



YEAR UP, INC. AND AFFILIATE

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

YEAR UP, INC. AND AFFILIATE

Contents
December 31, 2020 and 2019

	<u>Pages</u>
Independent Auditor's Report	1
Consolidating Financial Statements:	
Consolidating Statements of Financial Position	2
Consolidating Statements of Activities	3
Consolidating Statements of Changes in Net Assets	4
Consolidating Statements of Cash Flows	5
Consolidating Statements of Functional Expenses	6
Notes to Consolidating Financial Statements	7 - 19



50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpa.com

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, 2020 and 2019, 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, 2020 and 2019, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
May 11, 2021

YEAR UP, INC. AND AFFILIATE

 Consolidating Statements of Financial Position
 December 31, 2020 and 2019

Assets	2020				2019			
	Year Up, Inc.	YUPRO	Eliminations	Total	Year Up, Inc.	YUPRO	Eliminations	Total
Current Assets:								
Cash and cash equivalents	\$ 52,143,171	\$ 1,541,525	\$ -	\$ 53,684,696	\$ 32,943,220	\$ 1,151,626	\$ -	\$ 34,094,846
Investments	14,725,837	-	-	14,725,837	12,828,575	-	-	12,828,575
Current portion of grants and pledges receivable, net	14,781,436	-	-	14,781,436	28,105,875	-	-	28,105,875
Internship receivable, net	9,593,616	1,077,812	(135,737)	10,535,691	11,484,808	716,809	(15,120)	12,186,497
Prepaid expenses and other	2,346,848	24,530	(66,272)	2,305,106	1,961,910	12,821	(76,455)	1,898,276
Total current assets	93,590,908	2,643,867	(202,009)	96,032,766	87,324,388	1,881,256	(91,575)	89,114,069
Grants and Pledges Receivable, net	20,510,130	-	-	20,510,130	16,667,883	-	-	16,667,883
Investment in YUPRO	480,000	-	(480,000)	-	480,000	-	(480,000)	-
Property and Equipment, net	16,926,680	17,272	-	16,943,952	18,714,255	12,678	-	18,726,933
Total assets	<u>\$ 131,507,718</u>	<u>\$ 2,661,139</u>	<u>\$ (682,009)</u>	<u>\$ 133,486,848</u>	<u>\$ 123,186,526</u>	<u>\$ 1,893,934</u>	<u>\$ (571,575)</u>	<u>\$ 124,508,885</u>
Liabilities and Net Assets								
Current Liabilities:								
Accounts payable and accrued expenses	\$ 9,489,836	\$ 1,745,665	\$ (202,009)	\$ 11,033,492	\$ 12,742,277	\$ 1,110,236	\$ (91,575)	\$ 13,760,938
Deferred revenue	2,693,164	497,220	-	3,190,384	2,374,653	-	-	2,374,653
Current portion of accrued rent	1,578,785	-	-	1,578,785	1,414,418	-	-	1,414,418
Total current liabilities	13,761,785	2,242,885	(202,009)	15,802,661	16,531,348	1,110,236	(91,575)	17,550,009
Accrued Rent, net of current portion	7,918,819	-	-	7,918,819	9,699,839	-	-	9,699,839
Notes Payable	-	-	-	-	-	1,000,000	-	1,000,000
Total liabilities	21,680,604	2,242,885	(202,009)	23,721,480	26,231,187	2,110,236	(91,575)	28,249,848
Net Assets:								
Without donor restrictions	63,878,085	418,254	(480,000)	63,816,339	46,650,456	(216,302)	(480,000)	45,954,154
With donor restrictions	45,949,029	-	-	45,949,029	50,304,883	-	-	50,304,883
Total net assets	109,827,114	418,254	(480,000)	109,765,368	96,955,339	(216,302)	(480,000)	96,259,037
Total liabilities and net assets	<u>\$ 131,507,718</u>	<u>\$ 2,661,139</u>	<u>\$ (682,009)</u>	<u>\$ 133,486,848</u>	<u>\$ 123,186,526</u>	<u>\$ 1,893,934</u>	<u>\$ (571,575)</u>	<u>\$ 124,508,885</u>

