YEAR UP, INC. AND AFFILIATE

CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

YEAR UP, INC. AND AFFILIATE

Contents
December 31, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors of
Year Up, Inc. and Affiliate:

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of Year Up, Inc. (a Massachusetts corporation, not for profit) and Affiliate, which comprise the consolidating statements of financial position as of December 31, 2018 and 2017, and the related consolidating statements of activities, changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating 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 consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of Year Up, Inc. and Affiliate as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Alexander, Aronson, Finning & Co., P.C.

Westborough, Massachusetts
April 24, 2019

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Financial Position
December 31, 2018 and 2017

	2018				2017			
Assets	**Year Up, Inc.**	**YUPRO**	**Eliminations**	**Total**	**Year Up, Inc.**	**YUPRO**	**Eliminations**	**Total**
Current Assets:								
Cash and cash equivalents	$ 39,067,313	$ 1,050,648	$ -	$ 40,117,961	$ 31,610,293	$ 680,130	$ -	$ 32,290,423
Current portion of grants and pledges receivable, net	21,654,520	-	-	21,654,520	15,445,627	-	-	15,445,627
Internship receivable, net	6,548,774	621,942	(77,739)	7,092,977	10,335,571	655,193	(49,435)	10,941,329
Prepaid expenses and other	2,150,377	10,432	-	2,160,809	1,725,689	19,013	(44,134)	1,700,568
Total current assets	69,420,984	1,683,022	(77,739)	71,026,267	59,117,180	1,354,336	(93,569)	60,377,947
Grants and Pledges Receivable, net of current portion	15,583,482	-	-	15,583,482	20,355,319	-	-	20,355,319
Investments	10,982,799	-	-	10,982,799	10,343,764	-	-	10,343,764
Investment in YUPRO	480,000	-	(480,000)	-	480,000	-	(480,000)	-
Property and Equipment, net	21,898,478	-	-	21,898,478	22,966,233	-	-	22,966,233
Total assets	$ 118,365,743	$ 1,683,022	$ (557,739)	$ 119,491,026	$ 113,262,496	$ 1,354,336	$ (573,569)	$ 114,043,263
Liabilities and Net Assets								
Current Liabilities:								
Accounts payable and accrued expenses	$ 10,641,992	$ 1,113,408	$ (77,739)	$ 11,677,661	$ 7,726,556	$ 920,706	$ (93,569)	$ 8,553,693
Deferred revenue	1,334,270	-	-	1,334,270	1,014,998	-	-	1,014,998
Current portion of deferred rent	982,729	-	-	982,729	816,453	-	-	816,453
Total current liabilities	12,958,991	1,113,408	(77,739)	13,994,660	9,558,007	920,706	(93,569)	10,385,144
Deferred Rent, net of current portion	11,053,840	-	-	11,053,840	12,036,569	-	-	12,036,569
Notes Payable	-	1,000,000	-	1,000,000	-	1,000,000	-	1,000,000
Total liabilities	24,012,831	2,113,408	(77,739)	26,048,500	21,594,576	1,920,706	(93,569)	23,421,713
Net Assets:								
Without donor restrictions	51,855,946	(430,386)	(480,000)	50,945,560	52,387,188	(566,370)	(480,000)	51,340,818
With donor restrictions	42,496,966	-	-	42,496,966	39,280,732	-	-	39,280,732
Total net assets	94,352,912	(430,386)	(480,000)	93,442,526	91,667,920	(566,370)	(480,000)	90,621,550
Total liabilities and net assets	$ 118,365,743	$ 1,683,022	$ (557,739)	$ 119,491,026	$ 113,262,496	$ 1,354,336	$ (573,569)	$ 114,043,263

The accompanying notes are an integral part of these consolidating statements.

Consolidating Statements of Activities
For the Years Ended December 31, 2018 and 2017

