

**YEAR UP, INC. AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**YEAR UP, INC. AND AFFILIATE**

Contents  
December 31, 2014 and 2013

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## Independent Auditor's Report

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Year Up, Inc. (a Massachusetts corporation, not for profit) and Affiliate (collectively, the Entity), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Year Up, Inc. and Affiliate as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements for Year Up, Inc. as of December 31, 2013, and for the year then ended were audited by other auditors prior to the restatement. Those auditors expressed an unmodified opinion on those financial statements in their report thereon dated May 6, 2014.

*Alexander, Brown, Fenning & Co., P.C.*

Boston, Massachusetts  
April 9, 2015

**YEAR UP, INC. AND AFFILIATE**

 Consolidated Statements of Financial Position  
 December 31, 2014 and 2013

Assets	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 17,854,254	\$ 4,386,705	\$ 22,240,959	\$ 12,967,906	\$ 4,959,990	\$ 17,927,896
Current portion of grants and pledges receivable, net of allowance for doubtful accounts	839,046	8,443,182	9,282,228	938,704	12,815,548	13,754,252
Internship receivable, net of allowance for doubtful accounts of \$257,757 and \$50,000 at December 31, 2014 and 2013, respectively	5,708,631	-	5,708,631	6,690,983	-	6,690,983
Prepaid expenses and other	1,717,559	-	1,717,559	842,397	-	842,397
<b>Total current assets</b>	<b>26,119,490</b>	<b>12,829,887</b>	<b>38,949,377</b>	<b>21,439,990</b>	<b>17,775,538</b>	<b>39,215,528</b>
Grants and Pledges Receivable, net of current portion and discount	-	7,615,664	7,615,664	-	11,986,282	11,986,282
Investments	-	13,708,651	13,708,651	-	8,760,517	8,760,517
Property and Equipment, net	8,919,715	119,792	9,039,507	5,709,264	557,176	6,266,440
<b>Total assets</b>	<b>\$ 35,039,205</b>	<b>\$ 34,273,994</b>	<b>\$ 69,313,199</b>	<b>\$ 27,149,254</b>	<b>\$ 39,079,513</b>	<b>\$ 66,228,767</b>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities:</b>						
Current portion of capital lease obligation	\$ 157,625	\$ -	\$ 157,625	\$ 149,218	\$ -	\$ 149,218
Accounts payable and accrued expenses	3,895,667	-	3,895,667	3,358,225	-	3,358,225
Current portion of deferred rent	1,334,619	-	1,334,619	130,152	-	130,152
<b>Total current liabilities</b>	<b>5,387,911</b>	<b>-</b>	<b>5,387,911</b>	<b>3,637,595</b>	<b>-</b>	<b>3,637,595</b>
Deferred Rent, net of current portion	3,995,579	-	3,995,579	641,400	-	641,400
Notes Payable	800,000	-	800,000	-	-	-
Capital Lease Obligation, net of current portion	4,378,288	-	4,378,288	4,535,913	-	4,535,913
<b>Total liabilities</b>	<b>14,561,778</b>	<b>-</b>	<b>14,561,778</b>	<b>8,814,908</b>	<b>-</b>	<b>8,814,908</b>
<b>Net Assets:</b>						
Unrestricted	20,477,427	-	20,477,427	18,334,346	-	18,334,346
Temporarily restricted	-	34,273,994	34,273,994	-	39,079,513	39,079,513
<b>Total net assets</b>	<b>20,477,427</b>	<b>34,273,994</b>	<b>54,751,421</b>	<b>18,334,346</b>	<b>39,079,513</b>	<b>57,413,859</b>
<b>Total liabilities and net assets</b>	<b>\$ 35,039,205</b>	<b>\$ 34,273,994</b>	<b>\$ 69,313,199</b>	<b>\$ 27,149,254</b>	<b>\$ 39,079,513</b>	<b>\$ 66,228,767</b>