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, 2020 and 2019

	2020						2019					
	Year Up, Inc.			YUPRO	Eliminations	Total	Year Up, Inc.			YUPRO	Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Total				Without Donor Restrictions	With Donor Restrictions	Total			
Operating Revenues:												
Program service fees:												
Year Up	\$ 87,568,731	\$ -	\$ 87,568,731	\$ -	\$ -	\$ 87,568,731	\$ 82,341,849	\$ -	\$ 82,341,849	\$ -	\$ -	\$ 82,341,849
YUPRO, net of cost of sales of approximately \$8,000,000 and \$6,400,000 at December 31, 2020 and 2019, respectively	-	-	-	2,339,803	(494,310)	1,845,493	-	-	-	1,940,042	(183,363)	1,756,679
Grants and contributions	44,957,591	33,043,800	78,001,391	-	-	78,001,391	39,197,767	49,843,408	89,041,175	-	-	89,041,175
In-kind goods and services	6,616,424	-	6,616,424	-	-	6,616,424	501,389	-	501,389	-	-	501,389
Other revenue	1,618,794	-	1,618,794	-	(66,272)	1,552,522	2,417,827	-	2,417,827	-	(76,455)	2,341,372
Net assets released from restrictions	37,399,654	(37,399,654)	-	-	-	-	42,035,491	(42,035,491)	-	-	-	-
Total operating revenues	178,161,194	(4,355,854)	173,805,340	2,339,803	(560,582)	175,584,561	166,494,323	7,807,917	174,302,240	1,940,042	(259,818)	175,982,464
Operating Expenses:												
Program services	134,067,432	-	134,067,432	1,705,247	(560,582)	135,212,097	142,184,570	-	142,184,570	1,725,958	(259,818)	143,650,710
General and administrative	18,130,705	-	18,130,705	-	-	18,130,705	19,058,751	-	19,058,751	-	-	19,058,751
Fundraising	8,735,428	-	8,735,428	-	-	8,735,428	10,456,492	-	10,456,492	-	-	10,456,492
Total operating expenses	160,933,565	-	160,933,565	1,705,247	(560,582)	162,078,230	171,699,813	-	171,699,813	1,725,958	(259,818)	173,165,953
Changes in net assets from operations	\$ 17,227,629	\$ (4,355,854)	\$ 12,871,775	\$ 634,556	\$ -	\$ 13,506,331	\$ (5,205,490)	\$ 7,807,917	\$ 2,602,427	\$ 214,084	\$ -	\$ 2,816,511

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Changes in Net Assets
For the Years Ended December 31, 2020 and 2019

	Year Up, Inc.			YUPRO	Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Total			
Net Assets, December 31, 2018	\$ 51,855,946	\$ 42,496,966	\$ 94,352,912	\$ (430,386)	\$ (480,000)	\$ 93,442,526
Changes in net assets	<u>(5,205,490)</u>	<u>7,807,917</u>	<u>2,602,427</u>	<u>214,084</u>	<u>-</u>	<u>2,816,511</u>
Net Assets, December 31, 2019	46,650,456	50,304,883	96,955,339	(216,302)	(480,000)	96,259,037
Changes in net assets	<u>17,227,629</u>	<u>(4,355,854)</u>	<u>12,871,775</u>	<u>634,556</u>	<u>-</u>	<u>13,506,331</u>
Net Assets, December 31, 2020	<u>\$ 63,878,085</u>	<u>\$ 45,949,029</u>	<u>\$ 109,827,114</u>	<u>\$ 418,254</u>	<u>\$ (480,000)</u>	<u>\$ 109,765,368</u>

