YEAR UP, INC. AND AFFILIATE

CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Contents
December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 27, 2017

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Financial Position
December 31, 2016 and 2015

	2016				2015			
Assets	**Year Up, Inc.**	**YUPRO**	**Eliminations**	**Total**	**Year Up, Inc.**	**YUPRO**	**Eliminations**	**Total**
Current Assets:								
Cash and cash equivalents	$ 22,118,795	$ 560,168	$ -	$ 22,678,963	$ 25,085,199	$ 149,593	$ -	$ 25,234,792
Current portion of grants and pledges receivable, net	15,811,677	-	-	15,811,677	13,972,068	-	-	13,972,068
Internship receivable, net	12,342,205	464,028	-	12,806,233	9,060,086	472,840	-	9,532,926
Prepaid expenses and other	1,148,360	5,079	(39,403)	1,114,036	2,875,191	79,239	-	2,954,430
Total current assets	51,421,037	1,029,275	(39,403)	52,410,909	50,992,544	701,672	-	51,694,216
Grants and Pledges Receivable, net of current portion	20,903,985	-	-	20,903,985	20,889,340	-	-	20,889,340
Investments	9,241,588	-	-	9,241,588	9,427,984	-	-	9,427,984
Investment in YUPRO	480,000	-	(480,000)	-	480,000	-	(480,000)	-
Property and Equipment, net	23,001,248	-	-	23,001,248	20,266,474	-	-	20,266,474
Total assets	$ 105,047,858	$ 1,029,275	$ (519,403)	$ 105,557,730	$ 102,056,342	$ 701,672	$ (480,000)	$ 102,278,014
Liabilities and Net Assets								
Current Liabilities:								
Accounts payable and accrued expenses	$ 6,532,429	$ 737,771	$ (39,403)	$ 7,230,797	$ 6,345,381	$ 462,830	$ -	$ 6,808,211
Deferred revenue	802,305	-	-	802,305	306,179	-	-	306,179
Current portion of deferred rent	693,890	-	-	693,890	434,256	-	-	434,256
Total current liabilities	8,028,624	737,771	(39,403)	8,726,992	7,085,816	462,830	-	7,548,646
Deferred Rent, net of current portion	12,853,022	-	-	12,853,022	12,591,351	-	-	12,591,351
Notes Payable	-	1,000,000	-	1,000,000	-	1,000,000	-	1,000,000
Total liabilities	20,881,646	1,737,771	(39,403)	22,580,014	19,677,167	1,462,830	-	21,139,997
Net Assets:								
Unrestricted	37,069,214	(708,496)	(480,000)	35,880,718	25,670,473	(761,158)	(480,000)	24,429,315
Temporarily restricted	47,096,998	-	-	47,096,998	56,708,702	-	-	56,708,702
Total net assets	84,166,212	(708,496)	(480,000)	82,977,716	82,379,175	(761,158)	(480,000)	81,138,017
Total liabilities and net assets	$ 105,047,858	$ 1,029,275	$ (519,403)	$ 105,557,730	$ 102,056,342	$ 701,672	$ (480,000)	$ 102,278,014

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

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Activities
For the Years Ended December 31, 2016 and 2015

