



**CHALLENGED ATHLETES, INC.
D.B.A. CHALLENGED ATHLETES FOUNDATION**

Financial Statements

Years Ended March 31, 2016 and 2015



CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION
Financial Statements
Years Ended March 31, 2016 and 2015

Table of Contents

| | <u>Page</u> |
|-----------------------------------|-------------|
| Independent Auditors' Report | 1 |
| Financial Statements: | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statements of Functional Expenses | 6 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9 |



INDEPENDENT AUDITORS' REPORT

To the Audit Committee
Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation

We have audited the accompanying financial statements of Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation (a nonprofit organization), which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 entity'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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation as of March 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Correction of Error

As discussed in Note 10 and 12 to the financial statements, certain errors resulting from overstatement of amounts previously reported for accounts payable to endowment funds and an overstatement of endowment expense (transfer to the Jewish Community Foundation) for the year ended March 31, 2015 were identified in the current year. Accordingly, amounts reported for accounts payable to endowment funds and transfer to the Jewish Community Foundation have been restated in the 2015 financial statements now presented, to correct the error. Our opinion is not modified with respect to the matter.

AKT LLP

San Diego, California
September 28, 2016

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION
Statements of Financial Position
 March 31, 2016 and 2015, As Restated

| | 2016 | 2015 As Restated |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 3,020,416 | \$ 5,887,537 |
| Accounts receivable | 474,889 | 707,284 |
| Prepaid expenses | 364,486 | 124,687 |
| Inventory | 106,334 | 127,287 |
| Other assets | 5,000 | - |
| Total Current Assets | 3,971,125 | 6,846,795 |
| Non-Current Assets: | | |
| Property and equipment, net of accumulated depreciation | 333,186 | 120,024 |
| Note receivable - related party | 200,000 | 450,000 |
| Beneficial interest in assets, Jewish Community Foundation | 1,915,921 | - |
| Total Assets | \$ <u>6,420,232</u> | \$ <u>7,416,819</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable | \$ 100,020 | \$ 350,941 |
| Deferred revenue | 681,502 | 928,589 |
| Accrued expenses | 78,845 | 190,584 |
| Payable to endowment funds | - | 700,000 |
| Grants payable | 1,046,838 | 1,159,099 |
| Total Current Liabilities | 1,907,205 | 3,329,213 |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 3,427,347 | 3,795,999 |
| Board designated | - | 6,976 |
| | 3,427,347 | 3,802,975 |
| Temporarily restricted | 1,083,680 | 282,631 |
| Permanently restricted | 2,000 | 2,000 |
| Total Net Assets | 4,513,027 | 4,087,606 |
| Total Liabilities and Net Assets | \$ <u>6,420,232</u> | \$ <u>7,416,819</u> |

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION**Statement of Activities**

