



**UPWARD UNLIMITED  
and AFFILIATES**

Consolidated Financial Statements  
With Independent Auditors' Report

May 31, 2015 and 2014

# UPWARD UNLIMITED AND AFFILIATES

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Upward Unlimited and Affiliates  
Spartanburg, South Carolina

We have audited the accompanying consolidated financial statements of Upward Unlimited and Affiliates, which comprise the consolidated statements of financial position as of May 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Upward Unlimited and Affiliates  
Spartanburg, South Carolina

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Upward Unlimited and Affiliates as of May 31, 2015 and 2014, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Period Adjustment***

As described in Note 10 of the consolidated financial statements, Upward Unlimited and Affiliates determined there was an error in computing tax on inventory purchases for the year ended May 31, 2013. The effect of this adjustment was a decrease to unrestricted net assets and has been recorded as a prior period adjustment. Our opinion is not modified with respect to this matter.

*Capin Crouse LLP*

Atlanta, Georgia  
August 18, 2015

# UPWARD UNLIMITED AND AFFILIATES

## Consolidated Statements of Financial Position

	May 31,	
	2015	2014
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 9,478,616	\$ 11,128,295
Accounts and other receivable–net	468,458	319,594
Note receivable	10,203,000	-
Inventory–net	5,537,119	3,993,629
Prepaid expenses and other assets	1,277,774	403,694
	26,964,967	15,845,212
Property and equipment:		
Land and land improvements	15,435,127	8,151,873
Buildings	19,542,820	7,609,735
Computers and software	5,938,304	5,771,724
Vehicles	106,823	101,353
Lease improvements	96,581	96,581
Furniture, fixtures, and equipment	3,959,988	2,407,592
Construction in process	-	14,598,906
	45,079,643	38,737,764
Less accumulated depreciation	(11,373,752)	(9,253,742)
	33,705,891	29,484,022
Total Assets	\$ 60,670,858	\$ 45,329,234
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable	\$ 181,393	\$ 1,237,981
Accrued expenses	1,363,902	2,439,657
Accrued payroll and benefits payable	363,567	335,819
Deferred revenue	181,590	25,902
Notes payable	17,000,000	-
Capital lease obligation	1,977	15,795
	19,092,429	4,055,154
Net assets:		
Unrestricted:		
Undesignated	22,715,229	11,790,058
Equity in property and equipment	18,705,891	29,484,022
	41,421,120	41,274,080
Temporarily restricted	157,309	-
	41,578,429	41,274,080
Total Liabilities and Net Assets	\$ 60,670,858	\$ 45,329,234

See notes to consolidated financial statements

# UPWARD UNLIMITED AND AFFILIATES

## Consolidated Statements of Activities and Changes in Net Assets

	Year Ended May 31,	
	2015	2014
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Revenue and Support:		
Revenue:		
Program–net	\$ 23,351,130	\$ 24,733,404
Program support–net	3,825,094	3,982,335
Conference fee income	136,918	213,390
Interest income	148,309	31,700
Other income	351,147	58,083
	27,812,598	29,018,912
Support:		
Contributions	66,951	18,263
Reclassifications- net assets released from restriction by satisfaction of purpose restrictions	-	-
Total Unrestricted Support and Revenues and Reclassifications	27,879,549	29,037,175
Expenses:		
Program services:		
Sports programs	21,088,620	20,756,716
Supporting activities:		
Management and general	5,978,334	5,475,674
Fundraising	665,555	-
Total Expenses	27,732,509	26,232,390
Change in Unrestricted Net Assets	147,040	2,804,785
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	157,309	-
Reclassifications–net assets released from restrictions	-	-
Change in Temporarily Restricted Net Assets	157,309	-
Change in Net Assets	304,349	2,804,785
Net Assets, Beginning of Year		
As previously reported	41,274,080	38,997,450
Prior Period Adjustment (Note 10)	-	(528,155)
As restated	41,274,080	38,469,295
Net Assets, End of Year	\$ 41,578,429	\$ 41,274,080