	2018						2017					
	Year Up, Inc.						Year Up, Inc.					
	Without Donor Restrictions	With Donor Restrictions	Total	YUPRO	Eliminations	Total	Without Donor Restrictions	With Donor Restrictions	Total	YUPRO	Eliminations	Total
Operating Revenues:												
Program service fees:												
Year Up	$ 69,687,369	$ -	$ 69,687,369	$ -	$ -	$ 69,687,369	$ 56,719,019	$ -	$ 56,719,019	$ -	$ -	$ 56,719,019
YUPRO, net of cost of sales of approximately $5,400,000 and $4,300,000 at December 31, 2018 and 2017, respectively	-	-	-	1,404,038	(189,605)	1,214,433	-	-	-	1,174,030	(143,314)	1,030,716
Grants and contributions	40,658,760	41,727,547	82,386,307	-	-	82,386,307	49,159,888	27,559,417	76,719,305	-	-	76,719,305
In-kind goods and services	482,405	-	482,405	-	-	482,405	523,222	-	523,222	-	-	523,222
Other revenue	202,697	-	202,697	-	(59,725)	142,972	1,511,557	-	1,511,557	-	(44,134)	1,467,423
Net assets released from donor restrictions	38,511,313	(38,511,313)	-	-	-	-	35,375,683	(35,375,683)	-	-	-	-
Total operating revenues	149,542,544	3,216,234	152,758,778	1,404,038	(249,330)	153,913,486	143,289,369	(7,816,266)	135,473,103	1,174,030	(187,448)	136,459,685
Operating Expenses:												
Program services	124,778,955	-	124,778,955	-	(189,605)	124,589,350	106,030,640	-	106,030,640	-	(125,314)	105,905,326
General and administrative	15,143,874	-	15,143,874	-	-	15,143,874	12,039,619	-	12,039,619	-	(18,000)	12,021,619
Fundraising	10,150,957	-	10,150,957	-	-	10,150,957	9,901,136	-	9,901,136	-	-	9,901,136
YUPRO	-	-	-	1,268,054	(59,725)	1,208,329	-	-	-	1,031,904	(44,134)	987,770
Total operating expenses	150,073,786	-	150,073,786	1,268,054	(249,330)	151,092,510	127,971,395	-	127,971,395	1,031,904	(187,448)	128,815,851
Changes in net assets from operations	$ (531,242)	$ 3,216,234	$ 2,684,992	$ 135,984	$ -	$ 2,820,976	$ 15,317,974	$ (7,816,266)	$ 7,501,708	$ 142,126	$ -	$ 7,643,834

Consolidating Statements of Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

	Year Up, Inc.					
	Without Donor Restrictions	With Donor Restrictions	Total	YUPRO	Eliminations	Total
Net Assets, December 31, 2016	$ 37,069,214	$ 47,096,998	$ 84,166,212	$ (708,496)	$ (480,000)	$ 82,977,716
Changes in net assets	15,317,974	(7,816,266)	7,501,708	142,126	-	7,643,834
Net Assets, December 31, 2017	52,387,188	39,280,732	91,667,920	(566,370)	(480,000)	90,621,550
Changes in net assets	(531,242)	3,216,234	2,684,992	135,984	-	2,820,976
Net Assets, December 31, 2018	$ 51,855,946	$ 42,496,966	$ 94,352,912	$ (430,386)	$ (480,000)	$ 93,442,526

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Year Up, Inc.	YUPRO	Total	Year Up, Inc.	YUPRO	Total
Cash Flows from Operating Activities:						
Changes in net assets	$ 2,684,992	$ 135,984	$ 2,820,976	$ 7,501,707	$ 142,126	$ 7,643,833
Adjustments to reconcile changes in net assets to net cash provided by operating activities:						
Depreciation	4,573,230	-	4,573,230	4,422,763	-	4,422,763
Bad debt	49,084	-	49,084	286,421	-	286,421
Realized and unrealized (gain) loss on investments	676,731	-	676,731	(691,980)	-	(691,980)
Changes in operating assets and liabilities:						
Grants and pledges receivable	(1,437,056)	-	(1,437,056)	714,733	-	714,733
Internship receivable	3,737,713	33,251	3,770,964	1,920,197	(191,165)	1,729,032
Prepaid expenses and other	(424,688)	8,581	(416,107)	(577,329)	(13,934)	(591,263)
Accounts payable and accrued expenses	3,213,094	192,702	3,405,796	861,185	182,935	1,044,120
Deferred revenue	319,272	-	319,272	212,693	-	212,693
Deferred rent	(816,453)	-	(816,453)	(693,890)	-	(693,890)
Net cash provided by operating activities	12,575,919	370,518	12,946,437	13,956,500	119,962	14,076,462
Cash Flows from Investing Activities:						
Acquisition of property and equipment	(3,803,133)	-	(3,803,133)	(4,054,806)	-	(4,054,806)
Purchases of investments	(4,053,237)	-	(4,053,237)	(4,924,763)	-	(4,924,763)
Sales of investments	2,737,471	-	2,737,471	4,514,567	-	4,514,567
Net cash used in investing activities	(5,118,899)	-	(5,118,899)	(4,465,002)	-	(4,465,002)
Net Change in Cash and Cash Equivalents	7,457,020	370,518	7,827,538	9,491,498	119,962	9,611,460
Cash and Cash Equivalents:						
Beginning of year	31,610,293	680,130	32,290,423	22,118,795	560,168	22,678,963
End of year	$ 39,067,313	$ 1,050,648	$ 40,117,961	$ 31,610,293	$ 680,130	$ 32,290,423
Supplemental Disclosure of Non-Cash Transactions:						
Cash paid for interest	$ 1,382	$ 51,415	$ 52,797	$ 763	$ 67,750	$ 68,513
Property and equipment financed through accounts payable	$ 630,600	$ -	$ 630,600	$ 332,942	$ -	$ 332,942

The accompanying notes are an integral part of these consolidating statements.