	2016						2015					
	Year Up, Inc.						Year Up, Inc.					
	Unrestricted	Temporarily Restricted	Total	YUPRO	Eliminations	Total	Unrestricted	Temporarily Restricted	Total	YUPRO	Eliminations	Total
Operating Revenues:												
Program service fees:												
Year Up	$ 46,289,908	$ -	$ 46,289,908	$ -	$ -	$ 46,289,908	$ 41,676,771	$ -	$ 41,676,771	$ -	$ -	$ 41,676,771
YUPRO, net of cost of sales of approximately $3,500,000 and $2,200,000 at December 31, 2016 and 2015, respectively	-	-	-	1,002,308	(251,296)	751,012	-	-	-	418,599	(27,075)	391,524
Grants and contributions	23,323,929	35,795,325	59,119,254	-	-	59,119,254	22,945,137	46,560,837	69,505,973	-	-	69,505,973
In-kind goods and services	586,076	3,173,200	3,759,276	-	-	3,759,276	565,152	-	565,152	-	-	565,152
Other revenue	712,672	-	712,672	-	(39,403)	673,269	2,963,723	-	2,963,723	-	(6,000)	2,957,723
Net assets released from restrictions	48,580,229	(48,580,229)	-	-	-	-	24,126,128	(24,126,128)	-	-	-	-
Total operating revenues	119,492,814	(9,611,704)	109,881,110	1,002,308	(290,699)	110,592,719	92,276,911	22,434,708	114,711,619	418,599	(33,075)	115,097,143
Operating Expenses:												
Direct service	79,362,145	-	79,362,145	-	(77,002)	79,285,143	64,756,393	-	64,756,393	-	-	64,756,393
Administrative and fundraising	20,636,058	-	20,636,058	-	(207,297)	20,428,761	18,421,818	-	18,421,818	-	(27,075)	18,394,743
Advocacy: influence and alumni	3,456,985	-	3,456,985	-	(400)	3,456,585	1,853,222	-	1,853,222	-	-	1,853,222
YUPRO	-	-	-	949,646	(6,000)	943,646	-	-	-	717,593	(6,000)	711,593
Total operating expenses	103,455,188	-	103,455,188	949,646	(290,699)	104,114,135	85,031,433	-	85,031,433	717,593	(33,075)	85,715,951
Changes in net assets from operations	16,037,626	(9,611,704)	6,425,922	52,662	-	6,478,584	7,245,478	22,434,708	29,680,186	(298,994)	-	29,381,192
Non-Cash Expenses	4,638,885	-	4,638,885	-	-	4,638,885	2,994,596	-	2,994,596	-	-	2,994,596
Changes in net assets	$ 11,398,741	$ (9,611,704)	$ 1,787,037	$ 52,662	$ -	$ 1,839,699	$ 4,250,882	$ 22,434,708	$ 26,685,590	$ (298,994)	$ -	$ 26,386,596

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

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

	Year Up, Inc.					
	Unrestricted	Temporarily Restricted	Total	YUPRO	Eliminations	Total
Net Assets, December 31, 2014	$ 21,419,591	$ 34,273,994	$ 55,693,585	$ (462,164)	$ (480,000)	$ 54,751,421
Changes in net assets	4,250,882	22,434,708	26,685,590	(298,994)	-	26,386,596
Net Assets, December 31, 2015	25,670,473	56,708,702	82,379,175	(761,158)	(480,000)	81,138,017
Changes in net assets	11,398,741	(9,611,704)	1,787,037	52,662	-	1,839,699
Net Assets, December 31, 2016	$ 37,069,214	$ 47,096,998	$ 84,166,212	$ (708,496)	$ (480,000)	$ 82,977,716

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Year Up	YUPRO	Total	Year Up	YUPRO	Total
Cash Flows from Operating Activities:						
Changes in net assets	$ 1,787,037	$ 52,662	$ 1,839,699	$ 26,685,590	$ (298,994)	$ 26,386,596
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:						
Depreciation	3,265,662	-	3,265,662	1,994,889	-	1,994,889
Bad debt	787,147	-	787,147	239,800	6,664	246,464
(Gain) loss on investments	(67,944)	-	(67,944)	418,562	-	418,562
Deferred rent	521,305	-	521,305	7,695,409	-	7,695,409
Contributed property and equipment	(3,173,200)	-	(3,173,200)	-	-	-
Gain on disposal of property and equipment	-	-	-	(2,774,429)	-	(2,774,429)
Changes in operating assets and liabilities:						
Grants and pledges receivables	(2,154,270)	-	(2,154,270)	(17,963,516)	-	(17,963,516)
Internship receivable	(3,769,250)	8,812	(3,760,438)	(3,641,971)	(428,788)	(4,070,759)
Prepaid expenses and other	1,726,831	74,160	1,800,991	(1,157,632)	(79,239)	(1,236,871)
Accounts payable and accrued expenses	683,174	274,941	958,115	1,463,013	407,441	1,870,454
Net cash provided by (used in) operating activities	(393,508)	410,575	17,067	12,959,715	(392,916)	12,566,799
Cash Flows from Investing Activities:						
Acquisition of property and equipment	(2,827,236)	-	(2,827,236)	(15,622,556)	-	(15,622,556)
Net proceeds from sale of property	-	-	-	2,065,484	-	2,065,484
Purchases of investments	(4,599,901)	-	(4,599,901)	(6,262,322)	-	(6,262,322)
Sales of investments	4,854,241	-	4,854,241	10,124,427	-	10,124,427
Net cash used in investing activities	(2,572,896)	-	(2,572,896)	(9,694,967)	-	(9,694,967)
Cash Flows from Financing Activities:						
Proceeds from notes payable	-	-	-	-	200,000	200,000
Principal payments on capital lease obligation	-	-	-	(77,999)	-	(77,999)
Net cash provided by financing activities	-	-	-	(77,999)	200,000	122,001
Net Change in Cash and Cash Equivalents	(2,966,404)	410,575	(2,555,829)	3,186,749	(192,916)	2,993,833
Cash and Cash Equivalents:						
Beginning of year	25,085,199	149,593	25,234,792	21,898,450	342,509	22,240,959
End of year	$ 22,118,795	$ 560,168	$ 22,678,963	$ 25,085,199	$ 149,593	$ 25,234,792
Supplemental Disclosure of Non-Cash Transactions:						
Cash paid for interest	$ 8,776	$ 33,665	$ 42,441	$ 134,367	$ 42,500	$ 176,867
Property and equipment acquired through accounts payable	$ -	$ -	$ -	$ 1,348,269	$ -	$ 1,348,269

