

America's Charities and Affiliates

Consolidated Financial Report
December 31, 2019

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Consolidated balance sheets	3
Consolidated statements of activities	4
Consolidated statement of functional expenses – 2019	5
Consolidated statement of functional expenses – 2018	6
Consolidated statements of cash flows	7
Notes to consolidated financial statements	8-18
<hr/>	
Independent auditor's report on the supplementary information	19
<hr/>	
Supplementary information	
Consolidating balance sheet	20
Consolidating statement of activities	21

Independent Auditor's Report

Board of Directors
America's Charities

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of America's Charities and Affiliates (America's Charities), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 audits. We conducted our audits 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 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 America's Charities and Affiliates as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As disclosed in Note 1 to the financial statements, America's Charities adopted the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and applied the standard on a modified retrospective basis. Our opinion is not modified with respect to this matter.

RSM US LLP

McLean, Virginia
June 11, 2020

America's Charities and Affiliates

Consolidated Balance Sheets December 31, 2019 and 2018

	2019	2018
Assets		
Cash	\$ 9,238,532	\$ 7,891,479
Promises to give (pledges)	1,760,230	1,585,345
Member charity fees receivable, net of allowance for doubtful accounts of \$103,746 and \$105,142, respectively	711,634	903,522
Other receivables	833,872	472,316
Other assets	180,963	93,728
Property and equipment, net	2,842	21,544
Deferred leasing costs	2,600	3,900
Intangible assets, net	12,821	-
Goodwill, net	173,011	-
Total current assets	\$ 12,916,505	\$ 10,971,834
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 424,321	\$ 528,044
Campaign funds payable to member/nonmember charities	10,329,659	8,373,777
Deferred revenue	616,484	721,971
Note payable	100,000	-
Deferred rent	67,559	92,544
Total liabilities	11,538,023	9,716,336
Commitment and contingencies (Notes 7, 8 and 10)		
Net assets without donor restrictions:		
Undesignated	1,378,482	705,498
Board designated	-	550,000
Total net assets	1,378,482	1,255,498
	\$ 12,916,505	\$ 10,971,834

See notes to consolidated financial statements.

America's Charities and Affiliates

**Consolidated Statements of Activities
Years Ended December 31, 2019 and 2018**

	2019	2018
Support and revenue:		
Amounts raised in campaigns, net of estimated campaign expenses incurred by other organizations and shrinkage:		
Combined federal campaign	\$ 4,945,834	\$ 5,381,855
Campaign management services	22,018,767	19,148,503
Private sector	949,553	1,141,567
State and local	1,732,111	2,070,915
Total net amounts raised in campaigns	29,646,265	27,742,840
Less amounts raised on behalf of others	29,390,840	27,474,064
Support designated to America's Charities and Affiliates	255,425	268,776
Member charity fees	2,324,366	2,863,475
Campaign management fees	1,668,071	1,368,590
Campaign advertising fees	139,733	146,891
Donated services	563,438	315,854
Other	109,027	60,393
Total support and revenue	5,060,060	5,023,979
Expenses:		
Program services:		
Member campaign services	1,285,485	1,211,517
Campaign management services	3,027,306	2,465,290
Total program services	4,312,791	3,676,807
Supporting services:		
Management and general	547,878	767,682
Fundraising	310,193	308,957
Total supporting services	858,071	1,076,639
Total expenses	5,170,862	4,753,446
Change in net assets	(110,802)	270,533
Net assets:		
Beginning	1,255,498	984,965
Cumulative effect of adoption of ASC 606 (Note 1)	233,786	-
Ending	\$ 1,378,482	\$ 1,255,498

See notes to consolidated financial statements.

