

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

Financial Statements

Years Ended March 31, 2023 and 2022



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

## Financial Statements

Years Ended March 31, 2023 and 2022

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## 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, 2023 and 2022, 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, 2023 and 2022, 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 14, 2023

**CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION**  
**Statements of Financial Position**  
March 31, 2023 and 2022

	2023	2022
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 2,969,706	\$ 1,884,502
Accounts receivable	140,697	-
Prepaid expenses and other assets	425,623	368,683
Total Current Assets	3,536,026	2,253,185
Non-Current Assets:		
Property and equipment, net of accumulated depreciation	200,171	139,825
Right of use asset	554,458	-
Beneficial interest in assets	23,515,696	24,715,978
Total Non-Current Assets	24,270,325	24,855,803
Total Assets	\$ 27,806,351	\$ 27,108,988
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 37,194	\$ 101,226
Accrued expenses	385,196	255,321
Advanced income received	1,002,541	734,914
Grants payable	3,857,433	2,442,483
Current portion of operating lease liabilities	210,211	-
Total Current Liabilities	5,492,575	3,533,944
Operating lease liabilities, net of current portion	344,247	-
Total Liabilities	5,836,822	3,533,944
Net Assets:		
Without donor restrictions	9,771,870	10,945,004
With donor restrictions	12,197,659	12,630,040
Total Net Assets	21,969,529	23,575,044
Total Liabilities and Net Assets	\$ 27,806,351	\$ 27,108,988

See accompanying notes to financial statements.

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

Year Ended March 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Contributions of cash and other financial assets and other income	\$ 5,470,517	\$ 2,874,837	\$ 8,345,354
Contributions of nonfinancial assets	101,934	2,479,469	2,581,403
Special events	4,484,728	-	4,484,728
Less direct expenses	(2,408,473)	-	(2,408,473)
Grants	545,111	329,750	874,861
Net assets released from restrictions, satisfaction of program and time restrictions	5,068,534	(5,068,534)	-
Total Operating Revenue and Support	13,262,351	615,522	13,877,873
Operating Expenses:			
Program services:			
Access for Athletes	6,428,008	-	6,428,008
San Diego Triathlon Challenge	1,938,306	-	1,938,306
Operation Rebound	923,367	-	923,367
Idaho	828,199	-	828,199
Community Outreach	827,102	-	827,102
Catch a Rising Star	426,086	-	426,086
Northern California	275,866	-	275,866
JSF Surf	227,125	-	227,125
NorthEast	207,493	-	207,493
Adaptive Cycling	174,575	-	174,575
Supporting services:			
Management and general	538,279	-	538,279
Fundraising:			
General	1,273,252	-	1,273,252
Special events	404,794	-	404,794
Total Operating Expenses	14,472,452	-	14,472,452
Operating Income (Loss)	(1,210,101)	615,522	(594,579)
Non-Operating Revenues (Expenses):			
Change in value of beneficial interest in assets	(521,293)	(509,475)	(1,030,768)
Net assets released from beneficial interest in assets	538,428	(538,428)	-
Interest income	19,832	-	19,832
Total Change in Non-Operating	36,967	(1,047,903)	(1,010,936)
Decrease in Net Assets	(1,173,134)	(432,381)	(1,605,515)
Net Assets, beginning	10,945,004	12,630,040	23,575,044
Net Assets, ending	\$ 9,771,870	\$ 12,197,659	\$ 21,969,529

See accompanying notes to financial statements.