YEAR UP, INC. AND AFFILIATE

Consolidating Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	2020			2019		
	Year Up, Inc.	YUPRO	Total	Year Up, Inc.	YUPRO	Total
Cash Flows from Operating Activities:						
Changes in net assets	\$ 12,871,775	\$ 634,556	\$ 13,506,331	\$ 2,602,427	\$ 214,084	\$ 2,816,511
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:						
Depreciation	5,234,688	6,504	5,241,192	5,519,897	4,616	5,524,513
Bad debt	855,525	-	855,525	850,247	-	850,247
Gain on investments	(1,087,053)	-	(1,087,053)	(1,108,863)	-	(1,108,863)
Loss on disposal of property	401,365	-	401,365	-	-	-
Changes in operating assets and liabilities:						
Grants and pledges receivables, net	9,482,192	-	9,482,192	(7,618,256)	-	(7,618,256)
Internship receivable, net	1,035,668	(361,003)	674,665	(5,703,782)	(94,867)	(5,798,649)
Prepaid expenses and other	(384,939)	(11,709)	(396,648)	188,468	(2,389)	186,079
Accounts payable and accrued expenses	(3,178,761)	635,429	(2,543,332)	2,026,605	(3,172)	2,023,433
Deferred revenue	318,511	497,220	815,731	1,040,383	-	1,040,383
Accrued rent	(1,616,653)	-	(1,616,653)	(922,312)	-	(922,312)
Net cash provided by (used in) operating activities	<u>23,932,318</u>	<u>1,400,997</u>	<u>25,333,315</u>	<u>(3,125,186)</u>	<u>118,272</u>	<u>(3,006,914)</u>
Cash Flows from Investing Activities:						
Acquisition of property and equipment	(3,922,158)	(11,098)	(3,933,256)	(2,261,994)	(17,294)	(2,279,288)
Purchases of investments	(6,490,265)	-	(6,490,265)	(5,593,587)	-	(5,593,587)
Sales of investments	5,680,056	-	5,680,056	4,856,674	-	4,856,674
Net cash used in investing activities	<u>(4,732,367)</u>	<u>(11,098)</u>	<u>(4,743,465)</u>	<u>(2,998,907)</u>	<u>(17,294)</u>	<u>(3,016,201)</u>
Cash Flows from Financing Activities:						
Payments of notes payable	-	(1,000,000)	(1,000,000)	-	-	-
Net Change in Cash and Cash Equivalents	19,199,951	389,899	19,589,850	(6,124,093)	100,978	(6,023,115)
Cash and Cash Equivalents:						
Beginning of year	<u>32,943,220</u>	<u>1,151,626</u>	<u>34,094,846</u>	<u>39,067,313</u>	<u>1,050,648</u>	<u>40,117,961</u>
End of year	<u>\$ 52,143,171</u>	<u>\$ 1,541,525</u>	<u>\$ 53,684,696</u>	<u>\$ 32,943,220</u>	<u>\$ 1,151,626</u>	<u>\$ 34,094,846</u>
Supplemental Disclosure of Cash Flow Information:						
Cash paid for interest	<u>\$ 75,191</u>	<u>\$ 36,361</u>	<u>\$ 111,552</u>	<u>\$ 122,344</u>	<u>\$ 25,000</u>	<u>\$ 147,344</u>

