



UPWARD UNLIMITED and SUBSIDIARIES

Consolidated Financial Statements  
With Independent Auditors' Report

September 30, 2016

# UPWARD UNLIMITED AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Upward Unlimited and Subsidiaries  
Spartanburg, South Carolina

We have audited the accompanying consolidated financial statements of Upward Unlimited and Subsidiaries, which comprise the consolidated statement of financial position as of September 30, 2016, and the related consolidated statements of activities and cash flows for the sixteen months 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Board of Directors  
Upward Unlimited and Subsidiaries  
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 Subsidiaries as of September 30, 2016, and the changes in its net assets and cash flows for the sixteen months then ended in accordance with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Lawrenceville, Georgia  
December 14, 2016

# UPWARD UNLIMITED AND SUBSIDIARIES

## Consolidated Statement of Financial Position

September 30, 2016

### ASSETS:

Cash and cash equivalents	\$ 9,242,103
Accounts and other receivable–net	1,104,727
Prepaid expenses and other assets	309,926
Inventory–net	8,524,494
Restricted cash (Note 4)	285,803
Note receivable	10,203,000
	<u>29,670,053</u>

### Property and equipment:

Land and land improvements	15,591,863
Buildings	19,542,820
Computers and software	5,715,657
Vehicles	119,076
Lease improvements	96,581
Furniture, fixtures, and equipment	4,011,456
	<u>45,077,453</u>
Less accumulated depreciation	(13,592,991)
	<u>31,484,462</u>

Total Assets \$ 61,154,515

### LIABILITIES AND NET ASSETS:

#### Liabilities:

Accounts payable	\$ 1,010,477
Accrued expenses	2,071,323
Accrued payroll and benefits payable	302,749
Deferred revenue	672,205
Notes payable–net	16,161,744
	<u>20,218,498</u>

#### Net assets:

##### Unrestricted:

Undesignated	24,016,096
Equity in property and equipment	16,863,060
	<u>40,879,156</u>

Temporarily restricted	56,861
	<u>40,936,017</u>

Total Liabilities and Net Assets \$ 61,154,515

See notes to consolidated financial statements

# UPWARD UNLIMITED AND SUBSIDIARIES

## Consolidated Statement of Activities and Changes in Net Assets

Sixteen Months Ended September 30, 2016

### CHANGES IN UNRESTRICTED NET ASSETS:

#### Revenue and Support:

##### Revenue:

Program–net	\$ 26,016,018
Program support–net	3,701,476
Conference fee income	161,323
Interest income	494,774
Other income	973,715
	<u>31,347,306</u>

##### Support:

Contributions	83,094
Reclassifications–net assets released from restriction by satisfaction of purpose restrictions	<u>156,900</u>
Total Unrestricted Revenues and Support and Reclassifications	<u>31,587,300</u>

#### Expenses:

Program services	24,550,074
Supporting activities:	
Management and general	6,493,569
Fundraising	<u>1,085,621</u>
Total Expenses	<u>32,129,264</u>

Change in Unrestricted Net Assets (541,964)

### CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:

Contributions	56,452
Reclassifications–net assets released from restrictions	<u>(156,900)</u>
Change in Temporarily Restricted Net Assets	<u>(100,448)</u>

Change in Net Assets (642,412)

Net Assets, Beginning of Year 41,578,429

Net Assets, End of Year \$ 40,936,017

See notes to consolidated financial statements

# UPWARD UNLIMITED AND SUBSIDIARIES

## Consolidated Statement of Cash Flows

Sixteen Months Ended September 30, 2016

### CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (642,412)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	2,637,339
Write-down of inventory	265,296
Gain on sale or disposal of equipment	(12,896)
Changes in operating assets and liabilities:	
Accounts and other receivable	(636,269)
Inventory	(3,252,671)
Prepaid expenses and other assets	102,664
Accounts payable	829,084
Accrued expenses	707,421
Accrued payroll and benefits payable	(60,818)
Deferred revenue	490,615
Net Cash Provided by Operating Activities	<u>427,353</u>

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(398,103)
Sinking fund payment	(285,803)
Proceeds from sale of equipment	22,017
Net Cash Used by Investing Activities	<u>(661,889)</u>

### CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on capital lease	<u>(1,977)</u>
Net Cash Used by Financing Activities	<u>(1,977)</u>

Change in Cash and Cash Equivalents (236,513)

Cash and Cash Equivalents, Beginning of Year 9,478,616

Cash and Cash Equivalents, End of Year \$ 9,242,103

### SUPPLEMENTAL DATA:

Cash paid for interest, none capitalized \$ 749,750

See notes to consolidated financial statements

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

1. NATURE OF THE ORGANIZATION:

Upward Unlimited and Subsidiaries (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 September 30, 2016, 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 4.

