

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

***FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2018***

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

CHICAGO, ILLINOIS

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## 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, 2019 and 2018, 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.

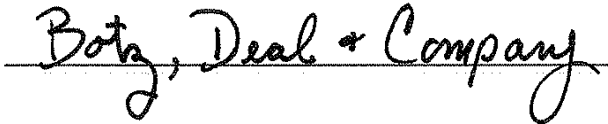
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **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, 2019 and 2018, 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.

## **Emphasis-of-matter**

As discussed in Note 9, the Organization expects to be affected by the global outbreak of the novel strain of the coronavirus. At the time the financial statements were issued the financial effects on the Organization can not be predicted. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Bots, Deal & Company". The signature is written in black ink and is positioned above a horizontal line.

St. Charles, Missouri  
May 21, 2020

**AMERICAN INSTITUTE OF PHILANTHROPY**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2019 AND 2018**

**ASSETS**

	2019	2018
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 367,819	\$ 446,006
Accounts receivable	176	-
Contributions receivable	170	170
Interest receivable	13,206	9,848
Investments	593,550	579,797
Prepaid expenses	9,667	9,686
TOTAL CURRENT ASSETS	984,588	1,045,507
<b>FIXED ASSETS</b>		
Office furniture and equipment	15,672	15,672
Database and web applications	285,477	244,331
Less: accumulated depreciation	214,120	163,508
Total depreciable fixed assets, net	87,029	96,495
Construction in progress	-	7,100
NET FIXED ASSETS	87,029	103,595
TOTAL ASSETS	\$ 1,071,617	\$ 1,149,102

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 11,001	\$ 6,069
Accrued salaries	11,307	9,565
Accrued vacation	23,707	41,922
TOTAL CURRENT LIABILITIES	46,015	57,556
<b>NET ASSETS</b>		
Without Donor Restrictions	1,025,602	1,091,546
TOTAL LIABILITIES AND NET ASSETS	\$ 1,071,617	\$ 1,149,102

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

**AMERICAN INSTITUTE OF PHILANTHROPY**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>PUBLIC SUPPORT AND OTHER INCOME</b>		
<b>PUBLIC SUPPORT</b>		
Contributions	\$ 529,323	\$ 539,785
<b>OTHER INCOME</b>		
Interest income	14,501	10,716
Unrealized gain/(loss) on investments	754	(198)
Contributed services	5,428	10,847
Other income	-	489
TOTAL OTHER INCOME	20,683	21,854
TOTAL PUBLIC SUPPORT AND OTHER INCOME	550,006	561,639
<b>EXPENSES</b>		
Program	510,140	484,299
General and administrative	82,607	79,216
Fundraising	23,203	21,372
TOTAL EXPENSES	615,950	584,887
<b>CHANGE IN NET ASSETS</b>	(65,944)	(23,248)
<b>NET ASSETS - BEGINNING OF YEAR</b>	1,091,546	1,114,794
<b>NET ASSETS - END OF YEAR</b>	\$ 1,025,602	\$ 1,091,546

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, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 287,616	\$ 33,936	\$ 2,012	\$ 323,564
Payroll taxes	24,137	2,848	169	27,154
Bank charges	-	11,690	-	11,690
Conferences and meetings	1,695	3,524	-	5,219
Depreciation	47,570	515	2,527	50,612
Dues and subscriptions	1,451	185	-	1,636
General insurance	4,799	530	3	5,332
Health insurance	26,884	3,172	188	30,244
In-kind professional fees	5,428	-	-	5,428
Mail service	1,467	398	3,680	5,545
Miscellaneous	-	346	-	346
Occupancy costs	34,266	4,043	240	38,549
Office	2,786	329	19	3,134
Online services	2,432	277	21	2,730
Postage and delivery	5,842	3,386	5,021	14,249
Printing	10,325	1,030	8,311	19,666
Professional fees	49,897	12,125	993	63,015
Registrations	-	3,318	-	3,318
Telephone	2,707	319	19	3,045
Travel and meals	838	84	-	922
Unrelated business income tax	-	552	-	552
TOTAL EXPENSES	<u>\$ 510,140</u>	<u>\$ 82,607</u>	<u>\$ 23,203</u>	<u>\$ 615,950</u>

See Independent Auditors' Report.