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, 2020 and 2019

	2020					2019					
	Program Services	General and Administrative	Fundraising	Total	Eliminations	Program Services	General and Administrative	Fundraising	Total	Eliminations	Total
Payroll and Related:											
Salaries	\$ 59,710,390	\$ 8,388,244	\$ 5,989,049	\$ 74,087,683	\$ -	\$ 62,308,243	\$ 8,087,608	\$ 6,810,396	\$ 77,206,247	\$ -	\$ 77,206,247
Fringe benefits and taxes	19,042,842	2,175,011	1,644,858	22,862,711	-	21,128,434	2,320,360	1,950,995	25,399,789	-	25,399,789
Total payroll and related	78,753,232	10,563,255	7,633,907	96,950,394	-	83,436,677	10,407,968	8,761,391	102,606,036	-	102,606,036
Non-Compensation Operating Expenses:											
Student related direct costs	29,369,431	-	-	29,369,431	-	29,023,767	-	-	29,023,767	-	29,023,767
Technology and telecommunications	9,046,424	771,345	233,059	10,050,828	-	4,117,635	598,916	219,002	4,935,553	-	4,935,553
Occupancy	5,207,803	2,038,014	2,962	7,248,779	-	5,916,308	1,691,683	1,477	7,609,468	-	7,609,468
Depreciation	4,057,518	969,915	207,255	5,234,688	-	4,528,711	739,124	252,062	5,519,897	-	5,519,897
Consultants and professional services	2,947,950	1,742,547	265,881	4,956,378	(494,310)	4,102,025	1,143,056	174,500	5,419,581	(111,078)	5,308,503
Other expenses	1,550,896	1,851,683	240,753	3,643,332	-	3,789,107	1,883,099	406,026	6,078,232	(72,285)	6,005,947
Advertising and promotion	1,905,210	30,171	14,501	1,949,882	-	2,246,520	4,527	2,119	2,253,166	-	2,253,166
Travel, lodging and meals	850,846	144,871	82,678	1,078,395	-	3,295,939	1,695,952	256,126	5,248,017	-	5,248,017
Special events	378,122	18,904	54,432	451,458	-	1,727,881	894,426	383,789	3,006,096	-	3,006,096
Total non-compensation operating expenses	55,314,200	7,567,450	1,101,521	63,983,171	(494,310)	58,747,893	8,650,783	1,695,101	69,093,777	(183,363)	68,910,414
Total operating expenses before YUPRO	134,067,432	18,130,705	8,735,428	160,933,565	(494,310)	142,184,570	19,058,751	10,456,492	171,699,813	(183,363)	171,516,450
YUPRO	1,705,247	-	-	1,705,247	(66,272)	1,725,958	-	-	1,725,958	(76,455)	1,649,503
Total operating expenses	\$ 135,772,679	\$ 18,130,705	\$ 8,735,428	\$ 162,638,812	\$ (560,582)	\$ 143,910,528	\$ 19,058,751	\$ 10,456,492	\$ 173,425,771	\$ (259,818)	\$ 173,165,953

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

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 young adults with the skills, experience and support that will empower them to reach their potential through professional careers and higher education. The Opportunity Divide: Millions of young adults in the United States face social and economic injustice. They have talent and motivation but lack access to higher education and careers that provide a living wage. At the same time, U.S. businesses seek more and better trained talent to compete on the global stage, but there are not enough skilled workers to meet that demand.

Year Up achieves this mission through a high support, high expectations model that combines marketable job skills, stipends, internships, college credit, 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 sixteen states: Massachusetts, Rhode Island, New York, District of Columbia, California, Georgia, Illinois, Washington State, Florida, Pennsylvania, Arizona, Virginia, Texas, Delaware, North Carolina, and New Jersey.

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. Beginning 2020, YUPRO operates out of the state of Georgia.

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 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 to 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, 2020 and 2019. All significant intercompany balances and transactions have been eliminated (see Note K).

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

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

Upcoming Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update (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 consolidated 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 consolidating statement of functional expenses. This standard is effective for fiscal years beginning after December 15, 2021. The Entity is currently in the process of evaluating the impact of adoption of this ASU on the consolidating financial statements for 2022.

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.

Cash and Cash Equivalents

Cash and cash equivalents are held in money market, certificates of deposit and checking accounts. Cash and cash equivalents have initial 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 software of \$3,217,365 that was fully depreciated as of December 31, 2019.

For the year ended December 31, 2019, Year Up expensed \$528,867 of depreciation on contributed equipment.

