

Challenge Unlimited, Inc.

Financial Statements

December 31, 2022 and 2021

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Independent Auditor's Report

To the Board of Directors of
Challenge Unlimited, Inc.

Opinion

We have audited the accompanying financial statements of Challenge Unlimited, Inc. (a non-profit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Challenge Unlimited, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but

is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Challenge Unlimited, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Challenge Unlimited, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Anstiss & Co., P.C.

Anstiss & Co., P.C.
Chelmsford, MA
August 24, 2023

Challenge Unlimited, Inc.
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Current assets		
Cash and cash equivalents	\$ 483,363	\$ 336,401
Short-term investments	6,253	8,375
Accounts receivable - net	18,667	60,322
Pledges receivable - net	4,500	6,017
Prepaid expenses	15,167	15,279
Total current assets	527,950	426,394
Non-current assets		
Property and equipment - net	5,355,068	4,990,480
Other assets		
Beneficial interest in agency endowment	61,314	80,733
Total other assets	61,314	80,733
Total non-current assets	5,416,382	5,071,213
Total assets	\$ 5,944,332	\$ 5,497,607
Current liabilities		
Accounts payable and accrued expenses	\$ 91,939	\$ 58,565
Deferred revenue	3,090	4,060
Current portion of long-term debt	393,923	8,847
Total current liabilities	488,952	71,472
Long-term liabilities		
EIDL loan payable	151,044	150,270
Tractor loan	6,601	11,665
Mortgage payable	954,963	1,039,516
Total long - term liabilities	1,112,608	1,201,451
Total liabilities	1,601,560	1,272,923
Net assets		
Without donor restrictions		
Undesignated	(499,927)	(104,696)
Beneficial interest in agency endowment	61,314	80,733
Invested in property and equipment - net	4,315,552	3,950,964
Total without donor restrictions	3,876,939	3,927,001
With donor restrictions		
Purpose restrictions	465,833	297,683
Total with donor restrictions	465,833	297,683
Total net assets	4,342,772	4,224,684
Total liabilities and net assets	\$ 5,944,332	\$ 5,497,607

See the accompanying notes to these financial statements.

Challenge Unlimited, Inc.
Statements of Activities
For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue and support						
Instruction revenues	\$ 657,537	\$ -	\$ 657,537	\$ 566,291	\$ -	\$ 566,291
Contributions	99,732	574,720	674,452	182,602	371,892	554,494
Special events revenue	481,171	-	481,171	332,017	-	332,017
License and management fees	99,000	-	99,000	21,996	-	21,996
Donated securities	9,275	-	9,275	2,937	-	2,937
In-kind goods and services	3,910	-	3,910	3,915	-	3,915
Change in fair value of beneficial interest in agency endowment	(12,866)	-	(12,866)	10,429	-	10,429
Investment return	452	-	452	430	-	430
Forgiveness on Debt	-	-	-	323,265	-	323,265
Other income	2,060	-	2,060	-	-	-
Gain on disposal of property and equipment	5,976	-	5,976	-	-	-
Net assets released from restrictions	406,570	(406,570)	-	235,161	(235,161)	-
Total revenue and support	1,752,817	168,150	1,920,967	1,679,043	136,731	1,815,774
Expenses						
Lessons and therapy	1,309,994	-	1,309,994	963,411	-	963,411
Management and general	278,281	-	278,281	218,152	-	218,152
Fundraising expense	214,604	-	214,604	229,362	-	229,362
Total expenses	1,802,879	-	1,802,879	1,410,925	-	1,410,925
Change in net assets	(50,062)	168,150	118,088	268,118	136,731	404,849
Net assets - beginning of year	3,927,001	297,683	4,224,684	3,658,883	160,952	3,819,835
Net assets - end of year	\$ 3,876,939	\$ 465,833	\$ 4,342,772	\$ 3,927,001	\$ 297,683	\$ 4,224,684

See the accompanying notes to these financial statements.