Consolidating Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018						2017					
	Program Services	General and Administrative	Fundraising	Total	Eliminations	Total	Program Services	General and Administrative	Fundraising	Total	Eliminations	Total
Payroll and Related:												
Salaries	$ 52,969,584	$ 6,592,107	$ 6,323,337	$ 65,885,028	$ -	$ 65,885,028	$ 45,416,947	$ 5,214,302	$ 6,263,723	$ 56,894,972	$ -	$ 56,894,972
Fringe benefits and taxes	17,162,651	2,168,184	1,758,524	21,089,359	-	21,089,359	13,921,051	1,626,702	1,684,351	17,232,104	-	17,232,104
Total payroll and related	70,132,235	8,760,291	8,081,861	86,974,387	-	86,974,387	59,337,998	6,841,004	7,948,074	74,127,076	-	74,127,076
Non-Compensation Operating Expenses												
Student related direct costs	25,464,820	9,769	-	25,474,589	-	25,474,589	21,422,187	139	2,588	21,424,914	-	21,424,914
Occupancy	5,959,179	1,611,701	1,506	7,572,386	-	7,572,386	6,062,783	1,370,984	413	7,434,180	-	7,434,180
Consultants and professional services	4,410,428	1,719,331	176,560	6,306,319	(175,005)	6,131,314	2,883,894	1,226,787	183,086	4,293,767	(143,314)	4,150,453
Telecommunication and computers	4,082,950	506,999	240,182	4,830,131	-	4,830,131	3,008,047	335,082	222,636	3,565,765	-	3,565,765
Meals, travel and lodging	3,509,320	648,153	278,213	4,435,686	-	4,435,686	3,087,514	493,214	313,905	3,894,633	-	3,894,633
Advertising	2,795,504	10,736	146,744	2,952,984	-	2,952,984	2,657,652	19,654	174,869	2,852,175	-	2,852,175
Special events	1,595,552	226,373	736,918	2,558,843	-	2,558,843	1,337,974	138,309	608,198	2,084,481	-	2,084,481
Other program supplies	1,962,985	299,279	136,278	2,398,542	-	2,398,542	1,724,238	147,088	181,918	2,053,244	-	2,053,244
Office expense	1,077,823	728,896	189,970	1,996,689	(14,600)	1,982,089	845,627	854,955	117,814	1,818,396	-	1,818,396
Depreciation	3,788,159	622,346	162,725	4,573,230	-	4,573,230	3,662,726	612,403	147,635	4,422,764	-	4,422,764
Total non-compensation operating expenses	54,646,720	6,383,583	2,069,096	63,099,399	(189,605)	62,909,794	46,692,642	5,198,615	1,953,062	53,844,319	(143,314)	53,701,005
Total operating expenses before YUPRO	124,778,955	15,143,874	10,150,957	150,073,786	(189,605)	149,884,181	106,030,640	12,039,619	9,901,136	127,971,395	(143,314)	127,828,081
YUPRO	1,268,054	-	-	1,268,054	(59,725)	1,208,329	1,031,904	-	-	1,031,904	(44,134)	987,770
Total operating expenses	$ 126,047,009	$ 15,143,874	$ 10,150,957	$ 151,341,840	$ (249,330)	$ 151,092,510	$ 107,062,544	$ 12,039,619	$ 9,901,136	$ 129,003,299	$ (187,448)	$ 128,815,851

The accompanying notes are an integral part of these consolidating statements.

NOTE A - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Year Up, Inc.'s (Year Up) mission is to close the opportunity divide by providing urban young adults with the skills, experience and support that will empower them to reach their potential through professional careers and higher education. Year Up achieves this mission through a high support, high expectations model that combines marketable job skills, stipends, internships, college credit, a behavior management system, and several levels of support to place these young adults on a viable path to economic self-sufficiency.

