SCHALL & ASHENFARB Certified Public Accountants, LLC

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UP2US SPORTS

Audited Financial Statements and Single Audit Reports

August 31, 2016

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UP2US, INC.

Table of Contents

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Up2Us, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Up2Us, Inc. ("Up2Us"), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the 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 organization'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 financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Up2Us, Inc. as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018 on our consideration of Up2Us' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Up2Us' internal control over financial reporting and compliance.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

January 22, 2018

UP2US, INC.
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2016

Assets

Cash and cash equivalents	$390,661
Government grants receivable	248,974
Contributions receivable	1,255,883
Contracts receivables	315,075
Prepaid expenses	99,431
Security deposit	4,981
Total assets	$2,315,005

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	$200,565
Deferred revenue	93,425
Loans payable (Note 6)	75,000
Total liabilities	368,990
Net assets:	
Unrestricted	(130,797)
Temporarily restricted (Note 3)	2,076,812
Total net assets	1,946,015
Total liabilities and net assets	$2,315,005

The attached notes and auditor's report are an integral part of these financial statements.

UP2US, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

	Unrestricted	Temporarily Restricted	Total
Public support and revenue:			
Contributions	$272,967	$2,618,500	$2,891,467
Government grants	1,010,474		1,010,474
Contract income	1,026,502		1,026,502
Donated services (Note 4)	236,400		236,400
Consulting income	45,989		45,989
Special events (net of expenses with a direct benefit to donors) (Note 8)	240,931		240,931
Rental income and other	9,913		9,913
Net assets released from restrictions (Note 3)	2,505,330	(2,505,330)	0
Total public support and revenue	5,348,506	113,170	5,461,676
Expenses:			
Program services	4,728,718		4,728,718
Supporting services:			
Management and general	799,382		799,382
Fundraising	520,160		520,160
Total supporting services	1,319,542	0	1,319,542
Total expenses	6,048,260	0	6,048,260
Change in net assets	(699,754)	113,170	(586,584)
Net assets - beginning of year	568,957	1,963,642	2,532,599
Net assets - end of year	($130,797)	$2,076,812	$1,946,015

The attached notes and auditor's report are an integral part of these financial statements.

UP2US, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$1,378,768	$367,112	$176,620	$543,732	$1,922,500
Coaches' living allowance	1,765,514			0	1,765,514
Total personnel	3,144,282	367,112	176,620	543,732	3,688,014
Payroll taxes and employee benefits	470,354	81,399	39,162	120,561	590,915
Coaches'/Vistas' living allowance	118,911			0	118,911
Program expenses (including in-kind of $150,000) (Note 4)	185,023			0	185,023
Rent	137,279	36,550	17,586	54,136	191,415
Telephone and utilities	24,805	6,604	3,178	9,782	34,587
Repairs and maintenance		6,780		6,780	6,780
Equipment rental	10,499	2,796	1,345	4,141	14,640
Professional fees	219,508	166,005	234,104	400,109	619,617
Insurance		7,055		7,055	7,055
Publications, office equipment and supplies	16,350	4,352	2,095	6,447	22,797
Dues and subscriptions	1,199	319	154	473	1,672
Travel and conferences	374,220	22,252	6,981	29,233	403,453
Special events			79,292	79,292	79,292
Bad debt		91,159		91,159	91,159
Miscellaneous	26,288	6,999	3,368	10,367	36,655
Total program and supporting services expenses	4,728,718	799,382	563,885	1,363,267	6,091,985
Less: direct costs of special events			(43,725)	(43,725)	(43,725)
Total expenses	$4,728,718	$799,382	$520,160	$1,319,542	$6,048,260

The attached notes and auditor's report are an integral part of these financial statements.

UP2US, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016

Cash flows from operating activities:	
Changes in net assets	($586,584)
Adjustments to reconcile change in net assets	
to net cash used for operating activities:	
Changes in assets and liabilities:	
Government grants receivable	153,914
Contributions receivable	(86,633)
Contracts receivable	(52,690)
Prepaid expenses	(13,245)
Security deposit	(680)
Accounts payable and accrued expenses	24,011
Deferred revenue	63,459
Government grant advances	0
Total adjustments	88,136
Net cash flows used for operating activities	(498,448)
Cash flows from financing activities:	
Proceeds from loans payable	225,000
Repayments of loans payable	(150,000)
Net cash flows provided by financing activities	75,000
Net decrease in cash and cash equivalents	(423,448)
Cash and cash equivalents - beginning of year	814,109
Cash and cash equivalents - end of year	$390,661
Supplemental disclosure of cash flow information:	
Total interest and income taxes paid	$0

The attached notes and auditor's report are an integral part of these financial statements.

