

GENERATION: YOU EMPLOYED, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017

GENERATION: YOU EMPLOYED, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Generation: You Employed, Inc.

We have audited the accompanying financial statements of Generation: You Employed, Inc. (GYE), which comprise the statements 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.

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 Generation: You Employed, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Calibre CPA Group, PLLC

Bethesda, MD
October 25, 2018

GENERATION: YOU EMPLOYED, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 5,224,677 | \$ 2,691,779 |
| Accounts receivable | 876,511 | - |
| Grants and contributions receivable | 6,103,150 | 4,749,115 |
| Prepaid expenses | <u>18,677</u> | <u>16,595</u> |
| Total current assets | 12,223,015 | 7,457,489 |
| NON CURRENT ASSETS | | |
| Grants and contributions receivable, net of current portion | - | 3,970,223 |
| Software license, net | <u>-</u> | <u>-</u> |
| Total assets | <u>\$ 12,223,015</u> | <u>\$ 11,427,712</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | <u>\$ 516,778</u> | <u>\$ 244,789</u> |
| NET ASSETS | | |
| Unrestricted | 29,978 | 11,475 |
| Temporarily restricted | <u>11,676,259</u> | <u>11,171,448</u> |
| Total net assets | <u>11,706,237</u> | <u>11,182,923</u> |
| Total liabilities and net assets | <u>\$ 12,223,015</u> | <u>\$ 11,427,712</u> |

See accompanying notes to financial statements.

GENERATION: YOU EMPLOYED, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

| | 2017 | | | 2016 | | |
|--------------------------------------|--------------|---------------------------|---------------|--------------|---------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| REVENUE | | | | | | |
| Grants and contributions | \$ 16,948 | \$ 6,332,182 | \$ 6,349,130 | \$ 23,807 | \$ 2,513,360 | \$ 2,537,167 |
| Government grants | - | 4,544,121 | 4,544,121 | - | 3,220,639 | 3,220,639 |
| In-kind contributions | 12,434,544 | - | 12,434,544 | 11,944,810 | - | 11,944,810 |
| Other income (loss) | (1,565) | - | (1,565) | (20,666) | - | (20,666) |
| Net assets released from restriction | 10,371,492 | (10,371,492) | - | 9,079,399 | (9,079,399) | - |
| Total revenue | 22,821,419 | 504,811 | 23,326,230 | 21,027,350 | (3,345,400) | 17,681,950 |
| EXPENSES | | | | | | |
| Generation program | | | | | | |
| United States | 4,271,370 | - | 4,271,370 | 5,075,836 | - | 5,075,836 |
| Mexico | 2,459,583 | - | 2,459,583 | 2,399,588 | - | 2,399,588 |
| Spain | 2,325,855 | - | 2,325,855 | 1,828,013 | - | 1,828,013 |
| India | 3,037,315 | - | 3,037,315 | 2,065,504 | - | 2,065,504 |
| Kenya | 3,390,753 | - | 3,390,753 | 2,504,293 | - | 2,504,293 |
| Pakistan | 4,000 | - | 4,000 | - | - | - |
| Global | 3,658,471 | - | 3,658,471 | 4,452,164 | - | 4,452,164 |
| Operations | - | - | - | 83,656 | - | 83,656 |
| Total program services | 19,147,347 | - | 19,147,347 | 18,409,054 | - | 18,409,054 |
| Management and general | 3,655,569 | - | 3,655,569 | 4,115,548 | - | 4,115,548 |
| Total expenses | 22,802,916 | - | 22,802,916 | 22,524,602 | - | 22,524,602 |
| CHANGE IN NET ASSETS | 18,503 | 504,811 | 523,314 | (1,497,252) | (3,345,400) | (4,842,652) |
| NET ASSETS | | | | | | |
| Beginning of year | 11,475 | 11,171,448 | 11,182,923 | 1,508,727 | 14,516,848 | 16,025,575 |
| End of year | \$ 29,978 | \$ 11,676,259 | \$ 11,706,237 | \$ 11,475 | \$ 11,171,448 | \$ 11,182,923 |

See accompanying notes to financial statements.