Challenge Unlimited, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Lessons and therapy	Management and general	Fundraising	Total
Salaries and related	\$ 741,482	\$ 97,171	\$ 86,181	\$ 924,834
Farm operations	260,576	6,918	-	267,494
Depreciation	118,045	7,573	-	125,618
Cost of direct benefits to donors	-	-	35,914	35,914
Therapy services	78,945	-	-	78,945
Fundraising expense	7,050	2,243	84,993	94,286
Insurance	29,331	7,523	1,228	38,082
Interest expense	-	41,440	-	41,440
Professional fees	4,497	23,040	521	28,058
Advertising	601	255	1,961	2,817
Equipment rental and maintenance	11,141	742	-	11,883
Change in allowance for doubtful accounts	-	55,849	-	55,849
Office expenses and supplies	16,513	23,330	3,439	43,282
Communications	-	10,270	-	10,270
Instruction and support	41,728	-	-	41,728
Dues, fees and subscriptions	85	1,927	367	2,379
Total	\$ 1,309,994	\$ 278,281	\$ 214,604	\$ 1,802,879

See the accompanying notes to these financial statements.

Challenge Unlimited, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Lessons and therapy	Management and general	Fundraising	Total
Salaries and related	\$ 599,955	\$ 75,892	\$ 113,469	\$ 789,316
Farm operations	160,009	32,172	-	192,181
Depreciation	112,825	9,437	-	122,262
Cost of direct benefits to donors	-	-	51,518	51,518
Therapy services	23,637	-	-	23,637
Fundraising expense	1,242	-	56,823	58,065
Insurance	18,625	21,499	3,468	43,592
Interest expense	-	44,292	-	44,292
Professional fees	206	15,451	4,698	20,355
Advertising	73	151	660	884
Equipment rental and maintenance	6,993	2,969	-	9,962
Change in allowance for doubtful accounts	10,480	800	-	11,280
Office expenses and supplies	14,081	5,627	(1,274)	18,434
Communications	979	8,268	-	9,247
Instruction and support	13,537	-	-	13,537
Travel	769	744	-	1,513
Dues, fees and subscriptions	-	850	-	850
Total	\$ 963,411	\$ 218,152	\$ 229,362	\$ 1,410,925

See the accompanying notes to these financial statements.

Challenge Unlimited, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 118,088	\$ 404,849
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	125,618	122,262
Change in allowance for doubtful accounts	54,000	6,000
Bad debt	1,849	5,280
Gain on disposal of property and equipment	(5,500)	-
Gain on investments	(369)	(389)
Donated securities	(9,303)	(2,937)
Change in fair value of beneficial interest in agency endowment	19,419	(10,429)
Gain on forgiveness of debt	-	(323,265)
Interest accrued on debt	2,467	3,452
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(12,345)	2,093
Increase in pledges receivable	(332)	(5,217)
Decrease (increase) in other assets	112	(7,265)
Increase (decrease) in accounts payable and accrued expenses	33,374	(12,581)
Decrease in deferred revenue	(970)	(73,565)
Net cash provided by operating activities	326,108	108,288
Cash flows from investing activities		
Purchase of property and equipment	(484,706)	(227,113)
Proceeds from the sale of investments	11,794	-
Net cash used by investing activities	(472,912)	(227,113)
Cash flows from financing activities		
Payments on debt	(6,737)	(99,485)
Proceeds from debt	300,503	249,565
Net cash provided by financing activities	293,766	150,080
Net increase in cash and cash equivalents	146,962	31,255
Cash and cash equivalents - beginning of year	336,401	305,146
Cash and cash equivalents - end of year	\$ 483,363	\$ 336,401
Supplemental data:		
Interest paid	\$ 38,973	\$ 40,840
In-kind contributions	\$ 13,185	\$ 6,852

See the accompanying notes to these financial statements.

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 1 – ORGANIZATION

Challenge Unlimited, Inc. (the “Organization”) is a non-profit organization whose mission is to improve the quality of life of handicapped children and adults living primarily in the New England area by providing them with therapeutic horse-riding lessons taught by licensed and experienced physical therapists and instructors. Challenge Unlimited, Inc. was founded in 1983.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Organization reports information regarding its financial position and activities in two classes of net assets based upon the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations are classified as without donor restrictions. In addition, the Board may vote to set aside a certain dollar amount or percentage of net assets without donor restrictions for use at a specific time, for a specific purpose, or to function as endowment. These board-designated net assets may become undesignated with the passage of time or when used for their intended purpose. The Board may undesignate these net assets at its discretion if the originally intended time period or purpose is deemed to be no longer relevant or applicable to the needs of the Organization.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time are classified as net assets with donor restrictions. Also included in this category, are net assets subject to donor restrictions to be maintained in perpetuity as permanent assets of the Organization. Generally, all income and unrealized and realized net gains on investments related to these net assets can be made available for operations as the Organization appropriates its annual spending based on the use of a spending policy or in accordance with donor restrictions. When a restriction expires, 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.