UP2US, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2016

Note 1 - Organization

Up2Us, Inc. ("Up2Us") is leading a national movement to advance sports as a tool for addressing the critical issues facing youth in this nation, including childhood obesity, academic failure, and anti-social behavior. Up2Us accomplishes this by supporting a national network of more than 500 member organizations operating in all fifty states. Together, these organizations serve 20 million youth through both traditional and non-traditional sports. In joining Up2Us, these members pledge to share best practices, advance initiatives that extend opportunities to new youth, and deliver quality programs in underserved communities where there is a tremendous need for constructive outlets for kids.

Up2Us, Inc. (a not-for-profit organization) has been notified by the Internal Revenue Service that it is exempt from Federal income tax under Section 501(c)3 of the Internal Revenue Code and has not been determined to be a private foundation as defined in Section 509(a).

Note 2 - Summary of Significant Accounting Policies

a. <u>Basis of Accounting</u>
The financial statements have been prepared using the accrual basis of accounting which is the process of recognizing revenue and expenses when earned or incurred rather than when received or paid. All significant receivables, payables and other liabilities have been reflected.

b. <u>Basis of Presentation</u>
As a not-for-profit organization, activity is required to be reported in specific classes of net assets, as follows:

- *Unrestricted* – accounts for activity without donor-imposed restrictions as well as activity with donor-imposed restrictions, which expire within the same period that the donation is received.

- *Temporarily restricted* – accounts for activity based on specific donor restrictions that are expected to be satisfied by the passage of time or performance of activities.

- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity. There was no permanently restricted activity or net assets during the year.

c. <u>Cash and Cash Equivalents</u>
Up2Us considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

d. Concentration of Credit Risk
Financial instruments which potentially subject Up2Us to concentration of credit risk consists of cash and money market accounts which have been placed with financial institutions that management deems to be creditworthy. At year end and at certain times throughout the year, Up2Us had material uninsured balances; however, no losses have been suffered due to the failure of any of these institutions.

e. Contributions Receivable
Contributions that are expected to be received in less than one year are recorded at net realizable value. Those that are due in greater than one year are recorded at fair value which is calculated using a risk adjusted rate of return. All outstanding receivables at year end are due to be collected in less than one year.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional pledges as of August 31, 2016.

f. Allowance for Doubtful Accounts
Management reviews receivables for collectability based on various factors such as historical experience and subsequent collections. Based on this review, management has established a reserve for potential uncollectible pledges and contract income of approximately $125,000.

g. Government Grants
Government grants are recognized as income when a reimbursable expense is incurred. The difference between revenue recognized and cash received is reflected as government grants receivable or refundable advances.

h. Contributions
Up2Us reports contributions at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions received with restrictions from the donor for specific purposes or time periods are reported in the temporarily restricted class of net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. However, when a restriction is satisfied within the same period that the contribution was received, it is recorded as unrestricted.

Conditional contributions are recognized in the period that those conditions have been substantially met.

i. Donated Services and Rent
Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind. (See Note 4.)

j. Use of Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make

estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

k. Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

l. Accounting for Uncertainty of Income Taxes
Up2Us does not believe its financial statements include any material, uncertain tax positions. Tax filings for the periods ending August 31, 2013 and later are subject to examination by applicable taxing authorities.

m. Subsequent Events
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through January 22, 2018, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

n. New Accounting Pronouncement
On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the August 31, 2019 year, with early implementation permitted, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the August 31, 2020 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU, which becomes effective for the August 31, 2021 year, requires all leases to be reflected as assets and liabilities on the statement of financial position.

Up2Us has not yet evaluated the impact these standards will have on future financial statements.