America's Charities and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2019

	Member Campaign Services	Campaign Management Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Totals
Expenses:							
Salaries	\$ 406,682	\$ 1,736,382	\$ 2,143,064	\$ 326,362	\$ 177,459	\$ 503,821	\$ 2,646,885
Benefits	83,972	359,938	443,910	69,509	32,859	102,368	546,278
Total employee compensation	490,654	2,096,320	2,586,974	395,871	210,318	606,189	3,193,163
Donated services	482,948	-	482,948	71,562	8,928	80,490	563,438
Technology	27,145	158,713	185,858	21,174	16,358	37,532	223,390
Facilities	34,776	147,626	182,402	27,746	16,174	43,920	226,322
Managed campaign technology	-	141,137	141,137	-	12,302	12,302	153,439
Campaign advertising	127,361	4,599	131,960	-	530	530	132,490
Printing and marketing promotions	2,056	37,868	39,924	-	3,303	3,303	43,227
Professional fees	24,669	102,607	127,276	7,149	9,811	16,960	144,236
Service and bank fees	11,820	65,999	77,819	9,278	6,858	16,136	93,955
Campaign	36,170	30,998	67,168	-	2,739	2,739	69,907
Consultant fees	1,498	77,932	79,430	-	6,794	6,794	86,224
Depreciation and amortization	3,212	21,686	24,898	2,562	2,300	4,862	29,760
Travel and transportation	4,415	41,070	45,485	1,346	3,638	4,984	50,469
Conferences and meetings	4,734	17,686	22,420	806	1,641	2,447	24,867
Postage and shipping	2,845	14,146	16,991	179	1,257	1,436	18,427
Bad debt	4,228	21,347	25,575	3,374	2,263	5,637	31,212
Insurance	3,445	14,624	18,069	2,749	1,602	4,351	22,420
Office supplies	2,014	10,308	12,322	1,486	1,076	2,562	14,884
Licenses and registrations	17,083	-	17,083	-	17	17	17,100
Membership dues	1,416	9,603	11,019	206	863	1,069	12,088
Telephone	2,553	11,160	13,713	2,037	1,215	3,252	16,965
Staff development	362	1,535	1,897	289	168	457	2,354
Interest expense	81	342	423	64	38	102	525
Total expenses	794,831	930,986	1,725,817	152,007	99,875	251,882	1,977,699
Total	\$ 1,285,485	\$ 3,027,306	\$ 4,312,791	\$ 547,878	\$ 310,193	\$ 858,071	\$ 5,170,862

See notes to consolidated financial statements.

America's Charities and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2018

	Member Campaign Services	Campaign Management Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Totals
Expenses:							
Salaries	\$ 451,300	\$ 1,413,076	\$ 1,864,376	\$ 496,509	\$ 179,545	\$ 676,054	\$ 2,540,430
Benefits	90,772	288,019	378,791	101,377	30,335	131,712	510,503
Total employee compensation	542,072	1,701,095	2,243,167	597,886	209,880	807,766	3,050,933
Donated services	277,359	-	277,359	35,735	2,760	38,495	315,854
Facilities	66,785	220,465	287,250	73,396	29,720	103,116	390,366
Managed campaign technology	-	143,962	143,962	-	16,452	16,452	160,414
Campaign advertising	130,601	2,500	133,101	-	562	562	133,663
Printing and marketing promotions	11,066	49,567	60,633	230	5,702	5,932	66,565
Professional fees	30,674	83,758	114,432	19,978	10,852	30,830	145,262
Service and bank fees	15,622	60,322	75,944	16,228	7,914	24,142	100,086
Campaign	36,599	46,482	83,081	-	5,390	5,390	88,471
Consultant fees	-	30,513	30,513	-	3,487	3,487	34,000
Depreciation and amortization	9,158	28,438	37,596	8,767	3,882	12,649	50,245
Travel and transportation	7,660	37,153	44,813	2,904	4,439	7,343	52,156
Conferences and meetings	3,803	11,857	15,660	1,838	1,475	3,313	18,973
Postage and shipping	3,431	11,882	15,313	352	1,387	1,739	17,052
Bad debt	52,042	-	52,042	-	110	110	52,152
Insurance	3,616	11,227	14,843	3,975	1,532	5,507	20,350
Office supplies	2,370	8,668	11,038	2,427	1,143	3,570	14,608
Licenses and registrations	14,125	72	14,197	25	40	65	14,262
Membership dues	1,634	8,026	9,660	754	967	1,721	11,381
Telephone	2,633	8,443	11,076	2,894	1,146	4,040	15,116
Staff development	267	860	1,127	293	117	410	1,537
Total expenses	669,445	764,195	1,433,640	169,796	99,077	268,873	1,702,513
Total	\$ 1,211,517	\$ 2,465,290	\$ 3,676,807	\$ 767,682	\$ 308,957	\$ 1,076,639	\$ 4,753,446

See notes to consolidated financial statements.