Cash and Cash Equivalents

Cash equivalents include cash, time deposits, certificates of deposit, and other highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes. Cash, time deposits, certificates of deposit, and other highly liquid financial instruments restricted to building projects that are perpetual in nature or other long-term purposes are excluded from this definition.

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Fair Value Measurements

GAAP defines fair value measurements applied to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. Under GAAP, fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active or inactive markets and other significant inputs that are observable for the assets or liabilities, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are significant unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The carrying amounts for cash and cash equivalents, accounts receivable, prepaid expenses and other assets, accounts payable and accrued expenses, deferred revenue, and current portion of long-term debt approximate fair value due to their short-term nature. ASC 825-10, "*Financial Instruments*," permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The Organization has not adopted any of the additional fair value options allowed under the standard.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Fair value is based on market value which is based upon quoted prices from principal exchanges on which the securities are traded. Investment return, (including realized and unrealized gains and losses on investments, interest and dividends, net of investment management fees) is included in the current year change in net assets. Realized and unrealized investment gains and losses are determined by comparison of the difference between market values and average cost. Dividend and interest income is recognized when earned.

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Accounts Receivable

Revenue is accounted for at established rates on the accrual basis, less an allowance for contractual, charitable, and other arrangements for services provided at less than established rates. The organization's policy is to not accrue interest on trade receivables. The Organization records its accounts receivable at the outstanding principal amount less an allowance for doubtful accounts. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts based on the history of write-offs, collections, and current credit conditions. For the years ended December 31, 2022 and 2021, there was an allowance of \$130,000 and \$76,000, respectively.

Unconditional Promises to Give

Promises to give due within the next twelve months are recorded at their net realizable value. Unconditional promises to give due in more than twelve months are recognized initially at fair value in the period the donor makes the promise. The fair value of a pledge is estimated based on anticipated future cash receipts (net of an allowance for uncollectible amounts), discounted using a risk adjusted rate of 5% applicable to the years in which the promises are to be received. In subsequent periods, amortization of the discount rate is included in contribution revenue in the statements of activities. The allowance for uncollectible promise to give is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. Outstanding pledges as of December 31, 2022 and 2021 were \$4,500 and \$6,017, respectively.

Property and Equipment

Property and equipment is stated at cost if purchased and at fair value on the date of the gift if donated. Major additions and betterments exceeding \$1,000 are charged to property and equipment, while maintenance and repairs that do not improve or extend the lives of the respective assets are expensed in the year incurred. Depreciation is computed using the straight-line basis over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	39
Improvements	10-39
Livestock	3-7
Farm Equipment	5-7
Vehicles	7
Office Equipment	5
Riding Equipment	5
Software	3

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Property and Equipment (continued)

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison to the future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Revenue Recognition

Program service fees, which consist of therapy and lesson fees, are recognized when the services are provided. Program service fees billed or collected in advance are recorded as deferred revenue until the services are performed. As of December 31, 2022 and 2021, payments were collected in the amount of \$3,090 and \$4,060, respectively, for future riding lessons and recorded as deferred revenue.

The Organization recognizes special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Gifts of assets other than cash are recorded at their estimated fair value on the date of the gift. Pledges receivable are stated at the estimated net present value, net of an allowance for uncollectible amounts. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-Kind Contributions

Donated goods, services, and fixed assets are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. The Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service. There was \$13,185 and \$6,852 received in donated goods and securities during the years ended December 31, 2022 and 2021, respectively.

Volunteers contribute significant amounts of time to our program services, administration and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed professional services are recorded at the respective fair values of the services received. There were no donated services received during the years ended December 31, 2022 and 2021.

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The cost of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. The statement of functional expenses is required to present the natural classification detail of expenses by function allocated on a reasonable basis that is consistently applied. Expenses that can be identified with a specific program and support services are allocated directly. All direct costs are charged directly to applicable programs, grants, activities, etc. Direct costs that can be identified with more than one program are prorated individually as direct costs using a base most appropriate to the particular cost being prorated. All other costs that benefit all programs and cannot be identified with one or more specific programs are allocated to programs, grants, or activities using a base that results in a fair and equitable distribution. Supporting costs such as general administration and overhead, and fundraising are reported as management and general or fundraising, respectively.