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

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Functional Expenses
For the Years Ended December 31, 2016 and 2015

	2016						2015					
	Direct Service	**Administrative and Fundraising**	**Advocacy: Influence and Alumni**	**Total**	**Eliminations**	**Total**	**Direct Service**	**Administrative and Fundraising**	**Advocacy: Influence and Alumni**	**Total**	**Eliminations**	**Total**
Compensation and Related:												
Salaries	$ 37,139,050	$ 9,042,017	$ 1,454,893	$ 47,635,960	$ (204,300)	$ 47,431,660	$ 27,811,878	$ 7,056,789	$ 548,316	$ 35,416,983	$ -	$ 35,416,983
Fringe benefits and taxes	9,415,670	3,337,423	386,483	13,139,576	-	13,139,576	7,596,713	2,753,151	235,965	10,585,829	-	10,585,829
Total payroll and related	46,554,720	12,379,440	1,841,376	60,775,536	(204,300)	60,571,236	35,408,591	9,809,940	784,281	46,002,812	-	46,002,812
Non-Compensation Operating Expenses:												
Student related direct costs	18,592,746	-	-	18,592,746	-	18,592,746	16,571,577	-	-	16,571,577	-	16,571,577
Occupancy	5,815,088	1,362,042	915	7,178,045	-	7,178,045	6,443,893	1,499,185	361	7,943,439	-	7,943,439
Meals, travel and lodging	2,606,106	1,982,982	400,056	4,989,144	(102)	4,989,042	1,642,934	1,186,958	118,643	2,948,535	-	2,948,535
Telecommunication and computers	1,146,916	1,583,402	16,041	2,746,359	-	2,746,359	824,678	1,275,125	9,455	2,109,258	-	2,109,258
Consultants and professional services	1,076,958	1,225,646	401,584	2,704,188	(79,897)	2,624,291	1,190,208	2,275,094	393,521	3,858,823	(27,075)	3,831,748
Office expense	951,192	877,631	42,650	1,871,473	-	1,871,473	630,659	666,281	14,846	1,311,786	-	1,311,786
Special events	1,126,418	580,070	36,997	1,743,485	-	1,743,485	1,039,202	964,657	76,716	2,080,575	-	2,080,575
Advertising	666,992	200,563	703,106	1,570,661	-	1,570,661	354,839	220,963	448,545	1,024,347	-	1,024,347
Other program supplies	825,009	444,282	14,260	1,283,551	(400)	1,283,151	649,812	523,615	6,854	1,180,281	-	1,180,281
Total non-compensation operating expenses	32,807,425	8,256,618	1,615,609	42,679,652	(80,399)	42,599,253	29,347,802	8,611,878	1,068,941	39,028,621	(27,075)	39,001,546
Total operating expenses before YUPRO	79,362,145	20,636,058	3,456,985	103,455,188	(284,699)	103,170,489	64,756,393	18,421,818	1,853,222	85,031,433	(27,075)	85,004,358
YUPRO	949,646	-	-	949,646	(6,000)	943,646	717,593	-	-	717,593	(6,000)	711,593
Total operating expenses	$ 80,311,791	$ 20,636,058	$ 3,456,985	$ 104,404,834	$ (290,699)	$ 104,114,135	$ 65,473,986	$ 18,421,818	$ 1,853,222	$ 85,749,026	$ (33,075)	$ 85,715,951