America's Charities and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (110,802)	\$ 270,533
Cumulative effect of adoption of ASC 606 (Note 1)	233,786	-
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	29,760	50,245
(Decrease) increase in allowance for doubtful accounts	(1,395)	29,842
Deferred rent	(24,985)	(19,288)
Changes in assets and liabilities:		
(Increase) decrease in:		
Promises to give	(174,885)	2,586,331
Member charity fees receivable	193,283	(214,929)
Other receivables	(361,556)	(288,481)
Other assets	(83,125)	34,083
Deferred leasing costs	1,300	1,301
Increase (decrease) in:		
Accounts payable and accrued expenses	(103,723)	168,751
Campaign funds payable to member/nonmember charities	1,955,882	(94,297)
Deferred revenue	(189,155)	(99,786)
Net cash provided by operating activities	1,364,385	2,424,305
Cash flows from investing activities:		
Purchases of property and equipment	(1,000)	(5,300)
Purchase of Causecast Corporation	(16,332)	-
Net cash used in investing activities	(17,332)	(5,300)
Net increase in cash	1,347,053	2,419,005
Cash:		
Beginning	7,891,479	5,472,474
Ending	\$ 9,238,532	\$ 7,891,479
Supplemental Schedule of Noncash Investing and Financing Activities		
Deferred portion of purchase price of Causecast acquisition (Note 4)	\$ 100,000	\$ -

See notes to consolidated financial statements.

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: America's Charities and Affiliates (collectively, America's Charities) consists of four entities: America's Charities, Children First – America's Charities, Health First – America's Charities and Community First – America's Charities. All entities are affiliated through common support, activities and governance.

On July 26, 2019, Causecast Corporation (Causecast) was acquired by America's Charities through an asset purchase agreement (see Note 4). Causecast is a service organization that manages fundraising campaigns for private companies whose employees give to charities through payroll deductions and was a third party service provider to America's Charities prior to the acquisition. Causecast was dissolved after the acquisition and its assets are a part of America's Charities.

America's Charities was incorporated in 1988 in the District of Columbia. Through its efforts with the Combined Federal Campaign (CFC), many state and local public sector campaigns and private sector workplace-giving campaigns, America's Charities solicits contributions for its member charities through payroll deduction charitable giving campaigns. Member charities must meet certain criteria annually to retain membership and receive unrestricted support through America's Charities' campaigns. The contributions are originated through payroll deductions from military and civilian employees of the federal government, state and local public sector and private sector employees and are received by America's Charities. America's Charities accesses private sector campaigns through three sources: America's Charities' individual efforts; the Charities @ Work, an alliance of four federations whose purpose is to access private sector campaigns; and local United Way organizations.

The campaign period is typically a 20-month period beginning in the September before the contribution period. The Fall 2019 Campaign began in September 2019 and will end in March 2021. The campaign collection period for the Fall 2019 Campaign covers primarily the period from April 2020 to March 2021. The Fall 2018 Campaign began in September 2018 and ended in March 2020. The campaign collection period for the Fall 2017 Campaign covers primarily the period from April 2019 to March 2020.

During the Fall 2018 and 2017 Campaigns, America's Charities served local campaigns governed by Local Federal Coordinating Committees and managed by Principal Combined Fund Organizations (PCFO). Additionally, during the Fall 2018 and 2017 Campaigns, America's Charities solicited contributions from state and municipal workplace-giving agencies and private sector workplace-giving campaigns.

Each PCFO, state employee campaign organization and private sector organization, except for those organizations' campaigns accessed through Charities @ Work, is responsible for compiling pledge information, collecting contributions and remitting the proceeds to America's Charities, net of campaign expenses. The members of Charities @ Work have designated America's Charities as fiscal agent for compiling pledge information, collecting contributions (in some campaigns) and remitting the proceeds to the members of Charities @ Work. America's Charities is paid a fiscal agent fee for acting in this capacity. Each member of Charities @ Work is responsible for remitting the proceeds to its members.

Children First – America's Charities (Children First) was incorporated in 2003 in the District of Columbia. Its purpose is to solicit contributions for its member charities that deal with children-related issues through payroll deduction charitable giving campaigns.

Health First – America's Charities (Health First) was incorporated in 2003 in the District of Columbia. Its purpose is to solicit contributions for its member charities that deal with health-related issues through payroll deduction charitable giving campaigns.

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Community First – America's Charities (Community First) was incorporated in 2008 in the District of Columbia. Its purpose is to solicit contributions for its member charities that serve in the Washington D.C. area and deal with various local area-related issues through payroll deduction charitable giving campaigns.

A summary of America's Charities' significant programs are as follows:

Member campaign services: Activities related to the management of America's Charities' members' participation in federal government, state and local government and private sector workplace campaigns.

Campaign management services: Activities that support the collection, reporting and distribution of various workplace-giving campaigns.

Management and general: Activities that support America's Charities overall but are not directly allocable to programs or fundraising.

Fundraising: Activities that provide access for America's Charities' members to the various campaign types.