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

	<u>2020</u>	<u>2019</u>
Licenses	\$ 4,183,412	\$ 216,000
Legal services	966,162	285,389
Student transportation	172,340	-
Supplies and other	<u>1,294,510</u>	<u>-</u>
	<u>\$ 6,616,424</u>	<u>\$ 501,389</u>

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

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

Investments

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

Year Up holds its investments with short-term maturities. Investments are not insured and are subject to ongoing market fluctuation.

Revenue Recognition

Grants and Contributions

In accordance with ASC Topic 958, Year Up recognizes grants and contributions when unconditionally pledged or received. Year Up reports gifts of cash or other assets, as net assets with donor restrictions, if they are received with donor stipulations that limit the use of the donated 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. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidating statements of activities, as net assets released from restrictions.

In accordance with Topic 958, Year Up must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that Year Up should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met (see Note E).

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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.

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

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

Revenue Recognition (Continued)

Program Service Fees (Continued)

Program service fees are recognized over the period the internship occurs. The performance obligations of delivering internship services is simultaneously received and consumed by partner corporations; therefore, the revenue is recognized ratably over the course of the internship period. 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. A smaller part of program service fees is revenue associated with advisory services to employers on creating inclusive talent strategies and new innovative program models for expanding the number of opportunity youth that are served. Year Up charges a fee for the advisory services and recognizes revenue related to these services over time as the customer consumes the benefits of the services performed. Timing of recognizing this stream of revenue is based on output measurements as certain milestones as defined under the terms of the contracts are met.

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

Grants and pledges receivable are recorded at their net realizable value. Pledges that are expected to be collected after one year from the end of the fiscal year ended are discounted (see Note D).

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 is recorded at the invoiced amounts and do not bear interest. Internship receivable is shown net of allowance of doubtful accounts of \$507,144 and \$509,504 as of December 31, 2020 and 2019, respectively.

Advertising Expense

Advertising costs are expensed at the time they are incurred. Advertising expense for the years ended December 31, 2020 and 2019, was \$1,713,044 and \$2,253,166, respectively.

Property and Equipment

Equipment purchased by the Entity 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:

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

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

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

Income Taxes and Nonprofit Status

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 consolidating financial statements at December 31, 2020 and 2019. The Entity's information and tax returns are subject to examination by the Federal and state jurisdictions.

Year Up is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Year Up is also exempt from state income taxes. Donors may deduct contributions made to Year Up within IRC requirements.

YUPRO is a for-profit public benefit corporation subject to income taxation. As of December 31, 2020 and 2019, YUPRO had Federal and state net operating loss carryforwards of approximately \$287,000 and \$857,000, respectively, which may be available to offset future income tax liabilities and expire at various dates through 2039. The tax benefit of the net operating loss carryforwards is immaterial to the consolidating financial statements and is not reflected.

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.

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, depreciation, and other costs of the technology department are allocated among program and supporting services benefited based on full-time equivalent ratios.

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.

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

NOTE A - OPERATIONS AND 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. Bonds are valued using several factors, including its credit rating relative to a corporate bond or government security with similar maturity or duration (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.

YEAR UP, INC. AND AFFILIATENotes to Consolidating Financial Statements
December 31, 2020 and 2019**NOTE B - AVAILABILITY AND LIQUIDITY**

The Entity's financial assets available within one year from the consolidating statements of financial position date for general operating expenses as of December 31:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 53,684,696	\$ 34,094,846
Internship receivable, net	10,535,691	12,186,497
Grant and pledges receivable	35,291,566	44,773,758
Investments	<u>14,725,837</u>	<u>12,828,575</u>
Total financial assets	114,237,790	103,883,676
Less:		
Grants and pledges receivable scheduled to be collected in more than one year	20,510,130	16,667,883
Restricted by donors for specific programs	<u>11,441,619</u>	<u>5,814,539</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 82,286,041</u>	<u>\$ 81,401,254</u>

The available balance of approximately \$82,300,000 and \$81,400,000 at December 31, 2020 and 2019, respectively, represents over six months of operating expenses in each of the years. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and other marketable securities. At December 31, 2020 and 2019, the Entity had \$45,000,000 and \$10,000,000, respectively, available from its lines of credit to meet cash flow needs (see Note I).

