

***AMERICAN INSTITUTE OF PHILANTHROPY
D/B/A CHARITYWATCH***

***FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017***

***AMERICAN INSTITUTE OF PHILANTHROPY
D/B/A CHARITYWATCH***

CHICAGO, ILLINOIS

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statements Of Financial Position	3
Statements Of Activities	4
Statements of Functional Expenses	5
Statements Of Cash Flows	7
Notes To Financial Statements	9

INDEPENDENT AUDITOR'S REPORT



To the Board of Directors of
AMERICAN INSTITUTE OF PHILANTHROPY
D/B/A CHARITYWATCH

We have audited the accompanying financial statements of American Institute of Philanthropy d/b/a CharityWatch (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 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 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.

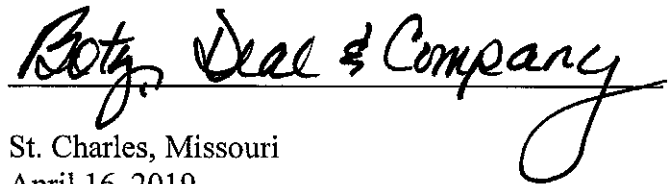
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Institute of Philanthropy d/b/a CharityWatch as of December 31, 2018 and 2017, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 8 to the financial statements, in 2018 American Institute of Philanthropy d/b/a CharityWatch adopted new accounting guidance, ASU No. 2016-14, Not-for-Profit Entities (Topic 958) -- *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.


St. Charles, Missouri
April 16, 2019

AMERICAN INSTITUTE OF PHILANTHROPY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 446,006	\$ 466,596
Contributions receivable	170	210
Interest receivable	9,848	5,039
Investments	579,797	573,994
Prepaid expenses	9,686	6,994
TOTAL CURRENT ASSETS	<u>1,045,507</u>	<u>1,052,833</u>
FIXED ASSETS		
Office furniture and equipment	15,672	16,603
Database and web applications	244,331	244,331
Less: accumulated depreciation	163,508	129,258
Total depreciable fixed assets, net	<u>96,495</u>	<u>131,676</u>
Construction in progress	7,100	-
NET FIXED ASSETS	<u>103,595</u>	<u>131,676</u>
TOTAL ASSETS	<u>\$ 1,149,102</u>	<u>\$ 1,184,509</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 6,069	\$ 2,710
Accrued salaries	9,565	8,262
Accrued vacation	41,922	58,743
TOTAL CURRENT LIABILITIES	<u>57,556</u>	<u>69,715</u>
NET ASSETS		
Without Donor Restrictions	<u>1,091,546</u>	<u>1,114,794</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,149,102</u>	<u>\$ 1,184,509</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN INSTITUTE OF PHILANTHROPY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
PUBLIC SUPPORT AND OTHER INCOME		
PUBLIC SUPPORT		
Contributions/memberships	\$ 539,785	\$ 598,965
OTHER INCOME		
Interest income	10,716	6,803
Unrealized gain/(loss) on investments	(198)	(956)
Contributed services	10,847	15,885
Other income	489	-
TOTAL OTHER INCOME	21,854	21,732
TOTAL PUBLIC SUPPORT AND OTHER INCOME	561,639	620,697
EXPENSES		
Program	484,299	464,369
General and administrative	79,216	74,671
Fundraising	21,372	19,918
TOTAL EXPENSES	584,887	558,958
CHANGE IN NET ASSETS	(23,248)	61,739
NET ASSETS - BEGINNING OF YEAR	1,114,794	1,053,055
NET ASSETS - END OF YEAR	\$ 1,091,546	\$ 1,114,794

The accompanying notes are an integral part of these financial statements.