A summary of significant accounting policies of America's Charities follows:

Basis of accounting: The consolidated financial statements of America's Charities have been prepared on the accrual basis of accounting. Accordingly, unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Not-for-Profit Entities topics of the FASB ASC, America's Charities is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. America's Charities had no net assets without donor restrictions at December 31, 2019 and 2018.

Consolidation policy: The consolidated financial statements include the accounts of America's Charities, Children First, Health First and Community First. All significant intercompany balances and transactions have been eliminated in the consolidation.

Financial risk: America's Charities maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. America's Charities believes it is not exposed to any significant financial risk on cash.

Promises to give: Promises to give are recorded in the consolidated financial statements upon receipt of pledge information from the campaigns. America's Charities honors designations made to each member and nonmember charity. As all promises to give are expected to be collected within one year, they are recorded at their estimated net realizable value. This is achieved by applying an allowance for estimated shrinkage to the campaign pledges. At the end of the year, any amounts receivable from the previous year's campaign are written off. Subsequent receipts relating to such amounts are set off against the shrinkage expense.

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Member charity fees receivable: Member charity fees receivable consist of member charities' fees due to America's Charities, which are expected to be collected within the next year. America's Charities records an allowance for doubtful accounts, which is based on specifically identified amounts that America's Charities believes to be uncollectible. As a result, it is reasonably possible that America's Charities' estimate of the net carrying amounts of member charity fees receivable could change in the near-term. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Property and equipment: Property and equipment are recorded at cost and depreciated on the straight-line basis over estimated useful lives, which range from three to seven years. Leasehold improvements are recorded at cost and amortized over the shorter of the asset's useful life or the term of the lease. America's Charities capitalizes all property and equipment purchased with a cost of \$1,000 or more.

Intangible assets: America's Charities capitalized \$10,000 of software and \$5,000 for a logo associated with the purchase of Causecast. The intangible assets are being amortized on a straight line basis over estimated useful lives of three years. Amortization expense and accumulated amortization for intangible assets for the year ended December 31, 2019 was \$2,178.

Goodwill: America's Charities follows ASC Topics 805 and 350, Accounting for Business Combinations, and Intangibles – Goodwill and Other. Goodwill is required to be recognized in a business combination if the fair value of the acquired entity exceeds the fair value of the identifiable net assets acquired. America's Charities recognized \$180,891 of goodwill as a result of its acquisition of Causecast on July 26, 2019 (see note 4). America's Charities has elected the Private Company Council accounting alternatives related to goodwill and intangible assets acquired in a business combination. Accordingly, goodwill includes the fair values of certain customer-related intangible assets acquired in the business combination. In May 2019, the FASB issued Accounting Standards Update (ASU) 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. Under the amendments to the accounting alternative in Topic 350, a not-for-profit entity should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter useful life is more appropriate. A not-for-profit entity that elects this accounting alternative is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. A not-for-profit entity is required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount. America's Charities adopted this ASU and the accounting alternative in Topic 350 during the year ended December 31, 2019, in conjunction with their acquisition of Causecast (see Note 4). Goodwill is being amortized on a straight line basis over a 10 year life. Amortization expense and accumulated amortization of goodwill for the year ended December 31, 2019 was \$7,880.

Valuation of long-lived assets: America's Charities reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Campaign funds payable to member/nonmember charities: Pledges that are designated to America's Charities' member charities and nonmember charities are recorded as campaign funds payable to member/nonmember charities. Cash received from designated campaign pledges is allocated to each participating member charity in the ratio of designated pledges from the relevant campaign to the total cash received.

Deferred rent: America's Charities has a lease agreement for rental space in Chantilly, Virginia. This lease agreement provides for escalated payments over the life of the lease and a six-month period of rent abatement. The rent increases in future years and free rent are being recognized on a straight-line basis over the life of the lease agreement. America's Charities has a sublease agreement for their rental space where the subtenant is required to pay America's Charities' escalating payments over the term of the sublease. The deferred rent liability is the difference between the expense and the cash payments, net of the deferred rent receivable from the sublease.

Deferred revenue: Amounts billed in advance for member charity fees are recorded as a receivable and deferred revenue and are thereafter recognized as revenue ratably over the remaining campaign distribution period.

Revenue recognition: Specific designations to America's Charities and certain undesignated pledges are recognized as public support to the extent remitted by the PCFO, the state employee agency or the private sector workplace. All pledges designated for a member charity raised under the terms of our member agreements are reported as amounts raised in campaigns. An offset is deducted for amounts raised and advised/designated for member and others on the consolidated statements of activities.

