

CONNECTICUT CHALLENGE, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017, and the related statements of activities, cash flows and functional expenses 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 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 2017 financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Challenge, Inc., as of December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Connecticut Challenge, Inc., as of December 31, 2016 were audited by other auditors whose opinion dated October 20, 2017 expressed an unmodified opinion on those statements. As discussed in Note 14, Connecticut Challenge, Inc., has restated its 2016 financial statements during the current year to expense certain brand development costs, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2016 financial statements before the restatement.

As part of our audit of the 2017 financial statements, we also audited adjustments described in Note 14 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2016 financial statements of Connecticut Challenge, Inc., other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
February 6, 2019

CONNECTICUT CHALLENGE, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 359,699	\$ 187,380
Contributions receivable	104,734	145,325
Prepaid expenses and other assets	63,796	50,431
Investments	126,337	147,319
Property, building and equipment, net	1,316,997	1,319,781
Intangible assets	<u>135,142</u>	<u>193,675</u>
Total Assets	<u>\$ 2,106,705</u>	<u>\$ 2,043,911</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 112,955	\$ 176,014
Grants payable	75,408	94,062
Deferred lease incentive	87,097	95,806
Notes payable	350,011	6,809
Total liabilities	<u>625,471</u>	<u>372,691</u>
Net Assets		
Unrestricted	1,436,234	1,671,220
Temporarily restricted	45,000	-
Total net assets	<u>1,481,234</u>	<u>1,671,220</u>
Total Liabilities and Net Assets	<u>\$ 2,106,705</u>	<u>\$ 2,043,911</u>

The accompanying notes are an integral part of the financial statements

CONNECTICUT CHALLENGE, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support						
Contributions and grants	\$ 1,872,385	\$ 45,000	\$ 1,917,385	\$ 2,073,968	\$ 50,375	\$ 2,124,343
Special events	108,187	-	108,187	132,585	-	132,585
Membership	100,044	-	100,044	74,995	-	74,995
Net assets released from restriction	-	-	-	50,375	(50,375)	-
Total revenues, gains and other support	<u>2,080,616</u>	<u>45,000</u>	<u>2,125,616</u>	<u>2,331,923</u>	<u>-</u>	<u>2,331,923</u>
Expenses and Losses						
Programs	1,672,736	-	1,672,736	1,839,867	-	1,839,867
Management and general	183,531	-	183,531	96,454	-	96,454
Development and fundraising	254,254	-	254,254	247,490	-	247,490
Total expenses and losses	<u>2,110,521</u>	<u>-</u>	<u>2,110,521</u>	<u>2,183,811</u>	<u>-</u>	<u>2,183,811</u>
Income (Loss) from Operations before Depreciation and Amortization	(29,905)	45,000	15,095	148,112	-	148,112
Depreciation and Amortization	<u>(227,694)</u>	<u>-</u>	<u>(227,694)</u>	<u>(187,539)</u>	<u>-</u>	<u>(187,539)</u>
Income (Loss) from Operations	(257,599)	45,000	(212,599)	(39,427)	-	(39,427)
Other Changes in Net Assets						
Investment return	22,613	-	22,613	5,284	-	5,284
Brand development	-	-	-	(520,739)	-	(520,739)
Increase (Decrease) in Net Assets	(234,986)	45,000	(189,986)	(554,882)	-	(554,882)
Net Assets - Beginning of Year, as Restated	<u>1,671,220</u>	<u>-</u>	<u>1,671,220</u>	<u>2,226,102</u>	<u>-</u>	<u>2,226,102</u>
Net Assets - End of Year	<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>

The accompanying notes are an integral part of the financial statements

CONNECTICUT CHALLENGE, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (189,986)	\$ (554,882)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	227,694	187,539
Investment return	(22,613)	3,755
(Increase) decrease in operating assets:		
Contributions receivable	40,591	(91,431)
Prepaid expenses and other assets	(13,365)	151,470
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(63,059)	2,129
Grants payable	(18,654)	(55,809)
Deferred revenue	-	(1,910)
Deferred lease incentive	(8,709)	(4,948)
Net cash used in operating activities	<u>(48,101)</u>	<u>(364,087)</u>
Cash Flows from Investing Activities		
Purchases of property, building and equipment	(166,377)	(29,979)
Proceeds from sales of investments	871,055	1,803,257
Purchases of investments	(827,460)	(1,790,854)
Acquisition of intangible assets	-	(183,118)
Net cash used in investing activities	<u>(122,782)</u>	<u>(200,694)</u>
Cash Flows from Financing Activities		
Repayments on line of credit	-	(5,000)
Payments on notes payable	(26,717)	(77,819)
Borrowings on notes payable	369,919	-
Net cash provided by (used in) financing activities	<u>343,202</u>	<u>(82,819)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	172,319	(647,600)
Cash and Cash Equivalents - Beginning of Year	<u>187,380</u>	<u>834,980</u>
Cash and Cash Equivalents - End of Year	<u>\$ 359,699</u>	<u>\$ 187,380</u>
Supplemental Cash Flow Information		
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, 2017 AND 2016

