

**Financial Statements**

**CHARITY CARS, INC.**

**August 31, 2016**

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**(With Independent Auditor's Report Thereon)**

CHARITY CARS, INC.

Financial Statements

August 31, 2016

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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, 2016, 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, 2016, 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 2015 financial statements, and our report dated October 7, 2015, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Schacter, Tschagg, Whittemt, Mitchell & Shuidan, LLP*

Maitland, FL  
November 17, 2016

CHARITY CARS, INC.

**Statements of Financial Position**

August 31, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 17,272	40,427
Accounts receivable	42,443	8,139
Inventory	1,996,503	1,011,712
Prepaid expenses	<u>1,180</u>	<u>6,200</u>
Total current assets	2,057,398	1,066,478
Property and equipment, net	51,276	74,101
Other assets:		
Intangible assets and other assets	<u>155,000</u>	<u>155,000</u>
Total assets	<u>\$ 2,263,674</u>	<u>1,295,579</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 6,761	5,044
Accrued liabilities	<u>71,411</u>	<u>60,770</u>
Total liabilities	<u>78,172</u>	<u>65,814</u>
Unrestricted net assets	<u>2,185,502</u>	<u>1,229,765</u>
Total liabilities and net assets	<u>\$ 2,263,674</u>	<u>1,295,579</u>

See accompanying notes to financial statements.

CHARITY CARS, INC.

**Statements of Activities**

Years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Revenue and other support:		
Proceeds from donated vehicle sales	\$ 965,213	459,542
Donated program vehicles	5,052,668	3,143,331
Contributions	29,550	50,836
Other revenues	<u>15,545</u>	<u>28,186</u>
Total revenue and other support	<u>6,062,976</u>	<u>3,681,895</u>
Expenses:		
Program services	4,716,248	4,078,071
General and administrative	147,218	123,804
Development	<u>243,773</u>	<u>157,220</u>
Total expenses	<u>5,107,239</u>	<u>4,359,095</u>
Change in net assets	955,737	(677,200)
Net assets at beginning of year	<u>1,229,765</u>	<u>1,906,965</u>
Net assets at end of year	<u><u>\$ 2,185,502</u></u>	<u><u>1,229,765</u></u>

See accompanying notes to financial statements.

CHARITY CARS, INC.

Statements of Functional Expenses

Year ended August 31, 2016

(With summarized comparative data from the year ended August 31, 2015)

	Year ended August 31, 2016				Year ended August 31, 2015
	Program Services	General and Administrative	Development	Total	
Salaries	\$ 131,057	92,335	74,464	297,856	248,431
Employee benefits	692	487	393	1,572	1,327
Payroll taxes	10,465	7,373	5,945	23,783	23,635
Payroll fees	2,199	1,549	1,249	4,997	5,963
Total salaries and related expenses	144,413	101,744	82,051	328,208	279,356
Value of donated program vehicles distributed, repair costs and other costs	4,166,644	-	-	4,166,644	3,652,498
Internet advertising and other advertising and marketing	300,432	-	128,756	429,188	210,718
Nonprofit funding	8,738	-	-	8,738	6,215
Office supplies	2,509	1,768	1,426	5,703	4,741
Equipment repairs and maintenance	1,066	751	606	2,423	-
Professional fees	4,107	2,893	2,333	9,333	9,500
Contract fees	200	-	-	200	50
Rent	7,147	5,035	4,061	16,243	15,325
Travel and entertainment	19,467	-	-	19,467	25,994
Insurance	5,508	3,881	3,130	12,519	8,897
Telephone	6,771	4,770	3,847	15,388	13,233
Website costs, computer repairs and internet fees	17,011	5,432	4,380	26,823	45,448
Postage	5,181	740	1,480	7,401	5,587
Licenses, permits and dues	2,361	1,663	1,341	5,365	4,648
Bank fees and credit card fees	-	5,693	-	5,693	3,851
Promotional events	5,557	-	-	5,557	4,364
Bad debt	900	-	-	900	1,020
Utilities	1,104	777	627	2,508	2,655
Miscellaneous	840	592	478	1,910	2,850
Total expenses before other expenses	4,699,956	135,739	234,516	5,070,211	4,296,950
Depreciation and amortization	16,292	11,479	9,257	37,028	62,145
Total expenses	\$ 4,716,248	147,218	243,773	5,107,239	4,359,095

See accompanying notes to financial statements.