**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 Functional Expenses**  
Year Ended March 31, 2023

	Program Services										Supporting Services			Total	
	Access for Athletes	San Diego Triathlon Challenge	Operation Rebound	Idaho	Community Outreach	Catch A Rising Star	Northern California	JSF Surf	NorthEast	Adaptive Cycling	Total Programs	Fundraising			
												Management and General	General		Special Events
Salaries	\$ 369,727	\$ 531,475	\$ 140,508	\$ 180,797	\$ 202,307	\$ 87,323	\$ 95,572	\$ 86,170	\$ 92,783	\$ 41,836	\$ 1,828,498	\$ 394,680	\$ 782,089	\$ 274,507	\$ 3,279,774
Employee benefits	31,318	45,020	11,902	27,120	17,137	7,397	8,096	7,299	7,859	3,544	166,692	33,432	66,248	23,253	289,625
Payroll taxes	27,328	39,283	10,385	18,080	14,953	6,454	7,064	6,369	6,858	3,092	139,866	29,173	57,807	20,290	247,136
<b>Total Salaries and Related Expenses</b>	<b>428,373</b>	<b>615,778</b>	<b>162,795</b>	<b>225,997</b>	<b>234,397</b>	<b>101,174</b>	<b>110,732</b>	<b>99,838</b>	<b>107,500</b>	<b>48,472</b>	<b>2,135,056</b>	<b>457,285</b>	<b>906,144</b>	<b>318,050</b>	<b>3,816,535</b>
Grants	3,724,567	69,595	661,082	228,922	127,955	87,796	27,320	64,353	27,816	89,072	5,108,478	-	-	-	5,108,478
Donated materials and services	2,021,653	305,841	53,166	32,453	-	11,082	3,013	-	958	-	2,428,166	45,724	66,706	-	2,540,596
Program operations	66,453	40,298	2,262	211,901	229,438	131,474	89,714	41,856	38,065	13,660	865,121	12,048	37,758	14,449	929,376
Direct event	-	619,948	-	-	-	2,800	-	-	-	-	622,748	-	56,211	-	678,959
Occupancy	50,345	50,345	12,586	-	42,793	10,069	5,034	5,034	5,034	5,034	186,274	2,876	92,544	57,192	338,886
Marketing and promotion	50,103	105,196	7,312	22,600	58,499	17,734	4,875	4,875	4,875	4,875	280,944	-	40,978	-	321,922
Other administration	48,164	61,431	12,041	74,052	40,939	9,633	4,816	4,816	4,816	4,816	265,524	12,586	28,297	15,103	321,510
Travel	12,194	19,171	3,470	32,458	66,696	48,051	27,253	3,169	15,258	2,834	230,554	-	-	-	230,554
Licenses and fees	26,156	50,703	8,653	(184)	26,385	6,273	3,109	3,184	3,171	5,812	133,262	7,760	44,614	-	185,636
Business and donor development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>6,428,008</b>	<b>1,938,306</b>	<b>923,367</b>	<b>828,199</b>	<b>827,102</b>	<b>426,086</b>	<b>275,866</b>	<b>227,125</b>	<b>207,493</b>	<b>174,575</b>	<b>12,256,127</b>	<b>538,279</b>	<b>1,273,252</b>	<b>404,794</b>	<b>14,472,452</b>
Direct special events	-	-	-	-	-	-	-	-	-	-	-	-	-	2,408,473	2,408,473
<b>Total Expenses</b>	<b>\$ 6,428,008</b>	<b>\$ 1,938,306</b>	<b>\$ 923,367</b>	<b>\$ 828,199</b>	<b>\$ 827,102</b>	<b>\$ 426,086</b>	<b>\$ 275,866</b>	<b>\$ 227,125</b>	<b>\$ 207,493</b>	<b>\$ 174,575</b>	<b>\$ 12,256,127</b>	<b>\$ 538,279</b>	<b>\$ 1,273,252</b>	<b>\$ 2,813,267</b>	<b>\$ 16,880,925</b>