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

1. NATURE OF THE ORGANIZATION, continued:

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 through program types offered by UU.

*Upward Recreation Program Offering*—The primary function of this offering is the initial discovery of sports (and Christ) and developing a love for the game. This past year, UU hosted local and regional 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 programs are 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 Program Offering*—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 program offering introduced in 2012, is providing programming in basketball and volleyball that intentionally develops all participants mentally, athletically, spiritually, and socially.

*Upward Star Center Facility Offerings*—The primary function of this facility 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.

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

### 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. In April 2016, Upward Unlimited changed its fiscal year end from May 31 to September 30. Accordingly, the consolidated financial statements are for the sixteen month period of June 1, 2015 to September 30, 2016.

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.

#### 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.

#### 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 \$84,470 at September 30, 2016.

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 \$29,759 as of September 30, 2016, due from the note receivable described in Note 4. Upward has not established an allowance for doubtful accounts, because, based upon past experience, all amounts are collectible.

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

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

#### PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consists of prepaid insurance and other costs for which the benefit will be received by Upward in the near future.

#### INVENTORY

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.

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) and are netted with notes payable in the consolidated statement 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 statement 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 September 30, 2016, Upward has accrued benefits of \$186,490.

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

### 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 September 30, 2016, 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 \$528,193 for the sixteen months ended September 30, 2016.

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 statement 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: \$1,650 for Players to Play, \$37,650 for Leaders to Lead and \$17,561 for other projects.

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 statement 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 sixteen months ended September 30, 2016, were \$264,009.

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

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 statement of activities. As of September 30, 2016, 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 2013.

### RECENTLY ADOPTED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) recently issued an accounting standards update (ASU) to the *Interest* topic of the Accounting Standards Codification (ASC). ASC 2015-03 requires debt issuance costs to be reported as a direct reduction of the carrying value of the debt (i.e., a contra liability), rather than as an asset and is effective for fiscal years beginning after December 15, 2015. Upward has elected to early adopt this ASU. The ASU requires retroactive implementation.

3. INVENTORY-NET:

Inventory-net consists of:

Uniforms, equipment, videos/DVDs, booklets, etc.	\$ 12,555,886
Reserve for inventory obsolescence	(4,031,392)
	<hr/>
	\$ 8,524,494
	<hr/>

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

4. 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, SunTrust Community Capital, LLC (the NMTC Investor), must remain invested for a seven-year period, which will end in 2022 for Upward's 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 NMTC Investor, provided approximately \$4.8 million to the fund, 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), ST CDE XVII, LLC and GNMO II Fund I, LLC, 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. At that point, the NMTC Investor will have realized the full benefit of the tax credits. Upon exercise of the put option, 100% equity of the NMTC Investor note will be sold to Upward Foundation for \$1,000 plus other stated expenses.

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 September 30, 2016, the full amount of the loan is current and performing.

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

4. NOTE RECEIVABLE AND NOTES PAYABLE, continued:

Notes payable—net consist of:

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, 2022. The loan is secured by deposits and investments held at SunTrust. The loan is also guaranteed by Upward Unlimited. As a condition of the loan, the Foundation is required to maintain a sinking fund with SunTrust. The Foundation is required to make annual payments to the sinking fund in the amount of \$285,715 on the first business day of January, commencing in January of 2016 until the loan is paid in full. The balance of the sinking fund was \$285,803 as of September 30, 2016, and is included in the restricted cash balance on the consolidated statement of financial position. 2,000,000

Less unamortized loan costs (838,256)

\$ 16,161,744

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

4. NOTE RECEIVABLE AND NOTES PAYABLE, continued:

Maturities of notes payable (including sinking fund payments) are as follows:

<u>Years Ending September 30,</u>	<u>Amounts</u>
2017	\$ 285,715
2018	285,715
2019	285,715
2020	285,715
2021	285,715
Thereafter	<u>15,571,425</u>
	<u>\$ 17,000,000</u>

Upward is required to comply with various covenants related to notes payable. Upward was in compliance with these requirements as of September 30, 2016.

5. COMMITMENTS AND CONTINGENCIES:

**LINES OF CREDIT**

BB&T has extended to Upward a revolving line of credit dated July 2009, updated November 2015, 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 and for the sixteen months ended September 30, 2016. 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, 2017.

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

5. COMMITMENTS AND CONTINGENCIES, continued:

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 \$75,527 for the sixteen months ended September 30, 2016.