See notes to consolidated financial statements

# UPWARD UNLIMITED AND AFFILIATES

## Consolidated Statements of Cash Flows

	Year Ended May 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 304,349	\$ 2,804,785
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,171,732	1,388,671
Write-down of inventory	170,857	873,311
Gain on sale or disposal of equipment	(582)	(2,105)
Changes in operating assets and liabilities:		
Accounts and other receivable	(148,864)	14,405
Inventory	(1,714,347)	(788,588)
Prepaid expenses and other assets	(874,080)	281,691
Accounts payable	(1,056,588)	(161,411)
Accrued expenses	(1,075,755)	717,398
Accrued payroll and benefits payable	27,748	31,560
Deferred revenue	155,688	(35,223)
	<u>(2,039,842)</u>	<u>5,124,494</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(6,422,534)	(12,559,685)
Loan made	(10,203,000)	-
Proceeds from sale of equipment	29,515	3,077
	<u>(16,596,019)</u>	<u>(12,556,608)</u>
<b>Net Cash Used by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	17,000,000	-
Payments on capital lease	(13,818)	(16,647)
	<u>16,986,182</u>	<u>(16,647)</u>
<b>Net Cash Provided (Used) by Financing Activities</b>		
Change in Cash and Cash Equivalents	(1,649,679)	(7,448,761)
Cash and Cash Equivalents, Beginning of Year	11,128,295	18,577,056
Cash and Cash Equivalents, End of Year	<u>\$ 9,478,616</u>	<u>\$ 11,128,295</u>
<b>SUPPLEMENTAL DATA:</b>		
Cash paid for interest, none capitalized	<u>\$ 55,928</u>	<u>\$ -</u>
Property and equipment acquired with outstanding accruals	<u>\$ -</u>	<u>\$ 1,235,526</u>

See notes to consolidated financial statements

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

### 1. NATURE OF THE ORGANIZATION:

Upward Unlimited and Affiliates (Upward) is the consolidated financial reporting entity for Upward Unlimited d/b/a Upward Sports (UU), Upward Enterprises d/b/a Upward Fan (UF), Upward Unlimited Foundation (Foundation), and Upward Star Center (LLC). UU was incorporated in September 1995 as a South Carolina not-for-profit corporation and is exempt from federal income taxes on related activities under section 501(c)(3) of the Internal Revenue Code (Code) and S.C. Code Section 65-226(3). UU is classified as a publicly supported organization, which is not a private foundation under section 509(a)(2) of the Code, and contributions to it are tax deductible within the limits prescribed by the Code.

UU operates as an organization that exists to promote the discovery of Jesus through sports. We bring churches, Christian leaders, and the communities they serve together through the universal language of sports, strengthening young athletes by helping them grow in mind, body, and soul.

UF is a C corporation subsidiary of UU, organized in 2010 for the purpose of providing merchandise and other auxiliary products to promote its parent corporation and its programming to children and their families. In 2012, based on historical taxable income, as well as the level of future estimated taxable income, UF reserved the cumulative deferred tax asset. As of May 31, 2015, UF is inactive.

The Foundation was organized in 2011 as a subsidiary of UU. The Foundation is exempt from federal income taxes on related activities under section 501(c)(3) of the Internal Revenue Code (Code) and S.C. Code Section 65-226(3). The Foundation is classified as a supporting organization, which is not a private foundation under section 509(a)(3) of the Code, and contributions to it are tax deductible within the limits prescribed by the Code. The Foundation was organized for the purpose of accelerating the vision of Upward Unlimited by creating opportunities for individuals, institutions, corporations, and foundations to invest in the Upward Unlimited mission and vision. In order to reach four million children and one million leaders for the sole purpose of WON hearts, the Foundation will specifically focus on providing funds for Players to Play, to train and equip Leaders to Lead, and to provide safe, competitive Places to Play.

The Upward Star Center was organized in 2014 as a single-member limited liability company (LLC) of UU. The LLC was organized for the purpose of housing the assets of The Star Center sports complex of Spartanburg, SC, for the benefit of the New Market Tax Credit program described in Note 5.