GENERATION: YOU EMPLOYED, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

| | Generation Program | | | | | | | Management and General | Total | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-----------------|---------------------|------------------------------|---------------------|----------------------|
| | U.S | Mexico | Spain | India | Kenya | Pakistan | Global | | | Total |
| Direct subcontractor costs | \$ 1,277,662 | \$ 881,589 | \$ 806,751 | \$ 1,826,691 | \$ 2,015,887 | \$ 4,000 | \$ 596,878 | \$ 7,409,458 | \$ - | \$ 7,409,458 |
| Salaries and fringe | 2,968,057 | 1,572,000 | 1,519,104 | 1,210,350 | 1,373,923 | - | 2,800,452 | 11,443,886 | 3,226,216 | 14,670,102 |
| Travel | 25,587 | 2,170 | - | 274 | 943 | - | 78,454 | 107,428 | - | 107,428 |
| Consultants | - | - | - | - | - | - | - | - | 60,850 | 60,850 |
| Accounting and legal | - | - | - | - | - | - | 23,460 | 23,460 | 321,423 | 344,883 |
| Occupancy | - | - | - | - | - | - | 127,654 | 127,654 | 31,914 | 159,568 |
| Miscellaneous | 64 | 3,824 | - | - | - | - | 31,573 | 35,461 | 15,166 | 50,627 |
| Total expenses | <u>\$ 4,271,370</u> | <u>\$ 2,459,583</u> | <u>\$ 2,325,855</u> | <u>\$ 3,037,315</u> | <u>\$ 3,390,753</u> | <u>\$ 4,000</u> | <u>\$ 3,658,471</u> | <u>\$ 19,147,347</u> | <u>\$ 3,655,569</u> | <u>\$ 22,802,916</u> |

See accompanying notes to financial statements.

GENERATION: YOU EMPLOYED, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

| | Generation Program | | | | | | | Management and General | Total | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------|------------------------|---------------------|----------------------|
| | U.S | Mexico | Spain | India | Kenya | Global | Operations | Total | | |
| Direct subcontractor costs | \$ 1,609,185 | \$ 803,885 | \$ 398,299 | \$ 738,832 | \$ 1,357,423 | \$ 2,313,993 | \$ - | \$ 7,221,617 | \$ 5,872 | \$ 7,227,489 |
| Salaries and fringe | 3,414,596 | 1,595,703 | 1,429,714 | 1,326,481 | 1,145,918 | 2,096,264 | - | 11,008,676 | 3,155,821 | 14,164,497 |
| Travel | 48,978 | - | - | 191 | 952 | 18,418 | 23 | 68,562 | 161,142 | 229,704 |
| Consultants | - | - | - | - | - | 16,431 | - | 16,431 | 256,879 | 273,310 |
| Accounting and legal | - | - | - | - | - | - | (19,943) | (19,943) | 412,938 | 392,995 |
| Recruitment | - | - | - | - | - | - | - | - | 9,931 | 9,931 |
| Occupancy | - | - | - | - | - | - | 103,280 | 103,280 | 51,640 | 154,920 |
| Miscellaneous | 3,077 | - | - | - | - | 7,058 | 296 | 10,431 | 61,325 | 71,756 |
| Total expenses | <u>\$ 5,075,836</u> | <u>\$ 2,399,588</u> | <u>\$ 1,828,013</u> | <u>\$ 2,065,504</u> | <u>\$ 2,504,293</u> | <u>\$ 4,452,164</u> | <u>\$ 83,656</u> | <u>\$ 18,409,054</u> | <u>\$ 4,115,548</u> | <u>\$ 22,524,602</u> |

See accompanying notes to financial statements.

GENERATION: YOU EMPLOYED, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 523,314 | \$ (4,842,652) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Amortization of software license | - | 614,225 |
| Changes in assets and liabilities | | |
| Accounts receivable | (876,511) | - |
| Grants and contributions receivable | 2,616,188 | 5,976,741 |
| Prepaid expenses | (2,082) | (16,595) |
| Accounts payable and accrued expenses | <u>271,989</u> | <u>(843,413)</u> |
| Net cash provided by operating activities | <u>2,532,898</u> | <u>888,306</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 2,532,898 | 888,306 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>2,691,779</u> | <u>1,803,473</u> |
| End of year | <u>\$ 5,224,677</u> | <u>\$ 2,691,779</u> |

See accompanying notes to financial statements.