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

**YEAR UP, INC. AND AFFILIATE**

Consolidated Statements of Activities  
For the Years Ended December 31, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Operating Revenues:</b>						
Program service fees	\$ 34,650,149	\$ -	\$ 34,650,149	\$ 29,301,728	\$ -	\$ 29,301,728
Grants and contributions:						
Foundations	8,137,858	9,473,936	17,611,794	5,896,998	15,183,087	21,080,085
Individuals	6,235,579	5,096,016	11,331,595	3,743,976	9,810,560	13,554,536
Corporations	2,602,257	216,312	2,818,569	1,865,406	80,810	1,946,216
Government	2,220,806	450,000	2,670,806	3,406,102	-	3,406,102
In-kind goods and services	1,294,738	44,165	1,338,903	1,075,620	103,200	1,178,820
Other revenue	609,167	-	609,167	840,269	-	840,269
Net assets released from restrictions	20,085,948	(20,085,948)	-	16,918,566	(16,918,566)	-
<b>Total operating revenues</b>	<b>75,836,502</b>	<b>(4,805,519)</b>	<b>71,030,983</b>	<b>63,048,665</b>	<b>8,259,091</b>	<b>71,307,756</b>
<b>Operating Expenses:</b>						
Program services	55,608,879	-	55,608,879	46,545,383	-	46,545,383
General and administrative	12,320,065	-	12,320,065	8,258,813	-	8,258,813
Fundraising	5,764,477	-	5,764,477	4,910,116	-	4,910,116
<b>Total operating expenses</b>	<b>73,693,421</b>	<b>-</b>	<b>73,693,421</b>	<b>59,714,312</b>	<b>-</b>	<b>59,714,312</b>
<b>Changes in net assets</b>	<b>\$ 2,143,081</b>	<b>\$ (4,805,519)</b>	<b>\$ (2,662,438)</b>	<b>\$ 3,334,353</b>	<b>\$ 8,259,091</b>	<b>\$ 11,593,444</b>

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

**YEAR UP, INC. AND AFFILIATE**Consolidated Statements of Changes in Net Assets  
For the Years Ended December 31, 2014 and 2013

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Net Assets</b> , December 31, 2012	\$ 14,999,993	\$ 30,820,422	\$ 45,820,415
Changes in net assets	<u>3,334,353</u>	<u>8,259,091</u>	<u>11,593,444</u>
<b>Net Assets</b> , December 31, 2013, as restated	18,334,346	39,079,513	57,413,859
Changes in net assets	<u>2,143,081</u>	<u>(4,805,519)</u>	<u>(2,662,438)</u>
<b>Net Assets</b> , December 31, 2014	<u>\$ 20,477,427</u>	<u>\$ 34,273,994</u>	<u>\$ 54,751,421</u>

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

**YEAR UP, INC. AND AFFILIATE**

Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (2,662,438)	\$ 11,593,444
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,710,718	2,031,668
Bad debt	433,800	435,573
Realized/unrealized gain (loss) on investments	576	(434,236)
Deferred rent	4,558,646	46,476
Contributed property and equipment	(44,165)	(103,200)
Changes in operating assets and liabilities:		
Grants and pledges receivables	8,812,148	(6,154,910)
Internship receivable	579,046	(1,990,878)
Prepaid expenses and other	(875,162)	558,666
Accounts payable and accrued expenses	537,442	(175,601)
	<u>13,050,611</u>	<u>5,807,002</u>
<b>Net cash provided by operating activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Acquisition of property and equipment	(4,439,620)	(845,141)
Purchases of investments	(12,387,601)	(2,967,552)
Sales of investments	7,438,891	2,553,122
	<u>(9,388,330)</u>	<u>(1,259,571)</u>
<b>Net cash used in investing activities</b>		
<b>Cash Flows from Financing Activities:</b>		
Proceeds from notes payable	800,000	-
Principal payments on capital lease obligation	(149,218)	(139,843)
	<u>650,782</u>	<u>(139,843)</u>
<b>Net cash provided by (used in) investing activities</b>		
<b>Net Change in Cash and Cash Equivalents</b>	4,313,063	4,407,588
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>17,927,896</u>	<u>13,520,308</u>
End of year	<u>\$ 22,240,959</u>	<u>\$ 17,927,896</u>
<b>Supplemental Disclosure of Non-Cash Transactions:</b>		
Cash paid for interest	<u>\$ 274,782</u>	<u>\$ 292,281</u>

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



**YEAR UP, INC. AND AFFILIATE**

Consolidated Statements of Functional Expenses  
For the Years Ended December 31, 2014 and 2013