UU accomplishes its mission primarily through the 360 Progression™ which is a uniquely designed total sports experience that adapts and expands as players develop and grow in their personal athletic journey. The 360 Progression™ offers comprehensive training and instruction that increases in intensity with each athlete as they improve, enriching their physical, emotional, social, and spiritual development. The experience is carried out within three divisions of UU.

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

1. NATURE OF THE ORGANIZATION, continued:

*Upward Recreation Division* – The primary function of this offering is the initial discovery of sport (and Christ) and developing a love for the game. This past year, UU hosted 59 local meetings to recast the vision of reclaiming the landscape of youth sports for the benefit of young athletes throughout the United States. During these meetings, church leaders learn how Upward Recreation is adapting to the changing landscape of youth sports and equipping to connect with their community through the universal language of sports. Churches can participate in one or more of the following sports programs in the United States: basketball, cheerleading with basketball, soccer, flag football, cheerleading with flag football, and sports camps. UU develops and provides to churches a comprehensive sports ministry program that is ready to be implemented as one of a church’s ministry services. As part of that comprehensive sports ministry program, churches are charged a fee per participant which covers the cost of the program. The fees include: customer support, online resources for the league director, volunteers, parents, and children; league management software and support; and other program items that make the Upward Sports experience unique. These participant fees are what generate UU’s program revenue. In addition UU generates program support revenue through other items that further enhance the game day experience.

*Upward Performance Division* – The primary function of this offering is to give athletes who have found their love of the game a place to be challenged so that they can strive for more. Luke 2:52 reads, “and Jesus grew in wisdom and stature, and in favor with God and man.” Using this biblical truth as a guide, our team has developed and expanded our offering into the middle school and high school level of sports. Upward Stars, a new division introduced in 2012, is providing programming in basketball and volleyball that intentionally develops all participants mentally, athletically, spiritually, and socially.

*Upward Star Center Division* – The primary function of this division is to provide a world-class sports complex at our corporate headquarters, using the Gospel of Christ behind every sports program. The Star Center will serve as a living laboratory to test and model new sports and concepts. The Star Center is designed to develop Christian leaders, coaches, referees, and partners to deliver the ultimate sports experience, while also being a training ground to help young athletes get better.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the operations of UU, UF, Upward Star Center, and the Foundation, collectively referred to as Upward. All significant inter-company balances and transactions have been eliminated.

#### RECLASSIFICATIONS

Certain information from the prior year consolidated financial statements have been reclassified to conform to the current year presentation format.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held in various checking accounts and certificates of deposits with maturities of 90 days or less. Balances in accounts may, at times, exceed federally insured limits. Upward manages credit risk associated with these deposits by entering into multiple CDARS agreements with the financial institution(s). Upward has not experienced any losses in such accounts.

#### ACCOUNTS AND OTHER RECEIVABLE—NET

Upward extends short-term credit to its ministry partners for participation fees and related products charged to them under the program. Accounts receivable are reported net of anticipated losses due to uncollectible accounts. Upward's policy for determining when receivables are past due or delinquent is 90 days after invoicing. The allowance for doubtful accounts was \$27,123 and \$13,022 at May 31, 2015 and 2014, respectively.

The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, trends in historical loss experience, specific impaired accounts, and economic conditions. Uncollectible accounts are charged against the allowance for doubtful accounts when it is determined the amounts are uncollectible. Payments received from nonaccrual receivables are credited to appropriate receivable accounts.

Other receivable consists of accrued interest of \$89,276 and \$0 at May 31, 2015 and 2014, respectively, due from the note receivable described in Note 5. Upward has not established an allowance for doubtful accounts, because, based upon past experience, all amounts are collectible.

#### INVENTORY—NET

Inventory consists of uniforms, equipment, instructional booklets, videos/DVDs, related sundry items, and shipping supplies. Inventories are stated at the lower of cost or market, determined using the average cost method, reduced by a reserve for inventory obsolescence.

