

AMERICA CAN! CARS FOR KIDS
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

AUGUST 31, 2018 AND 2017

AMERICA CAN! CARS FOR KIDS

AUGUST 31, 2018 AND 2017

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 – 10



LANE GORMAN TRUBITT, LLC
Accountants & Advisors

Independent Auditor's Report

Board of Trustees
America Can! Cars for Kids

Report on the Financial Statements

We have audited the accompanying financial statements of America Can! Cars for Kids ("Cars for Kids"), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and changes in net assets 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.

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 audits 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 Cars for Kids as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LANE GORMAN TRUBITT, LLC

Dallas, Texas
January 18, 2019

America Can! Cars for Kids
STATEMENTS OF FINANCIAL POSITION
August 31,

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 693,138	\$ 811,773
Accounts receivable	56,350	134,338
Inventory	636,985	594,546
Prepaid expenses	<u>32,762</u>	<u>63,122</u>
Total current assets	1,419,235	1,603,779
 PROPERTY AND EQUIPMENT - NET	 <u>2,557,873</u>	 <u>2,596,679</u>
	 <u>\$ 3,977,108</u>	 <u>\$ 4,200,458</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 209,459	\$ 199,127
Accounts payable	301,939	296,365
Accrued liabilities	194,721	201,420
Accrued wages payable	<u>87,609</u>	<u>36,980</u>
Total current liabilities	793,728	733,892
 LONG-TERM DEBT, less current maturities	 <u>822,699</u>	 <u>1,031,853</u>
Total liabilities	<u>1,616,427</u>	<u>1,765,745</u>
 NET ASSETS		
Unrestricted	<u>2,360,681</u>	<u>2,434,713</u>
	 <u>\$ 3,977,108</u>	 <u>\$ 4,200,458</u>

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

America Can! Cars for Kids
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years Ended August 31,

	2018	2017
REVENUES		
Auction revenue	\$ 9,151,153	\$ 8,176,768
Consignment revenue	250,441	702,742
Thrift store revenue	19,457	-
Other income	21,521	499,821
Bad debt recoveries	-	98,544
TOTAL REVENUES AND SUPPORT	9,442,572	9,477,875
EXPENSES		
Program service expenses		
Contributions to the Charter Holder	1,742,553	2,259,375
Vehicle preparation	852,353	848,517
Auction costs	1,599,496	1,607,408
Thrift store costs	6,886	-
Total program service expenses	4,201,288	4,715,300
General and administration expenses		
General administration	1,915,637	870,161
Plant maintenance and operations	287,476	307,806
Debt service	57,172	71,175
Security and monitoring services	180,127	208,479
Total general and administration expenses	2,440,412	1,457,621
Fundraising	2,874,904	2,647,225
TOTAL EXPENSES	9,516,604	8,820,146
CHANGE IN UNRESTRICTED NET ASSETS	(74,032)	657,729
NET ASSETS - Unrestricted, beginning of year	2,434,713	1,776,984
NET ASSETS - Unrestricted, end of year	\$ 2,360,681	\$ 2,434,713

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

America Can! Cars for Kids
STATEMENTS OF CASH FLOWS
Years Ended August 31,

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (74,032)	\$ 657,729
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation	111,003	107,109
Bad debt (recoveries) expense	-	(98,544)
Changes in operating assets and liabilities		
Accounts receivable	77,988	12,295
Inventory	(42,439)	(36,051)
Prepaid expenses	30,360	(31,784)
Accounts payable	5,574	(16,733)
Accrued liabilities	(6,699)	(74,346)
Accrued wages payable	50,629	13,184
Net cash provided by operating activities	152,384	532,859
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(72,197)	(45,889)
Net cash used in investing activities	(72,197)	(45,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(198,822)	(189,273)
Net cash used in investing activities	(198,822)	(189,273)
Net increase (decrease) in cash and cash equivalents	(118,635)	297,697
Cash and cash equivalents at beginning of year	811,773	514,076
Cash and cash equivalents at end of year	\$ 693,138	\$ 811,773
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 58,127	\$ 67,675
Cash paid (refunded) during the year for unrelated business income tax - net	\$ (32,003)	\$ 29,411