Advertising

The Organization expenses advertising costs as incurred. During the years ended December 31, 2022 and 2021, the Organization incurred advertising costs of \$2,817 and \$884, respectively.

Income Taxes and Uncertain Tax Positions

The Organization, incorporated under Chapter 180 of the Massachusetts General Laws as a tax-exempt entity, has been granted tax-exempt status under Internal Revenue Code (IRC) Section 501(c)(3) and is classified as other than a private foundation as defined by section 509(a) of the IRC. Therefore, it is generally exempt from federal and state income taxes except for tax on unrelated business income. Management has determined that substantially all of the Organization income, expenditures, and activities relate to its exempt purpose, therefore, the Organization is not subject to unrelated business income taxes. Accordingly, no provision for income taxes has been provided for in the accompanying financial statements.

FASB ASC 740-10, "Accounting for Uncertainty in Income Taxes," requires the Organization to evaluate and disclose tax positions that could have an effect on the Organization's financial statements. The Organization reports its activities to the Internal Revenue Service and to the Commonwealth of Massachusetts on an annual basis. These informational returns are generally subject to audit and review by the governmental agencies for a period of three years after filing. Management believes it is no longer subject to review by taxing authorities for periods before 2019. Substantially all of the Organization's income, expenditures and activities relate to its exempt purpose, therefore, management has determined that the Organization is not subject to unrelated business income taxes and will continue to qualify as a tax-exempt not-for-profit entity.

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management considers credit risk to be minimal.

Investments are exposed to various risks such as market and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in values in the near term could materially affect investment balances and the amounts reported in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting updates

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses, Measurement of Credit Losses on Financial Statements*," amending FASB Accounting Standards Codification (ASC) by updating topic 326. The new ASU requires that organizations present financial assets at the net amount expected to be collected based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of reported amounts. For non-profit organizations, this ASU takes effect for annual periods beginning after December 15, 2022.

The Organization is currently evaluating the effect that this accounting pronouncement will have on the financial statements. There were no other accounting standards recently issued that had or are expected to have a material impact on the Organization's financial statements and associated disclosures.

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available within one year for general expenditure such as operating expenses and distributions in accordance with the Organization’s spending policy, were as follows for the years ending December 31st:

	2022
Cash and cash equivalents	\$ 486,363
Operating investments	6,253
Accounts/pledges receivable	23,167
Distributions from beneficial interest in agency endowment	3,066
Total financial assets available	\$ 518,849
	2021
Cash and cash equivalents	\$ 336,401
Operating investments	8,375
Accounts/pledges receivable	66,339
Distributions from beneficial interest in agency endowment	3,489
Total financial assets available	\$ 414,604

To manage liquidity, the Organization has a goal of maintaining 4 months of operating reserves on hand to meet current liquidity needs and address shortfalls in cash flow caused by seasonal revenue cycles. The operating reserves will be maintained in investment accounts with asset allocations consistent with an investment policy. These operating reserves, once established, will be Board designated and not accessible to management for operations without approval by the board.

In periods when there are shortfalls in revenues and support, the organization maintains a line of credit for \$150,000. The Executive Director may access the line of credit in times of need to meet current cash flows. The Board will be kept apprised of such access, use and status of the lines of credit.

In addition, the Organization has a beneficial interest in an agency endowment fund held by the Greater Lowell Community Foundation. These funds are held in pooled investment accounts with asset allocations consistent with the Foundation’s investment policy and include changes in the fair value of the beneficial interest based on net asset value. The annual distribution from this beneficial interest may be used for current operations.

The goal of the Board is to use excess cash on hand not required for current obligations to be added to investments held for operating reserves to either replenish amounts expended or increase available resources once the goal for establishment of such reserves is met.