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		Total
		Triathlon Challenge											General	Special Events	
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	
<b>Total Salaries and Related Expenses</b>	<b>357,218</b>	<b>514,780</b>	<b>183,000</b>	<b>163,817</b>	<b>285,992</b>	<b>113,654</b>	<b>98,604</b>	<b>58,080</b>	<b>102,713</b>	<b>1,877,858</b>	<b>428,686</b>	<b>651,249</b>	<b>247,100</b>	<b>3,204,893</b>	
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	
<b>Total Operating Expenses</b>	<b>6,158,553</b>	<b>1,806,569</b>	<b>1,055,978</b>	<b>812,492</b>	<b>797,152</b>	<b>415,066</b>	<b>259,326</b>	<b>209,862</b>	<b>179,565</b>	<b>11,694,563</b>	<b>503,878</b>	<b>917,727</b>	<b>279,188</b>	<b>13,395,356</b>	
Direct special events	-	-	-	-	-	-	-	-	-	-	-	-	1,835,696	1,835,696	
<b>Total Expenses</b>	<b>\$ 6,158,553</b>	<b>\$ 1,806,569</b>	<b>\$ 1,055,978</b>	<b>\$ 812,492</b>	<b>\$ 797,152</b>	<b>\$ 415,066</b>	<b>\$ 259,326</b>	<b>\$ 209,862</b>	<b>\$ 179,565</b>	<b>\$ 11,694,563</b>	<b>\$ 503,878</b>	<b>\$ 917,727</b>	<b>\$ 2,114,884</b>	<b>\$ 15,231,052</b>	

See accompanying notes to financial statements.

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

Years Ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ (1,605,515)	\$ 3,458,932
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	4,533	4,970
Change in value of beneficial interest in assets	1,030,768	(997,358)
Paycheck Protection Program (PPP) loan forgiveness	-	(508,487)
Changes in operating assets and liabilities:		
Promises to give	(140,697)	21,455
Prepaid expenses and other assets	(56,940)	(265,570)
Accounts payable	(64,032)	33,417
Accrued expenses	129,875	2,195
Advance income received	267,627	(127,344)
Grants payable	1,414,950	435,819
Net Cash Provided by Operating Activities	<u>980,569</u>	<u>2,058,029</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(64,879)	(123,312)
Contributions to beneficial interest in assets	(813,700)	(5,159,900)
Distributions from beneficial interest in assets	983,214	862,474
Net Cash Provided (Used) by Investing Activities	<u>104,635</u>	<u>(4,420,738)</u>
Net Change in Cash	1,085,204	(2,362,709)
Cash, beginning	<u>1,884,502</u>	<u>4,247,211</u>
Cash, ending	<u>\$ 2,969,706</u>	<u>\$ 1,884,502</u>

See accompanying notes to financial statements.

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

## Notes to Financial Statements

Years Ended March 31, 2023 and 2022

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### 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

The Foundation adopted Accounting Standards Update (ASU) 2016-02, *Leases* as of April 1, 2022. The standard provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes previous U.S. GAAP guidance on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease liabilities, as well as additional disclosures (See Note 9). The Foundation adopted this standard using the modified retrospective approach. Upon adoption the Foundation recognized right-of-use assets of \$759,259 and operating lease liabilities of \$759,259.

#### 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, 2023 and 2022

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#### 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, 2023 and 2022, 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.

##### Advanced Income Received

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

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

## Notes to Financial Statements

Years Ended March 31, 2023 and 2022

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

#### 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, 2023 and 2022, 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, 2023 and 2022. The Foundation files informational and income tax returns in the United States and various state and local jurisdictions.

#### 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.

#### Subsequent Events

The Foundation has evaluated subsequent events through August 14, 2023, which is the date the financial statements were available to be issued.

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

### Notes to Financial Statements

Years Ended March 31, 2023 and 2022

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#### 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:

	<u>2023</u>		<u>2022</u>
Cash	\$ 2,969,706	\$	1,884,502
Accounts receivable	140,697		-
Anticipated distributions from endowments	<u>1,175,785</u>		<u>1,235,799</u>
Total financial assets	4,286,188		3,120,301
Less amounts not available to be used within one year:			
Restricted by donor with purpose or time restrictions for programs	<u>(66,404)</u>		<u>(264,583)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,219,784</u>	\$	<u>2,855,718</u>

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, 2023 and 2022, donor restricted net assets of \$66,404 and \$264,583, 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.

