

Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation

Financial Statements

Years Ended March 31, 2022 and 2021



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

Financial Statements

Years Ended March 31, 2022 and 2021

Table of Contents

	<u>Page</u>
Independent Auditor's 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 AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Aldrich CPAs + Advisors LLP

San Diego, California
August 18, 2022

CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION
Statements of Financial Position
March 31, 2022 and 2021

	2022	2021
ASSETS		
Current Assets:		
Cash	\$ 1,884,502	\$ 4,247,211
Promises to give	-	21,455
Prepaid expenses and other assets	368,683	103,113
Total Current Assets	2,253,185	4,371,779
Non-Current Assets:		
Property and equipment, net of accumulated depreciation	139,825	21,483
Beneficial interest in assets	24,715,978	19,421,194
Total Non-Current Assets	24,855,803	19,442,677
Total Assets	\$ 27,108,988	\$ 23,814,456
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 101,226	\$ 67,809
Accrued expenses	255,321	253,126
Advanced income received	734,914	862,258
Grants payable	2,442,483	2,006,664
Total Current Liabilities	3,533,944	3,189,857
Paycheck Protection Program (PPP) Loan	-	508,487
Total Liabilities	3,533,944	3,698,344
Net Assets:		
Without donor restrictions	10,945,004	9,202,187
With donor restrictions	12,630,040	10,913,925
Total Net Assets	23,575,044	20,116,112
Total Liabilities and Net Assets	\$ 27,108,988	\$ 23,814,456

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

Year Ended March 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Contributions of cash and other financial assets and other income	\$ 5,385,348	\$ 3,879,297	\$ 9,264,645
Contributions of nonfinancial assets	494,908	2,324,180	2,819,088
Special events	3,869,278	-	3,869,278
Less direct expenses	(1,835,696)	-	(1,835,696)
Grants	224,071	307,120	531,191
Net assets released from restrictions, satisfaction of program and time restrictions	4,754,936	(4,754,936)	-
Total Operating Revenue and Support	12,892,845	1,755,661	14,648,506
Operating Expenses:			
Program services:			
Access for Athletes	6,158,553	-	6,158,553
San Diego Triathlon Challenge	1,806,569	-	1,806,569
Idaho	1,055,978	-	1,055,978
Operation Rebound	812,492	-	812,492
Community Outreach	797,152	-	797,152
Catch a Rising Star	415,066	-	415,066
High School Sports	259,326	-	259,326
Adaptive Cycling	209,862	-	209,862
JSF Surf	179,565	-	179,565
Supporting services:			
Management and general	503,878	-	503,878
Fundraising:			
General	917,727	-	917,727
Special events	279,188	-	279,188
Total Operating Expenses	13,395,356	-	13,395,356
Operating Income (Loss)	(502,511)	1,755,661	1,253,150
Non-Operating Revenues (Expenses):			
Employee retention tax credits	749,241	-	749,241
Change in value of beneficial interest in assets	539,429	457,929	997,358
Net assets released from beneficial interest in assets	497,475	(497,475)	-
PPP loan income	508,487	-	508,487
Interest income	14,646	-	14,646
Employee retention tax credits expense	(59,769)	-	(59,769)
Non-operating expense	(2,400)	-	(2,400)
Transfer to San Diego Foundation	(1,781)	-	(1,781)
Total Change in Non-Operating	2,245,328	(39,546)	2,205,782
Increase in Net Assets	1,742,817	1,716,115	3,458,932
Net Assets, beginning	9,202,187	10,913,925	20,116,112
Net Assets, ending	\$ 10,945,004	\$ 12,630,040	\$ 23,575,044

See accompanying notes to financial statements.

