

STUDENT U
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

STUDENT U

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Student U
Durham, North Carolina

We have audited the accompanying financial statements of Student U (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Student U as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Munn, Anglin & Associates, PA

May 15, 2019

STUDENT U
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 711,618	\$ 1,173,012
Contributions and Grant Receivable	520,000	842,250
Prepaid Expenses	2,898	25,734
Construction-In-Process	-	1,894,577
TOTAL CURRENT ASSETS	<u>1,234,516</u>	<u>3,935,573</u>
PROPERTY AND EQUIPMENT		
Leasehold Improvements	5,644,577	-
Furniture & Fixtures	35,315	-
Office Equipment	1,612	-
Computers & Software	24,751	-
	<u>5,706,255</u>	<u>-</u>
Less: Accumulated Depreciation	(129,044)	-
NET PROPERTY AND EQUIPMENT	<u>5,577,211</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 6,811,727</u>	<u>\$ 3,935,573</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 31,413	\$ 29,489
TOTAL CURRENT LIABILITIES	<u>31,413</u>	<u>29,489</u>
TOTAL LIABILITIES	<u>31,413</u>	<u>29,489</u>
NET ASSETS		
Without Donor Restrictions		
Undesignated	6,287,364	3,186,084
With Donor Restrictions		
Purpose restrictions	492,950	720,000
TOTAL NET ASSETS	<u>6,780,314</u>	<u>3,906,084</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,811,727</u>	<u>\$ 3,935,573</u>

See accompanying notes and independent auditors' report.

STUDENT U
STATEMENTS OF FUNCTIONAL EXPENSES
For The Years Ended December 31, 2018 and 2017

	2018					Totals
	Program Services			Management	Fund-raising	
	Middle School	High School	College Success	and General		
Salaries and wages	\$ 509,674	\$ 370,828	\$ 160,812	\$ 340,678	\$ 134,778	\$1,516,770
Occupancy	26,047	18,604	-	29,768	-	74,419
Travel, tours and field trips	62,498	57,288	-	5,807	3,131	128,724
Program supplies and materials	58,750	34,393	29,598	5,197	-	127,938
Payroll taxes	40,580	28,712	12,413	25,534	11,230	118,469
Employee benefits	35,730	44,159	24,686	54,045	19,862	178,482
Conferences and seminars	-	17,045	-	28,231	-	45,276
Internship program	-	16,868	-	-	-	16,868
Consultants and professionals	14,812	468	468	32,940	-	48,688
Meetings	-	3,061	-	-	-	3,061
Communication	2,188	2,188	390	-	13,624	18,390
Office supplies and equipment	-	-	14,141	16,443	-	30,584
Insurance	-	-	-	17,973	-	17,973
Marketing and promotion	-	-	-	13,240	13,240	26,480
Scholarships and grants	-	11,389	-	-	-	11,389
Security	20,198	5,049	-	-	-	25,247
Technology	10,634	4,558	-	-	-	15,192
Dues and subscriptions	-	-	-	2,463	-	2,463
Depreciation Expense	45,165	32,261	-	51,618	-	129,044
TOTAL EXPENSES	<u>\$826,276</u>	<u>\$646,871</u>	<u>\$ 242,508</u>	<u>\$ 623,937</u>	<u>\$ 195,865</u>	<u>\$2,535,457</u>

	2017					Totals
	Program Services			Management	Fund-raising	
	Middle School	High School	College Success	and General		
Salaries and wages	\$ 510,194	\$ 373,868	\$ 117,830	\$ 232,389	\$ 160,231	\$1,394,512
Occupancy	48,730	48,730	13,995	40,825	-	152,280
Travel, tours and field trips	79,644	63,687	-	5,894	3,281	152,506
Program supplies and materials	66,237	35,654	34,453	3,575	-	139,919
Payroll taxes	49,233	34,722	9,963	21,991	13,800	129,709
Employee benefits	39,257	47,539	16,151	41,233	16,541	160,721
Conferences and seminars	-	12,057	-	32,524	-	44,581
Internship program	-	10,629	-	-	-	10,629
Consultants and professionals	14,827	-	-	16,384	-	31,211
Communication	3,122	1,561	27	3,122	7,805	15,637
Office supplies and equipment	-	-	9,053	20,827	-	29,880
Insurance	-	-	-	18,538	-	18,538
Marketing and promotion	-	-	-	11,577	5,554	17,131
Scholarships and grants	-	8,943	-	-	-	8,943
Security	12,202	3,050	-	-	-	15,252
Technology	-	-	-	21,855	-	21,855
Dues and subscriptions	-	-	-	1,671	-	1,671
TOTAL EXPENSES	<u>\$823,446</u>	<u>\$644,360</u>	<u>\$ 201,472</u>	<u>\$ 472,405</u>	<u>\$ 207,212</u>	<u>\$2,348,895</u>

See accompanying notes and independent auditors' report.

STUDENT U
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 2,874,229	\$ 867,415
Adjustment to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	129,044	-
(Increase) decrease in Contribution and grants receivable	322,250	36,834
Prepaid expenses	22,836	(9,721)
Increase (decrease) in Accounts payable and accrued expenses	1,925	(5,858)
Net cash provided by operating activities	3,350,284	888,670
Cash Flows From Investing Activities		
Construction-in-process	1,894,577	(1,894,577)
Purchase of Property & Equipment	(5,706,255)	-
Net cash used by investing activities	(3,811,678)	(1,894,577)
Net increase (decrease) in cash	(461,394)	(1,005,907)
Cash - Beginning of year	1,173,012	2,178,919
Cash - End of year	\$ 711,618	\$ 1,173,012

See accompanying notes and independent auditors' report.