Year Ended March 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Operating Revenue and Support: | | | | |
| Special events | \$ 4,490,688 | \$ - | \$ - | \$ 4,490,688 |
| Less direct expenses | (2,283,707) | - | - | (2,283,707) |
| Contributions and other income | 2,471,564 | 2,390,498 | - | 4,862,062 |
| In-kind contributions | 100,450 | 1,312,046 | - | 1,412,496 |
| Grants | 422,162 | - | - | 422,162 |
| Net assets released from restrictions, satisfaction of program and time restrictions | <u>2,901,495</u> | <u>(2,901,495)</u> | <u>-</u> | <u>-</u> |
| Total Operating Revenue and Support | 8,102,652 | 801,049 | - | 8,903,701 |
| Operating Expenses: | | | | |
| Program services: | | | | |
| Access for Athletes | 3,482,123 | - | - | 3,482,123 |
| San Diego Triathlon Challenge | 1,370,520 | - | - | 1,370,520 |
| Operation Rebound | 666,793 | - | - | 666,793 |
| Catch a Rising Star | 427,542 | - | - | 427,542 |
| Community Outreach | 406,006 | - | - | 406,006 |
| Paratriathlete Training | 218,526 | - | - | 218,526 |
| Supporting services: | | | | |
| Management and general | 146,180 | - | - | 146,180 |
| Fundraising: | | | | |
| General | 968,835 | - | - | 968,835 |
| Special events | <u>602,878</u> | <u>-</u> | <u>-</u> | <u>602,878</u> |
| Total Operating Expenses | <u>8,289,403</u> | <u>-</u> | <u>-</u> | <u>8,289,403</u> |
| Change in Operations | (186,751) | 801,049 | - | 614,298 |
| Non-Operating Expenses: | | | | |
| Change in value of beneficial interest in assets, Jewish Communtiy Foundation | (84,079) | - | - | (84,079) |
| Interest income | 28,236 | - | - | 28,236 |
| Other expense | (57,786) | - | - | (57,786) |
| Transfer to San Diego Foundation | <u>(75,248)</u> | <u>-</u> | <u>-</u> | <u>(75,248)</u> |
| Change in Net Assets | (375,628) | 801,049 | - | 425,421 |
| Net Assets, beginning | <u>3,802,975</u> | <u>282,631</u> | <u>2,000</u> | <u>4,087,606</u> |
| Net Assets, ending | <u>\$ 3,427,347</u> | <u>\$ 1,083,680</u> | <u>\$ 2,000</u> | <u>\$ 4,513,027</u> |

See accompanying notes to financial statements

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION**Statement of Activities**

Year Ended March 31, 2015, As Restated

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Operating Revenue and Support: | | | | |
| Special events | \$ 6,578,063 | \$ 250,687 | \$ - | \$ 6,828,750 |
| Less direct expenses | (2,301,479) | (105,654) | - | (2,407,133) |
| Contributions and other income | 3,617,804 | 982,721 | - | 4,600,525 |
| In-kind contributions | 709,406 | 746,645 | - | 1,456,051 |
| Grants | 209,509 | - | - | 209,509 |
| Net assets released from restrictions, satisfaction of program and time restrictions | <u>1,624,299</u> | <u>(1,624,299)</u> | <u>-</u> | <u>-</u> |
| Total Operating Revenue and Support | 10,437,602 | 250,100 | - | 10,687,702 |
| Operating Expenses: | | | | |
| Program services: | | | | |
| Access for Athletes | 3,114,938 | - | - | 3,114,938 |
| San Diego Triathlon Challenge | 1,159,242 | - | - | 1,159,242 |
| Community Outreach | 400,923 | - | - | 400,923 |
| Operation Rebound | 581,407 | - | - | 581,407 |
| Catch A Rising Star | 315,523 | - | - | 315,523 |
| Paratriathlete Training | 126,851 | - | - | 126,851 |
| Supporting services: | | | | |
| Management and general | 247,499 | - | - | 247,499 |
| Fundraising: | | | | |
| General | 956,372 | - | - | 956,372 |
| Special events | <u>593,051</u> | <u>-</u> | <u>-</u> | <u>593,051</u> |
| Total Operating Expenses | <u>7,495,806</u> | <u>-</u> | <u>-</u> | <u>7,495,806</u> |
| Change in Operations | 2,941,796 | 250,100 | - | 3,191,896 |
| Non-Operating Revenues (Expenses): | | | | |
| Interest income | 32,860 | - | - | 32,860 |
| Other expense | (144,647) | - | - | (144,647) |
| Transfer to San Diego Foundation | (700,000) | - | - | (700,000) |
| Transfer to Jewish Community Foundation | <u>(400,000)</u> | <u>-</u> | <u>-</u> | <u>(400,000)</u> |
| Change in Net Assets | 1,730,009 | 250,100 | - | 1,980,109 |
| Net Assets, beginning | <u>2,072,966</u> | <u>32,531</u> | <u>2,000</u> | <u>2,107,497</u> |
| Net Assets, ending | <u>\$ 3,802,975</u> | <u>\$ 282,631</u> | <u>\$ 2,000</u> | <u>\$ 4,087,606</u> |

