

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

Financial Statements

Year Ended March 31, 2019



**CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION**  
**Financial Statements**  
Year Ended March 31, 2019

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation (a nonprofit organization), which comprise the statement of financial position as of March 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation as of March 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis-of-Matter Regarding a Change in Accounting Principle

As discussed in Note 1 to the financial statements, Challenged Athletes, Inc. d.b.a. Challenged Athletes Foundation adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

*Aldrich CPAs + Advisors LLP*

San Diego, California  
July 9, 2019

**CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION****Statement of Financial Position**March 31, 2019

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**ASSETS**

## Current Assets:

Cash	\$	2,336,051
Accounts receivable		110,028
Prepaid expenses		365,355
		<hr/>
Total Current Assets		2,811,434

## Non-Current Assets:

Cash - restricted for endowments		6,181,623
Property and equipment, net of accumulated depreciation		53,166
Beneficial interest in assets		6,640,174
		<hr/>
Total Non-Current Assets		12,874,963
		<hr/>
Total Assets	\$	15,686,397
		<hr/> <hr/>

**LIABILITIES AND NET ASSETS**

## Current Liabilities:

Accounts payable	\$	32,727
Accrued expenses		259,871
Deferred revenue		391,316
Grants payable		1,651,237
		<hr/>
Total Current Liabilities		2,335,151

## Net Assets:

Without donor restrictions		5,521,043
With donor restrictions		7,830,203
		<hr/>
Total Net Assets		13,351,246
		<hr/>
Total Liabilities and Net Assets	\$	15,686,397
		<hr/> <hr/>

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

Year Ended March 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:			
Special events	\$ 5,111,350	\$ -	\$ 5,111,350
Less direct expenses	(2,517,270)	-	(2,517,270)
Contributions and other income	4,166,849	4,341,482	8,508,331
In-kind contributions	227,411	1,886,024	2,113,435
Grants	68,000	225,000	293,000
Net assets released from restrictions, satisfaction of program and time restrictions	3,086,690	(3,086,690)	-
Total Operating Revenue and Support	10,143,030	3,365,816	13,508,846
Operating Expenses:			
Program services:			
Access for Athletes	4,536,472	-	4,536,472
San Diego Triathlon Challenge	1,689,158	-	1,689,158
Operation Rebound	728,263	-	728,263
Community Outreach	622,424	-	622,424
Catch a Rising Star	285,024	-	285,024
JSF Surf	214,259	-	214,259
Adaptive Cycling	140,121	-	140,121
Idaho	8,203	-	8,203
Supporting services:			
Management and general	525,996	-	525,996
Fundraising:			
General	1,041,229	-	1,041,229
Special events	412,329	-	412,329
Total Operating Expenses	10,203,478	-	10,203,478
Operating Income (Loss)	(60,448)	3,365,816	3,305,368
Non-Operating Revenues (Expenses):			
Change in value of beneficial interest in assets	59,081	73,380	132,461
Net assets released from beneficial interest in assets	145,929	(145,929)	-
Interest income	108,302	-	108,302
Transfer from San Diego Foundation	1,500,000	-	1,500,000
Total Change in Non-Operating	1,813,312	(72,549)	1,740,763
Increase in Net Assets	1,752,864	3,293,267	5,046,131
Net Assets, beginning	3,768,179	4,536,936	8,305,115
Net Assets, ending	\$ 5,521,043	\$ 7,830,203	\$ 13,351,246

See accompanying notes to financial statements.

**CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION**  
**Statement of Functional Expenses**  
Year Ended March 31, 2019