Note 3 - **Temporarily Restricted Net Assets**

The following summarizes the changes in temporarily restricted net assets:

	Net Assets 9/1/15	Contributions	Released from Restrictions	Net Assets 8/31/16
Program Restrictions:				
Member services	$113,901	$120,000	($174,778)	$59,123
Coach Across America	1,844,359	2,458,500	(2,330,552)	1,972,307
Coach Mentorship	5,382	40,000	0	45,382
Total	$1,963,642	$2,618,500	($2,505,330)	$2,076,812

Note 4 - **Donated Services and Rent**

The following schedule reflects the allocation of donated services and rent:

	Program Services	Management and General	Fundraising	Total
Rent	$61,964	$16,498	$7,938	$86,400
Program uniforms	150,000	0	0	150,000
Total	$211,964	$16,498	$7,938	$236,400

Note 5 - **Commitments and Contingencies**

Program Audits
Government supported projects are subject to audit by the applicable granting agency. Management feels that there is minimal risk, that the results of any such audit would reflect disallowed costs and has not recorded an allowance for such an event. Any disallowed costs that may arise in the future will be recognized when Up2Us is notified, and a liability is considered probable.

Note 6 - **Loan Payable**

On June 23, 2016, Up2Us entered into a line of credit agreement with Citibank in the amount of $150,000 at a variable rate with monthly payments of 2% of the outstanding principal balance, which was $75,000 at year end.

Note 7 - **Retirement Plan**

Up2Us sponsors a tax deferred annuity plan under 403(b) of the Internal Revenue Code for all full-time employees. The employees designate a percentage of their salaries to be contributed to the plan. The plan is non-contributory on the part of Up2Us.

Note 8 - Special Events

The following summarizes the special event activity:

Special event revenue	$284,656
Less: expenses with a direct benefit to donor	(43,725)
	240,931
Less: other event expenses	(35,567)
Total	$205,364

Note 9 - Significant Concentrations

Up2Us received approximately 37% of their total support and revenue from one large donor during the year.

Note 10 - Availability of Funds for Donor-Imposed Restrictions

Up2Us does not have the appropriate amount of cash and cash equivalents on hand to comply with all donor-imposed restrictions.

UP2US, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA #	Grant Number	Federal Expenditures **
US Corporation for National and Community Service:			
AmeriCorps National	94.006	12NDHNY001	$157,930
AmeriCorps National, passed through the Illinois Department of Public Health	94.006	14AFHIL001	133,080
AmeriCorps National, passed through Volunteer Louisiana	94.006	12AFHLA0010012	128,589
AmeriCorps National, passed through PennSERVE	94.006	15ACHPA0010003	8,758
AmeriCorps National, passed through California Volunteers	94.006	15ACHY23-C158	4,792
Total Americorps National			433,149 *
Volunteers in Service to America	94.013	09VSANY005	27,864
Total US Corporation for National and Community Service			461,013
US Department of Justice:			
Juvenile Mentoring Program	16.726	2012-JU-FX-0041	549,461
Total US Department of Justice			549,461
Total Federal Expenditures			$1,010,474

***Indicates a major program.**
**No subrecipients were used on any federal award.

The attached notes and auditor's report are an integral part of this schedule.

UP2US, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Up2Us under programs of the federal government for the year ended August 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Up2Us, it is not intended to and does not present the financial position, changes in net assets or cash flows of Up2Us.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Federal Awards are presented on the accrual basis of accounting. For grants that were made prior to December 26, 2014, expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations. For grants made after December 26, 2014, expenditures are recognized following the cost principals contained in OMB's Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Under federal cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying members are presented where available. No sub-recipients were used.

Note 3 – Indirect Cost Rate

Up2Us has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Up2Us, Inc.

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Up2Us, Inc. ("Up2Us"), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report, thereon dated January 22,2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Up2Us' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Up2Us' internal control. Accordingly, we do not express an opinion on the effectiveness of Up2Us' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2016-001 and 2016-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2016-003 to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Up2Us' financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 through 2016-004.

Up2Us' Response to Findings

The response from Up2Us to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

January 22, 2018

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Up2Us, Inc.

Report on Compliance for Each Major Federal Program

We have audited Up2Us, Inc.'s ("Up2Us") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Up2Us' major federal programs for the year ended August 31, 2016. Up2Us' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of Up2Us' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Up2Us' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Up2Us' compliance with those requirements.