GENERATION: YOU EMPLOYED, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1. ORGANIZATION AND PROGRAM SERVICES

Generation: You Employed, Inc. (GYE, formerly known as McKinsey Social Initiative) is an independent nonprofit organization founded by McKinsey & Company (McKinsey), built to develop innovative approaches to complex social challenges. It is a separate organization exempt under Internal Revenue Code (IRC) Section 501(c)(3) that houses programs focusing on a single issue. These programs convene diverse partnerships to co-create new methodologies, and they apply McKinsey's analytical and management expertise to shape powerful cross-disciplinary approaches. GYE helps manage and implement solutions at speed and scale, and test and improve those solutions, so they can be shared and replicated.

Today, more than 75 million young adults are out of work, and three times as many are under employed. At the same time, 40 percent of employers say a skills shortage is leaving them with entry-level vacancies. Generation aims to close this gap through an ambitious program that accelerates learning, places disconnected young adults in jobs, and gives them the skills and support they need to achieve enduring personal and professional success. Generation is the first program of GYE.

Generation aims to connect one million young people to skills and jobs across five countries (Kenya, India, Mexico, Spain and the U.S.) by 2020. In two years of operation, Generation is in more than 20 cities and more than 50 locations and has supported more than 8,000 youth. Generation has a 91% employment rate by graduation day and 400+ employer partners, of whom 98% say they would hire from Generation again. Generation graduates earn salaries that place them above the 50th income percentile in their countries.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - GYE's financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation - Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will expire based on actions of GYE or by the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by GYE. Generally, the donors of these assets permit GYE to use all or part of the income earned and capital gains, if any, on related investments for general or specific purposes. GYE did not have any permanently restricted net assets at December 31, 2017 and 2016.

Unrestricted contributions and all revenues from exchange transactions are reported as increases in unrestricted net assets. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, if any, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Promises to Give - Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Property and Equipment - Purchased property and equipment is capitalized at cost. Donated property and equipment is capitalized at the estimated fair value at the date of donation. Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Depreciation is computed using the straight-line method over the license period for software licenses.

In-Kind Support - GYE's policy is to recognize contributed professional services if the services received create or enhance nonfinancial assets or 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 and materials are recognized at fair market value when received.

Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates

NOTE 3. TAX EXEMPT STATUS

GYE is exempt from Federal income taxes as a public charity under Section 501(c)(3) of the IRC. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

GYE accounts for income taxes in accordance with the Accounting Standards Codification (ASC) Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. GYE performed an evaluation of uncertain tax positions for the years ended December 31, 2017 and 2016, and determined that there were no matters that would require recognition in the financial statements or that may have an effect on its tax-exempt status. As of December 31, 2017, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction. It is GYE's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in unrelated business income tax expense.

NOTE 4. CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable as of December 31, 2017 and 2016 are due as follows:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Amounts due in less than one year | \$ 6,103,150 | \$ 4,749,115 |
| Amounts due in two to five years | - | 4,000,000 |
| | 6,103,150 | 8,749,115 |
| Less: discount to net present value | - | (29,777) |
| Net grants and contributions receivable | <u>\$ 6,103,150</u> | <u>\$ 8,719,338</u> |

82% and 93% of the total contributions receivable are due from McKinsey at December 31, 2017 and 2016, respectively.

Additionally, McKinsey has made a conditional promise to give of up to \$4,000,000 for fiscal years ending December 31, 2019 and 2020 and \$1,000,000 for the fiscal year ending December 31, 2021. The condition for these contributions is based on organizational need as evaluated by McKinsey and the actual contributions can range from zero to the amounts above for each year.

NOTE 5. PROPERTY AND EQUIPMENT

The net book value of property and equipment as of December 31, 2017 and 2016 relates to GYE's ownership of certain software licenses, as follows:

| | Estimated Useful Life (in months) | December 31, <u>2017</u> | December 31, <u>2016</u> |
|--------------------------------|---|-----------------------------|-----------------------------|
| Software license | 27 | \$ 1,382,000 | \$ 1,382,000 |
| Less: accumulated amortization | | <u>(1,382,000)</u> | <u>(1,382,000)</u> |
| | | <u>\$ -</u> | <u>\$ -</u> |

NOTE 6. RELATED PARTIES

McKinsey employees provide certain programmatic as well as general and management services to GYE which are reported as in-kind contributions. The total fair value of these services for the years ended December 31, 2017 and 2016 was \$12,274,976 and \$11,789,890, respectively.