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

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 launched twenty-four fully operational programs across the following fifteen states: Georgia, Maryland, Washington, New York, Texas, Chicago, 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.

Basis of Presentation

Year Up and YUPRO (collectively, the Entity) prepare their consolidating 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 consolidating financial statements include the financial activity of both entities as of and for the years ended December 31, 2016 and 2015. 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 expire by passage of time or that can be fulfilled or removed by actions of the Entity pursuant to those stipulations.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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, to cover the related depreciation expense recognized.

Contributed equipment consists of the following at December 31:

	2016	2015
Software	$ 5,581,440	$ 2,408,240
Computer equipment	189,528	189,528
	5,770,968	2,597,768
Less - accumulated depreciation	3,119,274	2,558,486
Contributed property and equipment, net	$ 2,651,694	$ 39,282

For the years ended December 31, 2016 and 2015, Year Up expensed $560,788 and $80,510, respectively, of deprecation on contributed equipment. For the year ended December 31, 2016, Year Up received a restricted gift of software licenses valued at $3,173,200.

During the year ended December 31, 2010, Year Up received a restricted gift of discounted rent valued at $1,847,164. Pursuant to the gift in 2015, Year Up released $194,755 to unrestricted net assets to cover building rental expense. Due to early termination of the lease, the restricted gift was released in full as of August 2015.

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

	2016	2015
Legal services	$ 424,076	$ 375,234
Depreciation	560,788	80,510
Telecommunications and computers	162,000	162,000
Rental space	-	194,755
Other in-kind gifts	-	27,918
	$ 1,146,864	$ 840,417

Investments

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidating Statements of Activities and Changes in Net Assets

Cash transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and operating expenses in the accompanying consolidating statements of activities and changes in net assets. Non-cash expenses include depreciation, in kind and bad debt expense (see Note K).

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, 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 restricted or unrestricted based upon the existence or absence of donor-imposed restrictions.

Unconditional pledges are included in the accompanying consolidating 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. Year Up does not record conditional pledges until conditions have been met.

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

	2016		
	Unrestricted	Temporarily Restricted	Total
Individuals	$ 12,899,260	$ 16,990,584	$ 29,889,844
Foundations	7,143,825	17,448,420	24,592,245
Corporations	2,571,964	1,340,321	3,912,285
Government	708,880	16,000	724,880
	$ 23,323,929	$ 35,795,325	$ 59,119,254

	2015		
	Unrestricted	Temporarily Restricted	Total
Individuals	$ 10,978,787	$ 30,529,337	$ 41,508,124
Foundations	6,995,670	15,360,507	22,356,177
Corporations	2,820,750	670,992	3,491,742
Government	2,149,930	-	2,149,930
	$ 22,945,137	$ 46,560,836	$ 69,505,973

NOTE A - 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. 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 in the year the internship occurs. 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 2016 and 2015 was $2,152,729 and $1,844,956, respectively, and is included in internship receivable, net in the accompanying consolidating statements of financial position.

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

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 receivables as of December 31, 2016 and 2015, are shown net of allowance of doubtful accounts of $578,842 and $270,362, respectively.

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. The half-year convention is used for calculating depreciation in the year of acquisition.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Estimated useful lives are as follows:

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

Advertising Expense

Advertising costs are expensed at the time they are incurred. Advertising expense for the years ended December 31, 2016 and 2015, was $1,583,525 and $1,029,426, 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 consolidating financial statements regarding a tax position taken or expected to be taken in a tax return.

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, 2016 and 2015, YUPRO has net operating loss carryforward of approximately $780,000, and $804,000, respectively, for Federal tax purposes and Colorado tax purposes. The tax benefit of the net operating loss carryforwards has been fully reserved. Net operating loss carryforwards are available to offset future taxable income through December 31, 2035.