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Basis for Qualified Opinion on Major Federal Program

As described in the accompanying schedule of findings and questioned costs, Up2Us did not comply with requirements regarding AmeriCorps National – Coach Across America program, CFDA # 94.006 as indicated in findings 2016-005 for cash management and reporting as well as 2016-006 for activities allowed or unallowed, allowable costs/cost principles, period of performance and matching. Compliance with such requirements is necessary, in our opinion, for Up2Us to comply with requirements applicable to that program.

Qualified Opinion on AmeriCorps National – Coach Across America program, CFDA #94.006

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Up2Us complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on AmeriCorps National – Coach Across America program, CFDA # 94.006 for the year ended August 31, 2016.

Up2Us' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Up2Us' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Up2Us is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Up2Us' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Up2Us' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-005 and 2016-006 to be material weaknesses.

Up2Us' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Up2Us' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

January 22, 2018

UP2US, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? __X__ yes _____ no
Significant deficiencies identified?
Not considered to be material weaknesses? __X__ yes _____ none reported

Noncompliance material to financial statements noted? __X__ yes _____ no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? __X__ yes _____ no
Significant deficiencies identified
Not considered to be material weaknesses? _____ yes __X__ no

Type of auditor's report issued on compliance for major programs: Qualified for CFDA #94.006

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) __X__ yes _____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
94.006	AmeriCorps National

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? __X__ yes _____ no

UP2US, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Section II – Financial Statement Findings

Current Year:

2016-001 – Significant Adjustments and Account Analysis

Criteria: The books should be maintained to permit the preparation of financial statements in accordance with accounting principles generally accepted in the U.S.

Condition: Adjustments were identified during the audit, that management agreed to, so that the financial statements would not be materially misstated.

Cause: The financial management team consisting of a contracted director of finance ("DOF"), assistant director of finance, and accounting staff did not perform useful analysis on a regular basis, therefore errors were made that required adjustments.

Effect: The financial statements that would have been prepared based on the information in the books were not free of material error.

Recommendation: Ongoing account analysis should be performed that identifies and corrects errors in the books so that accurate financial statements could be prepared.

Views of Responsible Officials: See Corrective Action Plan attached.

2016-002 – Expense Allocations

Criteria: Expenses that are charged to specific government grants and restricted contributions should be recorded in the proper cost center that relates to the grant. The expenses recorded in the cost center should be used as the basis for claiming funds for government grants and reporting back to grantors and donors.

Condition: Expenses were not consistently recorded in the correct cost centers. Accounting consultants were hired subsequent to year end to allocate the expenses for grants within the books to show sufficient expenses existed. This caused the expenses allocated within the books to be different than the reports submitted to the grantors.

Cause: The finance management team that was maintaining the books and records during the year ended August 31, 2016 did not record transactions correctly and there was no oversight to detect this on a timely basis.

Effect: The financial statements that would have been prepared based on the information in the books were not free of material error.

Recommendation: All costs should be recorded in the proper cost center. The expenses recorded in the cost center for each grant should be the basis for requesting a reimbursement of funds from the government grantor and used to report actual expenses back to all grantors.

<u>Views of Responsible Officials:</u> See Corrective Action Plan attached.

2016-003 – Wire Transfer Procedures

<u>Criteria:</u> Wire transfers should follow authorization guidelines that are consistent with check signing policies.

<u>Condition:</u> The contracted DOF who had access to the books and records also had authority to make wire transfers.

<u>Cause:</u> The policy that outlined authorizations did not take into account wire transfers.

<u>Effect:</u> Unauthorized wire transfers could have been made without anybody preventing or detecting it in the normal course of their assigned functions.

<u>Recommendation:</u> There should be adequate segregation of duties between those that authorize payments and those that record transactions in the books. Additionally, the Treasurer of the board of directors could review the monthly bank statements.

<u>Views of Responsible Officials:</u> See Corrective Action Plan attached.

2016-004 – Timely Submission of Single Audit

<u>Criteria:</u> Single audits are required to be submitted at the earlier of 30 days after completeness or ninth months after the fiscal year has ended.

<u>Condition:</u> The single audit reports were not submitted until January 2018, approximately six months after the due date.