	2017				2016			
	Programs	Management and General	Development and Fundraising	Total	Programs	Management and General	Development and Fundraising	Total
Salaries	\$ 657,350	\$ 82,856	\$ 61,440	\$ 801,646	\$ 642,489	\$ 67,956	\$ 101,524	\$ 811,969
Payroll taxes	48,988	6,572	4,181	59,741	46,923	5,274	4,359	56,556
Special events	135,307	-	135,307	270,614	316,856	-	16,230	333,086
Contract services	250,162	7,270	12,957	270,389	230,710	1,980	64,052	296,742
Rent	106,926	4,648	4,648	116,222	99,269	2,855	13,610	115,734
Utilities	95,481	4,151	4,151	103,783	87,994	1,811	2,923	92,728
Grants	80,408	-	-	80,408	84,905	-	-	84,905
Printing and publications	48,642	6,525	4,152	59,319	84,293	-	1,695	85,988
Supplies and postage	53,619	8,629	789	63,037	31,925	3,773	762	36,460
Credit card fees	43,527	534	8,048	52,109	19,955	1,747	9,306	31,008
Professional fees	-	48,422	-	48,422	32,930	5,040	7,872	45,842
Membership fees	38,011	5,098	3,245	46,354	9,907	968	9,543	20,418
Communications	27,021	3,624	2,307	32,952	18,775	595	938	20,308
Advertising	24,287	-	5,331	29,618	71,392	-	10,835	82,227
Travel and entertainment	17,380	-	3,815	21,195	20,913	46	3,178	24,137
Interest expense	18,361	1,723	1,096	21,180	9,606	-	-	9,606
Storage	10,654	1,429	910	12,993	11,501	-	-	11,501
Insurance	8,391	1,125	716	10,232	6,455	4,339	-	10,794
Miscellaneous	6,894	925	1,161	8,980	9,796	70	663	10,529
Repairs and maintenance	1,327	-	-	1,327	3,273	-	-	3,273
Total Expenses before Depreciation	1,672,736	183,531	254,254	2,110,521	1,839,867	96,454	247,490	2,183,811
Depreciation and Amortization	209,376	9,159	9,159	227,694	165,015	8,762	13,762	187,539
Total Expenses	\$ 1,882,112	\$ 192,690	\$ 263,413	\$ 2,338,215	\$ 2,004,882	\$ 105,216	\$ 261,252	\$ 2,371,350

The accompanying notes are an integral part of the financial statements

CONNECTICUT CHALLENGE, INC.

NOTES TO FINANCIAL STATEMENTS

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 2017. 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 2017, 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 and now 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.

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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 CTC Speaker Series continued in 2017 with Lacey Henderson, a young cancer survivor and TED Talk alumnus addressing an audience at the opening ceremony for the 2017 Bike Event.

The 2017 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.

As the pioneering force behind the launch of survivorship programs at hospitals throughout Connecticut, CTC continues to provide grant support for the development of nonmedical cancer survivorship programs at Norwalk Hospital.

The Center hosted two Music and Healing 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 2017, 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 personalized 12-week training programs.

During 2017, 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.

CONNECTICUT CHALLENGE, INC.

NOTES TO FINANCIAL STATEMENTS

In addition, CTC continued to provide support for young adult survivors through its partnership with First Descents (FD), a nonprofit organization dedicated to providing rejuvenating adventure camp experiences for cancer survivors 18-39 years old. FD programs are proven to be incredibly effective in helping this demographic of young survivors combat the psychosocial effects of a cancer diagnosis. FD is a particularly important program as the demographic it serves is typically reluctant to reach out for conventional support. The CTC provided financial support for a one week-long FD adventure program of whitewater kayaking, rock climbing or surfing, helping young adult cancer survivors who participated in this program in 2017.

The CTC also 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.

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 Thirteenth Annual Connecticut Challenge Bike Event was a two-day event, which took place on July 28 and 29 of 2017 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 formed 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, Sacred Heart University and St. Vincent's Nursing College. In particular, CTC staff worked with school officials on programming and special events.

CONNECTICUT CHALLENGE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

Unrestricted Net Assets

Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and accumulated investment gains and income on donor-restricted endowment assets.

Permanently Restricted Net Assets

Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit CTC to expend the income earned thereon. There were no permanently restricted net assets as of December 31, 2017 and 2016.

Measure of Operations

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

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, are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

CONNECTICUT CHALLENGE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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 temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

As of December 31, 2017 and 2016, CTC had pledges receivable of \$104,734 and \$147,325, respectively. All contributions receivable are expected to be collected during 2018.

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 program services, management and general, and development and fundraising 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.

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 February 6, 2019, which represents the date the financial statements were available to be issued.

CONNECTICUT CHALLENGE, INC.