Expense Allocation

Expenses directly related to a program location are distributed to that specific site. Other indirect expenses are allocated based upon a percentage determined by management.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 B).

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 - 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:

2016	Level 1	Level 2	Level 3	Total
Equity funds:				
U.S. Large Cap	$ 1,171,928	$ -	$ -	$ 1,171,928
Other	1,428,295	-	-	1,428,295
Fixed income:				
Investment Grade Taxable Bond	-	5,163,710	-	5,163,710
Other	805,076	-	-	805,076
Other	672,579	-	-	672,579
Total assets	$ 4,077,878	$ 5,163,710	$ -	$ 9,241,588

2015	Level 1	Level 2	Level 3	Total
Equity funds:				
U.S. Large Cap	$ 1,183,191	$ -	$ -	$ 1,183,191
Other	1,432,837	-	-	1,432,837
Fixed income:				
Investment Grade Taxable Bond	-	4,458,478	-	4,458,478
Other	1,359,451	-	-	1,359,451
Other	994,027	-	-	994,027
Total assets	$ 4,969,506	$ 4,458,478	$ -	$ 9,427,984

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, 2016 and 2015. 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.

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

	2016	2015
Investment interest and dividends	$ 199,528	$ 325, 900
Net realized gain (loss) on sale of investments	(350,486)	204,360
Net unrealized gain (loss) on investments	282,542	(622,922)
Investment management fees	(33,944)	(43,125)
	$ 97,640	$ (135,787)

NOTE C - GRANTS AND PLEDGES RECEIVABLE

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

	2016	2015
In less than one year	$ 15,911,677	$ 14,022,068
Between one and five years	21,662,059	20,948,748
Greater than five years	-	800,000
Total grants and pledges receivable	37,573,736	35,770,816
Less - present value discount	758,074	859,408
Less - allowance for doubtful accounts	100,000	50,000
Grants and pledges receivable, net	$ 36,715,662	$ 34,861,408

The present value discount was calculated using a discount factor, which ranged from .67% to 3.27%.

Conditional Pledges

Year Up has a policy to not record conditional pledges until conditions have been met. Year Up has $25,450,650 and $22,722,467 of conditional pledges as of December 31, 2016 and 2015, respectively, which will be recorded in the consolidating financial statements once the conditions have been met. These amounts exclude a conditional grant of $40,000,000 received on February 8, 2017 (see Note M).

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2016	2015
Leasehold improvements	$ 19,721,588	$ 19,461,810
Computer equipment (see page 8)	13,602,299	9,362,868
Furniture and fixtures	2,116,679	1,954,414
Software development	2,093,737	754,775
	37,534,303	31,533,867
Less - accumulated depreciation	14,533,055	11,267,393
Property and equipment, net	$ 23,001,248	$ 20,266,474

For the years ended December 31, 2016 and 2015, Year Up expensed $3,265,662 and $1,994,889, respectively, of depreciation.

During 2014, Year Up began a project to customize the Salesforce software to their specific needs. The project is estimated be completed in 2017 with a total approximate cost of $3,000,000. The asset will be depreciated once it is placed in service.

NOTE E - OPERATING LEASES

The following is a schedule of combined future rental payments over the next five years under operating leases:

NOTE E - OPERATING LEASES (Continued)

Year Ending December 31	
2017	$ 6,841,222
2018	$ 6,921,987
2019	$ 6,971,143
2020	$ 7,235,271
2021 and thereafter	$ 42,793,604

Rent expense for the years ended December 31, 2016 and 2015, was $6,167,623 and $7,056,714, 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. As a result of certain rent holidays and escalation clauses included in the leases noted above, deferred rent liabilities totaling $13,546,912 and $13,025,607 as of December 31, 2016 and 2015, respectively, are included in deferred rent in the accompanying consolidating statements of financial position.

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. Tenant improvement allowances 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 F - CAPITAL LEASE

Year Up leased a Boston location used in its operations under a capital lease agreement that was set to expire in 2016. Per the terms of the lease agreement, Year Up had an option to purchase the building for a stated amount. In 2015, Year Up exercised its bargain purchase option and subsequently sold the property. The capital gain on the sale of this property was $2,774,429 and is included in other revenue in the accompanying 2015 consolidating statement of activities.