Upward leases office equipment and athletic facilities under noncancelable operating lease agreements, with terms ranging from 36-60 months. For the sixteen months ended September 30, 2016, rental expenses related to these leases were \$108,281.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2016, are:

<u>Years Ending September 30,</u>	<u>Operating leases</u>
2017	\$ 81,731
2018	6,734
	<u>\$ 88,465</u>

6. 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 immaterial to the consolidated financial statements as a whole.

7. RELATED PARTIES:

Upward donated cash to three affiliates in the amount of \$77,100 during the sixteen months ended September 30, 2016, to assist with the entities' start up costs.

# UPWARD UNLIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

September 30, 2016

8. 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 sixteen months ended September 30, 2016, Upward paid the 2015 calendar year board approved match of 50% per dollar, up to 6% of the employee's compensation amounting to \$100,059.

9. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

## **SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION**

Board of Directors  
Upward Unlimited and Subsidiaries  
Spartanburg, South Carolina

We have audited the consolidated financial statements of Upward Unlimited and Subsidiaries for September 30, 2016, and have issued our report thereon dated December 14, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedules of functional expenses, consolidating statement of financial position as of September 30, 2016, and consolidating statement of activities for the sixteen months ended September 30, 2016, 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*

Lawrenceville, Georgia  
December 14, 2016

## UPWARD UNLIMITED AND SUBSIDIARIES

### Schedule of Functional Expenses

Sixteen Months Ended September 30, 2016

	Program Services	Management and General	Fundraising	Total Expenses
Cost of goods sold	\$ 9,892,812	\$ -	\$ -	\$ 9,892,812
Freight	792,538	45,423	172	838,133
Inventory obsolescence	296,152	-	-	296,152
Personnel:				
Salaries and wages	5,592,690	3,455,985	542,774	9,591,449
Employee benefits	1,178,973	701,966	83,224	1,964,163
Travel	565,877	25,469	17,576	608,922
Outside services	596,159	465,165	25,415	1,086,739
Conference and meetings	92,236	13,698	121,599	227,533
Supplies	357,524	7,533	9,103	374,160
Telephone/Internet	275,627	25,725	5,078	306,430
Marketing/Advertising	-	261,926	2,083	264,009
Training	169,498	3,654	-	173,152
Occupancy	940,738	55,775	7,477	1,003,990
Insurance and taxes	325,776	36,087	7,105	368,968
Depreciation	2,218,997	418,679	1,641	2,639,317
Interest	470,724	88,823	104,017	663,564
Donated inventory and resources	187,866	-	100,000	287,866
Other operating expenses	595,887	887,661	58,357	1,541,905
	<b>\$ 24,550,074</b>	<b>\$ 6,493,569</b>	<b>\$ 1,085,621</b>	<b>\$ 32,129,264</b>
	76.4%	20.2%	3.4%	

## UPWARD UNLIMITED AND SUBSIDIARIES

### Consolidating Statement of Financial Position

September 30, 2016

	Upward Sports	Upward Fan	Upward Foundation	Upward Star Center, LLC	Eliminations	Total
<b>ASSETS:</b>						
Current assets:						
Cash and cash equivalents	\$ 8,691,164	\$ 945	\$ 411,534	\$ 138,460	\$ -	\$ 9,242,103
Investment in subsidiaries	5,071,926	-	-	-	(5,071,926)	-
Accounts and other receivable–net	1,074,968	-	33,410	-	(3,651)	1,104,727
Prepays and other assets	268,784	-	41,142	38,500	(38,500)	309,926
Inventory–net	8,524,494	-	-	-	-	8,524,494
Restricted cash (Note 4)	-	-	285,803	-	-	285,803
Note receivable	-	-	10,203,000	-	-	10,203,000
	<u>23,631,336</u>	<u>945</u>	<u>10,974,889</u>	<u>176,960</u>	<u>(5,114,077)</u>	<u>29,670,053</u>
Property and equipment:						
Land and land improvements	9,630,458	-	-	5,961,405	-	15,591,863
Buildings	7,609,735	-	-	11,933,085	-	19,542,820
Computers and software	5,713,878	-	1,779	-	-	5,715,657
Vehicles	119,076	-	-	-	-	119,076
Lease improvements	96,581	-	-	-	-	96,581
Furniture, fixtures and equipment	2,733,969	-	-	1,277,487	-	4,011,456
	<u>25,903,697</u>	<u>-</u>	<u>1,779</u>	<u>19,171,977</u>	<u>-</u>	<u>45,077,453</u>
Less accumulated depreciation	(11,865,306)	-	(1,384)	(1,726,301)	-	(13,592,991)
	<u>14,038,391</u>	<u>-</u>	<u>395</u>	<u>17,445,676</u>	<u>-</u>	<u>31,484,462</u>
<b>Total Assets</b>	<u>\$ 37,669,727</u>	<u>\$ 945</u>	<u>\$ 10,975,284</u>	<u>\$ 17,622,636</u>	<u>\$ (5,114,077)</u>	<u>\$ 61,154,515</u>

