

Financial Statements

CHARITY CARS, INC.

August 31, 2020

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Financial Statements

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(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

The Board of Directors
Charity Cars, Inc.:

We have audited the accompanying financial statements of Charity Cars, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charity Cars, Inc. as of August 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Charity Cars, Inc.'s 2019 financial statements, and our report dated October 23, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schater, Tschagg, Whitcomb, Mitchell & Shuilen, LLP

Maitland, Florida
November 4, 2020

CHARITY CARS, INC.

Statements of Financial Position

August 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 507,712	369,566
Accounts receivable	89,765	32,130
Inventory	1,570,021	3,287,402
Prepaid expenses	15,894	20,201
Total current assets	<u>2,183,392</u>	<u>3,709,299</u>
Property and equipment, net	548,388	530,111
Other assets:		
Intangible assets and other assets	<u>150,000</u>	<u>150,000</u>
Total assets	<u>\$ 2,881,780</u>	<u>4,389,410</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 6,760	5,268
Accrued liabilities	76,745	33,189
Total liabilities	<u>83,505</u>	<u>38,457</u>
Net assets without donor restrictions	<u>2,798,275</u>	<u>4,350,953</u>
Total liabilities and net assets	<u>\$ 2,881,780</u>	<u>4,389,410</u>

See accompanying notes to financial statements.

CHARITY CARS, INC.

Statements of Activities

Years ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue and other support:		
Proceeds from donated vehicle sales	\$ 4,687,462	4,111,722
Donated program vehicles	4,651,586	7,375,680
Paycheck protection program grant (note 9)	152,800	-
Contributions	44,209	39,945
Other revenues	1,987	453
Total revenue and other support	<u>9,538,044</u>	<u>11,527,800</u>
Expenses:		
Program services	9,428,212	9,697,443
General and administrative	275,611	272,742
Development	1,386,899	1,380,791
Total expenses	<u>11,090,722</u>	<u>11,350,976</u>
Change in net assets	(1,552,678)	176,824
Net assets at beginning of year	<u>4,350,953</u>	<u>4,174,129</u>
Net assets at end of year	<u>\$ 2,798,275</u>	<u>4,350,953</u>

See accompanying notes to financial statements.

CHARITY CARS, INC.

Statements of Functional Expenses

Year ended August 31, 2020

(With summarized comparative data from the year ended August 31, 2019)

	Year ended August 31, 2020			Total	Year ended August 31, 2019
	Program Services	General and Administrative	Development		
Salaries	\$ 506,919	211,216	337,947	1,056,082	992,415
Employee benefits	1,382	576	922	2,880	2,459
Payroll taxes	27,105	11,294	18,070	56,469	61,805
Payroll fees	3,855	1,606	2,571	8,032	8,825
Total salaries and related expenses	539,261	224,692	359,510	1,123,463	1,065,504
Value of donated program vehicles distributed, repair costs and other costs	6,515,520	-	-	6,515,520	6,777,591
Advertising	-	-	947,456	947,456	944,830
Public awareness/outreach	2,210,731	-	-	2,210,731	2,204,604
Nonprofit funding	11,053	-	-	11,053	6,281
Other program costs	19,869	-	-	19,869	38,335
Office supplies	9,462	3,943	6,308	19,713	15,170
Equipment repairs and maintenance	720	300	480	1,500	634
Professional fees	3,984	1,660	2,656	8,300	8,900
Contract fees	400	-	-	400	1,765
Office rent, equipment lease and storage costs	19,046	7,936	12,698	39,680	39,194
Travel and entertainment	10,528	4,387	7,018	21,933	45,729
Insurance	14,703	6,126	9,803	30,632	21,870
Telephone	13,706	5,711	9,137	28,554	31,231
Website costs, computer repairs and internet fees	21,558	8,982	14,372	44,912	55,266
Postage	11,790	4,912	7,860	24,562	28,662
Licenses, permits and dues	2,448	1,020	1,631	5,099	5,131
Bank fees and credit card fees	-	961	-	961	267
Promotional events	11,479	-	-	11,479	11,199
Utilities	2,436	1,015	1,625	5,076	4,865
Repairs and maintenance	144	60	96	300	300
Miscellaneous	54	23	36	113	4,370
Total expenses before other expenses	9,418,892	271,728	1,380,686	11,071,306	11,311,698
Depreciation	9,320	3,883	6,213	19,416	35,552
Loss on disposal of property and equipment	-	-	-	-	3,726
Total expenses	\$ 9,428,212	275,611	1,386,899	11,090,722	11,350,976

See accompanying notes to financial statements.

CHARITY CARS, INC.