STUDENT U
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATIONAL OVERVIEW AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Student U (the "Organization") is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization was incorporated in the State of North Carolina in September, 2010. The Organization is dedicated to empower students in the Durham Public Schools to take ownership of their education by developing the academic and personal skills they need to realize their full potential in school and beyond.

Basis of Accounting and Use of Estimates

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, revenues are recognized when earned, and expenses are recognized when incurred. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements or activities as net assets released from restrictions.

STUDENT U
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATIONAL OVERVIEW AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Board designations of contributions received are not classified as restricted since the Board may reverse such designations. There were no net assets with donor restrictions that are perpetual in nature as of December 31, 2018 and 2017.

Cash and Cash Equivalents

For purposes of the statements of cash flows, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents. Cash is held in demand accounts at a national bank and cash balances may exceed the federally insured amounts throughout the year.

Revenue and Support Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reported at the present value of their net realized value, using risk-free rates applicable to the years in which the promises are to be received.

Grant support is recognized as revenue when expenditures are incurred for the specific purpose established under the grant agencies.

Gifts-in-kind Contributions

The Organization periodically receives contributions in a form other than cash or investments. If the Organization receives a contribution of property or equipment, the contributed asset is recognized as an asset at its estimate fair value at the date of the gift, provided that the value of the asset and its estimated useful life meet the Organization's capitalization policy. Donated supplies are recorded as contributions at the date of the gift and as expenses when the donated items are placed into service or distributed.

During 2017, the Organization received donated office and class room space. The Organization estimates the approximate fair value of the annual in-kind rent totaled \$147,000 for 2017, and is included in contribution revenue and occupancy expense in the accompanying statements of activities and functional expenses.

Contributed Services

Some services provided to the Organization are donated. Contributed services are recognized by the Organization if the services rendered (a) are quantifiable and necessary to increase program or fundraising revenue or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

STUDENT U
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE A - ORGANIZATIONAL OVERVIEW AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Additionally the Organization receives a significant amount of contributed time from volunteers that does not meet the two recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a program basis in the statement of activities. Costs are allocated between fundraising, management and general and the appropriate programs based on evaluations of the related benefit. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Organization.

Income Taxes

The Organization is a publicly supported not-for-profit organization, recognized as tax exempt under Section 501(c)(3) of the Internal Revenue Code, and not considered to be a "private foundation" within the meaning of Section 509(a) of the Code. Management has concluded that the Organization has properly maintained their exempt status and has no uncertain tax positions as of December 31, 2016, 2017, and 2018. The prior three tax years through the current year are subject to examination by federal and state authorities; there are currently no examinations being conducted.

Marketing and Promotion

Marketing and promotion costs are expensed as incurred. Marketing and promotion costs are \$26,480 and \$17,131 for the years ended December 31, 2018 and 2017, respectively.

Fair Value Measurement

The Organization implemented FASB ASC 820-10 for financial assets and liabilities that are re-measured and reported at fair value and non-financial assets and liabilities that are re-measured and reported at fair value at least annually.

The guidance in FASB ASC 820-10 includes a definition of fair value, established a framework for measuring fair value in generally accepted accounting principles, and expands disclosure requirements in financial statements that incorporate fair value measurements. The hierarchy gives the highest ranking (Level 1) to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities. Fair values determined by (Level 2) inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. The lowest ranking (Level 3) are fair values determined using methodologies and models with unobservable inputs. An asset's or liability's classification is based on the lowest level input that is significant to its measurement.

STUDENT U
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE B - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2018	2017
Cash	\$ 711,618	\$ 1,173,012
Contributions and Grant Receivable	520,000	842,250
Total	\$ 1,231,618	\$ 2,015,262

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term money market funds.

NOTE C - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recorded after discounting to the present value the expected future cash flows. Unconditional promises to give at December 31, 2018 and 2017 are expected to be realized as follows:

	2018	2017
One year or less	\$ 260,000	\$ 325,000
One year to five years	260,000	460,000
Totals	\$ 520,000	\$ 785,000

At December 31, 2018, the unconditional promise to give was due from two donors. In the opinion of management, no allowance for doubtful promises to give is deemed necessary as of December 31, 2018 and 2017. Because of general business uncertainties, it is reasonably possible this estimate will change in the near-term.

NOTE D - CONSTRUCTION-IN-PROCESS

During 2017, the Organization entered into a financing agreement with Durham County and Self-Help Credit Union for the \$10.7 million dollar purchase and renovation of the W. G. Pearson Center. Under this agreement, Self-Help Credit Union purchased the W. G. Pearson Center, Durham County agreed to cover approximately \$4,250,000 of the estimated renovation cost, Student U will fund \$1,424,000 of the purchase/renovation cost, and the remaining \$5,026,000 of the estimated renovation cost coming from New Markets Tax Credit and Historic Tax Credit Equity financing. As of December 31, 2017, construction-in-process has a balance of \$1,894,577.

STUDENT U
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE E - NET ASSETS

Net assets with donor restrictions are restricted for the following purpose.

	<u>2018</u>	<u>2017</u>
High School/College Success Program	\$ 492,950	\$ 720,000
Totals	<u>\$ 492,950</u>	<u>\$ 720,000</u>

NOTE F - RESTRICTIONS RELEASED

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

NOTE G - EMPLOYEE BENEFIT PLAN

The Organization has a SIMPLE (Savings Incentive Match Plan for Employees of Small Employers) IRA plan. The Organization matches employee's contributions at 3%. Total employee benefit plan expense was \$28,109 for 2018 and \$33,220 for 2017, respectively.

NOTE H - SUBSEQUENT EVENTS

The Organization evaluated the effect subsequent events would have on the financial statements through May 15, 2019, which is the date the financial statements were available to be issued.