

# CONNECTICUT CHALLENGE, INC.

FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

# CONNECTICUT CHALLENGE, INC.

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## **Independent Auditors' Report**

To the Board of Directors  
Connecticut Challenge, Inc.  
Southport, Connecticut

We have audited the accompanying financial statements of Connecticut Challenge, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 auditors' 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 auditors consider 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 Connecticut Challenge, Inc., as of December 31, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Change in Accounting Principle

As discussed in Note 2, during the year ended December 31, 2018, the Agency adopted Accounting Standards Update 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 this matter.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
December 11, 2019

# CONNECTICUT CHALLENGE, INC.

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 271,112	\$ 359,699
Contributions receivable	106,227	104,734
Prepaid expenses and other assets	55,840	63,796
Investments	302,873	126,337
Property, building and equipment, net	1,191,132	1,316,997
Intangible assets	<u>129,006</u>	<u>135,142</u>
<b>Total Assets</b>	<b><u>\$ 2,056,190</u></b>	<b><u>\$ 2,106,705</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 159,438	\$ 112,955
Line of credit	150,000	-
Grants payable	29,000	75,408
Deferred lease incentive	78,387	87,097
Notes payable	<u>283,695</u>	<u>350,011</u>
Total liabilities	<u>700,520</u>	<u>625,471</u>
<b>Net Assets</b>		
Net assets without donor restrictions	1,308,884	1,436,234
Net assets with donor restrictions	<u>46,786</u>	<u>45,000</u>
Total net assets	<u>1,355,670</u>	<u>1,481,234</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 2,056,190</u></b>	<b><u>\$ 2,106,705</u></b>

The accompanying notes are an integral part of the financial statements

# CONNECTICUT CHALLENGE, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains and Other Support</b>						
Contributions and grants	\$ 1,748,020	\$ 20,000	\$ 1,768,020	\$ 1,872,385	\$ 45,000	\$ 1,917,385
Special events	78,970	-	78,970	108,187	-	108,187
Membership	120,947	-	120,947	100,044	-	100,044
Net assets released from restriction	18,214	(18,214)	-	-	-	-
Total revenues, gains and other support	<u>1,966,151</u>	<u>1,786</u>	<u>1,967,937</u>	<u>2,080,616</u>	<u>45,000</u>	<u>2,125,616</u>
<b>Expenses and Losses</b>						
Programs	1,551,103	-	1,551,103	1,672,736	-	1,672,736
Management and general	183,060	-	183,060	183,531	-	183,531
Development and fundraising	147,929	-	147,929	254,254	-	254,254
Total expenses and losses	<u>1,882,092</u>	<u>-</u>	<u>1,882,092</u>	<u>2,110,521</u>	<u>-</u>	<u>2,110,521</u>
<b>Income (Loss) from Operations before Depreciation and Amortization</b>	84,059	1,786	85,845	(29,905)	45,000	15,095
<b>Depreciation and Amortization</b>	<u>(205,025)</u>	<u>-</u>	<u>(205,025)</u>	<u>(227,694)</u>	<u>-</u>	<u>(227,694)</u>
<b>Income (Loss) from Operations</b>	(120,966)	1,786	(119,180)	(257,599)	45,000	(212,599)
<b>Other Changes in Net Assets</b>						
Investment return, net	<u>(6,384)</u>	<u>-</u>	<u>(6,384)</u>	<u>22,613</u>	<u>-</u>	<u>22,613</u>
<b>Increase (Decrease) in Net Assets</b>	(127,350)	1,786	(125,564)	(234,986)	45,000	(189,986)
<b>Net Assets - Beginning of Year</b>	<u>1,436,234</u>	<u>45,000</u>	<u>1,481,234</u>	<u>1,671,220</u>	<u>-</u>	<u>1,671,220</u>
<b>Net Assets - End of Year</b>	<u>\$ 1,308,884</u>	<u>\$ 46,786</u>	<u>\$ 1,355,670</u>	<u>\$ 1,436,234</u>	<u>\$ 45,000</u>	<u>\$ 1,481,234</u>