AMERICAN INSTITUTE OF PHILANTHROPY

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 282,664	\$ 32,623	\$ 1,408	\$ 316,695
Payroll taxes	23,466	2,708	117	26,291
Bank charges	-	11,971	-	11,971
Conferences and meetings	1,113	1,158	-	2,271
Depreciation	33,057	378	1,746	35,181
Dues and subscriptions	1,627	184	-	1,811
General insurance	5,003	536	3	5,542
Health insurance	25,887	2,988	129	29,004
In-kind professional fees	10,847	-	-	10,847
Mail service	1,377	487	4,083	5,947
Miscellaneous	-	311	-	311
Occupancy costs	33,765	3,897	168	37,830
Office	2,832	327	14	3,173
Online services	2,839	318	19	3,176
Postage and delivery	5,969	3,796	5,001	14,766
Printing	10,926	978	7,802	19,706
Professional fees	39,298	12,825	866	52,989
Registrations	-	3,371	-	3,371
Telephone	3,115	360	16	3,491
Travel and meals	514	-	-	514
TOTAL EXPENSES	<u>\$ 484,299</u>	<u>\$ 79,216</u>	<u>\$ 21,372</u>	<u>\$ 584,887</u>

See Independent Auditors' Report.

AMERICAN INSTITUTE OF PHILANTHROPY

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 272,110	\$ 30,587	\$ 1,351	\$ 304,048
Payroll taxes	22,889	2,573	114	25,576
Bank charges	-	12,704	-	12,704
Conferences and meetings	958	1,480	-	2,438
Depreciation	33,483	425	1,749	35,657
Dues and subscriptions	1,532	184	-	1,716
General insurance	4,939	525	2	5,466
Health insurance	19,607	2,204	97	21,908
In-kind professional fees	15,885	-	-	15,885
Mail service	1,535	511	4,027	6,073
Miscellaneous	-	422	-	422
Occupancy costs	32,550	3,659	162	36,371
Office	2,686	302	13	3,001
Online services	3,042	332	20	3,394
Postage and delivery	6,325	3,100	4,858	14,283
Printing	10,827	1,291	7,388	19,506
Professional fees	31,708	9,989	119	41,816
Registrations	-	3,229	-	3,229
Telephone	3,527	396	18	3,941
Travel and meals	766	758	-	1,524
TOTAL EXPENSES	<u>\$ 464,369</u>	<u>\$ 74,671</u>	<u>\$ 19,918</u>	<u>\$ 558,958</u>

See Independent Auditors' Report.

AMERICAN INSTITUTE OF PHILANTHROPY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions/memberships	\$ 540,314	\$ 599,071
Cash paid to suppliers and employees	(553,710)	(527,795)
Interest received	5,907	6,056
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(7,489)</u>	<u>77,332</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(7,100)	-
Net sale (purchase) of investments	(6,001)	(4,998)
NET CASH USED BY INVESTING ACTIVITIES	<u>(13,101)</u>	<u>(4,998)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (20,590)	 72,334
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>466,596</u>	 <u>394,262</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u><u>\$ 446,006</u></u>	 <u><u>\$ 466,596</u></u>

The accompanying notes are an integral part of these financial statements.

**RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES**

	2018	2017
CHANGE IN NET ASSETS	\$ (23,248)	\$ 61,739
 ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
Depreciation	35,181	35,657
Unrealized (gain) loss on investments	198	956
(Increase) decrease in assets:		
Contributions receivable	40	106
Interest receivable	(4,809)	(747)
Prepaid expenses	(2,692)	3,213
Increase (decrease) in liabilities:		
Accounts payable	3,359	(4,458)
Accrued salaries	1,303	331
Accrued vacation	(16,821)	(19,465)
TOTAL ADJUSTMENTS	15,759	15,593
 NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ (7,489)	\$ 77,332
 SUPPLEMENTAL DISCLOSURES		
Contributed services	\$ 10,847	\$ 15,885

The accompanying notes are an integral part of these financial statements.