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

Year Ended March 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Contributions of cash and other financial assets and other income	\$ 5,198,548	\$ 2,293,349	\$ 7,491,897
Contributions of nonfinancial assets	156,651	1,798,323	1,954,974
Special events	1,319,300	-	1,319,300
Less direct expenses	(258,033)	-	(258,033)
Grants	321,779	210,500	532,279
Net assets released from restrictions, satisfaction of program and time restrictions	3,891,104	(3,891,104)	-
Total Operating Revenue and Support	10,629,349	411,068	11,040,417
Operating Expenses:			
Program services:			
Access for Athletes	4,759,245	-	4,759,245
San Diego Triathlon Challenge	1,068,946	-	1,068,946
Idaho	781,213	-	781,213
Operation Rebound	650,235	-	650,235
Community Outreach	606,665	-	606,665
Adaptive Cycling	163,687	-	163,687
High School Sports	156,235	-	156,235
Catch a Rising Star	151,992	-	151,992
JSF Surf	120,415	-	120,415
Supporting services:			
Management and general	461,020	-	461,020
Fundraising:			
General	793,894	-	793,894
Special events	297,554	-	297,554
Total Operating Expenses	10,011,101	-	10,011,101
Operating Income	618,248	411,068	1,029,316
Non-Operating Revenues (Expenses):			
Change in value of beneficial interest in assets	1,694,115	2,166,911	3,861,026
Net assets released from beneficial interest in assets	591,686	(591,686)	-
Investment return, net	414,579	322,474	737,053
PPP loan income	508,400	-	508,400
Interest income	5,503	-	5,503
Transfer to San Diego Foundation	(5,219)	-	(5,219)
Total Change in Non-Operating	3,209,064	1,897,699	5,106,763
Increase in Net Assets	3,827,312	2,308,767	6,136,079
Net Assets, beginning	5,374,875	8,605,158	13,980,033
Net Assets, ending	\$ 9,202,187	\$ 10,913,925	\$ 20,116,112

See accompanying notes to financial statements.

CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION
Statement of Functional Expenses
Year Ended March 31, 2022

	Program Services										Supporting Services			
	Access for Athletes	San Diego	Idaho	Operation Rebound	Community Outreach	Catch A Rising Star	High School Sports	Adaptive Cycling	JSF Surf	Total Programs	Management and General	Fundraising		
		Triathlon Challenge										General	Special Events	Total
Salaries	\$ 307,389	\$ 442,972	\$ 146,400	\$ 140,966	\$ 246,098	\$ 97,800	\$ 84,850	\$ 49,979	\$ 88,386	\$ 1,604,840	\$ 368,887	\$ 560,404	\$ 212,632	\$ 2,746,763
Employee benefits	26,947	38,833	21,960	12,358	21,574	8,574	7,438	4,381	7,748	149,813	32,339	49,128	18,640	249,920
Payroll taxes	22,882	32,975	14,640	10,493	18,320	7,280	6,316	3,720	6,579	123,205	27,460	41,717	15,828	208,210
Total Salaries and Related Expenses	357,218	514,780	183,000	163,817	285,992	113,654	98,604	58,080	102,713	1,877,858	428,686	651,249	247,100	3,204,893
Grants	3,589,848	59,839	254,063	555,967	53,700	43,422	6,335	82,644	22,700	4,668,518	-	-	-	4,668,518
Donated materials and services	1,914,682	371,367	32,496	27,599	-	13,603	3,600	-	18,004	2,381,351	37,068	46,750	-	2,465,169
Program operations	69,337	16,589	253,496	2,173	178,367	138,954	125,112	26,759	11,172	821,959	-	-	-	821,959
Direct event	-	513,517	109,948	-	-	-	-	-	-	623,465	-	-	-	623,465
Marketing and promotion	82,023	141,434	88,633	15,897	99,154	16,830	7,932	7,932	7,932	467,767	-	49,204	-	516,971
Other administration	57,926	62,876	60,746	17,378	52,134	11,585	5,793	5,793	5,793	280,024	14,483	44,709	17,399	356,615
Occupancy	48,964	48,964	-	14,689	44,068	9,793	4,896	4,896	4,896	181,166	12,241	36,723	14,689	244,819
Travel	3,953	13,624	73,596	2,450	46,252	58,895	2,889	16,549	2,160	220,368	988	15,344	-	236,700
Licenses and fees	34,602	63,579	-	12,522	37,485	8,330	4,165	7,209	4,195	172,087	10,412	41,695	-	224,194
Business and donor development	-	-	-	-	-	-	-	-	-	-	-	32,053	-	32,053
Total Operating Expenses	6,158,553	1,806,569	1,055,978	812,492	797,152	415,066	259,326	209,862	179,565	11,694,563	503,878	917,727	279,188	13,395,356
Direct special events	-	-	-	-	-	-	-	-	-	-	-	-	1,835,696	1,835,696
Total Expenses	\$ 6,158,553	\$ 1,806,569	\$ 1,055,978	\$ 812,492	\$ 797,152	\$ 415,066	\$ 259,326	\$ 209,862	\$ 179,565	\$ 11,694,563	\$ 503,878	\$ 917,727	\$ 2,114,884	\$ 15,231,052

See accompanying notes to financial statements.

CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION
Statement of Functional Expenses
Year Ended March 31, 2021

	Program Services										Supporting Services			Total
	Access for Athletes	San Diego		Idaho	Operation Rebound	Community Outreach	Adaptive Cycling	High School Sports	Catch A Rising Star	JSF Surf	Total Programs	Fundraising		
		Triathlon Challenge										Management and General	General	
Salaries	\$ 278,810	\$ 356,033	\$ 167,344	\$ 129,925	\$ 231,478	\$ 48,990	\$ 75,143	\$ 89,177	\$ 80,678	\$ 1,457,578	\$ 334,671	\$ 490,505	\$ 219,686	\$ 2,502,440
Employee benefits	29,779	38,026	25,102	13,877	24,723	5,232	8,026	9,525	8,616	162,906	35,744	52,389	23,464	274,503
Payroll taxes	20,542	26,231	16,734	9,572	17,055	3,610	5,536	6,570	5,944	111,794	24,657	36,140	16,186	188,777
Total Salaries and Related Expenses	329,131	420,290	209,180	153,374	273,256	57,832	88,705	105,272	95,238	1,732,278	395,072	579,034	259,336	2,965,720
Grants	2,749,683	-	188,209	404,263	1,283	60,454	24,039	-	4,207	3,432,138	-	-	-	3,432,138
Donated materials and services	1,448,890	303,359	27,957	41,043	37,240	8,834	16,431	-	-	1,883,754	33,544	15,538	-	1,932,836
Program operations	56,035	2,200	156,599	2,540	108,805	17,795	9,391	11,616	3,248	368,229	-	-	-	368,229
Direct event	47,083	59,806	120,773	9,417	58,852	4,708	4,708	8,883	4,708	318,938	-	32,838	-	351,776
Other administration	48,070	48,070	60,238	14,421	43,263	4,807	4,807	9,614	4,807	238,097	12,018	38,501	14,421	303,037
Occupancy	50,882	50,883	-	15,265	45,794	5,088	5,088	10,176	5,088	188,264	12,720	53,820	15,264	270,068
Licenses and fees	27,208	43,236	-	9,081	25,606	3,026	2,845	5,690	2,845	119,537	7,113	39,764	8,533	174,947
Marketing and promotion	-	138,600	-	-	-	-	-	-	-	138,600	-	-	-	138,600
Travel	2,263	2,502	18,257	831	12,566	1,143	221	741	274	38,798	553	2,148	-	41,499
Business and donor development	-	-	-	-	-	-	-	-	-	-	-	32,251	-	32,251
Total Operating Expenses	4,759,245	1,068,946	781,213	650,235	606,665	163,687	156,235	151,992	120,415	8,458,633	461,020	793,894	297,554	10,011,101
Direct special events	-	-	-	-	-	-	-	-	-	-	-	-	258,033	258,033
Total Expenses	\$ 4,759,245	\$ 1,068,946	\$ 781,213	\$ 650,235	\$ 606,665	\$ 163,687	\$ 156,235	\$ 151,992	\$ 120,415	\$ 8,458,633	\$ 461,020	\$ 793,894	\$ 555,587	\$ 10,269,134

See accompanying notes to financial statements.