	2014				2013			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
<b>Payroll and Related:</b>								
Salaries	\$ 21,811,386	\$ 4,442,659	\$ 3,579,114	\$ 29,833,159	\$ 17,484,426	\$ 3,452,936	\$ 3,216,866	\$ 24,154,228
Fringe benefits and taxes	6,004,817	1,220,631	885,660	8,111,108	5,027,269	855,090	638,980	6,521,339
Total payroll and related	<u>27,816,203</u>	<u>5,663,290</u>	<u>4,464,774</u>	<u>37,944,267</u>	<u>22,511,695</u>	<u>4,308,026</u>	<u>3,855,846</u>	<u>30,675,567</u>
<b>Other:</b>								
Program service fees	14,599,846	-	-	14,599,846	13,043,744	-	-	13,043,744
Occupancy	3,960,155	638,069	-	4,598,224	3,125,039	90,474	1,484	3,216,997
Consultants and professional services	1,077,600	1,801,666	362,994	3,242,260	1,831,477	313,743	138,964	2,284,184
Meals, travel and lodging	1,298,021	727,698	115,215	2,140,934	1,171,413	340,611	43,611	1,555,635
Telecommunication and computers	722,943	927,882	-	1,650,825	773,012	222,217	25,808	1,021,037
Advertising	1,350,904	135,053	115,216	1,601,173	613,094	210,931	67,538	891,563
Special events	863,273	103,182	439,031	1,405,486	665,633	71,487	248,660	985,780
Office expense	795,125	452,898	104,950	1,352,973	663,722	276,254	70,272	1,010,248
Depreciation	883,206	345,963	-	1,229,169	710,115	487,552	-	1,197,667
Other program supplies	942,474	48,983	118,114	1,109,571	847,286	22,884	60,307	930,477
Bad debt	403,306	-	30,494	433,800	50,000	-	385,573	435,573
Training events and institutes	102,713	120,094	13,689	236,496	131,806	42,974	9,328	184,108
Total other	<u>26,999,566</u>	<u>5,301,488</u>	<u>1,299,703</u>	<u>33,600,757</u>	<u>23,626,341</u>	<u>2,079,127</u>	<u>1,051,545</u>	<u>26,757,013</u>
<b>In-kind:</b>								
Professional fees	405,000	518,189	-	923,189	-	682,159	-	682,159
Depreciation	-	481,549	-	481,549	-	834,001	-	834,001
Occupancy	372,110	-	-	372,110	372,110	-	-	372,110
Telecommunication and computers	-	355,549	-	355,549	33,987	355,500	-	389,487
Meals, travel and lodging	16,000	-	-	16,000	-	-	-	-
Other	-	-	-	-	1,250	-	2,725	3,975
Total in-kind	<u>793,110</u>	<u>1,355,287</u>	<u>-</u>	<u>2,148,397</u>	<u>407,347</u>	<u>1,871,660</u>	<u>2,725</u>	<u>2,281,732</u>
Total expenses	<u>\$ 55,608,879</u>	<u>\$ 12,320,065</u>	<u>\$ 5,764,477</u>	<u>\$ 73,693,421</u>	<u>\$ 46,545,383</u>	<u>\$ 8,258,813</u>	<u>\$ 4,910,116</u>	<u>\$ 59,714,312</u>

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

## YEAR UP, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2014 and 2013

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### NOTE A - 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 fully operational program sites in Boston, Massachusetts; Providence, Rhode Island; Arlington, Virginia; New York, New York; San Francisco, California; San Jose, California; Atlanta, Georgia; Chicago, Illinois; Baltimore, Maryland; Seattle, Washington; Philadelphia, Pennsylvania; Miami, Florida; Jacksonville, Florida; and Phoenix, Arizona.

Year Up Professional Resource, PBC (YUPRO) is 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.

#### Basis of Presentation

Year Up, Inc. and YUPRO (collectively, the Entity) prepare their consolidated financial statements in accordance with generally accepted accounting standards and principles 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 consolidated financial statements include financial activity of both entities as of and for the year ended December 31, 2014. All significant intercompany balances and transactions have been eliminated (see Note J).

#### Net Assets

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

- **Unrestricted** - Net assets are resources over which the Entity has unrestricted discretionary control.
- **Temporarily Restricted** - Net assets whose use by the Entity is limited by donor-imposed stipulations or by law that either expires by passage of time or that can be fulfilled or removed by actions of the Entity pursuant to those stipulations.
- **Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Entity. Generally, the donor of these assets permits the Entity to use all or part of the income earned and capital gain, if any, on related investments for general or specific purposes.

The Entity had no permanently restricted net assets at December 31, 2014 and 2013.

## YEAR UP, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2014 and 2013

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### NOTE A - 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 which are insured up to the Federal limit by the Federal Deposit Insurance Corporation. Cash and cash equivalents have maturities at date of purchase of three months or less. At times, the cash balance maintained at a single institution may exceed Federally insured limits. The Entity has not experienced losses in such accounts.