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:

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds:				
U.S. Large Cap	\$ 2,162,022	\$ -	\$ -	\$ 2,162,022
Other	1,908,419	-	-	1,908,419
Fixed income:				
Investment Grade Taxable Bond	2,115,894	5,152,713	-	7,268,607
Other	2,077,638	-	-	2,077,638
Other	<u>1,309,151</u>	-	-	<u>1,309,151</u>
Total investments	<u>\$ 9,573,124</u>	<u>\$ 5,152,713</u>	<u>\$ -</u>	<u>\$ 14,725,837</u>
<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds:				
U.S. Large Cap	\$ 1,852,360	\$ -	\$ -	\$ 1,852,360
Other	1,496,481	-	-	1,496,481
Fixed income:				
Investment Grade Taxable Bond	-	6,758,657	-	6,758,657
Other	1,545,941	-	-	1,545,941
Other	<u>410,042</u>	<u>765,094</u>	-	<u>1,175,136</u>
Investments	<u>\$ 5,304,824</u>	<u>\$ 7,523,751</u>	<u>\$ -</u>	<u>\$ 12,828,575</u>

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

NOTE C - INVESTMENTS (Continued)

The investments' 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, 2020 and 2019. 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:

	<u>2020</u>	<u>2019</u>
Investment interest and dividends	\$ 317,965	\$ 358,454
Net realized gain on sale of investments	309,134	215,031
Net unrealized gain on investments	777,919	893,832
Investment management fees	<u>(48,128)</u>	<u>(40,753)</u>
	<u>\$ 1,356,890</u>	<u>\$ 1,426,564</u>

NOTE D - GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable at December 31, 2020 and 2019, are expected to be realized in the following periods:

	<u>2020</u>	<u>2019</u>
In less than one year	\$ 14,883,374	\$ 28,207,813
Between one and five years	<u>21,033,000</u>	<u>17,146,458</u>
Total grants and pledges receivable	35,916,374	45,354,271
Less - present value discount	522,870	478,575
Less - allowance for doubtful accounts	<u>101,938</u>	<u>101,938</u>
Grants and pledges receivable, net	<u>\$ 35,291,566</u>	<u>\$ 44,773,758</u>

The present value discount was calculated using a discount factor, which ranged from 0.13% to 0.36%.

NOTE E - CONDITIONAL GRANTS

At December 31, 2020, Year Up had received grants and contributions totaling \$33,286,224 that contained donor-imposed conditions that represent a barrier that must be overcome as well as a right of return of assets or release from obligations. Year Up recognizes these grants and contributions when donor-imposed conditions are substantially met (see Note A).

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

NOTE E - CONDITIONAL GRANTS (Continued)

Conditional promises to give at December 31, 2020, consist of:

Subject to matching and measurable performance barriers	\$ 32,871,450
Incurring qualifying expenses	<u>414,774</u>
Total conditional promises to give	<u>\$ 33,286,224</u>

These conditions are expected to be satisfied in fiscal year 2021, at which time they will be recognized as revenue.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 19,409,039	\$ 20,342,511
Computer equipment	10,419,458	9,426,377
Furniture and fixtures	1,949,983	1,950,822
Software	7,060,129	5,588,813
Software development	<u>2,372,295</u>	<u>1,303,636</u>
	41,210,904	38,612,159
Less - accumulated depreciation	<u>24,266,952</u>	<u>19,885,226</u>
Property and equipment, net	<u>\$ 16,943,952</u>	<u>\$ 18,726,933</u>

For the years ended December 31, 2020 and 2019, the Entity expensed \$5,241,192 and \$5,524,513, respectively, of depreciation.