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. \$1,175,785 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, 2023 and 2022, the Foundation's net assets without donor restrictions balance was \$9,771,870 and \$10,945,004, 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.

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

## Notes to Financial Statements

Years Ended March 31, 2023 and 2022

### Note 4 – Property and Equipment

Property and equipment consist of the following at March 31:

	<u>2023</u>		<u>2022</u>
Equipment and furniture	\$ 360,230	\$	360,230
Leasehold improvements	229,578		41,387
Work in progress	-		123,312
	<u>589,808</u>		<u>524,929</u>
Less accumulated depreciation	<u>(389,637)</u>		<u>(385,104)</u>
	<u>\$ 200,171</u>	\$	<u>139,825</u>

### 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.

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:

	<u>2023</u>		<u>2022</u>
Without donor restrictions	\$ 11,384,441	\$	12,350,521
With donor restrictions	12,131,255		12,365,457
Total	<u>\$ 23,515,696</u>	\$	<u>24,715,978</u>

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

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

Years Ended March 31, 2023 and 2022

**Note 6 – Restrictions on Net Assets**

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

	<u>2023</u>	<u>2022</u>
Purpose Restrictions:		
Grants for discretionary purposes	\$ 42,089	\$ 51,838
Other	24,315	44,201
Northern California expansion	-	92,000
Northeast expansion	-	75,000
Operation Rebound	-	1,544
	<u>66,404</u>	<u>264,583</u>
Time Restricted - Endowments:		
Challenged Athletes Foundation Endowment in Memory of Robin Williams	11,155,722	11,321,304
Robert Spotswood Memorial Fund	975,533	1,044,153
	<u>12,131,255</u>	<u>12,365,457</u>
	<u>\$ 12,197,659</u>	<u>\$ 12,630,040</u>

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>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Access for Athletes	\$ 2,765,188	\$ 2,344,747
Idaho	842,753	1,012,926
Operation Rebound	699,461	652,652
San Diego Triathlon Challenge	336,596	371,367
Northern California Expansion	131,500	10,000
Northeast	89,458	153,600
Other	66,746	40,453
JSF Surf	50,000	33,004
MDC	50,000	-
Catch a Rising Star	36,832	80,712
Adaptive Cycling	-	40,475
Community Outreach	-	15,000
	<u>\$ 5,068,534</u>	<u>\$ 4,754,936</u>



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

## Notes to Financial Statements

Years Ended March 31, 2023 and 2022

### 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

At March 31, 2023, the endowment funds consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment funds	\$ 11,384,441	\$ -	\$ 11,384,441
Donor restricted funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor:			
Endowments	-	874,209	874,209
Beneficial interest in assets	-	10,853,745	10,853,745
Accumulated investment gains	-	403,301	403,301
	<u>\$ 11,384,441</u>	<u>\$ 12,131,255</u>	<u>\$ 23,515,696</u>

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>

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

Years Ended March 31, 2023 and 2022

**Note 7 – Endowments, continued**

The changes in endowment net assets for the year ended March 31, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 12,350,521	\$ 12,365,457	\$ 24,715,978
Contributions	-	813,700	813,700
Distributions	(444,156)	(539,058)	(983,214)
Investment return, net	(521,924)	(508,844)	(1,030,768)
Endowment net assets, ending	<u>\$ 11,384,441</u>	<u>\$ 12,131,255</u>	<u>\$ 23,515,696</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>

**Note 8 – Contributed Nonfinancial Assets**

For the years ended March 31, 2023 and 2022, contributed nonfinancial assets recognized within the statements of activities included:

	2023	2022
Equipment	\$ 1,095,397	\$ 1,024,460
Program services	969,692	501,216
Event supplies	407,306	956,353
Event services	50,000	297,603
Vehicles	42,576	36,828
General services	16,432	2,628
	<u>\$ 2,581,403</u>	<u>\$ 2,819,088</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.

