

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

***FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019***

***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, 2020 and 2019, 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, 2020 and 2019, 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.

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

St. Charles, Missouri

May 17, 2021

AMERICAN INSTITUTE OF PHILANTHROPY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 525,909	\$ 367,819
Accounts receivable	215	176
Contributions receivable	535	170
Interest receivable	4,989	13,206
Investments	359,758	593,550
Prepaid expenses	9,692	9,667
TOTAL CURRENT ASSETS	<u>901,098</u>	<u>984,588</u>
FIXED ASSETS		
Office furniture and equipment	11,361	15,672
Database and web applications	285,477	285,477
Less: accumulated depreciation	<u>257,480</u>	<u>214,120</u>
Total depreciable fixed assets, net	<u>39,358</u>	<u>87,029</u>
OTHER ASSETS		
Deposits	<u>6,495</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 946,951</u>	<u>\$ 1,071,617</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 16,987	\$ 11,001
Accrued salaries	12,362	11,307
Accrued vacation	<u>9,367</u>	<u>23,707</u>
TOTAL CURRENT LIABILITIES	<u>38,716</u>	<u>46,015</u>
NET ASSETS		
Without donor restrictions	<u>908,235</u>	<u>1,025,602</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 946,951</u>	<u>\$ 1,071,617</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, 2020 AND 2019

	2020	2019
PUBLIC SUPPORT AND OTHER INCOME		
PUBLIC SUPPORT		
Contributions	\$ 491,320	\$ 529,323
Government grants	73,990	-
TOTAL PUBLIC SUPPORT	565,310	529,323
OTHER INCOME		
Interest income	6,847	14,501
Unrealized gain/(loss) on investments	208	754
In-kind software	1,356	-
Contributed services	119,262	5,428
Other income	416	-
TOTAL OTHER INCOME	128,089	20,683
TOTAL PUBLIC SUPPORT AND OTHER INCOME	693,399	550,006
EXPENSES		
Program	666,157	510,140
General and administrative	125,393	82,607
Fundraising	19,216	23,203
TOTAL EXPENSES	810,766	615,950
CHANGE IN NET ASSETS	(117,367)	(65,944)
NET ASSETS - BEGINNING OF YEAR	1,025,602	1,091,546
NET ASSETS - END OF YEAR	\$ 908,235	\$ 1,025,602

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, 2020

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 392,228	\$ 60,235	\$ 3,222	\$ 455,685
Payroll taxes	29,783	5,032	259	35,074
Advertising	236	-	55	291
Bank charges	-	12,974	-	12,974
Conferences and meetings	350	297	-	647
Depreciation	44,811	477	2,383	47,671
Dues and subscriptions	1,003	-	-	1,003
General insurance	4,853	587	5	5,445
Health insurance	21,842	4,443	213	26,498
In-kind advertising	99,825	11,092	-	110,917
In-kind software	618	732	6	1,356
In-kind professional fees	7,928	417	-	8,345
Mail service	1,142	372	2,968	4,482
Miscellaneous	405	2,433	34	2,872
Occupancy costs	30,057	6,114	294	36,465
Office	4,187	739	45	4,971
Online services	1,650	336	16	2,002
Postage and delivery	5,535	2,574	3,513	11,622
Printing	9,180	748	5,963	15,891
Professional fees	8,585	11,848	221	20,654
Registrations	-	3,427	-	3,427
Telephone	1,939	395	19	2,353
Travel and meals	-	121	-	121
TOTAL EXPENSES	<u>\$ 666,157</u>	<u>\$ 125,393</u>	<u>\$ 19,216</u>	<u>\$ 810,766</u>

See Independent Auditors' Report.