#### Contributed Property and Equipment, Services and Space

The Entity 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. Property and equipment are recorded as temporarily restricted revenue when received and are released to unrestricted net assets over the useful life of the asset, corresponding with the related depreciation expense recognized. During the years ended December 31, 2014 and 2013, Year Up received a restricted gift of property and equipment valued at \$44,165 and \$103,200, respectively. During 2014 and 2013, \$481,549 and \$834,001, respectively, were released to cover depreciation on all contributed property and equipment.

During the year ended December 31, 2010, Year Up received a restricted gift of discounted rent valued at \$1,847,164. During 2014 and 2013, Year Up released \$372,110 to cover rent expense, which is reflected in the net assets released from restrictions in the accompanying consolidated statements of activities. This amount is calculated as the difference between the estimated market rate of rental payments and the actual lease payments from the date of occupancy through the end of the lease term, July 2016.

In-kind contributions include the following items:

	<u>2014</u>	<u>2013</u>
Legal services	\$ 518,189	\$ 662,659
Depreciation	481,549	834,001
Consulting services	405,000	19,500
Rental space	372,110	372,110
Telecommunications and computers	355,549	389,487
Property and equipment	44,165	103,200
Meals, travel and lodging	16,000	-
Other in-kind gifts	-	3,975
	<u>\$ 2,192,562</u>	<u>\$ 2,384,932</u>

#### Investments

Investments consist of mutual funds, corporate bonds, equities, public REITs, and hedge funds which have maturities in excess of three months. Changes in fair values are included in other income in the accompanying consolidated statements of activities (see page 11 and Note B).

## YEAR UP, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2014 and 2013

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Revenue Recognition**

##### ***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 received, including unconditional promises to give, are recognized as revenues or gains when the donor's commitment is received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Contributions received are measured at their fair values at the date of receipt and are reported as restricted or unrestricted based upon the existence or absence of donor-imposed restrictions.

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

##### ***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 first six months of the program. 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. The revenue generated from the internship program pays for the stipends, college credits, and support given to all program participants, as well as offsets the operating costs of the program. Program service fees are recognized in the year the internship occurs. Advance payments are recorded as deferred revenue and are included in accounts payable and accrued expenses. Deferred revenue was \$69,222 and \$358,035 in 2014 and 2013, respectively.

##### ***Government Grants and Contracts***

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.

##### ***Other Revenue***

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.

## YEAR UP, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2014 and 2013

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property and Equipment

Equipment purchased by the Entity is recorded at cost. Donated equipment is recorded at fair value, as determined by the donor, at the date of the gift. Depreciation is computed using the straight-line method over the assets' estimated useful life. The half-year convention is used for calculating depreciation in the year of acquisition. Estimated useful lives are as follows:

Building	30 years
Building and leasehold improvements	Life of lease
Furniture and fixtures	5 years
Computer equipment	3 years

#### Advertising Expense

Advertising costs are expensed at the time they are incurred. Advertising expense for the years ended December 31, 2014 and 2013, was \$1,601,173 and \$891,563, respectively.

#### 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 consolidated 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 consolidated financial statements at December 31, 2014 and 2013. Year Up's information returns and YUPRO's income tax returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred taxes related primarily to differences between the consolidated 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, 2014 YUPRO has a net operating loss carryforward of approximately \$476,800 for Federal tax purposes and Colorado tax purposes. The tax benefit of the net operating loss carryforward has been fully reserved.

#### Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

## YEAR UP, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2014 and 2013

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Use of Estimates

The preparation of consolidated 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 consolidated 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.

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 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 consolidated financial statements at fair value. If an investment is directly held by the Entity 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 as the last business day of the fiscal year (see page 8 and Note B).

#### All Other Assets and Liabilities

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

## YEAR UP, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
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### NOTE B - 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, 2014 and 2013:

<u>2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
Equity funds:					
Other	\$ 2,171,084	\$ -	\$ -	\$ 2,171,084	
U.S. Large Cap	1,697,256	-	-	1,697,256	
Fixed income:					
Investment Grade Taxable Bond	-	5,804,494	-	5,804,494	
Other	1,846,908	647,861	-	2,494,769	
Other	<u>1,541,048</u>	<u>-</u>	<u>-</u>	<u>1,541,048</u>	
Total assets	<u>\$ 7,256,296</u>	<u>\$ 6,452,355</u>	<u>\$ -</u>	<u>\$ 13,708,651</u>	
	<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 2,460,192	\$ -	\$ -	\$ -	\$ 2,460,192
Fixed income	<u>-</u>	<u>6,300,325</u>	<u>-</u>	<u>-</u>	<u>6,300,325</u>
Total assets	<u>\$ 2,460,192</u>	<u>\$ 6,300,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,760,517</u>

The assets' fair value measurement level within 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.

