

Financial Statements

CHARITY CARS, INC.

August 31, 2023

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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.:

Opinion

We have audited the accompanying financial statements of Charity Cars, Inc. (a nonprofit corporation), which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, functional expenses and cash flows for the year 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 Charity Cars, Inc. as of August 31, 2023, 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.

Basis for Opinion

We conducted our audit 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 Charity Cars, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Charity Cars, 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 Charity Cars, 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Charity Cars, 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.

Report on Summarized Comparative Information

We have previously audited the Charity Cars, Inc.'s 2022 financial statements, and our report dated November 16, 2022, 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, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schaefer, Tschoff, Whitcomb, Mitchell & Shuikan, LLP

Maitland, Florida
November 1, 2023

CHARITY CARS, INC.
Statements of Financial Position
August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 200,860	482,611
Accounts receivable	5,220	32,765
Inventory (note 5)	922,627	2,498,692
Prepaid expenses	14,945	16,139
Total current assets	1,143,652	3,030,207
Investments (notes 3 & 4)	259,855	503,594
Property and equipment, net (note 6)	40,844	15,231
Other assets:		
Vehicles held for other program services (note 1)	-	134,850
Intangible assets and other assets (note 1)	150,000	150,000
Total assets	\$ 1,594,351	3,833,882
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 77,219	92,256
Total liabilities	77,219	92,256
Net assets without donor restrictions	1,517,132	3,741,626
Total liabilities and net assets	\$ 1,594,351	3,833,882

See accompanying notes to financial statements.

CHARITY CARS, INC.
Statements of Activities
Years ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue and other support:		
Proceeds from donated vehicle sales	\$ 1,668,252	3,793,045
Donated program vehicles	4,401,595	6,999,793
Employee retention credit	149,886	-
Contributions	2,461,187	1,115,797
Unrealized gains (losses) on investments	(17,058)	4,434
In kind vehicles and repairs	649,956	-
Other revenues	6,245	22
Total revenue and other support	<u>9,320,063</u>	<u>11,913,091</u>
Expenses:		
Program services	10,617,764	9,829,537
General and administrative	243,615	344,028
Development	683,178	1,239,493
Total expenses	<u>11,544,557</u>	<u>11,413,058</u>
Change in net assets	(2,224,494)	500,033
Net assets at beginning of year	<u>3,741,626</u>	<u>3,241,593</u>
Net assets at end of year	<u>\$ 1,517,132</u>	<u>3,741,626</u>

See accompanying notes to financial statements.

CHARITY CARS, INC.

Statement of Functional Expenses

Year ended August 31, 2023

(With summarized comparative data from the year ended August 31, 2022)

	Year ended August 31, 2023			Total	Year ended August 31, 2022
	Program Services	General and Administrative	Development		
Salaries	\$ 575,027	191,676	298,161	1,064,864	1,539,125
Employee benefits	269	90	139	498	949
Payroll taxes	38,908	12,969	20,175	72,052	100,643
Payroll fees	4,903	1,634	2,543	9,080	10,728
Total salaries and related expenses	619,107	206,369	321,018	1,146,494	1,651,445
Value of donated program vehicles distributed, repair costs and other costs	9,113,916	-	-	9,113,916	7,032,374
Advertising	-	-	304,221	304,221	685,154
Public awareness/outreach	709,849	-	-	709,849	1,598,692
Nonprofit funding	25,063	-	-	25,063	131,554
Other program costs	26,688	-	-	26,688	37,565
Office supplies	7,871	2,624	4,081	14,576	14,673
Professional fees	6,588	2,196	3,416	12,200	10,050
Office rent, equipment lease and storage costs	20,650	6,883	10,707	38,240	49,041
Travel and entertainment	13,944	4,648	7,231	25,823	48,804
Insurance	13,283	4,428	6,887	24,598	24,016
Telephone	10,472	3,491	5,430	19,393	21,090
Website costs, computer repairs and internet fees	23,630	7,877	12,252	43,759	56,641
Postage	7,363	2,454	3,819	13,636	20,239
Registrations	4,622	-	-	4,622	5,073
Promotional events	6,781	-	-	6,781	11,374
Utilities	3,046	1,015	1,579	5,640	6,138
Miscellaneous	1,137	379	590	2,106	(2,051)
Total expenses before other expenses	10,614,010	242,364	681,231	11,537,605	11,401,872
Depreciation	3,754	1,251	1,947	6,952	11,186
Total expenses	\$ 10,617,764	243,615	683,178	11,544,557	11,413,058

See accompanying notes to financial statements.

CHARITY CARS, INC.

Statements of Cash Flows

Years ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from		
Change in net assets	\$ (2,224,494)	500,033
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,952	11,186
Loss on disposal of vehicles held for other program services	52,904	-
Realized and unrealized (gain) loss on investments	6,270	(4,434)
Donated securities	(2,229,943)	(1,024,104)
Donated vehicles used as property and equipment received	(36,725)	-
Donated vehicles used as property and equipment distributed	-	16,597
Net change in cash flows from changes in:		
Accounts receivable	27,545	74,975
Prepaid expenses	1,194	(470)
Inventory	1,576,065	(1,014,412)
Accounts payable and accrued expenses	(15,036)	(18,971)
Net cash used in operating activities	<u>(2,835,268)</u>	<u>(1,459,600)</u>
Cash flows from investing activities:		
Proceeds from sale of annuity contracts	254,527	-
Purchases of annuity contracts	-	(500,000)
Proceeds from the sale of securities	2,212,885	1,024,944
Proceeds from the sale of vehicles held for other program services	86,105	-
Net cash provided by investing activities	<u>2,553,517</u>	<u>524,944</u>
Net increase (decrease) in cash and cash equivalents	(281,751)	(934,656)
Cash and cash equivalents at beginning of year	<u>482,611</u>	<u>1,417,267</u>
Cash and cash equivalents at end of year	<u>\$ 200,860</u>	<u>482,611</u>

See accompanying notes to financial statements.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2023

(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:

- 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

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2023

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

(b) Basis of Accounting - Continued

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.