Year Up was incorporated on October 11, 2000, and has launched twenty-five fully operational programs across the following fifteen states: Georgia, Maryland, Washington, New York, Texas, Illinois, Florida, California, Massachusetts, Virginia, New York, Pennsylvania, Arizona, Rhode Island, and Delaware.

Year Up Professional Resource, PBC (YUPRO) is a wholly-owned subsidiary of Year Up, and a public benefit corporation organized under Subchapter XV of Chapter 1 of Title 8 of the General Corporate Law of the State of Delaware. YUPRO was incorporated on March 16, 2014, and its mission is to support the career development of low-income young adults who have successfully participated in post-secondary training programs through job placement, recruiting and further skills training. YUPRO operates out of the state of Colorado.

Nature of Advocacy Work

Year Up has engaged in a set of influence strategies targeting three key barriers that limit options in the talent marketplace for Opportunity Youth: shifting perceptions of urban young adults from social liabilities to economic assets, shifting employer practices to broaden talent sourcing and hiring, and shifting public policies to support enterprising career pathways. The goal of this work is provide Opportunity Youth a pathway to the education and training needed to become the source of skilled talent employers seek.

Year Up is also investing in the national alumni relations team to build engagement opportunities for alumni, provide targeted and centralized support services, and act as the organizational liaison to the National Alumni Association.

Basis of Presentation

Year Up and YUPRO (collectively, the Entity) prepare their consolidating financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

Year Up owns all of the outstanding shares of YUPRO. Accordingly, the consolidating financial statements include the financial activity of both entities as of and for the years ended December 31, 2018 and 2017. All significant intercompany balances and transactions have been eliminated (see Note J).

NOTE A - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of functional expenses. This standard will be effective for the calendar year ending December 31, 2020. The Entity is currently in the process of evaluating the impact of adoption of this ASU on the consolidating financial statements.

Adoption of New Accounting Standard

In 2018, Year Up adopted the FASB's ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU modified the current guidance over several criteria, of which the following affected Year Up's consolidating financial statements:

- Net assets are segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets (i.e., unrestricted, temporarily restricted and permanently restricted). (See below and Note L.)
- Qualitative and quantitative information relating to management of liquidity and availability of financial assets to cover short-term cash needs within one year from the statement of financial position date (see Note B).
- A statement of functional expenses is presented for the years ended December 31, 2018 and 2017. The statement of functional expenses for the year ended December 31, 2017, was restated to be in accordance with the new methodology, which includes an explanation of the methods used to allocate costs among program and supporting (general and administrative and fundraising) functions (see page 12).

The ASU has been applied retrospectively to all periods presented.

Net Assets

The Entity classifies resources into net asset classes in accordance with donor-imposed restrictions. A description of these categories is as follows:

- **Without Donor Restrictions** - net assets are resources over which the Entity has discretionary control.

- **With Donor Restrictions** - net assets whose use by the Entity is limited by donor-imposed stipulations or by law that either expire by passage of time or that can be fulfilled or removed by actions of the Entity pursuant to those stipulations.

NOTE A - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents are held in money market, certificates of deposit and checking accounts. Cash and cash equivalents have maturities at date of purchase of three months or less.

Contributed Property and Equipment, Services and Space

Year Up recognizes contribution revenue for certain services, space and property and equipment that would be purchased if not donated, at the fair value of those items.

Contributed equipment consists of the following at December 31:

	2018	2017
Software	$ 3,217,365	$ 3,217,365
Less - accumulated depreciation	2,688,498	1,630,765
Contributed property and equipment, net	$ 528,867	$ 1,586,600

For the years ended December 31, 2018 and 2017, Year Up expensed $1,057,733 and $1,065,094, respectively, of depreciation on contributed equipment.

In-kind contributions include the following items for the years ended December 31:

	2018	2017
Legal services	$ 266,405	$ 361,222
Telecommunications	216,000	162,000
	$ 482,405	$ 523,222

Investments

Investments consist of mutual funds, corporate bonds, equities, public real estate investment trusts (REITs), and hedge funds. Changes in fair values are included in other revenue in the accompanying consolidating statements of activities (see Note C).

Year Up holds its investments for long-term purposes. Investments are not insured and are subject to ongoing market fluctuation.

Revenue Recognition

Grants and Contributions

A contribution is an unconditional transfer of cash or other assets. Other assets include securities, land, buildings, use of facilities or utilities, materials and supplies, services, and unconditional promises to give those items in the future.

Contributions, including unconditional promises to give, are recognized as revenues, assets or decreases in liabilities depending on the form of the benefits received. Contributions are recorded at their fair value and are reported as without donor restrictions or with donor restrictions based upon the existence or absence of donor-imposed restrictions.