Existing member charity's fees are charged based on a percentage of total pledges raised for each member charity with a minimum charge of \$9,000 for CFC/private sector. State and local public sector member charity fees are charged to each member charity electing to participate in this program based on a percentage of total pledges raised for each member charity with a minimum charge of \$7,000. Although the price contains a fixed and variable component, the revenue is recognized ratably over the campaign distribution period to which they apply and in conjunction with satisfaction of America's Charities performance obligations over time. The variable component of the fees are based on estimates of total pledges raised and are subsequently adjusted to final rates. In 2017, America's Charities transitioned to a new pricing approach for new member charities. Under the new approach, each member charity is assessed a fixed service fee and funds management fee based on a percentage of contributions. Member charity fees are recognized as revenue ratably over the campaign distribution period to which they apply and in conjunction with satisfaction of America's Charities performance obligations over time.

Campaign management fees are charged to each organization based on the amount of pledges raised and a fixed contract amount and are recognized as revenue over time as the campaign management services are performed and performance obligations satisfied. There are various performance obligations performed over the campaign period. Campaign management fee revenue is recognized based on percentage of time and effort performed over the fiscal year as this is the method utilized to determine when performance obligations are satisfied.

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Economic factors such as changes in the economy or various events that results in greater need to contribute can affect the nature, amount, timing and uncertainty of cash flow for campaign management and member charity's fees. The primary factor affecting the future revenue and cash inflows is participation of member charity fees, campaign management fees and charitable contributions received. Management does not believe there is a material risk of future loss of revenue or cash flows. There are no rights of return or refunds for any revenue streams. Payments are due upon receipt of invoice. America's Charities did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components.

Donated services are recorded at the fair market value at the time of donation.

Adoption of recent accounting pronouncement: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expected to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in generally accepted accounting principles in the United State of America (U.S. GAAP). The updated standards also requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. America's Charities adopted the new standard effective for the year ended December 31, 2019, using the modified retrospective transition method to all agreements and contracts not yet completed as of January 1, 2019. As a result, revenue recognition was changed for the Maryland Charity Campaign for State Employees and Retirees campaign management fees and the City of Philadelphia campaign management fees. These campaign fees were previously deferred in full to the next fiscal year at completion of the campaign period. With the adoption of the new standard, revenue is deferred when payment is received and recognized as revenue over time as campaign services are performed. The adoption of this standard resulted in a cumulative increase to net assets of \$233,786 on January 1, 2019.

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The following table presents the effect of the adoption of this standard on the statement of financial position as of December 31, 2019:

	Under Legacy GAAP	Impact of Topic 606	Adjusted Total
Statement of Financial Position			
Assets:			
Other receivables	\$ 813,282	\$ 20,590	\$ 833,872
Liabilities:			
Deferred revenue	\$ 805,854	\$ (189,370)	\$ 616,484
Net Assets:			
Undesignated	\$ 1,168,522	\$ 209,960	\$ 1,378,482
Statement of Activities			
Revenue and support:			
Campaign management services	\$ 22,042,593	\$ (23,826)	\$ 22,018,767
Change in net assets	(86,976)	(23,826)	(110,802)
Total net assets – beginning January 1, 2019	1,255,498	233,786	1,489,284
Total net assets – ending December 31, 2019	<u>\$ 1,168,522</u>	<u>\$ 209,960</u>	<u>\$ 1,378,482</u>

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where America's Charities is a resource recipient, the ASU is applicable to contributions received for the fiscal year ended December 31, 2019, and America's Charities adopted this amendment on a modified prospective basis. The adoption did not have a material impact on the reported net assets as of January 1, 2019. Where America's Charities is a resource provider, the ASU is effective for the fiscal year ending December 31, 2020. America's Charities is in the process of evaluating the impact of this new guidance for resource providers.

Net assets without donor restrictions: Represents resources whose use is not restricted by donor stipulations and are available for the support of general operating activities. Certain amounts have been designated by America's Charities for specific purposes:

Undesignated: Represents the portion of expendable funds that are available for support of America's Charities' operations.

Board designated: Represents net assets that have been internally designated for future initiatives.

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Campaign advertising expenses: Campaign advertising expenses are expensed during the period the advertising occurs.

Functional allocation of expenses: The costs of providing various program and supporting services have been summarized on a functional basis on the consolidated statements of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited. Salaries and benefits are allocated based on time sheets prepared on a basis of time and effort. All overhead expenses are allocated to programs based on the percentage of time and effort identified to each program from salary and benefit allocations.