See accompanying notes to financial statements

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION

Statement of Functional Expenses

Year Ended March 31, 2016

| | Program Services | | | | | | Supporting Services | | | Total |
|-------------------------------------|---------------------|-------------------------------|-------------------|---------------------|--------------------|-------------------------|------------------------|-------------------|-------------------|---------------------|
| | Access for Athletes | San Diego Triathlon Challenge | Operation Rebound | Catch A Rising Star | Community Outreach | Paratriathlete Training | Fundraising | | | |
| | | | | | | | Management and General | General | Special Events | |
| Salaries | \$ 73,691 | \$ 246,375 | \$ 98,254 | \$ 122,818 | \$ 122,818 | \$ 73,691 | \$ 66,588 | \$ 374,372 | \$ 301,125 | \$ 1,479,732 |
| Employee benefits | 7,999 | 26,744 | 10,666 | 13,332 | 13,332 | 7,999 | 7,228 | 40,638 | 32,687 | 160,625 |
| Payroll taxes | 6,085 | 20,344 | 8,113 | 10,141 | 10,141 | 6,084 | 5,498 | 30,913 | 24,865 | 122,184 |
| Total Salaries and Related Expenses | 87,775 | 293,463 | 117,033 | 146,291 | 146,291 | 87,774 | 79,314 | 445,923 | 358,677 | 1,762,541 |
| Grants | 2,419,472 | 14,831 | 445,204 | 10,000 | 7,450 | - | - | - | - | 2,896,957 |
| In-kind benefits | 915,362 | 396,504 | - | 180 | - | - | 7,100 | - | - | 1,319,146 |
| Other administration | 35,532 | 116,447 | 47,344 | 57,863 | 57,621 | 34,568 | 48,674 | 182,052 | 148,008 | 728,109 |
| Direct event | - | 344,187 | - | - | - | - | - | 94,151 | - | 438,338 |
| Travel | 2,633 | 77,695 | 35,212 | 97,413 | 27,463 | 39,187 | 11,092 | 72,441 | 8,003 | 371,139 |
| Program | 4,332 | 2,000 | 3,925 | 78,695 | 145,365 | 43,182 | - | 406 | 300 | 278,205 |
| Marketing and promotion | 13,945 | 90,493 | 13,818 | 32,041 | 16,793 | 10,142 | - | 37,333 | 18,366 | 232,931 |
| Merchant service fees | 3,072 | 34,900 | 4,257 | 5,059 | 4,999 | 3,673 | - | 42,955 | 69,524 | 168,439 |
| Business and donor development | - | - | - | - | 24 | - | - | 93,574 | - | 93,598 |
| Total Expenses | <u>\$ 3,482,123</u> | <u>\$ 1,370,520</u> | <u>\$ 666,793</u> | <u>\$ 427,542</u> | <u>\$ 406,006</u> | <u>\$ 218,526</u> | <u>\$ 146,180</u> | <u>\$ 968,835</u> | <u>\$ 602,878</u> | <u>\$ 8,289,403</u> |