	Program Services								Supporting Services			Total
	Access for Athletes	San Diego	Operation Rebound	Community Outreach	Catch A Rising Star	JSF Surf	Adaptive Cycling	Idaho	Fundraising			
		Triathlon Challenge							Management and General	General	Special Events	
Salaries	\$ 262,111	\$ 317,591	\$ 125,739	\$ 196,153	\$ 89,672	\$ 78,708	\$ 38,847	\$ -	\$ 371,196	\$ 476,331	\$ 249,604	\$ 2,205,952
Employee benefits	22,666	27,463	10,873	16,962	7,754	6,806	3,359	-	32,099	41,190	21,584	190,756
Payroll taxes	20,047	24,290	9,617	15,002	6,858	6,020	2,971	-	28,390	36,431	19,090	168,716
<b>Total Salaries and Related Expenses</b>	<b>304,824</b>	<b>369,344</b>	<b>146,229</b>	<b>228,117</b>	<b>104,284</b>	<b>91,534</b>	<b>45,177</b>	<b>-</b>	<b>431,685</b>	<b>553,952</b>	<b>290,278</b>	<b>2,565,424</b>
Grants	2,700,326	69,826	477,393	99,736	28,329	37,494	30,309	-	-	-	-	3,443,413
In-kind benefits	1,307,283	526,454	31,919	-	20,368	-	-	-	36,499	121,250	-	2,043,773
Other administration	118,742	145,866	47,430	79,051	31,620	31,620	31,640	324	53,822	142,563	122,051	804,729
Direct event	-	434,865	572	-	-	-	-	354	-	-	-	435,791
Marketing and promotion	67,644	95,628	16,911	50,733	13,529	13,529	6,764	-	-	86,756	-	351,494
Program	22,515	5,050	1,285	134,891	60,705	29,494	16,351	-	-	-	-	270,291
Travel	5,587	12,312	1,930	25,876	24,576	8,971	5,634	7,454	1,578	30,272	-	124,190
Merchant service fees	9,551	29,813	4,594	4,020	1,613	1,617	4,246	-	2,412	24,863	-	82,729
Business and donor development	-	-	-	-	-	-	-	71	-	81,573	-	81,644
<b>Total Operating Expenses</b>	<b>4,536,472</b>	<b>1,689,158</b>	<b>728,263</b>	<b>622,424</b>	<b>285,024</b>	<b>214,259</b>	<b>140,121</b>	<b>8,203</b>	<b>525,996</b>	<b>1,041,229</b>	<b>412,329</b>	<b>10,203,478</b>
Direct special events	-	-	-	-	-	-	-	-	-	-	2,517,270	2,517,270
<b>Total Expenses</b>	<b>\$ 4,536,472</b>	<b>\$ 1,689,158</b>	<b>\$ 728,263</b>	<b>\$ 622,424</b>	<b>\$ 285,024</b>	<b>\$ 214,259</b>	<b>\$ 140,121</b>	<b>\$ 8,203</b>	<b>\$ 525,996</b>	<b>\$ 1,041,229</b>	<b>\$ 2,929,599</b>	<b>\$ 12,720,748</b>

See accompanying notes to financial statements.

**CHALLENGED ATHLETES, INC. D.B.A. CHALLENGED ATHLETES FOUNDATION****Statement of Cash Flows**Year Ended March 31, 2019

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Cash Flows from Operating Activities:	
Increase in net assets	\$ 5,046,131
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	118,836
Change in value of beneficial interest in assets	(132,461)
Changes in operating assets and liabilities:	
Accounts receivable	24,522
Prepaid expenses	(179,685)
Accounts payable	(17,621)
Accrued expenses	(66,978)
Deferred revenue	(400,689)
Grants payable	(169,872)
	<hr/>
Net Cash Provided by Operating Activities	4,222,183
 Cash Flows Provided by Investing Activities:	
Distributions from beneficial interest in assets	<hr/> 297,996
	<hr/>
Net Increase in Cash and Cash Restricted for Endowments	4,520,179
 Cash and cash - restricted for endowments, beginning	<hr/> 3,997,495
Cash and cash - restricted for endowments, ending	\$ <hr/> <hr/> 8,517,674

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

## Notes to Financial Statements

Year Ended March 31, 2019

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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 challenges 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

For the year ended March 31, 2019, the Foundation adopted ASU No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions until the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets with donor restrictions, liquidity, and expenses by both their natural and functional classification.

#### Financial Statement Presentation

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles ("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, where by 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 statement 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

Year Ended March 31, 2019

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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, 2019, due to the relative short maturities of these instruments.

#### Accounts Receivable

Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. At March 31, 2019, management had determined that accounts receivable were fully collectible; therefore no allowance for doubtful accounts was considered necessary.

#### Property and Equipment

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

#### Beneficial Interest in Assets

The Foundation has transferred assets to the Jewish Community Foundation of San Diego (JCF) which is holding them as endowed agency funds (Funds) for the benefit of the Foundation as a named beneficiary. The Foundation has granted JCF variance power which gives JCF's board of directors the power to use the Funds for other purposes in certain circumstances. The Foundation reports the fair value of the beneficial interest in assets held at JCF in the statement of financial position. Changes in the value of the Funds are reported as non-operating items in the statement of activities.

#### Deferred Revenue

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

#### Grants Payable

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

#### Revenue and Support

Contributions received are recorded as 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 statement of activities as net assets released from restrictions.

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

## Notes to Financial Statements

Year Ended March 31, 2019

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

#### Donated Materials

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

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

#### 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 year ended March 31, 2019, no such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Foundation is not a private foundation.