Income taxes: America's Charities, Children First, Health First and Community First are generally exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, all entities qualify for charitable contribution deductions and have been classified as organizations that are not private foundations. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. America's Charities had no unrelated business income for the years ended December 31, 2019 and 2018.

Management evaluated America's Charities tax positions and concluded that America's Charities has taken no uncertain tax positions that require adjustment to the consolidated financial statements. Generally, America's Charities is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2016.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recent upcoming accounting pronouncement: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. America's Charities is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

Subsequent events: On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. The impact of COVID-19 could negatively impact America's Charities, its operations, and its revenue base for an unknown period of time. The extent to which the coronavirus impacts America's Charities results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others. During 2020, America's Charities received \$487,180 from the Payroll Protection Program through the CARES Act.

America's Charities evaluated subsequent events through June 11, 2020, which is the date the consolidated financial statements were available to be issued.

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 2. Property and Equipment

Property and equipment consist of the following at December 31, 2019 and 2018:

	2019	2018
Software	\$ 1,617,914	\$ 1,617,915
Furniture and equipment	148,797	148,797
Computers	129,863	128,863
Leasehold improvements	19,847	19,847
	<u>1,916,421</u>	<u>1,915,422</u>
Less accumulated depreciation and amortization	1,913,579	1,893,878
	<u>\$ 2,842</u>	<u>\$ 21,544</u>

Depreciation and amortization expense related to property and equipment was \$19,702 and \$50,245 for the years ended December 31, 2019 and 2018, respectively.

Note 3. Amounts Raised in Campaigns

Public support on the consolidated statements of activities is represented net of estimated campaign expenses incurred by other organizations and shrinkage of the campaigns. America's Charities includes funds raised in a campaign that it manages as the fiscal agent if it has had substantial involvement in that campaign. The following tables present gross pledges raised by America's Charities and the reconciliation to net amounts raised in campaigns for the years ended December 31, 2019 and 2018:

	2019		
	Gross Pledges	Shrinkage	Net Promises
Combined federal campaign	\$ 6,145,558	\$ (1,199,724)	\$ 4,945,834
Campaign management services	23,346,556	(1,327,789)	22,018,767
Private sector	1,010,368	(60,815)	949,553
State and local	1,940,458	(208,347)	1,732,111
	<u>\$ 32,442,940</u>	<u>\$ (2,796,675)</u>	<u>\$ 29,646,265</u>
	2018		
	Gross Pledges	Shrinkage	Net Promises
Combined federal campaign	\$ 6,504,412	\$ (1,122,557)	\$ 5,381,855
Campaign management services	20,415,128	(1,266,625)	19,148,503
Private sector	1,184,180	(42,613)	1,141,567
State and local	2,347,703	(276,788)	2,070,915
	<u>\$ 30,451,423</u>	<u>\$ (2,708,583)</u>	<u>\$ 27,742,840</u>

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 4. Acquisition of Causecast Corporation

On July 26, 2019, America's Charities entered into an agreement with a company to purchase certain tangible and intangible assets including proprietary software, use of a logo, customer contracts and customer relationships. The acquired net assets constitute the acquisition of a business. The total purchase price was \$116,332. America's Charities paid \$16,332 at closing and issued a note payable for an additional \$100,000 due on the one-year anniversary of the closing. America's Charities obtained the exclusive ownership of the company's software and related assets, which allows America's Charities to help organizations automate community volunteering, donations, matching, rewarding, and cause campaigns and allows the organizations' users to participate in the foregoing. Goodwill of \$180,891 was recognized in conjunction with this acquisition since the purchase price was in excess of the net identifiable tangible and intangible assets acquired. As mentioned earlier in Note 1, America's Charities has elected the Private Company Council accounting alternatives related to goodwill and intangible assets acquired in a business combination. Accordingly, goodwill includes the fair values of certain customer-related intangible assets acquired in the business combination. Goodwill will be amortized straight line over a 10-year life. Transaction costs related to the business combination transaction were not material.

The acquisition has been recognized in the accompanying consolidated financial statements as a business combination in accordance with U.S GAAP. The following table summarizes the aggregate consideration paid and the fair values of the net assets acquired and recognized at the date of acquisition.