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION

Statement of Functional Expenses

Year Ended March 31, 2015, As Restated

| | Program Services | | | | | | Supporting Services | | | Total |
|-------------------------------------|---------------------|-------------------------------|-------------------|---------------------|--------------------|-------------------------|------------------------|-------------------|-------------------|---------------------|
| | Access for Athletes | San Diego Triathlon Challenge | Operation Rebound | Catch A Rising Star | Community Outreach | Paratriathlete Training | Fundraising | | | |
| | | | | | | | Management and General | General | Special Events | |
| Salaries | \$ 100,781 | \$ 188,649 | \$ 100,236 | \$ 119,428 | \$ 139,042 | \$ 54,071 | \$ 127,545 | \$ 254,625 | \$ 286,412 | \$ 1,370,789 |
| Employee benefits | 10,675 | 18,642 | 15,868 | 9,849 | 11,031 | 5,703 | 13,598 | 24,499 | 25,827 | 135,692 |
| Payroll taxes | 7,838 | 14,723 | 7,813 | 9,369 | 10,906 | 4,206 | 9,658 | 20,351 | 22,403 | 107,267 |
| Total Salaries and Related Expenses | 119,294 | 222,014 | 123,917 | 138,646 | 160,979 | 63,980 | 150,801 | 299,475 | 334,642 | 1,613,748 |
| Grants | 2,174,209 | - | 355,149 | 13,000 | 58,801 | - | - | - | - | 2,601,159 |
| In-kind benefits | 745,090 | 395,182 | 1,555 | - | - | - | 1,975 | 288 | - | 1,144,090 |
| Other administration | 68,531 | 56,983 | 57,587 | 56,974 | 52,679 | 7,423 | 66,383 | 141,859 | 99,334 | 607,753 |
| Direct event | 408 | 317,838 | 2,472 | 50,150 | 3,377 | 8,999 | 3,926 | 281,871 | - | 669,041 |
| Travel | 1,717 | 87,457 | 37,336 | 49,096 | 29,892 | 42,314 | 20,405 | 97,629 | 71,034 | 436,880 |
| Program | - | - | - | 800 | 91,911 | - | 450 | 795 | - | 93,956 |
| Marketing and promotion | 5,667 | 44,279 | 3,343 | 6,457 | 3,188 | 4,135 | 2,505 | 72,682 | 18,933 | 161,189 |
| Merchant service fees | 22 | 35,489 | 48 | 400 | 96 | - | 1,054 | 53,265 | 69,108 | 159,482 |
| Business and donor development | - | - | - | - | - | - | - | 8,508 | - | 8,508 |
| Total Expenses | <u>\$ 3,114,938</u> | <u>\$ 1,159,242</u> | <u>\$ 581,407</u> | <u>\$ 315,523</u> | <u>\$ 400,923</u> | <u>\$ 126,851</u> | <u>\$ 247,499</u> | <u>\$ 956,372</u> | <u>\$ 593,051</u> | <u>\$ 7,495,806</u> |

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION**Statements of Cash Flows**

Years Ended March 31, 2016 and 2015, As Restated

| | 2016 | 2015 As Restated |
|---|--------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 425,421 | \$ 1,980,109 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 17,539 | 14,905 |
| Change in value of beneficial interest in assets, Jewish Community Foundation | 84,079 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 232,395 | (425,409) |
| Prepaid expenses | (239,799) | 11,116 |
| Inventory | 20,953 | 152,509 |
| Other assets | (5,000) | - |
| Accounts payable | (250,921) | 242,516 |
| Deferred revenue | (247,087) | (77,636) |
| Accrued expenses | (111,739) | 87,716 |
| Payable to endowment funds | (700,000) | 700,000 |
| Grants payable | (112,261) | 191,721 |
| Net Cash Provided (Used) by Operating Activities | (886,420) | 2,877,547 |
| Cash Flows from Investing Activities: | | |
| Proceeds from note receivable | 250,000 | 300,000 |
| Purchases of property and equipment | (230,701) | (98,762) |
| Purchase of beneficial interest in assets, Jewish Community Foundation | (2,000,000) | - |
| Net Cash Provided (Used) by Investing Activities | (1,980,701) | 201,238 |
| Net Increase (Decrease) in Cash | (2,867,121) | 3,078,785 |
| Cash, beginning | 5,887,537 | 2,808,752 |
| Cash, ending | \$ 3,020,416 | \$ 5,887,537 |

See accompanying notes to the financial statements

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION

Notes to Financial Statements

Years Ended March 31, 2016 and 2015

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation (Foundation) is a nonprofit organization incorporated on February 1, 1997 under the laws of the state of California. It is the mission of the Foundation to provide opportunities and support to people with physical disabilities so they can pursue active lifestyles through physical fitness and competitive athletics. It is the Foundation's belief that involvement in sports at any level will increase self-esteem, encourage independence and enhance quality of life. Funds for the Foundation's operations are raised primarily through contributions from private donors, sponsors, and special events.