NOTE A - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Grants and Contributions (Continued)

Unconditional pledges are included in the accompanying consolidating financial statements as pledges receivable and contribution revenue for the appropriate net asset category and are recorded after discounting to the present value of the expected future cash flows. Year Up does not record conditional pledges until conditions have been met.

Federal, State, and City government grant and contract revenue is recognized when the corresponding program expenditures are made, or when milestones are reached, in accordance with the terms of the related contracts.

The following table represents the sources of Year Up's contributions for the years ended December 31:

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Foundations	$ 19,765,085	$ 28,757,800	$ 48,522,885
Individuals	15,509,306	9,263,997	24,773,303
Corporations	4,579,778	3,640,250	8,230,028
Government	804,591	65,500	870,091
	$ 40,658,760	$ 41,727,547	$ 82,386,307

	2017		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Foundations	$ 29,034,915	$ 14,012,120	$ 43,047,035
Individuals	16,380,677	13,343,707	29,724,384
Corporations	2,886,870	203,590	3,090,460
Government	857,426	-	857,426
	$ 49,159,888	$ 27,559,417	$ 76,719,305

NOTE A - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Program Service Fees

As part of its program, Year Up places students in internships at various corporations during the second six months of the program. The internship phase provides students with the opportunity to practice and develop the skills learned during the learning and development phase. In addition to providing a hands-on learning opportunity to a Year Up intern, the corporations make a payment to Year Up for its participation in the internship program, recognizing the value of underwriting the training and education of this future talent pipeline. This is an exchange transaction. The revenue generated from the internship program pays for stipends, college credits, and support services for program participants, and other operating costs of the program. Program service fees are recognized over the period the internship occurs. Advance payments are recorded as deferred revenue. YUPRO's program service fees are recognized over the staffing contract or consulting period. Permanent placement fees are recognized at the time of the employee's start date. Advance payments are recorded as deferred revenue.

Year Up accrues earned income to align with the actual number of weeks each Year Up student was in attendance during the internship phase. Total accrued revenue for 2018 and 2017 was $1,122,033 and $1,890,849, respectively, and is included in internship receivable, net in the accompanying consolidating statements of financial position.

Other Revenue

Other revenue consists of investment income and rental income from several subleases. All other revenue is recognized as earned.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is recorded based on management's analysis of specific accounts and the estimate of additional amounts that may become uncollectible. Accounts are written off against the allowance when they are determined to be uncollectible.

Internship receivable as of December 31, 2018 and 2017, are shown net of allowance of doubtful accounts of $444,057 and $525,189, respectively, included in advertising in the accompanying statement of functional expenses.

Property and Equipment

Equipment purchased by Year Up is recorded at cost. Donated equipment is recorded at fair value at the date of the gift. Depreciation is computed using the straight-line method over the assets' estimated useful life.

Estimated useful lives are as follows:

Building and leasehold improvements	Life of lease
Furniture and fixtures	5 years
Computer equipment	3 years
Software	3 years

Advertising Expense

Advertising costs are expensed at the time they are incurred. Advertising expense for the years ended December 31, 2018 and 2017, was $1,841,864 and $1,664,808, respectively.

NOTE A - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Entity accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statements regarding a tax position taken or expected to be taken in a tax return. The Entity has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2018 and 2017. The Entity's information returns are subject to examination by the Federal and state jurisdictions.

Income taxes are provided for the tax effects of transactions reported in the consolidating financial statements and consist of taxes currently due and deferred taxes related primarily to differences between the consolidating financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The deferred taxes represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Future tax benefits are recognized only to the extent that such benefits are more-likely-than-not to be realized. A valuation allowance is recorded when it is more-likely-than-not that a net deferred tax asset will not be realized.

As of December 31, 2018 and 2017, YUPRO had Federal and state net operating loss carryforwards of approximately $1,146,000 and $1,341,000, respectively, which may be available to offset future income tax liabilities and expire at various dates through 2038. The tax benefit of the net operating loss carryforwards is immaterial to the consolidating financial statements and is not reflected. Net operating loss carryforwards are available to offset future taxable income through December 31, 2035.

Cost Allocation - Functional Expenses

The costs of providing program and other activities of Year Up have been summarized on a functional basis in the accompanying consolidating statements of functional expenses, which includes all operating expenses incurred during the year. Accordingly, certain costs have been allocated among the program and supporting services benefited. Expenses directly related to a program are distributed to that program. Salaries, fringe benefits and taxes, occupancy, telecommunications and computers, depreciation and other costs of the technology department are allocated among program and supporting services benefited based on headcount/full-time equivalent.