NOTES TO FINANCIAL STATEMENTS

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.

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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.

There have been no changes in the methodologies used at December 31, 2017 and 2016.

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, 2017 and 2016:

	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>

	2016			
	Level 1	Level 2	Level 3	Total
Equities - common stock	\$ 47,005	\$ -	\$ -	\$ 47,005
Fixed income - corporate bonds	-	80,637	-	80,637
Mutual funds	19,677	-	-	19,677
Total Assets at Fair Value	\$ <u>66,682</u>	\$ <u>80,637</u>	\$ <u>-</u>	\$ <u>147,319</u>

CONNECTICUT CHALLENGE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENT RETURN

Investment return for the years ended December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Realized and unrealized gains (losses)	\$ 18,500	\$ (858)
Interest and dividends	<u>4,113</u>	<u>6,142</u>
Total Investment Return	<u>\$ 22,613</u>	<u>\$ 5,284</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 1,827,666	\$ 1,757,505
Machinery and equipment	189,370	105,354
Furniture and fixtures	100,447	93,767
Computer equipment	<u>48,277</u>	<u>43,650</u>
	2,165,760	2,000,276
Less accumulated depreciation	<u>848,763</u>	<u>680,495</u>
Property and Equipment, Net	<u>\$ 1,316,997</u>	<u>\$ 1,319,781</u>

Depreciation expense was \$168,269 and \$159,661 for the years ended December 31, 2017 and 2016, respectively.

NOTE 7 - INTANGIBLE ASSETS

Intangible assets consist exclusively of website development costs totaling \$289,767 and are being amortized over 36-60 months. Accumulated amortization at December 31, 2017 and 2016 was \$154,626 and \$95,201, respectively.

At December 31, 2017, future amortization expense for the next four years is as follows:

Year Ending December 31

2018	\$ 52,347
2019	37,278
2020	24,827
2021	20,690

Amortization expense related to intangible assets was \$59,425 and \$27,878 for the years ended December 31, 2017 and 2016, respectively.

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NOTES TO FINANCIAL STATEMENTS

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 (4.50% and 3.75% at December 31, 2017 and 2016, 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.

There was no balance outstanding as of December 31, 2017 and 2016.

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:

<u>Year Ending December 31</u>	
2018	\$ 68,081
2019	71,402
2020	74,887
2021	78,540
2022	<u>57,101</u>
Total	\$ <u>350,011</u>

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of \$45,000 restricted for the adventure project as of December 31, 2017. There were no temporarily restricted net assets at December 31, 2016.

NOTE 11 - 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. CTC accrued a discretionary contribution to the plan for the year ended December 31, 2016 of \$56,923. Discretionary contributions were suspended for 2017.

CONNECTICUT CHALLENGE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - 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, 2017, minimum future rental payments under these operating leases were as follows:

Year Ending December 31

2018	\$	117,677
2019		121,620
2020		122,883
2021		122,347
2022		122,347
Thereafter		<u>611,735</u>
Total	\$	<u>1,218,609</u>

NOTE 13 - 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, 2017 and 2016, CTC paid \$3,978 and \$3,916, respectively, for these services.

NOTE 14 - PRIOR PERIOD ADJUSTMENTS

CTC has restated its financial statements as of and for the year ended December 31, 2016 in order to correct the following items:

Rebranding Costs

In 2016, CTC improperly capitalized costs related to the development of the Mission brand and intended to amortize them over future periods. Generally accepted accounting principles require that these be expensed in the period incurred on the statement of activities.

Cash

In 2016, CTC included a subaccount for cash coming from square credit card readers that was created by the general ledger software. However, the cash receipts were already recorded in the operating bank account, double booking the related contributions.

CONNECTICUT CHALLENGE, INC.

NOTES TO FINANCIAL STATEMENTS

The 2016 financial statements have been restated as follows:

	As Previously Reported	As Restated
Statement of financial position as of December 31, 2016:		
Cash and cash equivalents	\$ 207,177	\$ 187,380
Intangible assets	698,569	193,675
Total assets	2,568,602	2,043,911
Unrestricted net assets	2,195,911	1,671,220
Total net assets	2,195,911	1,671,220
Statement of activities for the year ended December 31, 2016:		
Contributions and grants - unrestricted	2,093,765	2,073,968
Contributions and grants - total	2,144,140	2,124,343
Depreciation and amortization expense	203,383	187,539
Loss from operations	(19,631)	(39,427)
Brand development	-	(520,739)
Decrease in net assets	(30,191)	(554,882)
Net assets - end of year	2,195,911	1,671,220
Statement of cash flows for the year ended December 31, 2016:		
Decrease in net assets	(30,191)	(554,882)
Depreciation and amortization expense	203,383	187,539
Net cash provided by (used in) operating activities	176,448	(364,087)
Acquisition of intangible assets	(703,857)	(183,118)
Net cash used in investing activities	(721,432)	(200,694)