<u>Effect:</u> Up2Us was not in conformity with a significant clause of its grant.

<u>Recommendation:</u> The executive director should monitor the financial consultants to ensure the books are closed on time and proper analysis is performed so the audit could start in a more timely manner.

<u>Views of Responsible Officials:</u> See Corrective Action Plan attached.

<u>Prior Year Follow-Up:</u>

None

UP2US, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Section III – Federal Award Findings

Current Year:

2016-005 – Cash Management and Reporting

Program: CFDA 94.006 – Americorps National

Sponsor Award Number: 12NDHNY001, 14AFHIL001, 12AFHLA0010012, 15ACHPA0010003, and 15ACHY23-C158

Sponsor Agency: US Corporation for National and Community Service, Illinois Department of Public Health, Volunteer Louisiana, PennSERVE, and California Volunteers

Criteria:
Cash Management: Expenses charged to federal awards must be incurred to minimize the time elapsing between the transfer of funds from the U.S. Treasury.

Reporting: The financial management system of non federal entities, including records and documents, must be sufficient to permit reports required to establish that such funds have been used in accordance with the grant award.

Citation: 2 CFR 200.302, 200.305 (b)(3) and (b)(4)

Condition: Drawdowns for cash and claims for reimbursement on government grants could not be reconciled to amounts within the books. The books did not demonstrate expenses were incurred in accordance with the grant awarded and did not have procedures in place to verify that costs claimed agreed to the books or to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Management did not match the actual expenses for these grants per the books to the cash drawdowns requested.

Cause: Members of the financial management team did not document how they determined the expenses that were claimed for reimbursement on government contracts. There was turnover in the accounting department and the new accounting consultants were unable to match specific expenses to amounts claimed on drawdowns and requests for reimbursement.

Effect: We were unable to determine if expenses were incurred in a timely manner or when they were claimed.

Questioned Costs: None. Cash management does not relate to allowable costs. As to financial reporting, accounting consultants were hired subsequent to year end to allocate expenses to the correct cost centers for grants within the books.

Context: This was a universal problem that effected all government grants.

Repeat Finding: No

Recommendation: We recommend that all expenses be charged to a cost center that corresponds to the specific government grant it relates to and that claims for reimbursement or drawdowns be prepared from or reconciled to the total expenses for the applicable cost center within the books on a timely basis throughout the year.

Views of Responsible Officials: See Corrective Action Plan attached.

2016-006 – Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance and Matching

Program: CFDA 94.006 – Americorps National

Sponsor Award Number: 12NDHNY001, 14AFHIL001, 12AFHLA0010012, 15ACHPA0010003, and 15ACHY23-C158

Sponsor Agency: US Corporation for National and Community Service, Illinois Department of Public Health, Volunteer Louisiana, PennSERVE, and California Volunteers

Criteria:
Activities Allowed or Unallowed and Allowable Costs: For costs to be allowable, they must meet certain general criteria, such as being adequately documented. In addition, the non-federal entity must establish and maintain effective internal controls to provide reasonable assurance that they can manage federal awards.

Period of Performance: A non-federal entity may charge only allowable costs to the federal award that were incurred during the period performance of that award.

Matching: For all federal awards, matching funds must meet certain criteria, including that the costs must be verifiable from the non-federal entities records.

Citation: 2 CFR 200.306(b), 200.309, 200.403(g) and 200.303(a)

Condition: Expenses were not consistently recorded in the correct cost centers. Expenses allocated within the books did not agree to reports submitted to the grantors.

Cause: The accounting consultant that was performing the bookkeeping during the year ended August 31, 2016 did not record transactions correctly and there was no oversight to detect this on a timely basis.

Effect: The internal control system did not provide reasonable assurance that Federal awards were managed properly as illustrated by the fact that expenses charged to grants were not adequately documented within the books. Therefore, the accounting system could not provide evidence about the allowability of costs or whether they were incurred during the grant period as well as whether proper matching requirements were met.

Questioned Costs: None. Accounting consultants were hired subsequent to year end to allocate the expenses for grants within the books to show sufficient expenses existed to be allowable under the terms of the grant, that they were incurred during the period of the grant and that proper matching requirements were met.

Context: This was a universal problem that effected all government grants.