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

Years Ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 3,458,932	\$ 6,136,079
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	4,970	6,597
Net realized and unrealized (gains) losses on investments	-	(737,053)
Change in value of beneficial interest in assets	(997,358)	(3,861,026)
Paycheck Protection Program (PPP) loan forgiveness	(508,487)	(508,400)
Changes in operating assets and liabilities:		
Promises to give	21,455	128,647
Prepaid expenses and other assets	(265,570)	50,118
Accounts payable	33,417	(111,587)
Accrued expenses	2,195	43,429
Advance income received	(127,344)	326,985
Grants payable	435,819	(147,387)
Net Cash Provided by Operating Activities	<u>2,058,029</u>	<u>1,326,402</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(123,312)	-
Sales of endowment investment	-	6,474,150
Contributions to beneficial interest in assets	(5,159,900)	(10,529,848)
Distributions from beneficial interest in assets	862,474	960,378
Net Cash Used by Investing Activities	<u>(4,420,738)</u>	<u>(3,095,320)</u>
Cash Flows Provided by Financing Activities:		
Proceeds from PPP loan	-	1,016,887
Net Decrease in Cash	<u>(2,362,709)</u>	<u>(752,031)</u>
Cash, beginning	<u>4,247,211</u>	<u>4,999,242</u>
Cash, ending	<u>\$ 1,884,502</u>	<u>\$ 4,247,211</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

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.

New Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The purpose of the ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by the Foundation. During the year ended March 31, 2022, the Foundation adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*.

Management has analyzed the provisions of the FASB's ASU Topic 958, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* and has included the necessary disclosure in Note 8.

Financial Statement Presentation

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of directors.
- Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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).

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

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

Fair Value Measurements, continued

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.

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

The carrying value of cash, receivables, and payables approximates fair values as of March 31, 2022 and 2021, due to the relative short maturities of these instruments.

Promises to Give

Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are discounted to their estimated net present value. After promises to give are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances.

Property and Equipment

As of April 1, 2019, acquisitions of property and equipment of \$20,000 or more with a useful life of three years or more are capitalized and recorded at cost. Prior to April 1, 2019, the capitalization policy threshold was \$2,000 or more. 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

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 statements of financial position. Changes in the value of the Funds are reported as non-operating items in the statements of activities. Investment return on beneficial interest in assets is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

The Foundation has transferred assets to the San Diego Foundation (SDF) which is holding them as endowed agency funds (Funds) for the benefit of the Foundation as a named beneficiary. The Foundation has granted SDF variance power which gives SDF 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 SDF in the statements of financial position. Changes in the value of the Funds are reported as non-operating items in the statements of activities. Investment return on beneficial interest in assets is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

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

Advanced Income Received

Fundraising amounts generated in advance of related athletic events are recorded as advanced income received on the statements of financial position.

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

The Foundation recognizes revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services.

Revenues for the Foundation primarily consist of contributions and special event revenues. Management has determined that fundraising amounts generated for athletic events are most appropriately classified as conditional contributions, and therefore, revenue is recognized as conditions are met, which is typically when the event occurs.

Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Donated Materials and Services

The Foundation receives donated materials from various individuals and companies. 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. Non-professional 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.

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, 2022 and 2021, 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.

The Foundation follows the provisions of uncertain tax positions as addressed in the FASB 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, 2022 and 2021. The Foundation files informational and income tax returns in the United States and various state and local jurisdictions.

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

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

Functional Expense Allocations

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, and marketing and administrative expenses, which are allocated on the basis of headcount, time and effort.

Future Accounting Standards

The FASB has issued a substantial ASU which will become effective in future years.

In February 2016, the FASB issued ASU No. 2016-02 *Leases*. The primary change in GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statements of financial position a liability to make lease payments (“lease liability”) and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, although there are optional practical expedients that entities may elect to apply. The Foundation is evaluating the effect that the provisions of ASU 2016-02 will have on its financial statements and related disclosures.

Subsequent Events

The Foundation has evaluated subsequent events through August 18, 2022, which is the date the financial statements were available to be issued.

As stated in Note 13, the Foundation requested forgiveness for Paycheck Protection Program loan proceeds of \$508,487 used to pay qualifying expenses which was approved in full by the Small Business Administration in April 2022.