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

### Notes to Financial Statements

Years Ended March 31, 2023 and 2022

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#### Note 8 – Contributed Nonfinancial Assets, continued

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, Northern California, Northeast 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.

#### Note 9 – Leases Arrangements

The Foundation has an operating lease of an office building under agreement with a contractual period of 3 years. The building is located in California. Some of the leases may contain one or more options to extend. The exercise of lease renewal options is generally at the Foundation's sole discretion. Options that are reasonably certain to be exercised, considering all relevant economic and financial factors, are included in the lease term. Certain lease agreements also contain lease incentives, such as tenant improvement allowances and rent holidays. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term. The lease agreements do not contain any material residual value guarantees. The Foundation elected the package of practical expedients permitted under the transition guidance within the standard, which among other things, allowed the Foundation to carry forward the historical lease classification.

The Foundation has elected the practical expedient to account for the lease and non-lease components as a single lease component (e.g. maintenance and operating services). Therefore, for those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract. All variable payments not based on a market rate or an index are expensed as incurred.

The Foundation determines if an arrangement is or contains a lease at contract inception. The Foundation recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments include how the Foundation determines the discount rate, the lease term, and the lease payments.

When the discount rate implicit in a lease is not readily determinable, the Foundation calculates the lease liability using the risk-free rate.

The amounts contractually due on lease liabilities as of March 31, 2023 were as follows:

<u>Operating Leases</u>	
Operating lease right-of-use assets	\$ <u>554,458</u>
Current portion of operating lease liabilities	\$ 210,211
Operating lease liabilities, net of current portion	<u>344,247</u>
Total operating lease liabilities	\$ <u>554,458</u>

**CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION****Notes to Financial Statements**Years Ended March 31, 2023 and 2022

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**Note 9 – Leases, continued**

The amounts contractually due on lease liabilities as of March 31, 2023 were as follows:

	Operating
2023	\$ 221,697
2024	221,697
2025	<u>129,323</u>
Total lease payments	572,717
Less interest	<u>(18,259)</u>
Present value of lease liabilities	<u>\$ 554,458</u>

The following summarizes the line items in the statement of functional expenses which include the components of lease expense for the year ended March 31, 2023:

Operating lease expense	\$ 221,697
Total lease cost	<u>\$ 221,697</u>

Supplemental cash flow information related to leases for the year ended March 31, 2023 was as follows:

Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 221,697
Lease assets obtained in exchange for lease liabilities	
Operating leases	\$ 759,259

Supplemental balance sheet information related to leases as of March 31, 2023 was as follows:

Weighted average remaining lease term - Operating leases	2.58
Weighted average discount rate - Operating leases	2.61%

Related party leases included the following information at March 31, 2023:

Operating lease right-of-use assets	\$ 554,458
Operating lease liabilities	554,458
Operating lease expense	221,697
Operating cash flows from operating leases	221,697

Under previous leasing standards, future minimum lease payments for the non-cancellable operating leases at March 31, 2022 were as follows:

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

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

### **Notes to Financial Statements**

Years Ended March 31, 2023 and 2022

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#### **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, 2023 and 2022 was \$66,520 and \$74,801, 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, 2023 and 2022, these funds had a fair market value of \$2,262,500 and \$2,222,595, respectively. No distributions were received for the years ended March 31, 2023 and 2022.

#### **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, 2023 and March 31, 2022, amounts received in advanced related to these events were \$- and \$-, 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 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 for the year ended March 31, 2022.

#### **Note 14 – Contingencies**

##### Employee Retention Tax Credits

The Foundation received employee retention tax credits in 2022 that may be subject to an audit. No provision has been made in 2023 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.