(continued)

# UPWARD UNLIMITED AND SUBSIDIARIES

## Consolidating Statement of Financial Position

September 30, 2016  
(continued)

	Upward Sports	Upward Fan	Upward Foundation	Upward Star Center, LLC	Eliminations	Total
<b>LIABILITIES AND NET ASSETS:</b>						
Current liabilities:						
Accounts payable	\$ 1,046,255	\$ 5	6,368	\$ -	\$ (42,151)	\$ 1,010,477
Accrued expenses	2,036,352	-	-	34,971	-	2,071,323
Accrued payroll and benefits payable	295,094	-	7,655	-	-	302,749
Deferred revenue	672,205	-	-	-	-	672,205
Notes payable–net	(435,000)	-	1,975,342	14,621,402	-	16,161,744
	<u>3,614,906</u>	<u>5</u>	<u>1,989,365</u>	<u>14,656,373</u>	<u>(42,151)</u>	<u>20,218,498</u>
Net assets:						
Unrestricted:						
Undesignated	14,944,504	940	8,928,663	141,989	-	24,016,096
Equity in property and equipment	14,038,391	-	395	2,824,274	-	16,863,060
Capital investments	5,071,926	-	-	-	(5,071,926)	-
	<u>34,054,821</u>	<u>940</u>	<u>8,929,058</u>	<u>2,966,263</u>	<u>(5,071,926)</u>	<u>40,879,156</u>
Temporarily restricted	-	-	56,861	-	-	56,861
	<u>34,054,821</u>	<u>940</u>	<u>8,985,919</u>	<u>2,966,263</u>	<u>(5,071,926)</u>	<u>40,936,017</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 37,669,727</u>	<u>\$ 945</u>	<u>\$ 10,975,284</u>	<u>\$ 17,622,636</u>	<u>\$ (5,114,077)</u>	<u>\$ 61,154,515</u>

## UPWARD UNLIMITED AND SUBSIDIARIES

### Consolidating Statement of Activities

Sixteen Months Ended September 30, 2016

	Upward Sports	Upward Fan	Upward Foundation	Upward Star Center, LLC	Eliminations	Total
CHANGES IN UNRESTRICTED NET ASSETS:						
Support and Revenue:						
Support:						
Contributions	\$ 98,230	\$ -	\$ 1,229,979	\$ -	\$ (1,245,115)	\$ 83,094
Revenue:						
Program–net	26,016,018	-	-	-	-	26,016,018
Program support–net	3,701,476	-	-	-	-	3,701,476
Conference fee income	161,323	-	-	-	-	161,323
Interest income	18,545	-	476,229	-	-	494,774
Rental income	-	-	-	616,000	(616,000)	-
Other income	973,715	-	-	-	-	973,715
	30,871,077	-	476,229	616,000	(616,000)	31,347,306
Reclassification–net assets released from restriction by satisfaction of purpose restrictions	-	-	156,900	-	-	156,900
Total unrestricted support and revenue and reclassifications	30,969,307	-	1,863,108	616,000	(1,861,115)	31,587,300

(continued)

## UPWARD UNLIMITED AND SUBSIDIARIES

### Consolidating Statement of Activities

Sixteen Months Ended September 30, 2016  
(continued)

	Upward Sports	Upward Fan	Upward Foundation	Upward Star Center, LLC	Eliminations	Total
Expenses:						
Program services:						
Domestic programs	24,834,426	-	163,200	1,413,563	(1,861,115)	24,550,074
Supporting activities:						
Management and general	6,214,359	-	-	279,210	-	6,493,569
Fund-raising	-	-	1,085,621	-	-	1,085,621
Total Expenses	31,048,785	-	1,248,821	1,692,773	(1,861,115)	32,129,264
Total change in unrestricted net assets	(79,478)	-	614,287	(1,076,773)	-	(541,964)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:						
Contributions	-	-	56,452	-	-	56,452
Reclassifications—net assets released from restrictions	-	-	(156,900)	-	-	(156,900)
Change in temporarily restricted net assets	-	-	(100,448)	-	-	(100,448)
Total change in net assets	(79,478)	-	513,839	(1,076,773)	-	(642,412)
Net Assets, beginning of year	34,134,299	940	8,472,080	4,043,036	(5,071,926)	41,578,429
Net Assets, end of year	\$ 34,054,821	\$ 940	\$ 8,985,919	\$ 2,966,263	\$ (5,071,926)	\$ 40,936,017