Use of Estimates

The preparation of consolidating financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidating financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The Entity follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Entity would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

NOTE A - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Entity uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Entity. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting the Entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to fair value measurement.

Investments

Investments are recorded in the consolidating financial statements at fair value. If an investment is directly held by Year Up and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of share in mutual funds are based on share prices reported by the funds at the last business day of the fiscal year (see Note C).

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

NOTE B - AVAILABILITY AND LIQUIDITY

The following represents the Entity's financial assets at December 31, 2018:

Financial assets at year-end:	
Cash and cash equivalents	$ 40,117,961
Internship receivable, net	7,092,977
Grants and pledges receivable	37,238,002
Investments	10,982,799
Total financial assets	95,431,739
Less:	
Grants and pledges receivable scheduled to be collected in more than one year	15,583,482
Restricted by donors for specific programs	5,559,789
Financial assets available to meet general expenditures over the next twelve months	$ 74,288,468

The available balance of approximately $74,000,000 represents six months of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts, certificates of deposit, and other marketable securities. The Entity has a $10,000,000 line of credit available to meet cash flow needs. Additionally, the Entity has $53,753,338 of conditional pledges as of December 31, 2018 (see Note D). The Entity's policy is not to record conditional pledges until conditions have been met.

NOTE C - INVESTMENTS

The following table presents Year Up's investments classified by major categories and presented by level within the valuation framework (see Note A) as of December 31:

2018	Level 1	Level 2	Level 3	Total
Equity funds:				
U.S. Large Cap	$ 1,650,048	$ -	$ -	$ 1,650,048
Other	1,999,490	-	-	1,999,490
Fixed income:				
Investment Grade Taxable Bond	-	5,364,812	-	5,364,812
Other	1,008,130	-	-	1,008,130
Other	960,319	-	-	960,319
Total assets	$ 5,617,987	$ 5,364,812	$ -	$ 10,982,799

2017	Level 1	Level 2	Level 3	Total
Equity funds:				
U.S. Large Cap	$ 1,243,513	$ -	$ -	$ 1,243,513
Other	2,528,351	-	-	2,528,351
Fixed income:				
Investment Grade Taxable Bond	-	4,814,117	-	4,814,117
Other	908,758	-	-	908,758
Other	848,025	-	-	849,025
Total assets	$ 5,529,647	$ 4,814,117	$ -	$ 10,343,764

The assets' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets at fair value on a recurring basis:

> *Fixed Income Securities* are valued at Level 2 using the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Year Up believes that the reported amount of its investments is a reasonable estimate of fair value as of December 31, 2018 and 2017. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed. Investments are not insured and are subject to market fluctuations.

NOTE C - INVESTMENTS (Continued)

Investment activity is included in other revenue in the accompanying consolidating statements of activities and consisted of the following at December 31:

	2018	2017
Investment interest and dividends	$ 241,286	$ 189,077
Net realized gain on sale of investments	116,621	150,249
Net unrealized gain (loss) on investments	(793,352)	541,731
Investment management fees	(34,470)	(30,819)
	$ (469,915)	$ 850,238

NOTE D - GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable at December 31, 2018 and 2017, are expected to be realized in the following periods:

	2018	2017
In less than one year	$ 21,761,534	$ 15,575,854
Between one and five years	16,099,414	21,034,576
Total grants and pledges receivable	37,860,948	36,610,430
Less - present value discount	515,932	679,258
Less - allowance for doubtful accounts	107,014	130,227
Grants and pledges receivable, net	$ 37,238,002	$ 35,800,945

The present value discount was calculated using a discount factor, which ranged from 2.48% to 2.51%.

Conditional Pledges

Year Up has a policy to not record conditional pledges until conditions have been met. Year Up has $53,753,338 and $66,683,863 of conditional pledges as of December 31, 2018 and 2017, respectively, which will be recorded in the consolidating financial statements once the conditions have been met (see Note B and L).

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2018	2017
Building and leasehold improvements	$ 20,002,721	$ 19,402,918
Computer equipment	8,682,721	7,586,303
Furniture and fixtures	1,928,427	1,879,840
Software	2,348,910	-
Software development	3,296,413	3,884,656
	36,259,192	32,753,717
Less - accumulated depreciation	14,360,714	9,787,484
Property and equipment, net	$ 21,898,478	$ 22,966,233

NOTE E - PROPERTY AND EQUIPMENT (Continued)

For the years ended December 31, 2018 and 2017, Year Up expensed $4,573,230 and $4,422,763, respectively, of depreciation.