The Entity believes that the reported amount of its investments is a reasonable estimate of fair value as of December 31, 2014 and 2013. 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.

### NOTE C - GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable at December 31, 2014 and 2013, are expected to be realized in the following periods:

	<u>2014</u>	<u>2013</u>
In less than one year	\$ 9,332,228	\$ 13,754,252
Between one and five years	<u>7,976,794</u>	<u>12,650,855</u>
Total grants and pledges receivable	17,309,022	26,405,107
Less - present value discount	361,130	615,152
Less - allowance for doubtful accounts	<u>50,000</u>	<u>49,421</u>
Grants and pledges receivable, net	<u>\$ 16,897,892</u>	<u>\$ 25,740,534</u>

## YEAR UP, INC. AND AFFILIATE

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### NOTE C - GRANTS AND PLEDGES RECEIVABLE (Continued)

The present value discount was calculated using a discount factor which ranged from .67% to 1.65%.

#### *Conditional Pledges*

The Entity has a policy to not record conditional pledges until conditions have been met. The Entity has \$6,478,626 and \$11,878,856 of conditional pledges as of December 31, 2014 and 2013, respectively, which will be recorded in the consolidated financial statements once the conditions have been met.

### NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Computer equipment	\$ 7,987,681	\$ 7,533,659
Building and leasehold improvements	5,360,974	1,831,410
Building (capital lease, see Note F)	5,092,939	5,092,939
Furniture and fixtures	1,164,632	714,188
Software development	49,755	-
	<u>19,655,981</u>	<u>15,172,196</u>
Less - accumulated depreciation	<u>10,616,474</u>	<u>8,905,756</u>
Property and equipment, net	<u>\$ 9,039,507</u>	<u>\$ 6,266,440</u>

For the years ended December 31, 2014 and 2013, the Entity expensed \$1,710,718 and \$2,031,668, respectively, of depreciation.

### NOTE E - OPERATING LEASES

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

<u>Year Ending</u> <u>December 31,</u>	
2015	\$ 3,753,565
2016	\$ 5,007,837
2017	\$ 5,096,243
2018	\$ 4,711,819
2019	\$ 4,511,198
2020 and thereafter	\$ 28,180,916

Rent expense for the years ended December 31, 2014 and 2013, was \$4,201,166 and \$2,811,496, respectively. Rent expense is recorded on a straight-line basis for the Entity's operating leases. As a result of certain rent holidays and escalation clauses included in the leases noted above, deferred rent liabilities totaling \$5,330,198 and \$771,552 for 2014 and 2013, respectively, are included in deferred rent in the accompanying consolidated statements of financial position.



## YEAR UP, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
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### NOTE E - OPERATING LEASES (Continued)

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 F - CAPITAL LEASE

Year Up leases a Boston location used in its operations under a capital lease agreement that expires in 2016. The future minimum annual lease payments under this lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 424,000
2016	<u>4,592,865</u>
Total minimum lease payments	5,016,865
Less - interest	<u>480,952</u>
Present value of future minimum lease payments	4,535,913
Less - current portion	<u>157,625</u>
	<u>\$ 4,378,288</u>

Depreciation expense for this facility was \$169,765 for each of the years ended December 31, 2014 and 2013.

Per the terms of the lease agreement, Year Up has an option to purchase the building for a stated amount. Subsequent to year-end, Year Up exercised the aforementioned option and simultaneously signed a purchase and sale agreement with another company to sell its entire rights, title and interest in the lease. Per the terms of the purchase and sale agreement, closing is expected to occur on June 1, 2015.

### NOTE G - NOTES PAYABLE

YUPRO has entered into the following agreements at December 31, 2014:

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.	\$ 500,000
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.	<u>300,000</u>
	<u>\$ 800,000</u>

## **YEAR UP, INC. AND AFFILIATE**

Notes to Consolidated Financial Statements  
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### **NOTE G - NOTES PAYABLE (Continued)**

The debt instruments described above require YUPRO to comply with certain covenants with which YUPRO was in compliance with at December 31, 2014. 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.