(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.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2023

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

(e) Cash and Cash Equivalents - Continued

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, 2023, the Organization deemed all receivables to be collectible and therefore no reserve for bad debts was recorded.

(g) Investments

Investments are carried 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.

(h) 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 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 long 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.

Total vehicles being used internally and depreciated are \$52,525. The Organization gave away or sold during the year ended August 31, 2023, vehicles with a net book value of \$4,161 that had previously been used internally.

(i) 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

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2023

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

(i) Functional Allocation of Expenses - Continued

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)

(j) 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, 2021, management determined intangible assets have not been impaired.

(k) 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.

(l) Internet Traffic Charges and Advertising

The Organization expenses internet traffic charges and advertising as incurred. Internet traffic charges and advertising totaled \$304,221 for the year ended August 31, 2023.

(m) 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.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2023

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

(m) Income Tax Status - Continued

The Organization has implemented Accounting for Uncertainty in Income Taxes. The Organization tax returns for the years 2020 to 2022 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, 2023.

(n) 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.

(o) Fair Value Measurements

ASC 820, Fair Value Measurements, establishes 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, 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, or 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 (including the Organization's own assumptions in determining the fair value of investments).

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2023

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

(o) Fair Value Measurements - Continued

An asset 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.

Valuation Techniques

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2023.

Annuity Contracts:

The annuity contract is reported at contract value, which approximates fair value. Contract value represents contributions made under the agreement, plus earnings, less withdrawals and administrative expenses. As this investment is contract-based, observable prices for identical or similar investments do not exist, and accordingly, the investment is valued using unobservable inputs and is classified as Level 3.

The following tables sets forth by level, within the fair value hierarchy, the Library's assets measured at fair value as of August 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments – annuity contracts	<u>\$ -</u>	<u>-</u>	<u>259,855</u>	<u>259,855</u>

(p) Prior Year Comparative Data

The financial statements include certain prior year summarized comparative information. This information has been presented in order to provide an understanding of changes in the Organization's financial position and activities. The prior year information in the statement of activities is presented in total but not by net asset class and, as such, does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In addition, certain amounts have been reclassified in order to conform with the current year's presentation.

(q) Subsequent Events

In preparing these financial statements, the Organization has evaluated subsequent events and transactions for potential recognition and disclosure through November 1, 2023, which is the date the financial statements were available to be issued.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2023

(2) Liquidity and Availability

As of August 31, 2023, the Organization has \$465,935 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.

The following table reflects the Organization's financial assets as of August 31, 2023.

Cash and cash equivalents	\$ 460,715
Accounts receivable	5,220
Investment – annuity contracts	<u>259,855</u>
	725,790
Less amounts unavailable for general expenditures within one year:	
Investments – annuity contracts	<u>(259,855)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 465,935</u>

(3) Annuity Contracts

The Organization has entered into a fixed annuity contract with a life insurance company. The Organization's contract investment balance is credited with earnings based upon contractually determined interest rates, and is charged with withdrawals and administrative expenses. The life insurance company establishes an effective annual interest rate. In no event will such effective annual interest rate be less than the minimum interest rate as defined by the contract. The annuity contract is included in the statement of financial position at contract value as reported by the life insurance company which approximates fair value. There are no reserves against contract value for credit risk of the issuer or otherwise.

The minimum guaranteed interest rate is 0.25%. For the year ended August 31, 2023, the average yield was approximately 2.80%.

The contract did not specify the circumstances under which the issuer may terminate the contract other than a written notice to the contract holder within 30 days after issuance. Currently, management believes that the occurrence of an event that would cause the Organization to receive less than contract value is not probable.

(4) Investments

At August 31, 2023, the Organization's investment portfolio consisted of annuity contracts carried at contract value which approximates fair value. The Organization derives the fair value of its annuity contracts based on Level 3 inputs.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2023

(4) Investments - Continued

The following table summarizes the Organization's investments at August 31, 2023.

	<u>Cost</u>	<u>Fair Value</u>
Annuity contracts	<u>\$ 250,000</u>	<u>259,855</u>

Investment gains and losses are reported in the accompanying statements of activities include realized and unrealized gains of \$10,788 in 2023 associated with the investments reflected herein.

(5) 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, 2023. 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, 2023, the inventory value for program vehicles and salvage vehicles was \$835,675 and \$86,952, respectively for a total value of \$922,627.

(6) Property and Equipment

Property and equipment consist of the following at August 31, 2023:

Website development	\$ 198,030
Vehicles	52,525
Office furniture and equipment	<u>108,085</u>
	358,640
Accumulated depreciation	<u>(317,796)</u>
	<u>\$ 40,844</u>

(7) Retirement 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, 2023.

(8) Operating Leases

The Organization leases its office facility under a lease agreement on a month-to month basis in the amount of \$1,440 per month. Lease expense for the year was approximately \$37,000 which includes the office facility, equipment and storage fees.

(9) Related Party Transactions

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