CHARITY CARS, INC.

FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors Charity Cars, Inc. Longwood, Florida

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, 2013, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.



Board of Directors Charity Cars, Inc.

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, 2013, 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.

CliftonLarsonAllen LLP

Clifton Larson Allen LLP

Orlando, Florida January 14, 2014

CHARITY CARS, INC. STATEMENT OF FINANCIAL POSITION AUGUST 31, 2013

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalents	\$	93,025
Accounts Receivable		12,450
Inventory		401,169
Prepaid Expenses		3,476
Total Current Assets		510,120
PROPERTY AND EQUIPMENT		
Property and Equipment		481,572
Less: Accumulated Depreciation	<u></u>	(267,162)
Net Property and Equipment		214,410
OTHER ASSETS		
Intangible Assets and Other		150,000
Total Assets	\$	874,530
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$	4,169
Accrued Liabilities	<u></u>	77,885
Total Current Liabilities		82,054
NET ASSETS		
Unrestricted Net Assets	<u> </u>	792,476
Total Liabilities and Net Assets	\$	874,530

CHARITY CARS, INC. STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2013

REVENUES, GAINS, AND OTHER SUPPORT	
Proceeds from Donated Vehicle Sales	\$ 761,096
Donated Program Vehicles	2,760,221
Contributions	11,986
In-Kind Contributions	216,666
Other Revenues	62,262_
Total Revenues, Gains, and Other Support	3,812,231
EXPENSES	
Program Services	3,229,239
General and Administrative	267,872
Development	262,491
Total Expenses	3,759,602
CHANGE IN NET ASSETS	52,629
Net Assets, Beginning of Year	739,847
NET ASSETS, End of Year	\$ 792,476

CHARITY CARS, INC. STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED AUGUST 31, 2013

	Program Services	General and Administrative	Development	Total
Salaries and Fees	\$ 229,373	\$ 180,220	\$ 136,531	\$ 546,124
Employee Benefits	14,271	11,213	8,495	33,979
Payroll Taxes	12,899	10,135	7,678	30,712
Total Salaries and Related Expenses	256,543	201,568	152,704	610,815
Value of Donated Program Vehicles,				
Repair Costs and Other	2,749,004	-	-	2,749,004
Internet Traffic Charges, Advertising				
and Marketing	60,221	_	24,598	84,819
Other Support and Funding	39,229	-	_	39,229
Office Expense	10,647	8,577	10,351	29,575
Professional	5,222	4,206	5,077	14,505
Rent	18,528	14,925	18,013	51,466
Travel and Entertainment	33,670	**	11,223	44,893
Insurance	5,095	2,491	3,736	11,322
Telephone	6,555	5,281	6,373	18,209
Postage	4,326	618	1,236	6,180
Licenses, Permits and Dues	1,657	1,335	1,611	4,603
Bank Fees	-	5,970	-	5,970
Promotional Events	10,194	-	-	10,194
Bad Debt	289	298	289	876
Total Expense Before Other Expenses	3,201,180	245,269	235,211	3,681,660
Depreciation	28,059	22,603	27,280	77,942
Total Expenses	\$ 3,229,239	\$ 267,872	\$ 262,491	\$ 3,759,602

CHARITY CARS, INC. STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES Change in Net Assets Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	\$	52,629
Depreciation and Amortization		77,942
Gain on Sale of Fixed Assets		(2,626)
Donated Vehicles Used as Fixed Assets		(78,480)
Decrease in Accounts Receivable		3,675
Increase in Prepaid Expenses		(1,856)
Decrease in Inventories		30,593
Decrease in Accounts Payable		(4,801)
Decrease in Accrued Liabilities		(24,450)
Net Cash Provided by Operating Activities		52,626
CASH FLOWS FROM INVESTING ACTIVITIES Proceeds from Sale of Property and Equipment Net Cash Provided by Investing Activities		24,775 24,775
NET INCREASE IN CASH AND CASH EQUIVALENTS		77,401
Cash and Cash Equivalents, Beginning of Year	<u> </u>	15,624
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$</u>	93,025
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Interest Paid	\$	
Income Taxes Paid	\$	<u>.</u>

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Presentation

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

<u>Unrestricted Net Assets</u> – Net assets not subject to donor-imposed stipulations.

<u>Temporarily Restricted Net Assets</u> – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or passage of time. There were no temporarily restricted net assets as of August 31, 2013.

<u>Permanently Restricted Net Assets</u> – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. There were no permanently restricted net assets as of August 31, 2013.

Donated Program Vehicles

Program vehicles donated to the Organization are reflected in the financial statements as support and expenses 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.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 insurable 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.

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, 2013, the Organization deemed all receivables to be collectible and therefore no reserve for bad debts was recorded.

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, 2013, the Organization received donated vehicles totaling \$79,680 which they are using internally and are depreciating. The Organization gave away vehicles with a net book value of \$1,200 that had previously been used internally.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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)

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.

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 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, 2013, management determined intangible assets have not been impaired.

In-Kind Contributions

The Organization records in-kind contributions at their fair market value. During the year ended August 31, 2013, the Organization received \$180,286 and \$36,380 of donated salary and in-kind rent, respectively. The Organization has classified these as in-kind contributions on the accompanying statement of activities.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Internet Traffic Charges, Advertising and Marketing

The Organization expenses internet traffic charges, advertising and marketing costs as incurred. Internet traffic charges totaled \$84,819 for the year ended August 31, 2013, and consists mainly of internet "per click" charges to drive traffic to the Organization's website.

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 2009 to 2012 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, 2013.

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.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through January 14, 2014, the date the financial statements were available to be issued.

NOTE 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, 2013. 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, 2013, the inventory value for program vehicles and salvage vehicles was \$379,400 and \$21,769, respectively.

NOTE 3 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, 2013.

NOTE 4 LEASE OBLIGATIONS

Operating Leases

The Organization leases its office facility under a lease agreement that expires June 2014. The agreement calls for monthly rent at \$3,648. The Company leases a storage facility on a month-to-month basis. The storage facility rent calls for monthly rent of \$641. Rent expense for these facilities totaled \$51,467 for the year ended August 31, 2013, and is included in rent expense on the accompanying statement of functional expenses. Subsequent to year-end, the Organization entered into a two-year lease agreement for new office space commencing on November 15, 2013. Upon execution of the lease, the Company paid the rent for the first year, along with a security deposit, which amounted to \$9,035. The payment for the second year rent of \$8,940 is due on or before November 1, 2014. The lease expires November 2015.

NOTE 5 VEHICLE LIENS

Under agreements with program recipients in the State of Florida, each vehicle delivered to a qualified individual recipient is titled to the recipient with a lien attachment. During the one-year period of the lien, the vehicle can be repossessed by Charity Cars if the recipient does not perform their contractual obligations relative to the donation of the vehicle.

NOTE 6 RELATED PARTY TRANSACTIONS

The Organization leases the office facility from a company wholly owned by the president of the Organization. Total rental expense incurred was \$43,776, for the year ended August 31, 2013 (see Note 4).

During the year the Organization received in-kind contributions of \$216,666 from the president of the Organization (see Note 1).

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