CHARITY CARS, INC.

**Statements of Cash Flows**

Years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 955,737	(677,200)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	37,028	62,145
Loss on sale of property and equipment	1,910	131
Donated vehicles used as property and equipment received	(36,125)	(19,150)
Donated vehicles used as property and equipment distributed	14,932	8,146
Net change in cash flows from changes in:		
Accounts receivable	(34,304)	(4,495)
Prepaid expenses	5,020	(2,767)
Inventory	(984,791)	442,100
Intangible assets and other assets	-	(5,000)
Accounts payable	1,717	589
Accrued liabilities	10,641	(4,072)
Net cash used in operating activities	<u>(28,235)</u>	<u>(199,573)</u>
Cash flows from investing activities:		
Proceeds from sale of property and equipment	<u>5,080</u>	<u>16,700</u>
Net cash provided by investing activities	<u>5,080</u>	<u>16,700</u>
Net decrease in cash and cash equivalents	(23,155)	(182,873)
Cash and cash equivalents at beginning of year	<u>40,427</u>	<u>223,300</u>
Cash and cash equivalents at end of year	<u>\$ 17,272</u>	<u>40,427</u>

See accompanying notes to financial statements.

CHARITY CARS, INC.

**Notes to Financial Statements**

August 31, 2016

(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 Presentation**

The Organization reports information regarding their financial position and activities according to three classes or net assets as follows:

**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. There were no permanently restricted net assets as of or for the year ended August 31, 2016.

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. There were no temporarily restricted net assets as of August 31, 2016.

**Unrestricted net assets** – Net assets not subject to donor-imposed stipulations.

CHARITY CARS, INC.

Notes to Financial Statements

August 31, 2016

(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, 2016, the Organization deemed all receivables to be collectible and therefore no reserve for bad debts was recorded.

CHARITY CARS, INC.

**Notes to Financial Statements**

August 31, 2016

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

**(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 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.

During the year ended August 31, 2016, the Organization received donated vehicles totaling \$36,125 which they are using internally and are depreciating. The Organization gave away or sold at auction vehicles with a net book value of \$21,922 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, 2016

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

**(h) Functional Allocation of Expenses - Continued**

The Organization incurs certain advertising costs in connection with its activities. Due to the content of the Organization's website, management believes that the criteria, purpose, audience and content have been met to enable them to treat such expense as a joint cost activity.

**(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, 2016, 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, Advertising and Marketing**

The Organization expenses internet advertising and other advertising and marketing costs as incurred. Internet advertising and other advertising and marketing totaled \$429,188 for the year ended August 31, 2016, and consists of internet "per click" charges to drive traffic to the Organization's website.

CHARITY CARS, INC.

**Notes to Financial Statements**

August 31, 2016

**(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 2013 to 2015 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, 2016.

**(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 17, 2016 which is the date the financial statements were available to be issued.

**(2) 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, 2016. 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, 2016, the inventory value for program vehicles and salvage vehicles was \$1,907,355 and \$89,148, respectively.

CHARITY CARS, INC.

**Notes to Financial Statements**

August 31, 2016

**(3) Property and Equipment**

Property and equipment consist of the following at August 31, 2016:

Website development	\$ 198,030
Vehicles	66,156
Office furniture and equipment	<u>107,637</u>
	371,823
Accumulated depreciation	<u>(320,547)</u>
	<u>\$ 51,276</u>

**(4) 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, 2016.

**(5) Operating Leases**

The Organization leases its office facility under a lease agreement for 1 year that expires November 2016 in the amount of \$8,340. Lease expense for the year was approximately \$16,000 which includes the office facility and storage fees.

**(6) Related Party Transactions**

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