9,232	22,330	4,495
Insurance	1,216	846	775	103	1,558	348	549	77
Financial Audit	1,500	559	1,216	—	3,080	—	972	—
Leveraging	24,298	9,850	—	—	—	—	—	—
T&TA	2,608	1,161	—	—	650	—	—	—
Program Operations	432,020	239,288	235,716	54,429	558,109	175,504	199,449	40,417
Total expenditures	485,940	264,850	264,119	60,584	593,079	185,084	223,300	44,989
Ending Agency Fund Balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

**WEATHERIZATION PROGRAM FUND BALANCE RECONCILIATION
For The Period Beginning January 1, 2016 And Ended December 31, 2017**

Program Subgrantee Number Program Year Ended	Dept of Energy Weatherization G-16-EE0006164-4-08 6/30/2017	Dept of Energy Weatherization G-17-EE0007930-08 6/30/2018	Ameren MO Weatherization G17-14-0258-2-08 10/31/2017	Ameren MO Weatherization G18-14-0258-3-08 10/31/2018	LIHEAP Weatherization G-17-LIHEAP-17-08 9/30/2017	LIHEAP Weatherization G-18-LIHEAP-18-08 9/30/2018	Laclede Gas Weatherization G17-10-0171-6-08 10/31/2017	Laclede Gas Weatherization G18-10-0171-7-08 10/31/2018
Beginning Agency Fund Balance (Carryover)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Grant revenue received during program year	485,940	264,850	264,119	60,584	593,079	185,084	223,300	44,989
Less expenditures during program year	485,940	264,850	264,119	60,584	593,079	185,084	223,300	44,989
Agency Ending Fund Balance (Carryover)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ending Cash On Hand	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ending Inventory	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2017**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Amount Expended	Expenditures To Sub-Recipients
Department of Housing and Urban Development:				
<i>CDBG-Entitlement Grants - Cluster:</i>				
Passed-through the City of St. Louis, Community Development Administration - Community Development Block Grants/Entitlement Grants	14.218	15-11-64	\$ 30,000	\$ —
Community Development Block Grants/Entitlement Grants - Home Repair	14.218	17-36-28	40,628	—
Total CFDA #14.218			<u>70,628</u>	<u>—</u>
Passed-through National Urban League - Housing Counseling Assistance Program	14.169	n/a	13,698	—
Passed-through St. Clair County, Intergovernmental Grants Department - Housing Counseling Assistance Program	14.169	1-2017	4,275	—
Total CFDA #14.169			<u>17,973</u>	<u>—</u>
Passed-through City of St. Louis-St. Louis Agency on Training and Employment (SLATE) - Jobs Plus Grant	14.895	751-16	34,031	—
Total Department of Housing and Urban Development			<u>122,632</u>	<u>—</u>
Department of Treasury:				
Passed-through National Urban League - Foreclosure Mitigation	21.000	PL110-161: 95X1350	15,184	—
Total Department of Treasury			<u>15,184</u>	<u>—</u>
Department of Labor:				
<i>WIA/WIOA - Cluster:</i>				
Passed-through the St. Louis County Department of Human Services, Workforce Development - WIA/WIOA Youth Activities	17.259	5295	316,228	—
Total Department of Labor			<u>\$ 316,228</u>	<u>\$ —</u>

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For The Year Ended December 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Amount Expended	Expenditures To Sub-Recipients
Department of Homeland Security:				
Passed-through the United Way of America:				
Emergency Food and Shelter National Board Program - St. Clair County	97.024	21-2542-00-007	\$ 49,117	\$ —
Emergency Food and Shelter National Board Program - City of St. Louis	97.024	21-5516-00-013	32,008	—
Emergency Food and Shelter National Board Program - St. Louis County	97.024	21-5476-00-007	51,654	—
Total CFDA #97.024			<u>132,779</u>	<u>—</u>
Total Department of Homeland Security			<u>132,779</u>	<u>—</u>
Department of Energy:				
Passed-through the State of Missouri Department of Natural Resources - Weatherization Assistance for Low-Income Persons	81.042	G-16-EE0006164-4-08	252,831	—
Passed-through the State of Missouri Department of Natural Resources - Weatherization Assistance for Low-Income Persons	81.042	G-17-EE0007930-08	242,348	—
Total CFDA #81.042			<u>495,179</u>	<u>—</u>
Total Department of Energy			<u>495,179</u>	<u>—</u>
Department of Agriculture:				
Passed-through the State of Missouri Department of Health and Senior Services - Child and Adult care Food Program (CACFP)	10.558	ERS46-11 1171	350,042	—
<i>Child Nutrition - Cluster:</i>				
Passed-through Area Resources for Community and Human Services - Summer Food Service Program for Children	10.559	FY16-144	49,779	—
<i>Food Distribution - Cluster:</i>				
Passed-through The St. Louis Area Food Bank - Emergency Food Assistance Program (Food Commodities)	10.569	TEFAP	152,976	—
Total Department of Agriculture			<u>\$ 552,797</u>	<u>\$ —</u>