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Due within one year	\$ 4,500	\$ 6,017
Due in one to five years	-	-
	\$ 4,500	\$ 6,017

NOTE 5- FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures (see Note 2). The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 30th:

2022				
	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments:				
Money market funds	\$ 1,002	\$ 1,002	\$ -	\$ -
Large cap equity funds	5,251	5,251	-	-
Total investments	\$ 6,253	\$ 6,253	\$ -	\$ -
Assets reported at NAV				
Beneficial interest	\$ 61,314			
2021				
	Total	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments:				
Money market funds	\$ 3,890	\$ 3,890	\$ -	\$ -
Large cap equity funds	4,485	4,485	-	-
Total investments	\$ 8,375	\$ 8,375	\$ -	\$ -
Assets reported at NAV				
Beneficial interest	\$ 80,733			

Challenge Unlimited, Inc.
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 6 – INVESTMENT RETURN

Investment return on cash equivalents and short-term investment consisted of the following for the years ended December 31st:

	<u>2022</u>	<u>2021</u>
Realized gains and losses	\$ 477	\$ -
Unrealized gains and losses	(108)	389
Investment and dividend income	83	41
Total	<u>\$ 452</u>	<u>\$ 430</u>

NOTE 7 – BENEFICIAL INTEREST IN AGENCY ENDOWMENT

The Organization has established an irrevocable agency endowment fund for its benefit at Greater Lowell Community Foundation, Inc. (GLCF). The fund agreement grants a variance power to the GLCF that allows for modification of the agreement by GLCF in certain limited circumstances. The fund provides for distributions to the Organization based on GLCF's spending policy (currently 5% annually of the average value of the fund). In accordance with FASB ASC 958-605-25-33, "Revenue Recognition," the fund has been reported as an asset of the Organization. The fair value of the fund, based on net asset value (NAV) at December 31, 2022 and 2021 was \$61,314 and \$80,733, respectively. Changes in the NAV of the fund (including realized and unrealized gains and losses, interest and dividend income, and administration fees) amounting to \$(12,866) and \$10,429 have been included in revenue and support for the years ended December 31, 2022 and 2021, respectively.

NOTE 8 – FIXED ASSETS

Property and equipment consisted of the following for the years ending December 31st:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,048,796	\$ 2,048,796
Buildings	4,061,479	3,373,219
Improvements	511,660	511,661
Livestock	100,513	113,528
Farm equipment	61,664	62,959
Vehicles	63,383	50,333
Office equipment	69,445	42,479
Riding equipment	31,750	31,750
Software	23,295	23,295
Construction in process	-	276,773
Furniture – Retreat House	23,728	-
	<u>6,995,713</u>	<u>6,534,793</u>
Less: accumulated depreciation	1,640,645	1,544,313
Property and equipment - net	<u>\$ 5,355,068</u>	<u>\$ 4,990,480</u>

Depreciation expense was \$125,618 and \$122,262 for the years ended December 31, 2022 and 2021, respectively.

Challenge Unlimited, Inc.
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NOTE 9 – LINE OF CREDIT

The Organization has a \$150,000 line of credit available from Enterprise Bank & Trust Company with a variable interest rate applied to the outstanding balance based on the Wall Street Journal Prime Rate plus two percentage points. The interest rate was 9.5% and 5.25% as of December 31, 2022 and 2021, respectively. The line of credit is secured by all the assets of the Organization and is subject to annual review for renewal. There was no outstanding amount on the line of credit as of December 31, 2022 and 2021.

The Organization opened a new on-demand loan that has a \$500,000 line of credit available from Enterprise Bank & Trust Company with a variable interest rate applied to the outstanding balance based on the Wall Street Journal Prime Rate plus two percentage points. The interest rate was 5% as of December 31, 2022. The loan is secured by all the assets of the Organization and is subject to annual review for renewal. The outstanding amount on this loan as of December 31, 2022 was \$300,503.

NOTE 10 – PPP Loan

On March 3, 2021, the Organization received \$160,065 in the second round PPP under the same provisions as the first round. The PPP was established as part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), enacted by the U.S. Government on March 27, 2020 to help small business retain employees during the pandemic and economic downturn. The PPP provides for loans to qualifying businesses for amounts up to two- and one-half times the average monthly allowable payroll costs incurred during the year prior to the loan date. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. No more than 40% of amounts expended can be for non-payroll costs and the amount of loan forgiveness will be reduced if the borrower terminates employees or reduces wages paid to employees by more than 25% during the twenty-four-week period. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%. If the forgiveness application is submitted within 10 months after the end of the covered period, payments will be deferred until the SBA remits the loan forgiveness amount to the lender or notifies the lender that no loan forgiveness is allowed. The Organization used the loan proceeds in a manner to allow for total forgiveness and received notification of forgiveness on September 17, 2021. The proceeds of both the first and second rounds, totaling \$323,265 were recognized as gain on forgiveness of debt in the statement of activities for the year ended December 31, 2021.