#### Accounting for Uncertain Tax Positions

The Foundation follows the provisions of uncertain tax positions as addressed in Financial Accounting Standards Board Accounting Standards Codification. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions for the year ended March 31, 2019. 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, marketing and administrative expenses, which are allocated on the basis of headcount, time and effort.

#### Future Accounting Standards

The Financial Accounting Standards Board (FASB) has issued three substantial Accounting Standards Updates (ASU) which will become effective in future years.

The amendments in ASU 2014-09 *Revenue from Contracts with Customers* and subsequent updates require that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of the new standard is to be applied on a full retrospective basis or modified retrospective basis. The Foundation is in the process of assessing how this new ASU and subsequent updates will affect the Foundation's reporting of revenues. This assessment includes determining the effect of the new standard on the Foundation's financial statements, accounting systems, business processes, and internal controls. Based on its assessment to date, the Foundation does not currently expect adoption to have a material effect on its revenues. Adoption of ASU 2014-09 will also require enhanced financial statement disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

In June 2018, ASU 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* was issued to provide guidance on the accounting and reporting of grants and contributions. This guidance will assist nonprofit organizations in evaluating if a transaction is an exchange transaction or a contribution. Clarification was also added to determine if a contribution is conditional or unconditional and how each of these should be recorded. This update is effective for transactions in which the entity serves as the resource recipient for fiscal years beginning after December 15, 2018. The Foundation is evaluating the effect that the provisions of ASU 2018-08 will have on its financial statements and related disclosures.

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

## Notes to Financial Statements

Year Ended March 31, 2019

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

#### Future Accounting Standards, continued

In February 2016, the FASB issued ASU No. 2016-02 *Leases*. The primary change in US GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statement 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, 2019. 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. The Foundation is evaluating the effect that the provisions of ASU 2016-02 will have on its financial statements and related disclosures.

#### Subsequent Events

In April 2019, the Foundation transferred \$1,000,000 to the Challenged Athletes Foundation Endowment in Memory of Robin Williams. This balance is reflected in cash - restricted for endowments on the statement of financial position at March 31, 2019. The Foundation has evaluated subsequent events through July 9, 2019, which is the date the financial statements were available to be issued.

### 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, 2019:

Cash	\$	2,336,051
Accounts receivable		110,028
Anticipated distributions from endowments		641,090
		<hr/>
Total financial assets		3,087,169
Less amounts not available to be used within one year:		
Restricted by donor with purpose or time restrictions for programs		<hr/> (1,475,967)
Financial assets available to meet cash needs for general expenditures within one year	\$	<hr/> <hr/> 1,611,202

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. While not all of the \$1,475,967 donor restricted balance is for these purposes, for the year ended March 31, 2019, donor restricted net assets of \$1,364,360 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. \$641,090 of appropriations from the endowments will be available within the next 12 months. Although the Foundation does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

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

## Notes to Financial Statements

Year Ended March 31, 2019

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### Note 2 – Financial Assets and Liquidity Resources, continued

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, 2019, the Foundation's net assets without donor restrictions balance was \$5,521,043. Contained within that balance was \$6,467,561 in board designated endowment funds leaving a deficit of \$946,518 in undesignated net assets.

This undesignated net asset balance deficit could be offset at any time through two means: First, the board could elect to distribute up to \$3,500,000 back to the Foundation from the current year contributions made to the board designated endowments. If this means was utilized, the Foundation could eliminate the deficit and have an undesignated net asset balance of up to \$2,553,482. Secondly, as described in Note 10, the Foundation has established agency non-endowment accounts with the San Diego Foundation (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 in bank deposit accounts that are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or certain non-interest bearing accounts that are fully insured by the FDIC. At March 31, 2019, the Foundation's uninsured cash balance in bank deposit accounts was \$3,067,275.

The Foundation also maintains cash in brokerage accounts that are insured by the Securities Investor Protection Corporation (SIPC) up to a limit of \$500,000, including \$250,000 for claims for cash, per customer for all accounts at the same institution. At March 31, 2019, the Foundation's uninsured cash balance in brokerage accounts was \$4,680,623.

Restricted cash includes donor contributions restricted for the Challenged Athletes Foundation Endowment in Memory of Robin Williams and Robert Spotswood Memorial Fund. Payouts from the Robert Spotswood Memorial Fund are to be used for grants annually to athletes, with a focus on supporting youth under the age of 18. In addition, the board has designated excess cash to be invested as endowment funds at various financial institutions. At March 31, 2019, the Foundation's restricted cash totaled \$6,181,623.