McKinsey also provides office space in Washington, D.C. to GYE which is reported as an in-kind contribution. The fair value of this office space for the years ended December 31, 2017 and 2016 was \$159,568 and \$154,920, respectively.

During the year ended December 31, 2017, GYE paid for certain salaries and administrative expenses of McKinsey.org, another non-profit organization founded by McKinsey, totaling \$876,511 which will be reimbursed by McKinsey.

NOTE 7. CONCENTRATIONS

GYE maintains its cash and cash equivalents with a single financial institution. Deposits are entirely insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At December 31, 2017, GYE had uninsured cash balances of approximately \$4,975,000. Management regularly monitors the financial institutions, together with its cash balances, to reduce any potential risk.

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available to support activities during the year ended December 31, 2017, as follows:

| | Beginning of Year | Restricted Contributions | Net Assets Released | End of Year |
|-------------------------------|----------------------|-----------------------------|---------------------------|----------------------|
| Time-restricted only | \$ 7,970,223 | \$ 29,777 | \$ (4,000,000) | \$ 4,000,000 |
| Purpose restricted | | | | |
| USAID | - | 4,237,171 | (4,237,171) | - |
| Wal-Mart | 2,507,619 | 4,868,550 | (874,834) | 6,501,335 |
| Sobrato - GenTech | 20,107 | - | (20,107) | - |
| Longwood Foundation | 590,710 | - | (479,067) | 111,643 |
| Umsizi Fund | 62,000 | - | (39,600) | 22,400 |
| Greater Houston Partnership | 20,789 | 24,697 | (2,099) | 43,387 |
| First Coast | - | 413,408 | (413,408) | - |
| United Way of Greater Atlanta | - | 68,020 | (68,020) | - |
| DC DOES | - | 291,200 | (146,936) | 144,264 |
| State of DE | - | 15,750 | - | 15,750 |
| Rockefeller Foundation | - | 800,000 | - | 800,000 |
| Intel Corporation | - | 40,000 | (40,000) | - |
| Goodwill of North Georgia | - | 24,100 | - | 24,100 |
| Workday Foundation | - | 50,000 | (50,000) | - |
| Cadia | - | 12,000 | - | 12,000 |
| Krishna Institute | - | 1,630 | (250) | 1,380 |
| | <u>\$ 11,171,448</u> | <u>\$ 10,876,303</u> | <u>\$ (10,371,492)</u> | <u>\$ 11,676,259</u> |

Temporarily restricted net assets were available to support activities during the year ended December 31, 2016, as follows:

| | Beginning of Year | Restricted Contributions | Net Assets Released | End of Year |
|-----------------------------|----------------------|-----------------------------|---------------------------|----------------------|
| Time-restricted only | \$ 11,910,891 | \$ 59,332 | \$ (4,000,000) | \$ 7,970,223 |
| Purpose restricted | | | | |
| USAID | - | 3,220,639 | (3,220,639) | - |
| Wal-Mart | 2,506,017 | 1,250,000 | (1,248,398) | 2,507,619 |
| Sobrato - GenTech | 99,940 | 100,000 | (179,833) | 20,107 |
| Longwood Foundation | - | 750,000 | (159,290) | 590,710 |
| First Coast | - | 269,894 | (269,894) | - |
| Umsizi Fund | - | 62,000 | - | 62,000 |
| Greater Houston Partnership | - | 22,134 | (1,345) | 20,789 |
| | <u>\$ 14,516,848</u> | <u>\$ 5,733,999</u> | <u>\$ (9,079,399)</u> | <u>\$ 11,171,448</u> |

NOTE 9. RESTATEMENT OF PRIOR PERIOD

During the year ended December 31, 2017, it was discovered that in-kind labor for program fellows was included in the total in-kind labor recognized during the year ended December 31, 2016. Program fellows do not meet the requirement of possessing specialized skill for recognition of in-kind labor. The net effect is that in-kind contributions decreased \$2,475,171 and salaries and fringe expense decreased \$2,475,171. There is no effect on net assets.

NOTE 10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 25, 2018, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material event or transaction which would require an additional adjustment to, or disclosure in, the accompanying financial statements.