During 2014, Year Up began a project to customize the Salesforce software to their specific needs. During 2018, a total of approximately $2,300,000 of software development cost was placed into service and depreciation began on the asset. The project is estimated to be completed in 2019 with a total approximate cost of $3,800,000.

NOTE F - OPERATING LEASES

The following is a schedule of combined future rental payments under operating leases:

Year Ending December 31	
2019	$ 7,146,823
2020	$ 7,410,951
2021	$ 7,551,235
2022	$ 7,333,259
2023	$ 7,011,474
Thereafter	$ 21,385,101

Rent expense for the years ended December 31, 2018 and 2017, was $6,179,997 and $6,152,195, respectively, and is included in occupancy in the accompanying consolidating statements of functional expenses. Rent expense is recorded on a straight-line basis for Year Up's operating leases.

The lease agreements also include tenant improvement allowances of approximately $8,780,000 in the form of a reimbursement for construction and related costs incurred by Year Up in fitting out the leased spaces. This landlord incentive is reported as a liability and is amortized over the lease term as a reduction in the rent expense. As a result of certain rent holidays, escalation clauses and tenant improvement allowances included in the leases noted above, deferred rent liabilities totaling $12,036,569 and $12,853,022 as of December 31, 2018 and 2017, respectively, are included in deferred rent in the accompanying consolidating statements of financial position.

As part of certain lease agreements, Year Up is required to deliver security to the landlords in the form of an irrevocable letter of credit from a bank. Year Up maintains three letters of credit for a total of $3,653,015 with various banking institutions. Year Up named the landlords as the beneficiaries through the maturity of the leases.

NOTE G - NOTES PAYABLE

YUPRO has entered into the following agreements at December 31:

	2018	2017
Unsecured note payable agreement with an individual lender. The note bears interest at a rate of 5% and interest-only payments are due semi-annually. Principal is due on the maturity date of May 16, 2021.	$ 700,000	$ 700,000
Unsecured note payable agreement with a company. The note bears interest at a rate of 5% and interest-only payments are due semi-annually. Principal is due on the maturity date of May 16, 2021.	300,000	300,000
	$ 1,000,000	$ 1,000,000

The debt instruments described above require YUPRO to comply with certain covenants with which YUPRO was in compliance with at December 31, 2018 and 2017. In addition, as stated in the note agreements, the two lenders are subject to a profit participation amount based on a certain calculation as defined in the agreement, starting in 2017. No amounts were earned in 2018.

NOTE H - LINE OF CREDIT

Year Up has a revolving line of credit agreement with a bank in the amount $10,000,000. The line of credit is collateralized by the business assets of Year Up. The line of credit is payable on demand. Until demand is made, Year Up is required to make monthly payments equal to the sum of accrued interest at the close of the billing cycle. Year Up will pay in full, any principal, interest or other charges outstanding on this facility no later than the facility expiration date. Interest is equal to the London Interbank Offered Rate (LIBOR) Daily Floating rate (2.4% and 1.6% at December 31, 2018 and 2017, respectively), plus 1.4 percentage points. The agreement stipulates that Year Up not incur any additional debt other than in the ordinary course of business during the term of the line of credit. Year Up did not draw on the line of credit during 2018 and 2017. The line of credit agreement contains various covenants. Year Up was in compliance with these covenants at December 31, 2018 and 2017.

NOTE I - RETIREMENT PLAN

Year Up has a defined contribution pension plan covering eligible employees. Participants can make an elective deferral for any plan year of their eligible compensation, not to exceed the annual dollar limit as permitted by law. Year Up elects to make a matching contribution. During 2018 and 2017, Year Up made matching contributions of 100% of the first 5% of a participant's compensation contributed to the plan. For the years ended December 31, 2018 and 2017, Year Up contributed $2,083,817 and $1,549,120, respectively. These amounts are included in fringe benefits and taxes in the accompanying consolidating statements of functional expenses.

NOTE J - RELATED PARTY TRANSACTIONS

At December 31, 2018 and 2017, the balance outstanding of pledges receivable from National Board members of Year Up was $5,121,400 and $7,710,544, respectively.

A member of the Board is a partner at a law firm which provided pro bono services to Year Up in the amount of $244,836 and $330,407 for the years ended December 31, 2018 and 2017, respectively. This member abstains from discussions on matters surrounding his firm, as required by Year Up's conflict of interest policy.