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### INVENTORY–NET, continued

The reserve for inventory obsolescence is maintained at a level that, in management’s judgment, is adequate to absorb probable inventory losses. The amount is based upon historical inventory write-down experience, specific known risks, and current and anticipated economic conditions. Evaluation of these factors involves subjective estimates that may change. Additions to the reserve are provided through a charge to cost of goods sold.

#### LOAN COSTS

Loan costs are recorded at cost and amortized on a straight-line basis over the term of the debt (7-30 years).

#### INTANGIBLE ASSETS OTHER THAN GOODWILL

UU acquired intangible assets other than goodwill of \$0 and \$10,000 during the years ended May 31, 2015 and 2014, respectively. The intangible assets consist of team/customer lists, logos/trademarks, website domain, licenses, etc., and are anticipated to have a useful life of three years and will not be renewed. Amortization expense was \$28,333 and \$28,333 for the year ended May 31, 2015 and 2014, respectively. Intangible assets other than goodwill are included with prepaid expenses and other assets on the consolidated statements of financial position.

#### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost or, if donated, at market value on the date of donation. Purchases of property and equipment valued at \$1,500 or more are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	39 years
Office furniture and equipment	5-10 years
Computer equipment/software	2-5 years
Warehouse equipment	7-10 years

Maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. Property items retired, or otherwise disposed of, are eliminated from the assets and accumulated depreciation accounts. Gains or losses from disposals are included in the consolidated statements of activities and changes in net assets.

#### ACCRUED BENEFITS

Upward has adopted an all-inclusive policy to provide paid time off (PTO) for both vacation time and sick leave to all eligible employees. Time earned is based on length of service with Upward. Amounts earned renew on each employee’s anniversary date with a provision for limited carryover of unused days from the prior year. Upon termination of employment, eligible employees can be paid up to 80 hours of unused PTO. As of May 31, 2015 and 2014, Upward has accrued benefits of \$217,184 and \$200,435, respectively.

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### DEFERRED REVENUE

Deferred revenue represents training conference fees and Star Center program fees that were prepaid by the customer as of May 31, 2015 and 2014, respectively. Customers have registered and paid for a leadership training or a Star Center program but will not attend until after year-end.

#### NET ASSETS

The consolidated financial statements report amounts by classification of net assets:

*Unrestricted net assets* are currently available at the discretion of the board for use in operations. Equity in property and equipment represents amounts invested in property and equipment net of accumulated depreciation and related debt.

*Temporarily restricted* net assets are subject to donor-imposed or legal stipulations that can be fulfilled by actions of Upward pursuant to those stipulations or that expire by the passage of time.

#### SUPPORT, REVENUE, AND EXPENSES

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to Upward. Program revenue and program support revenue are reported net of sales returns of \$466,061 and \$620,109 as of the year ended May 31, 2015 and 2014, respectively.

Upward reports gifts of cash and other assets as restricted support if they are received with donor stipulation that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as satisfaction or purpose or time restriction. Temporarily restricted contributions which have been fully expended for their intended purpose within the reporting period are reported as unrestricted. Temporarily restricted gifts with the Foundation consist of: \$15,099 for Players to Play, \$39,550 for Leaders to Lead, and \$102,660 for general purposes related to Nashville and Golf research.

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing various program services and supporting activities of Upward have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Upward's policy is to expense marketing/advertising costs as they are incurred. Marketing/advertising costs include the promotion of the program and recruiting of new churches. Marketing/advertising costs for the year ended May 31, 2015 and 2014, were \$392,694 and \$165,478, respectively.

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

**UNCERTAIN INCOME TAX POSITIONS**

The financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of May 31, 2015 and 2014, Upward had no uncertain income tax positions that qualify for recognition or disclosure in the consolidated financial statements.

Upward files information tax returns in the U.S. and various states. Upward is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2012.