Note 2 – Financial Assets and Liquidity Resources

The Foundation’s financial assets available within one year of the statement of financial position date for general expenditures are as follows at March 31:

	2022	2021
Cash	\$ 1,884,502	\$ 4,247,211
Promises to give	-	21,455
Anticipated distributions from endowments	1,235,799	971,060
Total financial assets	3,120,301	5,239,726
Less amounts not available to be used within one year:		
Restricted by donor with purpose or time restrictions for programs	(264,583)	(333,822)
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,855,718	\$ 4,905,904

The Foundation has certain donor-restricted assets limited to use for programs and grants which are ongoing, major, and central to its annual operations which are available to meet cash needs for general expenditures for those programs and grants within one year in the normal course of operations. For the year ended March 31, 2022 and 2021, donor restricted net assets of \$264,583 and \$333,822, respectively, met this criteria and could be included in financial assets available to meet cash needs for general expenditures for those programs and grants within one year.

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

Note 2 – Financial Assets and Liquidity Resources, continued

The Foundation's endowment funds consist of donor-restricted endowments and quasi-endowments. Income from donor-restricted endowments is restricted for programs and grants which are ongoing, major, and central to its annual operations and is available for general expenditure. The endowments have a spending rate of 5 percent. \$1,235,799 of appropriations from the endowments are estimated to be available within the next 12 months.

The Foundation manages its liquidity and reserves following two guiding principles: 1) Operating within a prudent range of financial soundness and stability, and 2) maintaining adequate liquid assets to fund near-term operating needs. The Foundation's Board is committed to a strong financial position which includes creating and growing board designated endowments that are designed to support future grant and program expenses. As of March 31, 2022 and 2021, the Foundation's net assets without donor restrictions balance was \$10,436,515 and \$9,202,187, respectively.

As described in Note 11, the Foundation has established agency non-endowment accounts with the SDF. By request, these funds could be distributed back to the Foundation in the event of an unanticipated liquidity need, if approved by SDF, which would further increase the undesignated net asset balance.

Note 3 – Concentration of Credit Risk

The Foundation maintains cash accounts at various financial institutions. The balances at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at each financial institution are insured by the FDIC up to \$250,000.

Note 4 – Property and Equipment

Property and equipment consist of the following at March 31:

	2022	2021
Equipment and furniture	\$ 360,230	\$ 360,230
Leasehold improvements	41,387	41,387
Work in progress	123,312	-
	524,929	401,617
Less accumulated depreciation	(385,104)	(380,134)
	\$ 139,825	\$ 21,483

Note 5 – Beneficial Interest in Assets

The interest in assets held at JCF and SDF has been valued, as a practical expedient, at the fair value of the Foundation's share of JCF's and SDF's investment pool as of the measurement date using NAV per share. Beneficial interests valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date (level 2), or never redeemable with the investee at net asset value (level 3). JCF and SDF values securities and other financial instruments on a fair value basis of accounting. JCF and SDF invests in a variety of domestic stocks, international stocks, mutual funds, bonds, real assets and other multi-strategy securities.

The estimated fair values of certain investments of JCF and SDF, which includes private placements and other securities for which prices are not readily available, are determined by the management of JCF and SDF and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

Note 5 – Beneficial Interest in Assets, continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while JCF and SDF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

One of the beneficial interest in assets was created with the donor intent to establish an endowment and is therefore included in net assets with donor restrictions. The second beneficial interest in assets is a board designated endowment and is therefore included in net assets without donor restrictions.

Beneficial interest in assets valued at NAV are as follows as of March 31:

	2022	2021
Without donor restrictions	\$ 12,350,521	\$ 8,841,091
With donor restrictions	12,365,457	10,580,103
Total	\$ 24,715,978	\$ 19,421,194

Distributions are funds released by JCF and SDF from the beneficial interest to the Foundation for grants and programs.

Note 6 – Restrictions on Net Assets

Net assets with donor restrictions consisted of the following at March 31:

	2022	2021
Purpose Restrictions:		
Northern California expansion	\$ 92,000	\$ 92,000
Northeast expansion	75,000	-
Grants for discretionary purposes	51,838	55,048
Other	44,201	54,064
Operation Rebound	1,544	101,280
Access for Athletes	-	31,430
	264,583	333,822
Time Restricted - Endowments:		
Challenged Athletes Foundation Endowment in		
Memory of Robin Williams	11,321,304	9,626,577
Robert Spotswood Memorial Fund	1,044,153	953,526
	12,365,457	10,580,103
	\$ 12,630,040	\$ 10,913,925