Year Up incurred costs related to the formation of YUPRO and transferred certain intellectual property to YUPRO. The value of the aforementioned intellectual property and start-up costs totaled $480,000. This amount has been eliminated in the accompanying consolidating financial statements.

Year Up contracts with YUPRO for temporary help. During the years ended December 31, 2018 and 2017, Year Up paid YUPRO $189,605 and $143,314, respectively, in contractor fees which are included in program service fees, consultants and professional services and office expenses in the accompanying consolidating financial statements. These amounts have been eliminated in the consolidating financial statements.

During 2016, Year Up entered into an agreement with YUPRO, whereby YUPRO will pay Year Up a fee for each Year Up internship program graduate referred to by Year Up to YUPRO. The fee is dependent on the graduate successfully transitioning to a contractor position at the internship company for at least three months and where the placement of the graduate at the internship company is managed by YUPRO. The agreement was effective January 1, 2016. The fee is only required when YUPRO generates operating profit after interest and taxes and is determined based on a calculation established in the agreement. For the years ended December 31, 2018 and 2017, Year Up earned a fee of $59,725 and $44,134, respectively, which is included in other revenue in the accompanying consolidating financial statements. This amount has been eliminated in the consolidating financial statements.

NOTE L - NET ASSETS

Net assets with donor restrictions are available for the following purposes at December 31:

	2018	2017
Time restricted:		
2018	$ -	$ 16,215,806
2019	21,353,194	11,059,576
2020	10,501,999	6,218,500
2021	3,224,915	1,677,242
2022	1,733,069	1,400,000
2023	124,000	-
Purpose restricted:		
Program / Curriculum development	2,784,134	675,001
Innovation	1,152,000	1,738,699
Capital / Infrastructure	243,484	295,908
Growth and Expansion	1,380,171	-
	$ 42,496,966	$ 39,280,732

NOTE L - NET ASSETS (Continued)

Net assets with donor restrictions were released for the following restrictions at December 31:

	2018	2017
Time restricted	$ 26,154,183	$ 26,474,943
Program restricted	12,357,130	8,900,740
	$ 38,511,313	$ 35,375,683

Opportunity Campaigns

OCII

Opportunity Campaign II (OCII) funds were raised from philanthropic investors providing equity-like capital necessary to meet the Phase III Growth plan for the years 2012 through 2016 and were shown as purpose restricted net assets. The use of OCII Funds is, until January 1, 2017, restricted toward achieving a positive change in net assets without donor restrictions for the fiscal year of a magnitude up to (but not more than) 10% of the fiscal year's operating expenses. No amounts were restricted as of December 31, 2017 or 2018.

Based on the stipulations of the subscription agreement detailed above, management released from restriction $197,832 and $1,714,121 of allowable OCII amounts at December 31, 2018 and 2017, respectively. There was no remaining balance included in grants and pledges receivable as of December 31, 2018 and 2017.

OCIII

In 2016, Year Up officially launched a new capital campaign, Opportunity Campaign III (OC III). It is a $225,000,000 campaign to support growth, innovation and impact through 2021. This campaign will fund expansion of direct service work and a continued investment in generating impact. As of December 31, 2018, Year Up has raised approximately $238,000,000. A total of $50,900,000 and $101,800,000 was raised in 2018 and 2017, respectively. Approximately $50,000,000 and $64,200,000 in 2018 and 2017, respectively, of total campaign funds are conditional and, therefore, are not reflected in the accompanying consolidating statements of activities.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 24, 2019, which is the date the consolidating financial statements were available for issuance. There were no events that met the criteria for recognition or disclosure in the consolidating financial statements.

NOTE N - CONCENTRATIONS

FDIC Coverage

Year Up maintains its cash balances in various banks in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain limits. At certain times during the year, cash balances exceeded the insured amounts. The Entity has not experienced any losses in these accounts and management believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE N - CONCENTRATIONS (Continued)

Funding

The following tables reflect the largest donors and Corporate Partners representing over 10% of total operating revenues and accounts receivable:

	2018		2017	
Donor	**Total Operating Revenue**	**Total Accounts Receivable**	**Total Operating Revenue**	**Total Accounts Receivable**
A	- %	- %	- %	16%
B	- %	- %	- %	11%
C	- %	12%	- %	- %
D	13%	- %	23%	- %

	2018		2017	
Corporate Partner	**Total Operating Revenue**	**Total Accounts Receivable**	**Total Operating Revenue**	**Total Accounts Receivable**
E	- %	10%	- %	12%

NOTE O - RECLASSIFICATIONS

Certain reclassifications have been made to the prior year consolidating financial statements to conform to current year presentations.