The accompanying notes are an integral part of the financial statements

# CONNECTICUT CHALLENGE, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (125,564)	\$ (189,986)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	205,025	227,694
Net realized and unrealized gains and losses	2,774	(22,613)
Donated securities	(203,791)	-
(Increase) decrease in operating assets:		
Contributions receivable	(1,493)	40,591
Prepaid expenses and other assets	7,956	(13,365)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	46,483	(63,059)
Grants payable	(46,408)	(18,654)
Deferred lease incentive	(8,710)	(8,709)
Net cash used in operating activities	<u>(123,728)</u>	<u>(48,101)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property, building and equipment	(73,024)	(166,377)
Proceeds from sales of investments	810,653	871,055
Purchases of investments	(786,172)	(827,460)
Net cash used in investing activities	<u>(48,543)</u>	<u>(122,782)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from line of credit	150,000	-
Payments on notes payable	(66,316)	(26,717)
Borrowings on notes payable	-	369,919
Net cash provided by financing activities	<u>83,684</u>	<u>343,202</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(88,587)	172,319
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>359,699</u>	<u>187,380</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 271,112</u>	<u>\$ 359,699</u>
<b>Supplemental Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ 21,180</u>	<u>\$ 9,606</u>

The accompanying notes are an integral part of the financial statements

# CONNECTICUT CHALLENGE, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
	Programs	Management and General	Development and Fundraising	Total	Programs	Management and General	Development and Fundraising	Total
Salaries	\$ 522,553	\$ 56,576	\$ 51,870	\$ 630,999	\$ 657,350	\$ 82,856	\$ 61,440	\$ 801,646
Payroll taxes	35,747	4,795	3,051	43,593	48,988	6,572	4,181	59,741
Special events	242,482	-	24,292	266,774	135,307	-	135,307	270,614
Contract services	318,378	16,204	23,202	357,784	250,162	7,270	12,957	270,389
Rent	93,895	12,595	8,015	114,505	106,926	4,648	4,648	116,222
Utilities	98,863	13,262	8,440	120,565	95,481	4,151	4,151	103,783
Grants	28,000	-	-	28,000	80,408	-	-	80,408
Printing and publications	16,642	2,232	1,420	20,294	48,642	6,525	4,152	59,319
Supplies and postage	43,418	5,034	3,203	51,655	53,619	8,629	789	63,037
Credit card fees	39,126	663	6,548	46,337	43,527	534	8,048	52,109
Professional fees	-	60,868	-	60,868	-	48,422	-	48,422
Membership fees	4,064	544	346	4,954	38,011	5,098	3,245	46,354
Communications	31,186	4,183	2,662	38,031	27,021	3,624	2,307	32,952
Advertising	8,842	-	1,940	10,782	24,287	-	5,331	29,618
Travel and entertainment	17,588	-	3,860	21,448	17,380	-	3,815	21,195
Interest expense	20,042	2,149	1,368	23,559	18,361	1,723	1,096	21,180
Storage	11,066	1,484	944	13,494	10,654	1,429	910	12,993
Insurance	12,582	1,687	1,073	15,342	8,391	1,125	716	10,232
Miscellaneous	6,092	784	5,695	12,571	6,894	925	1,161	8,980
Repairs and maintenance	537	-	-	537	1,327	-	-	1,327
<b>Total Expenses before Depreciation</b>	<b>1,551,103</b>	<b>183,060</b>	<b>147,929</b>	<b>1,882,092</b>	<b>1,672,736</b>	<b>183,531</b>	<b>254,254</b>	<b>2,110,521</b>
<b>Depreciation and Amortization</b>	<b>168,122</b>	<b>22,552</b>	<b>14,351</b>	<b>205,025</b>	<b>209,376</b>	<b>9,159</b>	<b>9,159</b>	<b>227,694</b>
<b>Total Expenses</b>	<b>\$ 1,719,225</b>	<b>\$ 205,612</b>	<b>\$ 162,280</b>	<b>\$ 2,087,117</b>	<b>\$ 1,882,112</b>	<b>\$ 192,690</b>	<b>\$ 263,413</b>	<b>\$ 2,338,215</b>

The accompanying notes are an integral part of the financial statements

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1 - ORGANIZATION

Connecticut Challenge, Inc. d/b/a CT Challenge and Mission (CTC) was founded on May 2, 2005 as a nonprofit organization. The mission of CTC is to empower cancer survivors to live healthier, happier and longer lives through the game-changing exercise, nutrition and mind-body knowledge, tools and community needed to get to the other side of cancer and stay there. CTC serves its mission by creating and funding survivorship programs, providing grants, building a community of support, and offering public education and awareness using the Mission Training Center and its web-based platforms as the centerpiece of its offerings. CTC raises funds for its programs through its annual marquee charity bike event and other related fundraising activities.