Repeat Finding: No

Recommendation: All costs should be recorded in the proper cost center. The expenses recorded in the cost center for each grant should be the basis for requesting a reimbursement of funds from the government grantor and used to report actual expenses back to all grantors.

Views of Responsible Officials: See Corrective Action Plan attached.

Prior Year Follow-Up:

None

MANAGEMENT RESPONSE

Management concurs with the findings but would like to provide background to the response summarizing their understanding of the issues and corrective action plan going into FY 2017/2018.

Background:
During the beginning of FY16 Up2Us finance had a transition in staff which left us with a reduced number of staff. The contracted CFO advised leadership that this change in staff would not affect the workflow of the finance team, and the CFO even took a reduction in hours saying he could reduce his role with no large effect. Later in FY16, the financial management team had another large staffing change when the Assistant Director of Finance moved to an accounting firm where we were able to contract her for 2-3 days a week; and the contracted DOF continued his work with the team in order to complete the FY 2016 audit. It became apparent at this time to senior leadership that the CFO was unable to perform his finance functions. It also became evident that financial reporting was inaccurate, largely due to the lack of staff time to complete the necessary functions that the DOF was assuring senior leadership were being completed. In February 2017, the Up2Us Acting Director of Operations (now Chief Operating Officer (COO)) took over management of finance staff; and Up2Us allowed the DOF to continue in a limited role to complete the 990 and audit. The finance team had reported to senior management in April 2017 after the 990 had been submitted that the audit was almost complete and estimated to be completed in May. In June 2017, senior leadership reached out to an accounting firm specializing in working with nonprofit organizations and reported to them that the 2016 audit was nearly complete and the focus shifted to catching up 2017 records since the shift of the former accounting team had taken place. It was then noted that the contracted CFO had stopped performing reconciliations and that the part-time Assistant Director of Finance was challenged with keeping the records current or providing the supporting information to the auditors. This team had previously been able to provide the recurring auditors with adequate financial support in previous years and with no findings.

2016-001

Management concurs with this finding. The accounting firm was able to reconcile the balance sheet accounts within immaterial amounts for FY 2016 and supported all revenue and expense reconciliations.

Corrective Action Plan:
The COO and the new accounting firm are currently reconciling FY 2017 and updating the financial records to make them auditable. In addition, the COO and the new accounting firm have put mechanisms in place to ensure monthly ongoing reconciliations and accurate financial statements will be completed for FY 2018.

Responsible Party: Chief Operating Officer
Completion date: June 30, 2018

2016-002

Management concurs with this finding. Currently, the financial reports are being generated from the finance team supported by the accounting records and will be reviewed by the COO and then signed off by the CEO.

Responsible Party: Chief Operating Officer
Completion Date: June 30, 2018

2016-003

Management concurs with the finding. The signature authority has been removed from the contracted DOF. The accounting manual will be updated to implement a policy that requires approval by an authorized bank signer and implement a dual signature requirement for wires in excess of $50,000. In addition, management will implement a procedure to ensure that the CEO reviews the bank activity and provides evidence of review on a monthly basis.

Responsible Party: Chief Operating Officer
Completion Date: March 31, 2018

2016-004

Management concurs with the finding. An accounting firm was hired to close out FY 2017 and catch up FY 2018. Management is working with the auditors to complete the 2017 audit by the due date. In addition, the COO and the new accounting firm have put mechanisms in place to ensure monthly ongoing reconciliations and accurate financial statements will be completed for FY 2018.

Responsible Party: Chief Operating Officer
Completion Date: May 31, 2018

2016-005

Management concurs with this finding. The COO and the new accounting firm have put mechanisms in place to ensure that expenses are recorded in the books timely in FY 2018. In addition, a new Finance Grants Manager has been hired and maintains the records and support for the drawdowns that is reconciled to the books.

Responsible Party: Chief Operating Officer
Completion Date: March 31, 2018

2016-006

Management concurs with this finding. A new Accounts Receivable and Accounts Payable Manager has been hired to oversee the cash receipts and disbursements process and ensure that expenses are recorded as it happens. The COO and the new accounting firm have put mechanisms to ensure ongoing reconciliations in FY2018.

Responsible Party: Chief Operating Officer
Completion Date: June 30, 2018