NOTE G - NOTES PAYABLE

YUPRO has entered into the following agreements at December 31:

	2016	2015
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

NOTE G - NOTES PAYABLE (Continued)

The debt instruments described on page 15 require YUPRO to comply with certain covenants with which YUPRO was in compliance with at December 31, 2016 and 2015. 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

Year Up has 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 (.8% and .5% at December 31, 2016 and 2015, 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 2016 and 2015. The line of credit agreement contains various covenants. Year Up was in compliance with these covenants at December 31, 2016 and 2015.

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 2016 and 2015, 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, 2016 and 2015, Year Up contributed $1,218,927 and $933,545, 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, 2016 and 2015, the balance outstanding of pledges receivable from National Board members of Year Up was $10,593,910 and $5,427,974, respectively.

Members of the Board are also members of other not-for-profit boards. At December 31, 2016 and 2015, the balance outstanding of pledges receivable from these not-for-profit organizations was $333,000 and $1,166,667, 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 $284,891 and $162,284 for the years ended December 31, 2016 and 2015, 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.

NOTE J - RELATED PARTY TRANSACTIONS (Continued)

During 2016 and 2015, YUPRO rented office space from Year Up as a tenant-at-will. Rent expense totaled $6,000 in each year and is included in YUPRO in the accompanying consolidating statements of functional expenses. Year Up contracts with YUPRO for temporary help. During the years ended December 31, 2016 and 2015, Year Up paid YUPRO $284,699 and $27,075, respectively, in contractor fees which are included in program service fees in the accompanying consolidating statements of activities. 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 year ended December 31, 2016, Year Up earned a fee of $33,403, which is included in other revenue in the accompanying consolidating financial statements. This amount has been eliminated in the consolidating financial statements.

NOTE K - NON-CASH EXPENSES

Non-cash expenses were comprised of the following for the years ended December 31:

	2016	2015
Depreciation	$ 3,265,662	$ 1,994,889
In-kind (see page 8)	586,076	759,907
Bad debt	787,147	239,800
	$ 4,638,885	$ 2,994,596

NOTE L - NET ASSETS

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

	2016	2015
Time restricted	$ 39,142,626	$ 34,596,896
Purpose restricted	7,954,372	22,111,806
	$ 47,096,998	$ 56,708,702

Opportunity Campaigns

<u>OCII</u>

Included in temporarily restricted net assets is $1,711,952 and $19,841,758 at December 31, 2016 and 2015, respectively, raised as Opportunity Campaign II (OCII) 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. The use of OCII 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.

NOTE L - NET ASSETS (Continued)

Opportunity Campaigns (Continued)

OCII (Continued)

Based on the stipulations of the subscription agreement detailed above, management has released from restriction $20,154,806 of allowable OCII amounts at December 31, 2016. As of December 31, 2016, $1,516,000 of the remaining balance is included in grants and pledges receivable in the accompanying consolidating statement of financial position.

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, 2016, Year Up has raised approximately $57,960,000 in revenue, of which approximately $16,950,000 is conditional and is properly not reflected in the accompanying consolidating statements of activities. Subsequent to year end, Year Up secured an additional conditional award of $40,000,000 payable over four years in support of OCIII and is properly not reflected in the accompanying consolidating statements of activities.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 27, 2017, which is the date the consolidating financial statements were available for issuance. Except as disclosed in Note L, there were no events that met the criteria for recognition or disclosure in the 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.

Funding

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

	2016		2015	
Donor	**Total Revenue**	**Total Accounts Receivable**	**Total Revenue**	**Total Accounts Receivable**
A	- %	24%	21%	35%
B	- %	11%	- %	15%
C	- %	11%	- %	12%
D	- %	11%	- %	- %

NOTE N - CONCENTRATIONS (Continued)

	2016		2015	
Corporate Partner	Total Revenue	Total Accounts Receivable	Total Revenue	Total Accounts Receivable
E	- %	12%	- %	19%
F	- %	- %	- %	12%

NOTE O - RECLASSIFICATIONS

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