AMERICAN INSTITUTE OF PHILANTHROPY
D/B/A/ CHARITYWATCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. **DESCRIPTION OF OPERATIONS**

American Institute of Philanthropy d/b/a CharityWatch (the Organization) aids and advances the non-profit sector by promoting wise charitable giving. This is accomplished by educating the public and the media about the non-profit field and the practices of specific charities through the website www.charitywatch.org, the publication of the Charity Rating Guide & Watchdog Report, and frequent interviews with journalists. Donations and membership dues comprise 98% and 99% of the Organization's 2018 and 2017 revenue, respectively.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There were no Net Assets with Donor Restrictions for the years ended December 31, 2018 and 2017.

Cash and Cash Equivalents - The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statement of cash flows.

Concentration of Credit Risk - The Organization maintains its cash at one commercial bank and its temporary investments at one brokerage company. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2018 and 2017, the Organization's uninsured deposits totaled \$142,852 and \$141,727, respectively.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

Contributions Receivable - Contributions receivable due within the next year are reflected as current contributions receivable and are recorded at their fair value. The Organization expects to collect all contributions receivable within the next year; therefore, has not recorded an allowance for uncollectible contributions.

Investments - The Organization carries market indexed certificates of deposit with readily determinable fair values at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Property and Equipment - All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated service lives of the asset as follows:

<u>Major Group</u>	<u>Life</u>
Office furniture and equipment	5 - 7 years
Database and web applications	7 years

Depreciation expense was \$35,181 and \$35,657 for the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses - The cost of providing program and other activities have been summarized on a functional basis in the Statements of Activities. The Statement of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited. The expenses that are allocated on the basis of estimates of time and effort include occupancy, salaries and wages, payroll taxes, office and telephone, and health insurance.

Contributed Services - Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Taxes Status - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$	446,006
Contributions receivable		170
Interest receivable		9,848
Investments		<u>579,797</u>
Financial assets available within one year for general expenditure	\$	<u><u>1,035,821</u></u>

The Organization expects to collect cash in the near term to meet its cash needs. Cash in excess of its current cash needs is maintained for unexpected expenditures.

4. INVESTMENTS AND FAIR VALUE

The Organization's investments at December 31, 2018 and 2017 are stated at fair value and consist of market indexed certifications of deposit with a cost of \$580,000 and \$574,000, respectively. Fair value of the market indexed certifications are \$579,797 and \$573,994. Investment return for these investments consists of interest income of \$10,403 and \$6,598 and unrealized gains/(loss) of \$(198) and \$(956), for the years ended December 31, 2018 and 2017, respectively.

Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs are unobservable and have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 and Level 2 are not available. Fair values for all investments of the Organization are valued based upon a matrix or model pricing method (Level 2).

5. LEASES

The Organization leases office space under an operating lease. Rent expense was \$31,536 and \$30,859 for the years ended December 31, 2018 and 2017, respectively. The current lease expires March 31, 2018 and was renewed for the period of April 1, 2018 through March 31, 2019. The future minimum lease payments are as follows:

2019	\$	32,169
2020		8,082

6. **CONTRIBUTED SERVICES**

The fair value of contributed services included in the financial statements for the years ended December 31, 2018 and 2017 were \$10,847 and \$15,885, respectively. These legal services meet the requirements of generally accepted accounting principles to be recognized as contributions.

7. **INCOME TAX**

FASB Accounting Standards Codification Topic 740, Income Taxes, provides for the recognition of tax benefits related to uncertain tax positions. For the years ended December 31, 2018 and 2017, management believes there are no material uncertain tax positions. The Organization files form 990 Return of Organization Exempt From Income Tax. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2015.

8. **CHANGE IN ACCOUNTING PRINCIPLE**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly, which includes the presentation of a statement of functional expenses. The ASU has been applied retrospectively to all periods presented.

9. **PENDING ACCOUNTING STANDARDS**

The FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The new standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2018. The Organization will adopt and implement the statement at the required time.

10. **SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditors' Report, the date the financial statements were available to be issued.