#### **Program Services:**

##### **Mission**

CTC continued to build upon its mission-related programs in 2018. These included the renaming of the operation of the Center for Survivorship to the Mission Training Center; a robust build-out of its digital health and wellness offerings; grants to programs for young survivors; grants to community programs; delivery of cancer survivorship information and education; and grants for survivorship programs at county-based hospitals. In 2018, programs funded by the CTC impacted the lives of thousands of cancer survivors; see the following sections for details.

##### **Mission Training Center (Center)**

The 8,000-square foot state-of-the-art Center in Southport, Connecticut, is a paradigm-shifter, the centerpiece of all CTC programs. An incubator for best practices in wellness for cancer survivors, it is filling a gap in the healthcare system; there are few comprehensive, dedicated wellness resources for survivors. Blending exercise, nutrition, education and mind-body health, and staffed by experienced, compassionate trainers, instructors and nutritionists with expertise in working with cancer survivors, the classes and resources at the Center include the offerings below (see Core Programs). The Center is led by a full-time director, who is responsible for managing survivorship training programs and all activities at the Center.

##### **Digital Health and Wellness**

As previously stated, CTC remains committed to reaching an ever-increasing audience of cancer survivors, as evidenced by its continued investment in an evolving digital hub ([www.ctchallenge.org](http://www.ctchallenge.org) and now [www.yourmission.org](http://www.yourmission.org)).

CTC Digital Health and Wellness initiatives include a bi-weekly e-newsletter and social media channels (Facebook, Instagram, Twitter and YouTube). These communication platforms are built from content including blogs, videos, inspirational survivorship stories, recipes, strength and fitness-building strategies and more. They are our distribution channels for the actionable knowledge amassed from the exercise, nutrition, mind-body health and community-building support programs incubated at the Center for Survivorship, enabling us to put these best practices within reach of any survivor in need of them, regardless of where they live.

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### Education and Community Programs

CTC allocated funds to better serve survivors in a community-based approach. Through the responsible investment of CTC's resources in community-centered initiatives, it is able to join fellow organizations in targeting the underserved, raising and addressing neglected survivorship issues, and impacting people in a personal, meaningful way.

The 2018 CTC Yoga for Life program offered health clubs and yoga centers the opportunity to host yoga classes for cancer survivors in their facility, with all expenses paid by the CTC. The American Society of Clinical Oncologists (ASCO) reports that gentle stretching, breathing and other exercises in a regular yoga program may ease sleep and fatigue problems common among cancer survivors. Yoga can be a useful method to increase relaxation and quality of life for survivors as well as compliment their physical fitness routine. The Yoga for Life program has worked with several yoga clubs in establishing this community program.

The Center hosted two wellness workshops. The Center also held the annual Susan Fund Award Recipient event awarding academic scholarships to cancer survivors attending colleges across the country.

In June and December 2018, CTC spotlighted the benefits of its programs in a dedicated six-page newsletter mailed to cancer survivors, friends and family members who have been impacted by cancer. Featuring current research as well as CTC program details and participants, the newsletter is designed to educate and galvanize those in need of all CTC offers to incorporate into their lives the approach, wellness choices and resources CTC advocates.

### Young Survivor Programs

Fifty years ago, childhood cancers were largely fatal; today, the survival rate is over 83%. However, as the number of these survivors reaching adulthood increases, so do the after-effects from their treatments. Childhood cancer survivors experience multiple, often severe health problems more typical of those much older; they also die prematurely. By age 45, a majority of pediatric cancer survivors will have a disabling, serious or life-threatening health condition. It is particularly important for these survivors to early adopt the healthy lifestyle advocated by CTC, and to continue its maintenance.

CTC advances this aim through the Adventure Project, a program that emerged in 2016 after five years of beta testing. The Adventure Project gives survivors ages 12 to 30 throughout the United States free access to dedicated personal trainers who work both in-person, in health clubs and virtually with these young survivors to achieve their goals, via exercise training programs.