Consideration:

Cash	\$ 16,332
Note payable to seller	100,000
	<u>\$ 116,332</u>

Recognized amounts of identifiable assets acquired:

Prepaid expenses	\$ 4,109
Logo	5,000
Software	10,000
Goodwill	180,891
Other liabilities – deferred revenue	(83,668)
	<u>\$ 116,332</u>

Note 5. Donated Services

America's Charities received donated services. The following table presents donated services separately from other expenses for the years ended December 31, 2019 and 2018:

	2019	2018
Expenses:		
Member campaign services	\$ 802,537	\$ 934,158
Campaign management services	3,027,306	2,465,290
Management and general	476,316	731,947
Fundraising	301,265	306,197
	<u>4,607,424</u>	<u>4,437,592</u>
Donated services	563,438	315,854
	<u>\$ 5,170,862</u>	<u>\$ 4,753,446</u>

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 6. Retirement Plan

America's Charities has a 401(k) defined contribution retirement plan covering all full-time employees. Employees are eligible to participate upon the completion of one year of service and 21 years of age. Under the terms of the plan, America's Charities provides eligible employees a 4% safe harbor contribution. The organization also provides a discretionary match for voluntary deferrals. Employees are 100% vested after one year of service. Contributions were \$155,211 and \$140,201 for the years ended December 31, 2019 and 2018, respectively.

Note 7. Line of Credit

America's Charities has an open-ended, revolving, secured \$250,000 line of credit to supplement its general working capital. This accrues an interest rate equal to the London Interbank Offered Rate index rate, plus 3% per annum and requires a collateral account of \$250,000, which is included in cash on the consolidated balance sheets. The line of credit expires on October 5, 2020, and is renewed annually. There was no amount outstanding on the line at December 31, 2019 and 2018.

Note 8. Office Lease

America's Charities leases office space in Chantilly, Virginia under an operating lease that expires on December 31, 2021. America's Charities was given the benefit of six months of rent abatement. Deferred rent liability of \$69,726 and \$94,348 as of December 31, 2019 and 2018, respectively, is recorded on the consolidated balance sheets in relation to the rental abatement and escalating lease payments, net of the deferred rent receivable of \$2,167 and \$1,804 as of December 31, 2019 and 2018, respectively, from the sublease noted below.

Rent expense for the years ended December 31, 2019 and 2018, was \$205,756 and \$204,239, respectively.

America's Charities entered into a sublease agreement beginning on September 1, 2017, that expires on December 31, 2021, in which the subtenant is required to pay America's Charities escalating lease payments over the term of the sublease. The subtenant has the right to terminate the sublease at any time after the third anniversary of the sublease commencement date upon six months' notice. Deferred rent receivable at December 31, 2019 and 2018, is \$2,167 and \$1,804, respectively.

The future minimum rental payments and sublease rental receipts, assuming neither termination option is exercised, are as follows:

	Minimum Future Rental Obligations	Sublease Rental Income	Net Rental Obligations
Payments due in:			
2020	\$ 232,269	\$ 28,090	\$ 204,179
2021	239,206	29,075	210,131
	<u>\$ 471,475</u>	<u>\$ 57,165</u>	<u>\$ 414,310</u>

America's Charities and Affiliates

Notes to Consolidated Financial Statements

Note 9. Availability of Assets

America's Charities is substantially supported by contributions owed to member charities. Because this represents resources not available for operations, America's Charities must maintain sufficient resources to meet those responsibilities to its members. Therefore, financial assets may not be available for general expenditures within one year. As part of America's Charities liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations become due. In addition, the Board designated a liquidity reserve of \$550,000 that could be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. The Board elected to release the reserve during the year ended December 31, 2019. In the event of an unanticipated liquidity need, America's Charities also could draw upon a \$250,000 line of credit (as further discussed in Note 6).

The following reflects America's Charities' consolidated financial assets, which includes cash and receivables, reduced by amounts not available for general use within one year of the consolidated balance sheet date:

	2019	2018
Financial assets	\$ 12,544,268	\$ 10,852,662
Less those unavailable for general expenditures within one year due to:		
Contractual restrictions:		
Cash designated for member payments	(8,491,777)	(6,831,227)
Pledge receivables designated for member payments	(1,734,537)	(1,562,591)
Board designations:		
Amount set aside for liquidity reserve	-	(550,000)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,317,954</u>	<u>\$ 1,908,844</u>

Note 10. Contingencies

Campaigns are subject to audit by the U.S. Office of Personnel Management. Pledges (OPM) received by member charities may be adjusted based on determinations of these audits. In the opinion of America's Charities' management, any adjustments resulting from any audits would not be material to the consolidated financial statements. No audit of the Fall 2018 and 2017 Campaigns has been performed by OPM as of the date of issuance of these consolidated financial statements.