3. INVENTORY–NET:

Inventory–net consists of:

	May 31,	
	2015	2014
Uniforms, equipment, videos/DVDs, booklets, etc.	\$ 9,941,613	\$ 8,961,444
Reserve for inventory obsolescence	(4,404,494)	(4,967,815)
	\$ 5,537,119	\$ 3,993,629

4. PREPAID EXPENSES AND OTHER ASSETS:

Prepaid expenses and other assets consist of:

	May 31,	
	2015	2014
Purchase deposits	\$ 42,262	\$ 29,650
Prepaid insurance	95,141	96,982
Prepaid lease payments	84,000	120,000
Other prepaid expenses	181,241	121,034
Intangible assets other than goodwill	3,333	31,667
Deferred tax asset–net allowance of \$150,180 for the years ended, May 31, 2015 and May 31, 2014	-	-
Loan costs	867,161	
Prepaid–Foundation	4,636	4,361
	\$ 1,277,774	\$ 403,694

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

5. NOTE RECEIVABLE AND NOTES PAYABLE:

To partially fund the construction of the new sports complex, The Upward Star Center, Upward entered into a New Markets Tax Credit (NMTC) financing arrangement on January 23, 2015. The NMTC Program was established under federal law by the Community Renewal Tax Relief Act of 2000. The program is designed to spur new or increased investments into operating businesses and real estate projects located in low-income communities by offering investors a federal tax credit in exchange for the investments. To earn the tax credit, the NMTC investor must remain invested for a seven-year period, which will end in 2022 for our project.

As part of this financing arrangement, the Foundation issued \$10.2 million as a note receivable to an investment fund, Upward Spartanburg Investment Fund, LLC, becoming a leveraged lender. Of this amount, \$2 million was acquired from a financial institution as a bridge loan.

The investor, a financial institution, provided approximately \$4.8 million to the fund as a note receivable representing the value of tax credits to be realized over the seven-year period.

This investment fund in turn made investments in two Community Development Entities (CDEs) and holds 99.99% investor member interests in the CDEs. The CDEs made loans totaling \$15 million to the Upward Star Center project.

As part of this financing arrangement Upward has entered into a put and call agreement to take place at the end of the seven-year tax credit period. Under this agreement, the NMTC investor can exercise an option to sell its interest in the investment fund to Upward for \$1,500. At that point, the investor will have realized the full benefit of the tax credits. Upon exercise of this option, the investor note of approximately \$4.8 million is to be cancelled providing a future benefit to Upward of that amount.

The note receivable with the investment fund mentioned above for the Foundation is receiving quarterly interest only payments for the first seven years at an interest rate of 3.5% per annum and matures on January 23, 2039.

Upward determined the allowance for estimated losses on the note by looking at historic payment information. Upward has not established an allowance for estimated losses, because, based upon historical payments and the nature of the affiliated organizations involved, all amounts are collectible. Upward monitors the credit quality of its note annually. As of May 31, 2015, the full amount of the loan is current and performing.

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

5. NOTE RECEIVABLE AND NOTES PAYABLE, continued:

Notes payable consist of:

	May 31,	
	2015	2014
Promissory note payable to ST CDE XVII, LLC from Upward Star Center, LLC at an interest rate of 2.7977% per annum. Interest only payments for the first seven years. The loan matures on January 23, 2045. The loan is secured by the underlying assets of the NMTC qualified project.	\$ 5,000,000	\$ -
Promissory note payable to GNMO II Fund I, LLC from Upward Star Center, LLC at an interest rate of 2.7977% per annum. Interest only payments for the first seven years. The loan matures on January 23, 2045. The loan is secured by the underlying assets of the NMTC qualified project.	6,802,000	-
Promissory note payable to GNMO II Fund I, LLC from Upward Star Center, LLC at an interest rate of 2.7977% per annum. Interest only payments for the first seven years. The loan matures on January 23, 2045. The loan is secured by the underlying assets of the NMTC qualified project.	3,198,000	-
Promissory note payable to SunTrust from Upward Unlimited Foundation at a fixed interest rate of 3.95% per annum for the term of the loan. Interest only payments are paid quarterly with lump sum payment due upon maturity. The loan matures on January 23, 2023. The loan is secured by deposits and investments held at SunTrust.	2,000,000	-
	\$ 17,000,000	\$ -