### Note 4 – Property and Equipment

Property and equipment consist of the following at March 31, 2019:

Equipment and furniture	\$	360,230
Leasehold improvements		41,387
		<hr/>
		401,617
Less accumulated depreciation		(348,451)
		<hr/>
	\$	53,166
		<hr/>

### Note 5 – Beneficial Interest in Assets

The interest in assets held JCF has been valued, as a practical expedient, at the fair value of the Foundation's share of JCF's investment pool as of the measurement date 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 values securities and other financial instruments on a fair value basis of accounting. JCF invests in a variety of domestic stocks, international stocks, mutual funds, bonds, real assets and other multi-strategy securities.

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

### Notes to Financial Statements

Year Ended March 31, 2019

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#### Note 5 – Beneficial Interest in Assets, continued

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

The 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 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, 2019:

Without donor restrictions	\$	2,967,561
With donor restrictions		<u>3,672,613</u>
Total	\$	<u><u>6,640,174</u></u>

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

#### Note 6 – Restrictions on Net Assets

Net assets with donor restrictions were as follows for the year ended March 31, 2019:

Purpose Restrictions:		
Access for Athletes	\$	821,212
Operation Rebound		318,374
High School Track & Field		250,000
Grants for Discretionary Purposes		54,774
Grants for Cancer Survivors		19,607
Northern California Expansion		<u>12,000</u>
		1,475,967
Time Restricted - Endowments:		
Challenged Athletes Foundation Endowment in Memory of Robin Williams		5,611,227
Robert Spotswood Memorial Fund		<u>743,009</u>
		<u>6,354,236</u>
	\$	<u><u>7,830,203</u></u>

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

## Notes to Financial Statements

Year Ended March 31, 2019

### 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, 2019:

Satisfaction of purpose restrictions:

Access for Athletes	\$	1,633,290
Operation Rebound		728,276
San Diego Triathlon Challenge		673,117
Catch a Rising Star		47,368
Grants for Discretionary Purposes		2,475
Grants for Cancer Survivors		2,164
	\$	<u>3,086,690</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

At March 31, 2019, the endowment funds consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment funds	\$ 6,467,561	\$ -	\$ 6,467,561
Donor restricted funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor:			
Endowments	-	2,681,623	2,681,623
Beneficial interest	-	3,514,871	3,514,871
Accumulated investment gains	-	157,742	157,742
	\$ <u>6,467,561</u>	\$ <u>6,354,236</u>	\$ <u>12,821,797</u>

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

### Notes to Financial Statements

Year Ended March 31, 2019

#### Note 7 – Endowments, continued

The changes in endowment net assets for the year ended March 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 3,060,547	\$ 3,745,162	\$ 6,805,709
Contributions	3,500,000	2,681,623	6,181,623
Distributions	(152,067)	(145,929)	(297,996)
Investment return, net	59,081	73,380	132,461
Endowment net assets, ending	<u>\$ 6,467,561</u>	<u>\$ 6,354,236</u>	<u>\$ 12,821,797</u>

During the year ended March 31, 2019, the Foundation's board of directors established two endowments designated to support current operations and provide future granting opportunities. The Foundation also established two donor restricted endowment funds, the Challenged Athletes Foundation Endowment Fund in Memory of Robin Williams to support current operations and provide future granting opportunities and the Robert Spotswood Memorial Fund for grants to deserving athletes, with a focus on supporting youth under the age of 18. Currently, all endowment funds are composed of cash, pending investment.

#### Note 8 – Operating Leases

The Foundation leases office space and equipment under operating lease agreements. The leases expire at various dates through October 2023. The Foundation entered into an office space lease in November 2010 with CAF Property, Inc., a related party. Monthly payments of \$20,692 are due each month through October 31, 2020. Rent expense associated with these leases was \$258,654 for the year ended March 31, 2019.

Future minimum lease payments under operating leases at March 31, 2019 are as follows:

Year Ending March 31,	
2020	\$ 255,600
2021	152,141
2022	995
2023	995
2024	498
Thereafter	-
	<u>\$ 410,229</u>

#### Note 9 – Employee Retirement Plan

The Foundation has a 401(k) retirement plan covering all eligible employees after completing one year of service. The plan provides for employer contributions of 3% of employee eligible wages. Retirement plan expense for the year ended March 31, 2019 was \$50,496.

#### Note 10 – 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. For the year ended March 31, 2019, these funds had a fair market value of approximately \$2,358,859. No distributions were received for the year ended March 31, 2019.