Statements of Cash Flows

Years ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,552,678)	176,824
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	19,416	35,552
(Gain) loss on disposal of property and equipment	(1,968)	3,726
Donated vehicles used as property and equipment received	(46,300)	(99,925)
Donated vehicles used as property and equipment distributed	10,575	47,631
Net change in cash flows from changes in:		
Accounts receivable	(57,635)	44,880
Prepaid expenses	4,307	(13,938)
Inventory	1,717,381	(680,753)
Accounts payable	1,492	1,698
Accrued liabilities	43,556	(8,242)
Net cash provided by (used in) operating activities	<u>138,146</u>	<u>(492,547)</u>
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	-	14,950
Net cash provided by investing activities	<u>-</u>	<u>14,950</u>
Net increase (decrease) in cash and cash equivalents	138,146	(477,597)
Cash and cash equivalents at beginning of year	<u>369,566</u>	<u>847,163</u>
Cash and cash equivalents at end of year	<u>\$ 507,712</u>	<u>369,566</u>

See accompanying notes to financial statements.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2020

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Charity Cars, Inc. (the Organization) was incorporated as a not-for-profit organization to provide vehicles to qualified needy individuals making the transition from dependency to self-sufficiency and to provide to other unrelated independent not-for-profit organizations who participate in the “affiliate non-profit program” the opportunity to provide vehicles to their clients and to provide funding for their organizations. Additionally, the Organization’s mission is to engage in activities to improve humanity.

The Charity Cars program provides a free vehicle, low cost service and towing, and at times, tag registration, and the down payment for insurance to its program participants. Because its objective is to place a vehicle with its program participants that meets certain standards of quality and reliability, the vast majority of donated vehicles are not eligible to be “program” cars (the Organization bases its decisions on many factors including, but not limited to, year, make, model, mileage, condition, location, recipient, repair and funding limitations) and since placing a vehicle with a program participant is the exception rather than the rule, most donated vehicles are sold at auction with the proceeds being used solely for the operations of the Organization, including the costs to repair “program” cars and the additional costs of providing such vehicles to its program participants. The Organization does not utilize the services of any outside for-profit or not-for-profit fundraising organizations or companies in its donation operations.

(b) Basis of Accounting

The accompanying financial statements are presented on the accrual basis and represent the financial position and results of operations of the Organization.

The Organization has adopted the provisions of FASB Accounting Standards Codification Topic 958, Not-for-Profit Entities.

The Organization prepares its financial statements on an entity wide basis, focusing on the organization as a whole and presents balances and transactions according to the existence or absence of donor-imposed restrictions. Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2020

(1) Organization and Summary of Significant Accounting Policies - Continued

(b) Basis of Accounting - Continued

- Net assets without donor restrictions---Net assets that are not subject to donor-imposed stipulations.
- Net assets with donor restrictions---Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donor-imposed restrictions that are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. Laws may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, those laws extend donor-imposed restrictions.

Under generally accepted accounting principles, contributions are generally recognized as revenue when the gift is made and are recorded as with or without donor restrictions, depending on the presence or absence and type of donor-imposed restrictions or conditions.

Revenue and other support are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expirations with donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as support without donor restrictions.

Contributions, including unconditional promises to give, are recognized as revenue in the period made or received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2020

(1) **Organization and Summary of Significant Accounting Policies - Continued**

(c) **Donated Program Vehicles**

Program vehicles donated to the Organization are reflected in the financial statements as support and expense at their estimated fair value. Management uses the National Automotive Dealer Association (NADA) retail values as a guideline for establishing values for vehicles donated to program participants. The cost of donated program vehicles also includes any applicable repair costs and title fees paid by the Organization.

(d) **Proceeds from Donated Vehicles**

Donated vehicles that are deemed not to be of the quality of a program vehicle are ultimately sold either at auction or for salvage and are valued according to the actual cash proceeds (which is net of associated auction and towing fees) on their disposition.

(e) **Cash and Cash Equivalents**

The Organization places its cash balances in a highly rated financial institution located within the State of Florida. The balances are insured by the Federal Deposit Insurance Corporation up to certain limits and, at times, cash in bank may exceed FDIC insurance limits.

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(f) **Accounts Receivable**

Management reviews accounts receivable on a regular basis to determine collectability. Balances that are determined to be uncollectible are reserved and recorded as bad debt expense. At August 31, 2020, the Organization deemed all receivables to be collectible and therefore no reserve for bad debts was recorded.

(g) **Property and Equipment**

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2020

(1) Organization and Summary of Significant Accounting Policies - Continued

(g) Property and Equipment - Continued

their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how low those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Purchased property and equipment are stated at cost.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives range from three to seven years.

Additions and betterments are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

During the year ended August 31, 2020, the Organization received donated vehicles totaling \$46,300, of which \$46,300 are being used internally and are being depreciated, and \$0 are being held for other program services. Total vehicles being used internally and depreciated are \$111,600 and total vehicles being held for other program services are \$459,850 at August 31, 2020. The Organization gave away or sold during the year ended August 31, 2020, vehicles with a net book value of \$10,575 that had previously been used internally.