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

5. NOTE RECEIVABLE AND NOTES PAYABLE, continued:

Maturities of notes payable are as follows:

<u>Years Ending May 31,</u>	<u>Amounts</u>
2016	\$ -
2017	-
2018	-
2019	-
2020	-
Thereafter	<u>17,000,000</u>
	<u>\$ 17,000,000</u>

6. COMMITMENTS AND CONTINGENCIES:

### LETTERS OF CREDIT

As of May 31, 2015 and 2014, Upward had irrevocable, noninterest bearing commercial letters of credit with BB&T in the amount of \$1,284,590 and \$1,835,570, respectively. The letters of credit are required by vendors and are guarantees of payment for Upward's purchase of sports apparel. The letters of credit expire at various times from December 2015 to March 2016.

### LINES OF CREDIT

BB&T has extended to Upward a revolving line of credit dated July 2009, updated November 2013, that is payable upon demand. The company utilizes the line of credit to underwrite the issuance of letters of credit that are required from time to time by vendors supplying merchandise to Upward, and for operating expenses. Outstanding balances accrue interest at the Libor Market Rate plus 1.75%. There was no outstanding balance on this line, nor any borrowings made, nor any interest paid as of May 31, 2015 and 2014. The line is secured by a blanket lien on underlying assets of UU, excluding the assets of the Upward Star Center. The line of credit has a maximum available credit of \$4,000,000 and matures November 5, 2015.

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

6. COMMITMENTS AND CONTINGENCIES, continued:

LEASES

UU is obligated under capital leases that expire during 2016 for copiers and computer equipment. The gross amount of equipment and related accumulated amortization recorded under these capital leases were as follows:

	May 31,	
	2015	2014
Equipment	\$ 49,594	\$ 49,594
Less accumulated amortization	(47,694)	(34,341)
	\$ 1,900	\$ 15,253

Upward maintains various month-to-month operating lease agreements for certain recreation facilities and storage facilities that require monthly rental payments. Rental expense for these agreements were \$41,951 and \$37,600 for the years ended May 31, 2015 and 2014, respectively.

Upward leases office equipment and athletic facilities under noncancelable operating lease agreements, with terms ranging from 36-60 months. For the years ended May 31, 2015 and 2014, rental expenses related to these leases were \$84,728 and \$78,572, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of May 31, 2015, are:

Years Ending May 31,	Capital leases	Operating leases
2016	\$ 1,977	\$ 81,731
2017	-	81,731
2018	-	33,731
2019	-	262
2020	-	-
	1,977	\$ 197,455
Less amounts representing interest	-	
Present value of net minimum capital lease payments	1,977	
Less current installments of obligations under capital leases	(1,977)	
Obligations under capital leases, excluding current installments	\$ -	

# UPWARD UNLIMITED AND AFFILIATES

## Notes to Consolidated Financial Statements

May 31, 2015 and 2014

7. CONTINGENT LIABILITY:

Upward has identified potential tax exposure in one state and is seeking to achieve determination and compliance. They have yet to determine outcome, but management, with consult of legal counsel, estimates the potential contingent liability is materially insignificant to the consolidated financial statements as a whole.

8. RELATED PARTIES:

Upward donated cash and non-cash items to the South Carolina Christian Foundation (SCCF) in the amount \$85,000 during each of the years ended May 31, 2015 and 2014, respectively. Two of Upward's board members also serve on SCCF's board.

Upward engaged a member of its advisory council to perform consulting services for the Foundation and paid \$0 and \$18,000 for the years ended May 31, 2015 and 2014, respectively.

9. EMPLOYEE BENEFITS:

Upward has adopted a qualified Section 125 Cafeteria Plan (Plan) for health, dental, and cancer insurance coverage. Under the Plan, amounts contributed by eligible employees who participated in the Plan are not subject to income taxes.