Independent Auditor's Report on the Supplementary Information

Board of Directors
America's Charities

We have audited the consolidated financial statements of America's Charities and Affiliates as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon June 11, 2020, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

McLean, Virginia
June 11, 2020

America's Charities and Affiliates

Consolidating Balance Sheet Year Ended December 31, 2019

	America's Charities	Children First – America's Charities	Health First – America's Charities	Community First – America's Charities	Elimination	Total
Assets						
Cash	\$ 8,963,571	\$ 88,103	\$ 126,147	\$ 60,711	\$ -	\$ 9,238,532
Promises to give (pledges)	702,225	280,933	267,697	509,375	-	1,760,230
Member charity fees receivable, net of allowance for doubtful accounts of \$103,746	287,829	253,822	131,266	38,717	-	711,634
Other receivables	888,342	18,097	11,014	39,015	(122,596)	833,872
Other assets	180,963	-	-	-	-	180,963
Property and equipment, net	2,842	-	-	-	-	2,842
Deferred leasing costs	2,600	-	-	-	-	2,600
Intangible assets, net	12,821	-	-	-	-	12,821
Goodwill, net	173,011	-	-	-	-	173,011
Total assets	\$ 11,214,204	\$ 640,955	\$ 536,124	\$ 647,818	\$ (122,596)	\$ 12,916,505
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	\$ 457,691	\$ 38,274	\$ 44,352	\$ 6,600	\$ (122,596)	\$ 424,321
Campaign funds payable to member/nonmember charities	9,283,060	273,629	265,822	507,148	-	10,329,659
Deferred revenue	419,331	75,200	73,224	48,729	-	616,484
Deferred rent	67,559	-	-	-	-	67,559
Notes payable	100,000	-	-	-	-	100,000
Total liabilities	10,327,641	387,103	383,398	562,477	(122,596)	11,538,023
Net assets without donor restrictions:						
Undesignated	886,563	253,852	152,726	85,341	-	1,378,482
Total net assets	886,563	253,852	152,726	85,341	-	1,378,482
	\$ 11,214,204	\$ 640,955	\$ 536,124	\$ 647,818	\$ (122,596)	\$ 12,916,505

America's Charities and Affiliates

Consolidating Statement of Activities Year Ended December 31, 2019

	America's Charities	Children First – America's Charities	Health First – America's Charities	Community First – America's Charities	Total
Support and revenue:					
Amounts raised in campaigns, net of campaign expenses incurred by other organizations and shrinkage:					
Combined federal campaign	\$ 2,322,995	\$ 628,462	\$ 581,053	\$ 1,413,324	\$ 4,945,834
Campaign management services	21,511,875	206,121	144,193	156,578	22,018,767
Private sector	701,527	150,749	92,572	4,705	949,553
State and local	1,106,081	364,901	254,217	6,912	1,732,111
Total net amounts raised in campaigns	25,642,478	1,350,233	1,072,035	1,581,519	29,646,265
Less amounts raised on behalf of others	25,418,973	1,330,085	1,068,368	1,573,414	29,390,840
Support designated to America's Charities and Affiliates	223,505	20,148	3,667	8,105	255,425
Member charity fees	1,202,394	521,938	455,130	144,904	2,324,366
Campaign management fees	1,668,071	-	-	-	1,668,071
Campaign advertising fees	68,780	23,281	9,834	37,838	139,733
Donated services	405,941	73,948	-	83,549	563,438
Other	109,027	-	-	-	109,027
Total support and revenue	3,677,718	639,315	468,631	274,396	5,060,060
Expenses:					
Program services:					
Member campaign services	940,484	164,901	119,072	61,028	1,285,485
Campaign management services	2,214,830	388,342	280,414	143,720	3,027,306
Total program services	3,155,314	553,243	399,486	204,748	4,312,791
Supporting services:					
Management and general	400,837	70,282	50,749	26,010	547,878
Fundraising	226,943	39,791	28,733	14,726	310,193
Total supporting services	627,780	110,073	79,482	40,736	858,071
Total expenses	3,783,094	663,316	478,968	245,484	5,170,862
Change in net assets	(105,376)	(24,001)	(10,337)	28,912	(110,802)
Net assets without donor restrictions:					
Beginning	758,153	277,853	163,063	56,429	1,255,498
Cumulative effect of adoption of ASC 606 (Note 1)	233,786	-	-	-	233,786
Ending	\$ 886,563	\$ 253,852	\$ 152,726	\$ 85,341	\$ 1,378,482