Year Up has ongoing software development projects as of December 31, 2020 and 2019. These projects are expected to be completed and placed in service during 2021, at which point Year Up will begin depreciating these assets.

NOTE G - OPERATING LEASES

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

<u>Year Ending</u> <u>December 31</u>	
2021	\$ 6,812,345
2022	\$ 7,110,102
2023	\$ 7,104,064
2024	\$ 6,587,335
2025	\$ 5,967,306

Rent expense for the years ended December 31, 2020 and 2019, was \$5,468,767 and \$6,020,745, 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.

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

NOTE G - OPERATING LEASES (Continued)

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, accrued rent liabilities totaling \$9,497,604 and \$11,114,257 as of December 31, 2020 and 2019, respectively, are included in accrued rent in the accompanying consolidating statements of financial position.

During 2020, Year Up entered into an agreement with a landlord to terminate a certain office lease before its scheduled termination date. Per the terms of the agreement, Year Up is subject to an early termination fee which is payable monthly through August 2022. The outstanding balance under this agreement was \$612,634 at December 31, 2020, and is included in the accrued rent.

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 \$3,703,740 with various banking institutions. Year Up named the landlords as the beneficiaries through the maturity of the leases.

NOTE H - NOTES PAYABLE

At December 31, 2019, YUPRO had two unsecured notes payable aggregating to \$1,000,000 that were due to mature in May 2021. During 2020, both loans were paid in full.

NOTE I - LINES OF CREDIT

Year Up has a revolving line of credit agreement with a bank in the amount \$10,000,000. 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 (May 28, 2021). Year Up may request an extension in writing of up to one (1) year within a time period no greater than 120 days and no less than 60 days prior to the expiration date. Interest is equal to the sum of (i) the greater of the London Interbank Offered Rate (LIBOR) Daily Floating rate or 1.0%, plus (ii) 2.6 percentage points. Year Up agrees to pay an unused fee at 0.50% per year on the difference between \$10,000,000 and the average daily outstanding credit balance.

The line of credit agreement has an out-of-debt (or zero balance) period of thirty consecutive days in each "line-year". Year Up borrowed from the line of credit for up to \$10,000,000 during 2020 and 2019. All advances were repaid. There were no outstanding balances at December 31, 2020 or 2019. The line of credit agreement contains various covenants. Year Up was in compliance with these covenants at December 31, 2020 and 2019. This line credit is subject to an annual renewal.

Subsequent to year-end, in response to possible uncertainties arising from the COVID-19 pandemic, Year Up secured a second revolving line of credit with another bank in the amount of \$35,000,000. A major philanthropic donor is the guarantor of this line of credit as a grant of credit support to Year Up. This line of credit has certain covenants, among them: (i) Year Up's outstanding balance would not exceed \$20,000,000 without prior written consent of the guarantor and (ii) Year Up would not agree to any modification of the first line of credit that would exceed the \$10,000,000 maximum amount without prior written consent of the guarantor.

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

NOTE J - 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 2020 and 2019, 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, 2020 and 2019, Year Up contributed \$2,783,772 and \$2,743,953, respectively. These amounts are included in fringe benefits and taxes in the accompanying consolidating statements of functional expenses.

NOTE K - RELATED PARTY TRANSACTIONS

At December 31, 2020 and 2019, the balance outstanding of pledges receivable from National Board members of Year Up were \$1,803,819 and \$4,806,400, respectively.

A member of the Board is a partner at a law firm which provided pro bono services to Year Up in the amounts of \$966,162 and \$243,242 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, Year Up paid YUPRO \$494,310 and \$183,363, 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 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 on 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, 2020 and 2019, Year Up earned a fee of \$66,272 and \$76,455, respectively, which is included in other revenue in the accompanying consolidating financial statements. This amount has been eliminated in the consolidating financial statements.