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

Note 6 – Restrictions on Net Assets, continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as following for the year ended March 31:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Access for Athletes	\$ 2,344,747	\$ 1,927,170
Idaho	1,012,926	736,324
Operation Rebound	652,652	649,683
San Diego Triathlon Challenge	371,367	308,593
High School Track & Field	153,600	154,761
Catch a Rising Star	80,712	10,000
Other	50,453	24,999
Adaptive Cycling	40,475	14,834
JSF Surf	33,004	15,000
Community Outreach	15,000	49,740
	<u>\$ 4,754,936</u>	<u>\$ 3,891,104</u>

Note 7 – Endowments

The Foundation's endowment includes both donor restricted endowment funds and funds designated by the board of directors to function as endowments. As required by US GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Foundation and the donor restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Foundation
- 7) The investment policies of the Foundation

CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION**Notes to Financial Statements**

Years Ended March 31, 2022 and 2021

Note 7 – Endowments, continued

At March 31, 2022, the endowment funds consisted of the following:

	Without Donor Restrictions		With Donor Restrictions		Total
Board-designated quasi-endowment funds	\$ 12,350,521	\$	-	\$	12,350,521
Donor restricted funds:					
Original donor-restricted gift amount required to be maintained in perpetuity by donor:					
Endowments	-		860,559		860,559
Beneficial interest in assets	-		10,053,695		10,053,695
Accumulated investment gains	-		1,451,203		1,451,203
	<u>\$ 12,350,521</u>	\$	<u>12,365,457</u>	\$	<u>24,715,978</u>

At March 31, 2021, the endowment funds consisted of the following:

	Without Donor Restrictions		With Donor Restrictions		Total
Board-designated quasi-endowment funds	\$ 8,841,091	\$	-	\$	8,841,091
Donor restricted funds:					
Original donor-restricted gift amount required to be maintained in perpetuity by donor:					
Endowments	-		835,809		835,809
Beneficial interest in assets	-		8,253,545		8,253,545
Accumulated investment gains	-		1,490,749		1,490,749
	<u>\$ 8,841,091</u>	\$	<u>10,580,103</u>	\$	<u>19,421,194</u>

The changes in endowment net assets for the year ended March 31, 2022 are as follows:

	Without Donor Restrictions		With Donor Restrictions		Total
Endowment net assets, beginning	\$ 8,841,091	\$	10,580,103	\$	19,421,194
Contributions	3,335,000		1,824,900		5,159,900
Distributions	(364,999)		(497,475)		(862,474)
Investment return, net	539,429		457,929		997,358
Endowment net assets, ending	<u>\$ 12,350,521</u>	\$	<u>12,365,457</u>	\$	<u>24,715,978</u>

CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION**Notes to Financial Statements**

Years Ended March 31, 2022 and 2021

Note 7 – Endowments, continued

The changes in endowment net assets for the year ended March 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 5,901,093	\$ 7,828,700	\$ 13,729,793
Contributions	1,200,000	853,700	2,053,700
Distributions	(368,692)	(591,686)	(960,378)
Investment return, net	2,108,690	2,489,389	4,598,079
Endowment net assets, ending	<u>\$ 8,841,091</u>	<u>\$ 10,580,103</u>	<u>\$ 19,421,194</u>

Note 8 – Contributed Nonfinancial Assets

For the years ended March 31, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities included:

	2022	2021
Equipment	\$ 1,024,460	\$ 709,543
Event supplies	956,353	300,364
Program services	501,216	780,988
Event services	297,603	125,000
Vehicles	36,828	35,743
General services	2,628	3,336
	<u>\$ 2,819,088</u>	<u>\$ 1,954,974</u>

The Foundation recognized contributed nonfinancial assets within revenue, including equipment, event supplies, program services, event services, vehicles, and general services. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed equipment recognized is comprised of sports equipment and negotiated vendor discounts. Contributed event supplies recognized are comprised primarily of clothing, event gear, and personal care items. Contributed equipment and event supplies are valued and reported at the estimated fair value in the financial statements based on current rates for similar products.