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, and payables approximates fair values as of March 31, 2016 and 2015, due to the relative short maturities of these instruments.

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION

Notes to Financial Statements

Years Ended March 31, 2016 and 2015

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Accounts Receivable

Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. At March 31, 2016 and 2015, management had determined that accounts receivable were fully collectible; therefore no allowance for doubtful accounts was considered necessary.

Inventory

Inventory consists of merchandise promoting the Foundation. Inventory is valued at the lower of cost or market, using the first-in, first-out basis.

Property and Equipment

Acquisitions of property and equipment of \$2,000 or more are capitalized and recorded at cost. Donated property and equipment are recorded at fair value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful life of the assets, ranging from three to ten years.

Beneficial Interest in Assets of Jewish Community Foundation

The Foundation has transferred assets to the Jewish Community Foundation of San Diego (JCF) which is holding them as endowed agency funds (Funds) for the benefit of the Foundation as a named beneficiary. The Foundation has granted JCF variance power which gives JCF's Board of Directors the power to use the Funds for other purposes in certain circumstances. The Foundation reports the fair value of the beneficial interest in assets held at JCF in the statement of financial position and reports distribution received as investment income. Changes in the value of the Funds are reported as gains or losses in the statement of activities.

Deferred Revenue

Entry fees received in advance of related events are recorded as deferred revenue.

Grants Payable

Grants authorized by the Foundation's Board of Directors but not yet paid are reported as liabilities to be paid in future years.

Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated Materials

The Foundation receives donated materials from various individuals and organizations. In-kind contributions of these materials that do not meet the criteria for capitalization are recorded at estimated fair market value as support and expense in the period in which the materials are contributed.

Many individuals volunteer their time and perform a variety of tasks that assist the Foundation with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed.

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION

Notes to Financial Statements

Years Ended March 31, 2016 and 2015

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Foundation, however, may be subject to tax on income which is not related to its exempt purpose. For the years ended March 31, 2016 and 2015, no such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Foundation is not a private foundation.

Accounting for Uncertain Tax Positions

The Foundation follows the provisions of uncertain tax positions as addressed in Financial Accounting Standards Board Accounting Standards Codification. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the years ended March 31, 2016 and 2015. The Foundation files informational and income tax returns in the United States and various state and local jurisdictions.

Subsequent Events

The Foundation has evaluated subsequent events through September 28, 2016, which is the date the financial statements were available to be issued.

Note 2 – Concentration of Credit Risk

The Foundation maintains its cash in bank deposit accounts that are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC. At March 31, 2016, the Foundation's uninsured cash balance was \$3,824,031.

Note 3 – Property and Equipment

Property and equipment consist of the following:

| | 2016 | 2015 |
|-------------------------------|-------------------|-------------------|
| Equipment and furniture | \$ 260,042 | \$ 30,780 |
| Vehicles | 31,014 | 31,014 |
| Work in progress | 41,200 | 94,819 |
| Leasehold improvements | 41,387 | - |
| | <u>373,643</u> | <u>156,613</u> |
| Less accumulated depreciation | <u>(40,457)</u> | <u>(36,589)</u> |
| | <u>\$ 333,186</u> | <u>\$ 120,024</u> |

Note 4 – Note Receivable - Related Party

The Foundation entered into a promissory note agreement with CAF Property, Inc. (Organization), a related party, on June 3, 2010 where the Organization can borrow a maximum amount of \$1,500,000. The note incurs interest at the rate of 4% annually with interest only payments due monthly with the entire unpaid balance and accrued interest due May 1, 2020.

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION

Notes to Financial Statements

Years Ended March 31, 2016 and 2015

Note 5 – Beneficial Interest in Assets, Jewish Community Foundation

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at March 31, 2016.