(h) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Program expenses include all direct and certain indirect expenses incurred in the Organization's meeting and fulfilling its mission statement. The basis for allocating certain expenses is determined by management's best estimates and judgments and allocation of employee's labor costs and time in the following activities:

- Acquisition of vehicle donations for resale purposes
- Acquisition of vehicle donations for transfer to qualified program participants
- Submission of request for vehicles by individuals and subsequent referrals
- Submission of request for donations to qualified individuals by qualified "affiliates"
(unrelated independent non-profit organization who provide vehicles to their clients)

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2020

(1) **Organization and Summary of Significant Accounting Policies - Continued**

(i) **Intangible Assets**

In November 2001, the Organization purchased the full rights, title and responsibilities of the telephone number 1-800-Charity and the internet domain names 1-800-Charity.com, 1-800-Charity.net and 1-800-Charity.org for \$100,000. In May 2004, the Organization purchased the full rights, title and responsibilities of the telephone number 1-877-Charity and internet domain names 1-877-Charity.com, 1-877-Charity.net and 1-877-Charity.org for \$50,000.

The Organization records intangible assets in accordance with accounting for Goodwill and Other Intangible Assets. Management has determined that the Organization's intangible assets have an indefinite useful life and therefore assess whether there has been any permanent impairment in the value of intangible assets at each balance sheet date. At August 31, 2020, management determined intangible assets have not been impaired.

(j) **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. Accordingly, actual results could differ from those estimates.

(k) **Internet Traffic Charges and Advertising**

The Organization expenses internet traffic charges and advertising as incurred. Internet traffic charges and advertising totaled \$947,456 for the year ended August 31, 2020.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2020

(1) Organization and Summary of Significant Accounting Policies - Continued

(l) Income Tax Status

The Organization is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization has implemented Accounting for Uncertainty in Income Taxes. The Organization tax returns for the years 2017 to 2019 are open for IRS examination. The Organization evaluates its tax position for uncertainties on a regular basis and has determined that it has no uncertain tax position as of August 31, 2020.

(m) Tax Legislation

The Organization complies with the provisions of the American Jobs Creation Act issued in October 2004, which established a limitation on a donor’s income-tax deduction for a donated vehicle to the amount a charity receives upon sale. Charities are required to supply receipts to donors stating how much the vehicles were sold for. Donated vehicles worth less than \$500 are exempt from the requirement, as are vehicles that a charity fixes up and then uses for its own purpose.

(n) Subsequent Events

In preparing these financial statements, the Organization has evaluated subsequent events and transactions for potential recognition and disclosure through November 4, 2020, which is the date the financial statements were available to be issued.

(2) Liquidity and Availability

As of August 31, 2020, the Organization has \$597,477 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2020

(2) **Liquidity and Availability - Continued**

The following table reflects the Organization's financial assets as of August 31, 2020.

Cash and cash equivalents	\$ 507,712
Accounts receivable	<u>89,765</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 597,477</u>

(3) **Inventory**

Inventory is comprised of vehicles, both program vehicles and vehicles anticipated to be sold at auction that have been donated but have not been given away or sold by August 31, 2020. The value of program vehicles is based on NADA retail value. The value of the vehicles to be sold at auction is estimated based on expected net proceeds to be received upon disposition. As of August 31, 2020, the inventory value for program vehicles and salvage vehicles was \$1,294,813 and \$275,208, respectively.

(4) **Property and Equipment**

Property and equipment consist of the following at August 31, 2020:

Website development	\$ 198,030
Vehicles	111,600
Vehicles held for other program services	459,850
Office furniture and equipment	<u>108,085</u>
	877,565
Accumulated depreciation	<u>(329,177)</u>
	<u>\$ 548,388</u>

(5) **Pension Plan**

The Organization has a simple IRA 401K plan (the Plan) for all full-time employees after the 90-day probationary period. The Plan was not funded during the year ended August 31, 2020.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2020

(6) Operating Leases

The Organization leases its office facility under a lease agreement for 2 years that expires September 2020 in the amount of \$16,680 per year. Lease expense for the year was approximately \$40,000 which includes the office facility, equipment and storage fees.

(7) Related Party Transactions

The president and certain employees of the Organization have available for use certain donated vehicles of the Organization.

(8) Subsequent Event - Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. Future potential impacts may include disruptions or restrictions on our employees' ability to work. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of donors to contribute as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

(9) Paycheck Protection Program (PPP) Loan

In May 2020, the Organization applied for and received a loan in the amount of \$152,800 pursuant to the Paycheck Protection Program (PPP) established by the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide relief in connection with the coronavirus pandemic. The note bears interest at 1% and is subject to a payment deferral period of six months. However, the note and related interest are subject to forgiveness when the proceeds of the loan are used to fund payroll and other allowable expenses as defined by the PPP. As of August 31, 2020, the Organization incurred \$152,800 of qualifying expenditures and, accordingly, has recorded that amount as PPP grant revenue in the accompanying statement of activities. In addition, as a result of the forgiveness described herein, the loan balance is considered satisfied in full as of August 31, 2020.