Contributed services recognized are comprised of IT services, audiovisual services, and gym memberships. Contributed services are valued and reported at the estimated fair value in the financial statements based on current rates for similar services.

Contributed equipment, supplies, and services were utilized for general and administrative purposes, fundraising, and the following programs: Access for Athletes, San Diego Triathlon Challenge, Idaho, Operation Rebound, Catch a Rising Star, High School Sports and JSF Surf.

Contributed use of vehicles recognized is valued and reported at the estimated cost to lease each vehicle over the period the vehicles are loaned. These contributed nonfinancial assets were utilized for general and administrative purposes.

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

Note 9 – Operating Leases

The Foundation leases office space and equipment under operating lease agreements. The leases expire at various dates through October 2025. The Foundation entered into an office space lease in November 2010 with CAF Property, Inc., a related party. Monthly payments of \$18,475 are due each month through October 31, 2025. Rent expense associated with these leases was \$224,599 and \$261,147 for the years ended March 31, 2022 and 2021, respectively.

The future minimum lease payments under operating leases at March 31, 2022 are as follows:

Year Ending March 31,		
2023	\$	224,599
2024		223,605
2025		221,697
2026		129,323
	\$	<u>799,224</u>

Note 10 – Employee Retirement Plan

The Foundation has a 401(k) retirement plan covering all eligible employees. The plan provides for employer contributions of 3% of employee eligible wages after completing one year of service. Retirement plan expense for the years ended March 31, 2022 and 2021 was \$74,801 and \$65,287, respectively.

Note 11 – Funds Held at the San Diego Foundation

The Foundation has established agency non-endowment accounts with the San Diego Foundation. The Foundation can make recommendations as to the use of funds, although the San Diego Foundation has final authority over distributions. As such, these are not assets of the Foundation and are not recorded in the Foundation's financial statements. For the years ended March 31, 2022 and 2021, these funds had a fair market value of \$2,374,299 and \$2,383,064, respectively. No distributions were received for the years ended March 31, 2022 and 2021.

Note 12 – Conditional Contributions

The Foundation received a \$1,599,231 gift during the year ended March 31, 2020 for the expansion into Idaho. Of that amount, \$477,560 was recognized in the year ended March 31, 2020, \$510,150 in the year ended March 31, 2021, and the remaining \$611,521 was conditional on the Foundation hosting community and major sporting events in the year ending March 31, 2022. Because the conditions of the promise were satisfied in the current year, the final portion was recognized in the statement of activities for the year ended March 31, 2022.

The Foundation records advanced income received from individuals fundraising for events to be held in a future fiscal year. Funds are classified as conditional contributions and are not recognized until the event date. For the years ending March 31, 2022 and March 31, 2021, amounts received in advanced related to these events were \$734,914 and \$862,258, respectively.

Note 13 – Paycheck Protection Program (PPP)

In response to the significant ongoing uncertainty around the severity and duration of the pandemic, the Foundation received \$508,487 in February 2021 under a second round of funding from the PPP and was notified that their loan forgiveness application was approved in May 2022. The Foundation has determined that the loan represents, in substance, a grant that was expected to be forgiven and has accounted for the funding under FASB Accounting Standards Codification (ASC) 958-605 as a conditional contribution. The conditions were met when the Foundation spent the loan funds on qualified expenses in accordance with the PPP loan forgiveness rules. Revenue for this grant is included in other income on the statement of activities.

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

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

Note 14 – Contingencies

COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020 the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closing of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of business closures, shelter-in-place orders, and the ultimate impact of the CARES Act and other governmental initiatives. As of the date of this report, this matter has not had a significant, adverse impact on the Foundation. However, the future financial impact and duration cannot be reasonably estimated at this time.

Employee Retention Tax Credits

The Foundation received employee retention tax credits that may be subject to an audit. No provision has been made for any liabilities that may arise from such audit since the amounts, if any, cannot be determined. Management believes that any liability which may result from this audit would not be material.

Note 15 – Reclassifications

Certain items in the 2021 financial statements have been reclassified to conform to current year classifications, specifically program operations, other administration, occupancy, travel, licenses and fees, and direct special events in the statement of functional expenses. Such reclassifications had no effect on previously reported changes in net assets.