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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions	\$ 564,906	\$ 529,147
Cash paid to suppliers and employees	(656,296)	(571,432)
Miscellaneous income	416	-
Interest received	15,064	11,143
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(75,910)</u>	<u>(31,142)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	-	(34,045)
Net sale (purchase) of investments	234,000	(13,000)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>234,000</u>	<u>(47,045)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	158,090	(78,187)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>367,819</u>	<u>446,006</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 525,909</u>	<u>\$ 367,819</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**

	2020	2019
CHANGE IN NET ASSETS	\$ (117,367)	\$ (65,944)
 ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
Depreciation	47,671	50,612
Unrealized (gain) loss on investments	(208)	(754)
(Increase) decrease in assets:		
Accounts receivable	(39)	(176)
Contributions receivable	(365)	-
Deposits	(6,495)	-
Interest receivable	8,217	(3,358)
Prepaid expenses	(25)	19
Increase (decrease) in liabilities:		
Accounts payable	5,986	4,932
Accrued salaries	1,055	1,742
Accrued vacation	(14,340)	(18,215)
TOTAL ADJUSTMENTS	41,457	34,802
 NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ (75,910)	\$ (31,142)
 SUPPLEMENTAL DISCLOSURE OF NON-CASH ITEMS:		
Contributed services	\$ 119,262	\$ 5,428
Donated software	1,356	-
TOTAL IN-KIND DONATIONS	\$ 120,618	\$ 5,428

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, 2020 AND 2019

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 comprise 99% and 97% of the Organization's 2020 and 2019 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, 2020 and 2019.

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, 2020 and 2019, the Organization's uninsured deposits totaled \$210,163 and \$68,860, 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 and 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 \$47,671 and \$50,612 for the years ended December 31, 2020 and 2019, 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.

Donated materials - Donated materials are recorded as support at their estimated values at the date of receipt.

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 and cash equivalents	\$	525,909
Contributions and accounts receivable		750
Interest receivable		4,989
Investments		359,758
Financial assets available within one year for general expenditure	\$	<u>891,406</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, 2020 and 2019 are stated at fair value and consist of market indexed certifications of deposit with a cost of \$359,000 and \$593,000, respectively. Fair value of the market indexed certifications are \$359,758 and \$593,550. Investment return for these investments consists of interest income of \$6,601 and \$14,161 and unrealized gains/(loss) of \$208 and \$754, for the years ended December 31, 2020 and 2019, 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 \$33,407 and \$32,169 for the years ended December 31, 2020 and 2019, respectively. The rent payments under the current lease began October 1, 2020, and the lease has an expiration date of November 30, 2022. The future minimum lease payments are as follows:

Year Ending December 31,	
2021	\$ 38,400
2022	35,200

6. CONTRIBUTED SERVICES

The fair value of contributed services included in the financial statements for the years ended December 31, 2020 and 2019 were \$119,262 and \$5,428, respectively. These services meet the requirements of generally accepted accounting principles to be recognized as contributions.

7. PAYCHECK PROTECTION PROGRAM

On May 4, 2020, the Organization received \$73,500 in funding under The Paycheck Protection Program (PPP) as part of the CARES Act offered through the Small Business Administration. The terms of this agreement indicate the Organization must use the proceeds to fund/offset qualifying expenses over a twenty-four week period. Funding under the PPP is in the form of a forgivable loan. The loan bears an interest rate of 1%, but is forgivable if funds are spent in accordance with the requirements of the CARES Act.

In accordance with the requirements of ASC Topic 958, Not-for-Profit Entities, PPP funding should be treated as a conditional grant. Once the condition is met, the Organization will recognize the revenue. The funding was expended in accordance with the agreement and therefore, was recorded as revenue during the year ended December 31, 2020.

8. 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, 2020 and 2019, 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 2017.

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 January 29, 2021 the Organization received \$80,977 in funding under The Paycheck Protection Program (PPP) as part of the CARES Act offered through the Small Business Administration. The terms of this agreement indicate the Organization must use the proceeds to fund/offset qualifying expenses over a twenty-four week period. Funding under the PPP is in the form of a forgivable loan. The loan bears an interest rate of 1%, but is forgivable if funds are spent in accordance with the requirements of the CARES Act.

On March 29, 2021, the first PPP loan in the amount of \$73,500 (as referred to in Note 7) was fully forgiven.

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.

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, 2023 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.

11. UNCERTAINTY DUE TO COVID-19

During the first quarter of 2020, there was a global outbreak of a novel strain of the coronavirus (COVID-19), which resulted in a significant disruption to businesses 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 future effects of COVID-19 on its financial position and future revenues and expenses. The accompanying financial statements do not include any adjustments of the risk due to uncertainty as a result of COVID-19.