Upward has also adopted an approved proto-type discretionary 401(k) plan. Qualified employees may participate up to 15% of their compensation. At the discretion of the board, Upward may match employee contributions. The matching contribution is determined and approved on an annual basis. For the years ended May 31, 2015 and 2014, the board approved a match of 50% per dollar, up to 6% of the employee's compensation amounting to \$89,838 and \$111,051, respectively.

10. PRIOR PERIOD ADJUSTMENT:

During the current year, it was determined that Upward did not properly compute tax on inventory purchases during the year ended May 31, 2013. This oversight resulted in a \$528,155 decrease in unrestricted net assets as of May 31, 2013, and a subsequent increase of accrued expenses as of May 31, 2013. There is no effect on the change in net assets for the subsequent periods reported.

11. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the consolidated financial statements were available to be issued. Other than the following matters, Upward is not aware of any material subsequent events which would require disclosure in the accompanying consolidating financial statements. Subsequent events after that date have not been evaluated.

## **SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION**

Board of Directors  
Upward Unlimited and Affiliates  
Spartanburg, South Carolina

We have audited the consolidated financial statements of Upward Unlimited and Affiliates for May 31, 2015 and 2014, and have issued our report thereon dated August 18, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Capin Crouse LLP*

Atlanta, Georgia  
August 18, 2015

## UPWARD UNLIMITED AND AFFILIATES

### Schedule of Functional Expenses

Year Ended May 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Cost of goods sold	\$ 9,129,187	\$ -	\$ -	\$ 9,129,187
Freight	713,278	44,037	120	757,435
Inventory obsolescence	210,250	-	-	210,250
Personnel:				
Salaries and wages	4,291,658	2,923,296	446,573	7,661,527
Employee benefits	894,264	567,043	69,603	1,530,910
Travel	489,693	55,324	15,753	560,770
Outside services	863,584	625,141	42,701	1,531,426
Conference and meetings	87,730	12,514	4,182	104,426
Supplies	418,733	19,062	15,939	453,734
Telephone/Internet	249,274	28,196	4,252	281,722
Marketing/Advertising	-	391,152	1,542	392,694
Training	174,347	5,436	295	180,078
Occupancy	599,777	46,984	5,842	652,603
Insurance and taxes	461,070	33,932	2,774	497,776
Depreciation	1,826,555	344,633	544	2,171,732
Interest	125,526	50,057	31,381	206,964
Donated inventory and resources	149,748	-	-	149,748
Other operating expenses	403,946	831,527	24,054	1,259,527
<b>Total</b>	<b><u>\$ 21,088,620</u></b>	<b><u>\$ 5,978,334</u></b>	<b><u>\$ 665,555</u></b>	<b><u>\$ 27,732,509</u></b>
	76.0%	21.6%	2.4%	

## UPWARD UNLIMITED AND AFFILIATES

### Schedule of Functional Expenses

Year Ended May 31, 2014

	Program Services	Management and General	Total Expenses
Cost of goods sold	\$ 9,905,275	\$ -	\$ 9,905,275
Freight	793,378	44,158	837,536
Inventory obsolescence	873,311	-	873,311
Personnel:			
Salaries and wages	3,905,447	2,891,791	6,797,238
Employee benefits	771,908	497,940	1,269,848
Travel	472,706	59,282	531,988
Outside services	875,125	665,902	1,541,027
Conference and meetings	132,974	20,623	153,597
Supplies	308,139	22,197	330,336
Telephone/Internet	226,053	29,099	255,152
Marketing/Advertising	-	165,478	165,478
Training	148,085	28,298	176,383
Occupancy	417,576	42,312	459,888
Insurance and taxes	304,753	33,177	337,930
Depreciation	1,168,206	220,465	1,388,671
Donated inventory	19,686	-	19,686
Other operating expenses	434,094	754,952	1,189,046
	<u>\$ 20,756,716</u>	<u>\$ 5,475,674</u>	<u>\$ 26,232,390</u>
Total	<u>\$ 20,756,716</u>	<u>\$ 5,475,674</u>	<u>\$ 26,232,390</u>
	79.1%	20.9%	