During 2018, CTC partnered with the Susan Fund, a nonprofit organization dedicated to providing college scholarships to young cancer survivors. This program provides financial assistance to those in need so they can attend the college of their choice and pursue their dreams. An additional scholarship program was designed to support the CT Challenge Christopher Cook Scholarship, awarded to student cancer survivors attending Sacred Heart University.

The CTC partnered with Camp Rising Sun to provide financial support for week-long camp experiences for pediatric cancer survivors. Camp Rising Sun serves pediatric cancer survivors each year and provides hope and inspiration for these young children.

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### Prevention

Since 2010, the CTC has given grants to fund St. Vincent's/CT Challenge Mobile Mammography Coach vehicle, providing mammography screening to those in local towns and communities. This mobile unit and digital mammography equipment travels throughout the state, typically screening patients at three different public locations per month, in addition to corporate screenings. Mammograms are low-cost for those with health insurance and free for those who do not have health insurance, have financial limitations and/or qualify for assistance.

### Connecticut Challenge - Bike Event

The Fifteenth Annual Connecticut Challenge Bike Event was a two-day event, which took place on July 27 and 28 of 2018 in Connecticut. This event consisted of a choice of 10, 25, 50, 75 or 100-mile charity bike ride distances. Proceeds from this bike ride went towards various cancer related nonprofit organizations and special programs for cancer survivors and healthcare professionals.

### Partnerships

CTC has strategic partnerships with the Leukemia & Lymphoma Society, American Cancer Society, Susan G. Komen, Camp Rising Sun, First Descents, The Hole In The Wall Gang Camp, Tommy Fund, Norwalk Hospital and Norma Pfriem Breast Cancer Center, and will continue to collaborate with these and other organizations over the coming years.

### Corporate/Community-Based Partners

Partnerships have been established with Fairfield University and Sacred Heart University. In particular, CTC staff worked with school officials on programming and special events.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment changes the previous reporting model for nonprofit organizations and enhances the disclosure requirements. The major changes include: (a) requiring the presentation of only two classes of net assets rather than three, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investments expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. This ASU is effective for annual periods beginning after December 15, 2017. Management has adopted ASU 2016-14 for the year ended December 31, 2018. The amendments have been retrospectively applied with the exception of disclosures on liquidity and availability of resources for the year ended December 31, 2017.

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### **Basis of Accounting and Presentation**

The financial statements of CTC have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of CTC are reported in the following net asset categories:

#### **Net Assets Without Donor Restrictions**

Net assets without donor restrictions represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

#### **Net Assets With Donor Restrictions**

Net assets with donor restrictions represent contributions that are restricted by the donor as to purpose or time of expenditure. Net assets with donor restrictions also represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Agency to expend the income earned thereon. The Agency did not have any net assets with restrictions in perpetuity as of December 31, 2018 and 2017.

### **Measure of Operations**

CTC's measure of operations includes all changes in net assets except investment gains and losses.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates. It is management's opinion that the estimates applied in the accompanying financial statements are reasonable.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash in banks and certain highly liquid investments with original maturities of 90 days or less.

### **Investment Valuation and Income Recognition**

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains include CTC's gains and losses on investments bought and sold as well as held during the year and are reported in the statements of activities as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulations or by law.

### **Property, Buildings and Equipment**

Property, buildings and equipment are stated at cost or, in the case of contributed assets, at their fair market value at the date of receipt as determined by CTC. Property and equipment acquisitions and improvements are depreciated on a straight-line basis over their estimated useful lives. Repairs and maintenance are charged to expense as incurred.

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value. CTC reports nongovernmental contributions and grants of cash and other assets as donor-restricted support if they are received with donor stipulations that limit their use. When a donor 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. Contributions received whose restrictions are met in the same period are presented with net assets without donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

As of December 31, 2018 and 2017, CTC had pledges receivable of \$106,227 and \$104,734, respectively. All contributions receivable are expected to be collected during 2019.

### Donated Services

While many individuals volunteer their time and perform a variety of tasks that assist CTC, most amounts have not been recognized in the accompanying financial statements for such services because the criteria for recognition of such volunteer efforts have not been met.

### Functional Expense Allocation

Expenses are charged directly to programs, development and fundraising, and management and general based on specific identification to the extent practicable. Expenses related to more than one function have been allocated based on periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with a specific function but provide for the overall support and direction of CTC.