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For The Year Ended December 31, 2017**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Amount Expended	Expenditures To Sub-Recipients
Department of Health and Human Services:				
<i>TANF - Cluster:</i>				
Passed-through St. Louis County Department of Human Services, Workforce Development - Temporary Assistance For Needy Families (TANF)	93.558	26040 (5295)	\$ 122,558	\$ —
Passed-through the State of Missouri Department of Social Services - Low-Income Home Energy Assistance (LIHEAP)	93.568	G-11BIMOLIEA	2,365,524	—
Passed-through the State of Missouri Department of Social Services - Low-Income Home Energy Assistance (LIHEAP)	93.568	ER11017008	143,350	—
Passed-through the State of Missouri Department of Natural Resources - Low-Income Home Energy Assistance (Weatherization LIHEAP)	93.568	G-17-LIHEAP-17-08	390,277	—
Passed-through the State of Missouri Department of Natural Resources - Low-Income Home Energy Assistance (Weatherization LIHEAP)	93.568	G-18-LIHEAP-18-08	167,911	—
Total CFDA #93.568			<u>3,067,062</u>	—
Head Start	93.600	07CH01038301	1,662,815	—
Head Start	93.600	07CH01038302	3,660,681	—
Head Start	93.600	07CH01015403	2,186,719	—
Head Start	93.600	07CH01015404	379,630	—
Total CFDA #93.600			<u>7,889,845</u>	—
Total Department of Health and Human Services			<u>11,079,465</u>	—
Total Expenditures of Federal Awards			<u>\$ 12,714,264</u>	<u>\$ —</u>

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

NOTES TO SCHEDULE OF FEDERAL AWARDS For The Year Ended December 31, 2017

1. Organization

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of The Urban League of Metropolitan St. Louis, Inc. (the League) for the year ended December 31, 2017. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the schedule.

2. Basis Of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the League and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The League did not elect to use the 10% de minimis indirect cost rate.

3. Low Income Home Energy Assistance Program Subrecipient Reporting Requirements

The federal funds awarded for the fiscal grant year under the terms and conditions of the grant contract number indicated below are provided from:

Granting Federal Agency	Department of Health and Human Services
Grant Award Number	G-11BIMOLIEA and ER11017008
Grant Award Year	2017
Catalog of Federal Domestic Assistance (CFDA) Number	93.568
CFDA Grant Name	Low Income Home Energy Assistance Program

Grant Year FFY 2017

Grant Award (federal funds passed through)	\$	2,508,874
Nonfederal matching funds required to be provided by subrecipient		—
Nonfederal matching funds provided by the Department of Social Services		—
Total contract amount grant year FFY2017	\$	2,508,874

**Independent Auditors' Report On
Internal Control Over Financial
Reporting And On Compliance And Other
Matters Based On An Audit Of
Financial Statements Performed In Accordance
With *Government Auditing Standards***

Audit Committee
The Urban League of Metropolitan St. Louis, Inc.
St. Louis, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Urban League of Metropolitan St. Louis, Inc. (the League) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise The Urban League of Metropolitan St. Louis, Inc.'s basic financial statements, and have issued our report thereon dated July 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the League's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the League's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the League's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness in internal control* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness in internal control, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the League's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Urban League of Metropolitan St. Louis, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RubinBrown LLP

July 13, 2018

Independent Auditors' Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance

Audit Committee
The Urban League of Metropolitan St. Louis, Inc.
St. Louis, Missouri

Report On Compliance For Each Major Federal Program

We have audited The Urban League of Metropolitan St. Louis, Inc.'s (the League's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the League's major federal programs for the year ended December 31, 2017. The League's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the League's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the League's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the League's compliance.

Opinion On Each Major Federal Program

In our opinion, The Urban League of Metropolitan St. Louis, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report On Internal Control Over Compliance

Management of The Urban League of Metropolitan St. Louis, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the League's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the League's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Audit Committee
The Urban League of Metropolitan St. Louis, Inc.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RubinBrown LLP

July 13, 2018

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended December 31, 2017

Section I - Summary Of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major federal programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.568	Low Income Energy Assistance Program

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*Continued*)

For The Year Ended December 31, 2017

Section II - Financial Statement Findings

None

Section III - Federal Award Findings And Questioned Costs

None

THE URBAN LEAGUE OF METROPOLITAN ST. LOUIS, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For The Year Ended December 31, 2017

None