### **NOTE H - LINE OF CREDIT**

In January 2014, Year Up entered into a revolving line of credit agreement with a bank in the amount \$5,000,000. 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 (.6% at December 31, 2014), 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 2014. The line of credit agreement contains covenants that Year Up must be in compliance with. Year Up was in compliance with these covenants at December 31, 2014.

### **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 may elect to make a matching contribution. During 2014 and 2013, 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, 2014 and 2013, Year Up contributed \$730,665 and \$557,854, respectively. These amounts are included in fringe benefits and taxes in the accompanying consolidated statements of functional expenses.

### **NOTE J - RELATED PARTY TRANSACTIONS**

At December 31, 2014 and 2013, the balance outstanding of pledges receivable from Board members of Year Up was \$2,030,000 and \$1,050,000 in 2014 and 2013, respectively.

Members of the Board are also members of other not-for-profit boards. The Entity received contributions for the years ended December 31, 2014 and 2013, totaling \$1,434,000 and \$2,384,255, respectively, from these other not-for-profit organizations.

A member of the Board of Directors is a partner at a law firm which provided pro bono services to the Entity in the amount of approximately \$242,700 and \$436,400 for the years ended December 31, 2014 and 2013, respectively. This member abstains from discussions on matters surrounding his firm, as required by the Entity's conflict of interest policy.

Year Up incurred \$480,000 of start-up costs related to the formation of YUPRO. This amount has been eliminated in the accompanying consolidated financial statements.

## YEAR UP, INC. AND AFFILIATE

Notes to Consolidated Financial Statements  
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### NOTE K - NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2014</u>	<u>2013</u>
Purpose restricted	\$ 30,874,903	\$ 37,113,106
Time restricted	<u>3,399,091</u>	<u>1,966,407</u>
	<u>\$ 34,273,994</u>	<u>\$ 39,079,513</u>

#### *Opportunity Campaign*

Included in temporarily restricted net assets is \$26,557,590 and \$32,228,430 at December 31, 2014 and 2013, respectively, raised as Opportunity Campaign investments. These 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 are shown as purpose restricted net assets (see page 15). The use of Opportunity Campaign funds is, until January 1, 2017, restricted toward achieving a positive change in unrestricted net assets for the fiscal year of a magnitude up to (but not more than) 10% of the fiscal year's operating expenses.

Based on the stipulations of the subscription agreement detailed above, management has released from restricted Opportunity Campaign amounts to result in a positive change in unrestricted net assets of approximately 5% of the fiscal year's 2014 and 2013 operating expenses, respectively.

During 2014 and 2013, the amounts released from the Opportunity Campaign fund were \$10,062,141 and \$8,841,296, respectively, which are included in net assets released from restriction in the accompanying consolidated statements of activities.

### NOTE L - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 9, 2015, which is the date the consolidated financial statements were available for issuance. There were no subsequent events that require adjustments to or disclosure in the consolidated financial statements other than as noted on Note F.

### NOTE M - CONCENTRATIONS

#### *FDIC Coverage*

The Entity 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.

**YEAR UP, INC. AND AFFILIATE**

Notes to Consolidated Financial Statements  
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**NOTE M - CONCENTRATIONS (Continued)*****Funding***

The following table reflects the largest donors representing over 10% of total revenue and grants and pledges receivable:

<u>Donor</u>	<u>2014</u>		<u>2013</u>	
	<u>Total Revenue</u>	<u>Total Grants and Pledges Receivable</u>	<u>Total Revenue</u>	<u>Total Grants and Pledges Receivable</u>
A	- %	18%	12%	20%

**NOTE N - RESTATEMENT**

During 2014, it was discovered that the Entity was recording revenue relating to a fee for service contract that commenced in 2013, as temporarily restricted revenue. This contract should have been recorded as unrestricted revenue when earned. Contract revenue of \$462,723 was reclassified to unrestricted revenue. Net assets and changes in net assets as of December 31, 2013, have been restated as follows:

	<u>As Previously Reported</u>		<u>Restated</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Net Assets, December 31, 2013	\$ 17,871,623	\$ 39,542,236	\$ 18,334,346	\$ 39,079,513
2013 Changes in net assets	\$ 2,871,630	\$ 8,721,814	\$ 3,334,353	\$ 8,259,091

**NOTE O - YUPRO ACTIVITY**

YUPRO activity consists of the following as of December 31, 2014:

Assets	\$ 393,225
Liabilities	\$ 855,389
Equity	\$ 480,000
Revenue, net of cost of sales	\$ 19,646
Expenses	\$ 961,810

**NOTE P - RECLASSIFICATIONS**

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