The costs of providing various programs and other activities have been reported on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Allocation of overhead expenses including rent, utilities, supplies, printing, fees, communications, interest, storage, insurance and depreciation are allocated to functional areas based upon square footage. The allocations of salary and related expenses for management and supervision of program service functions are made by management based on the estimated time spent by employees on the various program service functions.

### Income Taxes

CTC is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

### Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through December 11, 2019, which represents the date the financial statements were available to be issued.

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3 - CONCENTRATIONS OF CREDIT RISK

CTC's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents and investments.

#### Cash and Cash Equivalents

CTC places its cash deposits with high credit-quality institutions. Such deposits exceed federal depository insurance limits at times during the year. However, management believes that CTC's deposits are not subject to significant credit risk.

#### Investments

CTC's investments are comprised of money market funds and various equities. These investments are not protected by federal depository insurance. The value of the investments is subject to fluctuations due to general market conditions and interest rates.

### NOTE 4 - FAIR VALUE MEASUREMENTS

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

#### Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CTC has the ability to access.

#### Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

#### Level 3

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

The following is a description of the valuation methodologies used for financial instruments measured at fair value:

### Common Stocks

These items are valued at the closing price reported in the active market in which the individual securities are traded.

### Corporate Bonds and Notes

Corporate bonds and notes are valued based on yields currently available on comparable securities issuers with similar durations and credit ratings.

### Mutual Funds and Preferred Securities

Mutual funds and preferred securities are valued at the quoted net asset value of shares reported in the active market in which the funds are traded.

### Privately Held Corporation

The fair value of the privately held corporation investment held by CTC is valued based upon the anticipated cash flows from annual dividends discounted for restrictions and other present value techniques.

There have been no changes in the methodologies used at December 31, 2018 and 2017.

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 CTC 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.

The following tables set forth by level, within the fair value hierarchy, CTC's assets at fair value as of December 31, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Equities - common stock	\$ 60,640	\$ -	\$ -	\$ 60,640
Fixed income - corporate bonds	-	14,622	-	14,622
Exchange traded funds	16,347	-	-	16,347
Mutual funds	1,610	-	-	1,610
Preferred securities	5,793	-	-	5,793
Privately held corporation	-	-	203,791	203,791
Total Assets at Fair Value	<u>\$ 84,390</u>	<u>\$ 14,692</u>	<u>\$ 203,791</u>	<u>\$ 302,873</u>
	2017			
	Level 1	Level 2	Level 3	Total
Equities - common stock	\$ 101,887	\$ -	\$ -	\$ 101,887
Fixed income - corporate bonds	-	16,471	-	16,471
Mutual funds	1,603	-	-	1,603
Preferred securities	6,376	-	-	6,376
Total Assets at Fair Value	<u>\$ 109,866</u>	<u>\$ 16,471</u>	<u>\$ -</u>	<u>\$ 126,337</u>

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

Level 3 investments represent a minority interest in the stock of a privately held corporation. The table below sets forth a summary of changes in the fair value of the CTC's Level 3 assets for the years ended December 31, 2018 and 2017:

Balance - January 1, 2017	\$ _____	-
Balance - December 31, 2018		-
Contribution of privately held stock		<u>203,791</u>
Balance - September 30, 2018	\$ _____	<u>203,791</u>

### NOTE 5 - INVESTMENT RETURN

Investment return for the years ended December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Realized and unrealized gains (losses)	\$ (9,158)	\$ 18,500
Interest and dividends	<u>2,774</u>	<u>4,113</u>
Total Investment Return	\$ <u>(6,384)</u>	\$ <u>22,613</u>

### NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 1,855,904	\$ 1,827,666
Machinery and equipment	197,570	189,370
Furniture and fixtures	101,245	100,447
Computer equipment	<u>48,969</u>	<u>48,277</u>
	2,203,688	2,165,760
Less accumulated depreciation	<u>1,012,556</u>	<u>848,763</u>
Property and Equipment, Net	\$ <u>1,191,132</u>	\$ <u>1,316,997</u>

Depreciation expense was \$163,793 and \$168,269 for the years ended December 31, 2018 and 2017, respectively.