Beneficial interest in assets – The interest in assets held by JCF has been valued, as a practical expedient, at the fair value of the Foundation’s share of JCF’s investment pool as of the measurement date. JCF values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of JCF, which includes private placements and other securities for which prices are not readily available, are determined by the management of JCF and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

The following is a summary of changes in the fair value of the level 3 beneficial interest in assets:

| | <u>2016</u> |
|------------------------------------|---------------------|
| Fair value, beginning | \$ - |
| Contributions | 2,000,000 |
| Investment income | 42,644 |
| Net realized and unrealized losses | (121,937) |
| Investment expenses | <u>(4,786)</u> |
| | <u>\$ 1,915,921</u> |

Note 6 – Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|---------------------|-------------------|
| Operation Rebound | \$ 759,817 | \$ 205,672 |
| San Diego Triathlon Challenge | 244,761 | - |
| Rose Fund | 54,766 | 54,766 |
| Access of Athletes | 12,481 | - |
| Catch A Rising Star Boston | 9,270 | 9,270 |
| Vehicles | <u>2,585</u> | <u>12,923</u> |
| | <u>\$ 1,083,680</u> | <u>\$ 282,631</u> |

Note 7 – Operating Leases

The Foundation leases office space and equipment under operating lease agreements. The leases expire at various dates through April 2021. Rent expense associated with these leases was \$245,893 and \$228,198 for the years ended March 31, 2016 and 2015, respectively. The Foundation entered into an office space lease in November 2010 with CAF Property, Inc., a related party. Monthly payments of \$18,475 were due each month through November 2015; at that time the monthly payments increase to \$20,692 until the lease expiration of October 31, 2020.

CHALLENGED ATHLETES, INC. D.B.A CHALLENGED ATHLETES FOUNDATION
Notes to Financial Statements
Years Ended March 31, 2016 and 2015

Note 7 – Operating Leases, continued

Future minimum lease payments under operating leases at March 31, 2016 are as follows:

| Year Ending March 31, | | |
|--------------------------|----|------------------|
| 2017 | \$ | 254,551 |
| 2018 | | 254,551 |
| 2019 | | 253,673 |
| 2020 | | 253,673 |
| 2021 | | 150,214 |
| Thereafter | | 448 |
| | \$ | <u>1,167,110</u> |

Note 8 – Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on time and usage.

Note 9 – Employee Retirement Plan

The Foundation has a 401(k) retirement plan covering all eligible employees after completing one year of service. The plan provides for employer contributions of 3% of employee eligible wages. Retirement plan expense for the years ended March 31, 2016 and 2015 was \$99,053 and \$66,557, respectively.

Note 10 – Funds Held at San Diego Foundation and Jewish Community Foundation

The Foundation has established an endowment account with San Diego Foundation. The Foundation can make recommendations as to the use of funds although San Diego Foundation has final authority over distributions. For the years ended March 31, 2016 and 2015, these funds had a fair market value of approximately \$2,952,674 and \$2,361,579, respectively. No distributions were received for the years ended March 31, 2016 and 2015.

The Foundation has established an endowment account with Jewish Community Foundation. The Foundation can make recommendations as to the use of funds although Jewish Community Foundation has final authority over distributions. For the years ended March 31, 2016 and 2015, these funds had a fair market value of approximately \$2,348,657 and \$2,430,459, respectively. No distributions were received for the years ended March 31, 2016 and 2015.

Note 11 – Reclassifications

Certain items in the 2015 financial statements have been reclassified to conform to current year classifications. Net reclassifications had no effect on previously reported amounts in net assets.

Note 12 – Correction of an Error

During 2016, an error in the classification of beneficial interest in assets was discovered. The amounts were previously reported as an amount payable to endowment funds and were expensed accordingly. The Foundation named themselves the beneficiary of the fund established with Jewish Community Foundation and the Foundation retains an interest in the funds. The effect of the correction was to remove the payable and transfer to the Jewish Community Foundation by \$2,000,000 and increased net assets by \$2,000,000 for the year ended March 31, 2015.