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NOTE 11 – LONG TERM DEBT

	<u>2022</u>	<u>2021</u>
<p>Mortgage payable (tax-exempt bond issuance from Massachusetts Development Finance Agency) underwritten by Enterprise Bank & Trust Company at an interest rate of 5.40% for 10 years which will be adjusted every 5 years thereafter. Monthly payments are \$11,683. On May 6, 2014 this mortgage (and associated bond) was amended to an interest rate of 3.62% with monthly payments of \$9,767. This loan is secured by a first mortgage and assignment of all leases and rents for real estate property owned by the Organization. The loan is guaranteed by Ironstone Therapy, Inc. This mortgage matures on March 1, 2033. Due to the COVID-19 pandemic, principal payments on this mortgage were deferred through June 30, 2023.</p>	\$1,039,516	\$1,039,516
<p>Small Business Administration Economic Injury Disaster Loan (EIDL) underwritten by Enterprise Bank & Trust Company at an annual interest rate of 2.75%. Monthly payments are \$668 beginning thirty months from the date of the loan, July 19, 2020. This loan is secured by all tangible and intangible personal property owned by the Organization. This loan matures on July 19, 2050 (thirty years from date of loan).</p>	154,850	154,278
<p>Promissory Note underwritten by Enterprise Bank and Trust Company at an interest rate of 4.50% for 48 months. Monthly payments are \$457 beginning April 20, 2021 and is secured by the underlying equipment. This loan matures on March 20, 2025.</p>	<u>11,662</u> 1,206,028	<u>16,504</u> 1,210,298
<p>Less: Current Portion</p>	<u>(93,420)</u> <u>\$1,112,608</u>	<u>(8,847)</u> <u>\$1,201,451</u>

The future minimum payments on the notes payable are as follows:

2023	\$ 93,420
2024	\$ 96,564
2025	\$ 95,588
2026	\$ 97,388
2027	\$100,598
Thereafter	\$722,470

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NOTE 12 - NET ASSETS

Net assets consisted of the following at December 31, 2022 and 2021, respectively:

	<u>2022</u>			<u>2021</u>		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Operating funds	\$ (499,927)	\$ 461,333	\$ (38,594)	\$ (104,696)	\$ 291,666	\$ 186,970
Pledges receivable	-	4,500	4,500	-	6,017	6,017
Beneficial interest	61,314	-	61,314	80,733	-	80,733
Invested in property and equipment - net	4,315,552	-	4,315,552	3,950,964	-	3,950,964
	<u>\$3,876,939</u>	<u>\$ 465,833</u>	<u>\$ 4,342,772</u>	<u>\$3,927,001</u>	<u>\$ 297,683</u>	<u>\$ 4,224,684</u>

As of December 31, 2022 and 2021, net assets with donor restrictions included contributions restricted for the following purposes:

	<u>2022</u>	<u>2021</u>
<i>Capital campaign and other programs</i>	\$ 102,096	\$ 89,462
<i>Therapy sponsorships</i>	256,722	181,527
<i>Strategic needs match</i>	107,015	26,694
	<u>\$ 465,833</u>	<u>\$ 297,683</u>

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

	<u>2022</u>	<u>2021</u>
Expiration of restrictions	\$406,570	\$235,161

NOTE 13 – LICENSE AND MANAGEMENT FEES

The Organization has entered into a management services agreement with Ironstone Therapy, Inc. to provide administrative support and use of its facilities, including horses and equipment. The agreement can be terminated with 30 days written notice. During the years ended December 31, 2022 and 2021, Challenge Unlimited recorded license and management fees of \$99,000 and \$21,996, respectively.

NOTE 14 – EMPLOYEE BENEFIT PLANS

Challenge Unlimited, Inc. offers a pre-tax salary reduction 403(b) plan to all full-time employees. The plan is intended to qualify as a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code. The Organization is not required to make any contributions to the plan nor is it responsible for the account balances of plan participants.

Challenge Unlimited, Inc.
Notes to Financial Statements
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NOTE 15 – SUBSEQUENT EVENTS

ASC 855-10, “Subsequent Events,” defines further disclosure requirements for events that occur after the statement of financial position date but before financial statements are issued. In accordance with ASC 855-10, the Organization’s management has evaluated events subsequent to December 31, 2022 through August 24, 2023, which is the date the financial statements were available to be issued. There were no material events noted during this period that would either impact the results reflected in this report or the Organization’s results going forward.