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7 - INTANGIBLE ASSETS

Intangible assets consist exclusively of website development costs totaling \$322,795 and \$289,767 at December 31, 2018 and 2017, respectively, and are being amortized over 36-60 months. Accumulated amortization at December 31, 2018 and 2017 was \$193,789 and \$154,626, respectively.

At December 31, 2018, future amortization expense for the next four years is as follows:

#### Year Ending December 31

2019	\$	52,343
2020		39,018
2021		32,753
2022		4,892

Amortization expense related to intangible assets was \$41,232 and \$59,425 for the years ended December 31, 2018 and 2017, respectively.

### NOTE 8 - LINE OF CREDIT

CTC has an available line of credit in the amount of \$150,000. Interest is payable monthly based on Prime Rate (5.50% and 4.50% at December 31, 2018 and 2017, respectively) plus 1.5%. The line of credit will be renewed annually at the bank's discretion. The line of credit is secured by substantially all of CTC's assets.

The balance outstanding was \$150,000 as of December 31, 2018. There was no balance outstanding as of December 31, 2017.

### NOTE 9 - NOTES PAYABLE

CTC obtained a \$250,000 note payable for working capital with an interest rate of 4.78% and monthly payments of principal and interest totaling \$4,700. This note matures on December 7, 2022 and is secured by the CTC's assets.

CTC also financed equipment and improvements totaling \$119,918 through an equipment financing arrangement. The note called for monthly payments of \$2,250 through March 6, 2017 and had an effective interest rate of 4.76%. The note was paid in full during 2017.

The future maturities of the notes payable are as follows:

#### Year Ending December 31

2019	\$	71,402
2020		74,887
2021		78,540
2022		<u>58,866</u>
Total	\$	<u>283,695</u>

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 10 - LIQUIDITY AND AVAILABILITY OF RESOURCES

CTC's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$	271,112
Investments		302,873
Contributions receivable		<u>106,227</u>
Total financial assets available within one year		680,212
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions		<u>(46,786)</u>
Total Financial Assets Available to Management for General Expenditure Within One Year	\$	<u><u>633,426</u></u>

### Liquidity Management

CTC maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition to financial assets available to meet general expenditures over the next 12 months, CTC operates with a cash flow budget and anticipates collecting sufficient revenue to cover general expenditures. CTC also has a line of credit it could draw upon in the event of an unanticipated liquidity need.

### NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of \$46,786 and \$45,000 restricted for the Adventure Project as of December 31, 2018 and 2017, respectively. Net assets with donor restrictions of \$18,214 were released through the awarding of grants and expenditures through the Adventure Project for the year ended December 31, 2018. There were no releases of net assets with donor restrictions for the year ended December 31, 2017.

### NOTE 12 - DEFINED CONTRIBUTION RETIREMENT PLAN

CTC maintains a defined contribution retirement plan as defined under Section 401(k) of the Internal Revenue Code. Under the provisions of the plan, employees age 21 and over are eligible to participate after six months of service. Employer matching contributions and discretionary contributions are subject to vesting requirements. Discretionary contributions were suspended for 2017 and 2018.

# CONNECTICUT CHALLENGE, INC.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 13 - LEASE COMMITMENTS

CTC leases its facility under a noncancelable operating lease expiring December 31, 2027. Under the terms of the lease, CTC is responsible for monthly base rental payments ranging between \$7,285 and \$10,196 per month, plus a proportionate share of operating costs and real estate taxes.

CTC also leases a copier under a noncancelable operating lease expiring March 2020. Under the terms of the lease, CTC is responsible for monthly rental payments of \$268.

At December 31, 2018, minimum future rental payments under these operating leases were as follows:

#### Year Ending December 31

2019	\$	114,620
2020		122,883
2021		122,347
2022		122,347
2023		122,347
Thereafter		<u>510,388</u>
Total	\$	<u>1,114,932</u>

### NOTE 14 - COMMITMENTS

#### Contracts

CTC has entered into a professional employer agreement (the PEO agreement) with an independent third party. As part of the PEO agreement, the third party became a co-employer of CTC's employees and provides payroll, human resource and other administrative services to CTC. CTC retains direction and control over the employees necessary to conduct day-to-day job duties. The term of the PEO agreement is for one year and renews automatically for successive one-year terms on the anniversary date. For the years ended December 31, 2018 and 2017, CTC paid \$5,765 and \$3,978, respectively, for these services.