**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**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions	\$ 529,147	\$ 540,314
Cash paid to suppliers and employees	(571,432)	(553,710)
Interest received	11,143	5,907
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(31,142)</u>	<u>(7,489)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(34,045)	(7,100)
Net sale (purchase) of investments	(13,000)	(6,001)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(47,045)</u>	<u>(13,101)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(78,187)	(20,590)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>446,006</u>	<u>466,596</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 367,819</u></u>	<u><u>\$ 446,006</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**

	2019	2018
<b>CHANGE IN NET ASSETS</b>	<b>\$ (65,944)</b>	<b>\$ (23,248)</b>
 <b>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>		
Depreciation	50,612	35,181
Unrealized (gain) loss on investments	(754)	198
(Increase) decrease in assets:		
Accounts receivable	(176)	-
Contributions receivable	-	40
Interest receivable	(3,358)	(4,809)
Prepaid expenses	19	(2,692)
Increase (decrease) in liabilities:		
Accounts payable	4,932	3,359
Accrued salaries	1,742	1,303
Accrued vacation	(18,215)	(16,821)
<b>TOTAL ADJUSTMENTS</b>	<b>34,802</b>	<b>15,759</b>
 <b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	 <b>\$ (31,142)</b>	 <b>\$ (7,489)</b>
 <b>SUPPLEMENTAL DISCLOSURES</b>		
Contributed services	\$ 5,428	\$ 10,847

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, 2019 AND 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](http://www.charitywatch.org), the publication of the Charity Rating Guide & Watchdog Report, and frequent interviews with journalists. Donations comprise 97% and 98% of the Organization's 2019 and 2018 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, 2019 and 2018.

**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 in the form of marketable certificates of deposits at the bank's affiliated brokerage company. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2019 and 2018, the Organization's uninsured deposits totaled \$68,860 and \$142,852, 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 \$5,000 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 years
Database and web applications	5 years

Depreciation expense was \$50,612 and \$35,181 for the years ended December 31, 2019 and 2018, 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	\$	367,819
Contributions and accounts receivable		346
Interest receivable		13,206
Investments		593,550
Financial assets available within one year for general expenditure	\$	<u>974,921</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, 2019 and 2018 are stated at fair value and consist of market indexed certifications of deposit with a cost of \$593,000 and \$580,000, respectively. Fair value of the market indexed certifications are \$593,550 and \$579,797. Investment return for these investments consists of interest income of \$14,161 and \$10,403 and unrealized gains/(loss) of \$754 and \$(198), for the years ended December 31, 2019 and 2018, 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 \$32,169 and \$31,536 for the years ended December 31, 2019 and 2018, respectively. The current lease expires March 31, 2020 and the Organization will be renting on a month-to-month basis thereafter. The future minimum lease payments are \$8,082 for the year ended December 31, 2020.

### 6. CONTRIBUTED SERVICES

The fair value of contributed services included in the financial statements for the years ended December 31, 2019 and 2018 were \$5,428 and \$10,847, 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, 2019 and 2018, 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 2016.

8. **CHANGE IN ACCOUNTING ESTIMATE**

The Organization changed the useful lives of some fixed assets to 5 years. In prior years, database and web applications were depreciated over 7 years. The effect of this change in the current year is an additional \$13,233 in depreciation expense.

9. **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.

On February 28, 2020, the President and founder of the American Institute of Philanthropy d/b/a CharityWatch, Daniel Borochoff, retired. Laurie Styron assumed leadership responsibilities as Executive Director, upon Mr. Borochoff's retirement.

During the first quarter of 2020, there was a global outbreak of the novel strain of the coronavirus (COVID 19), which resulted in a significant disruption to businesses and individuals throughout the world. This outbreak of COVID 19 could significantly affect the operations and future revenue of the Organization. At the time these financial statements were issued the Organization is unable to fully quantify the current and future effects of COVID 19 on its financial position and future revenues and expenses.

10. **RECENT ACCOUNTING PRONOUNCEMENTS**

The effect on the Organization's financial statements of the following statements is issued, but not yet adopted, has not yet been determined.

ASU2016-02, *Leases* - implementation will result in the recognition of the assets and liabilities that arise from leases. The new standard is effective for fiscal years beginning after December 15, 2021. Management is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations and cash flows.

10. **RECENT ACCOUNTING PRONOUNCEMENTS** - continued

ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* – implementation will result in a new accounts receivable loss accounting framework, also known as the current expected credit loss (CECL) model. CECL requires credit losses expected throughout the life of the asset to be recorded at the time of origination. Under the current incurred loss model, losses are recorded when it is probable that a loss event has occurred. The new standards will require significant operational changes, especially in data collection and analysis for some entities. The ASU is effective for interim and annual periods beginning January 1, 2021 and is expected to increase the allowance upon adoption. Management is evaluating the effect that ASU 2016-13 will have on the financial statement and the related disclosures.