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

NOTE L - NET ASSETS

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

	<u>2020</u>	<u>2019</u>
Time restricted	\$ 34,507,410	\$ 44,490,344
Program restricted	<u>11,441,619</u>	<u>5,814,539</u>
	<u>\$ 45,949,029</u>	<u>\$ 50,304,883</u>

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

	<u>2020</u>	<u>2019</u>
Time restricted	\$ 22,863,603	\$ 27,367,153
Program restricted	<u>14,536,051</u>	<u>14,668,338</u>
	<u>\$ 37,399,654</u>	<u>\$ 42,035,491</u>

Opportunity Campaigns

In 2016, Year Up launched a capital campaign, Opportunity Campaign III (OC III), a \$225,000,000 campaign to support growth, innovation, and impact 2016-2021. The campaign funded expansion of direct service work and a continued investment in generating impact. As of December 31, 2019, Year Up had raised approximately \$241,000,000 for OC III and closed the campaign. Contribution payments from this campaign are expected to be paid through 2023.

In 2020, Year Up launched the quiet phase of a new capital campaign, Opportunity Campaign IV (OC IV). This five-year campaign will support growth, innovation, impact, and operations through 2025. As of December 31, 2020, Year Up had raised \$48,430,000 in commitments. Of these 2020 campaign funds, \$25,000,000 is conditional and, therefore, not reflected in the accompanying consolidating statements of activities.

NOTE M - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 11, 2021, 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 other than as disclosed in Note I and below.

Subsequent to December 31, 2020, YUPRO's Board voted to create a new class of capital stock of YUPRO in the form of preferred stock. To this end, the YUPRO's Board authorized the issuance of up to 100,000 shares of such preferred stock and designated 2,000 shares of such preferred stock as "series A Preferred stock". As of May 11, 2021, all series A preferred shares have been issued and subscribed by an unrelated non-profit organization (the subscriber) for an aggregate purchase prices of \$2,000,000 pursuant to the terms and conditions of a certain subscription agreement between YUPRO and the subscriber.

YEAR UP, INC. AND AFFILIATE

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

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:

<u>Donor</u>	<u>2020</u>		<u>2019</u>	
	<u>Total Operating Revenue</u>	<u>Total Accounts Receivable</u>	<u>Total Operating Revenue</u>	<u>Total Accounts Receivable</u>
A	- %	12%	- %	13%
B	- %	- %	- %	11%
C	13%	23%	- %	- %
D	11%	17%	- %	- %

<u>Corporate Partner</u>	<u>2020</u>		<u>2019</u>	
	<u>Total Operating Revenue</u>	<u>Total Accounts Receivable</u>	<u>Total Operating Revenue</u>	<u>Total Accounts Receivable</u>
F	15%	22%	12%	27%
G	10%	- %	- %	- %
H	- %	12%	- %	- %

NOTE O – CONTINGENCY

The COVID-19 pandemic that began in the United States in 2020 is unprecedented. It has had a significant impact on the overall economy and on business in general with varying degrees by sector. Year Up's management team put in place e-learning environments for all its programs. Administrative and fundraising activities also transitioned to a cyber environment. Year Up had a reduction in force and a decrease in the number of students served in several markets to minimize the financial risk. Through a combination of cost containment and revenue support from partners, both through exchange and philanthropic transactions, Year Up was able to generate positive financial operating results in 2020 and enhance liquidity overall and a strengthened balance sheet. The rapid development and rollout of vaccines and therapeutics hold promise for the beginning of a recovery in 2021. Management is beginning to consider when a return to offices will be prudent.

In the ordinary course of the Year Up's business, Year Up is from time-to-time involved in disputes concerning individuals' employment with Year Up. While the employees may seek damages in connection with these disputes, Year Up denies any wrongdoing in these cases and has taken the appropriate legal steps in defense of any disputes. It is Year Up's opinion that any potential settlement would not be material to the accompanying consolidating financial statements.