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

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

NATURE OF BUSINESS

American Can! Cars for Kids (“Cars for Kids”) is a not-for-profit formed in 2013 and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Cars for Kids is considered an affiliated organization with America Can!, a not-for-profit open enrollment charter school (the “Charter Holder”). Cars for Kids fundraises on behalf of the Charter Holder by auctioning off donated and consigned vehicles, boats and other items and 100% of net proceeds go to the Charter Holder. Prior to August 31, 2013, Cars for Kids operated as a business segment of the Charter Holder. Cars for Kids is a separate entity for its fiscal years ending August 31, 2018 and 2017, but is still included as part of the America Can! consolidated financial statements.

Cars for Kids and the Charter Holder are governed by the same Board of Trustees comprised of nine members. The Board of Trustees is selected pursuant to the bylaws of Cars for Kids and has the authority to make decisions and significantly influence operations. The Board of Trustees has the primary accountability for the fiscal affairs of Cars for Kids.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied by Cars for Kids in the preparation of the accompanying financial statements is as follows:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Basis of Presentation

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

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Cars for Kids and/or the passage of time. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Cars for Kids has no temporarily restricted assets as of August 31, 2018 and 2017.

Permanently restricted net assets – Net assets subject to donor imposed restrictions requiring that the principal be invested in perpetuity and only the income may be used in accordance with the donor restrictions. Cars for Kids has no permanently restricted net assets as of August 31, 2018 and 2017.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the date of donation.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand and in banks. This category also includes all highly liquid investment instruments with an original maturity of three months or less. Cars for Kids places its cash equivalents with high credit quality financial institutions located in the United States, which at times, may exceed federally insured limits. Cars for Kids has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable are carried at their net realizable value. An estimate is made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible.

Recoveries of accounts receivable previously written off are recorded when received. Management has determined the allowance for doubtful accounts is \$- at August 31, 2018 and 2017, respectively.

Inventory

Inventory consists of donated cars, boats and other vehicles and is valued at the average sales price for the previous twelve months.

Cars for Kids receives contributions of goods and materials and processes these contributions as merchandise available for sale in its retail thrift store. Financial accounting standards require that contributions received be recognized as revenues or gains in the period received and as corresponding assets, measured at their fair value.

Cars for Kids believes the contributed thrift store inventory does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine an inventory value at the time of donation. It is only through the value-added processes that prepare the donated inventory for sale that the donated inventory has value. Accordingly, contributed thrift store inventory is valued at zero prior to being offered for sale. Cars for Kids considers the costs associated with bringing the donated inventory to sale (i.e., donation collection, transportation, sorting and pricing expenses) in its estimate of the fair value of inventory. The difference between year-end inventory valuations is shown on the statement of activities and changes in net assets as thrift store costs.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the assets, which range from three to thirty years, using the straight-line method. Expenditures for additions, major renewals and betterments are capitalized at cost when purchased and are defined as assets with an estimated useful life of more than one year and a cost of \$5,000 or more. Donations of assets are recorded at fair value at the date of donation, which is then treated as cost.

Revenue Recognition

Auction revenue, consignment revenue, and thrift store revenue is recognized at the point of sale to the customer.

Other income consists of insurance reimbursements, forfeited customer deposits, and towing costs covered by donors. Revenue associated with these items is recorded when funds are earned.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Personal Leave

Employees under 5 years of employment earn 10 days paid personal and sick leave per year, employees with 5 -15 years of employment earn 15 days paid personal and sick leave per year, employees with 15 -20 years of employment earn 20 days paid personal and sick leave per year, and employees with more than 20 years of employment earn 30 days paid personal and sick leave per year. There is no liability for unpaid accumulated leave since Cars for Kids does not have a policy to pay any amounts when the employees separate from service.

Income Taxes

Cars for Kids is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code (the "Code") according to the United States Internal Revenue Service determination letter dated October 1985, except to the extent it has unrelated business taxable income.

GAAP requires the evaluation of tax positions taken or expected to be taken in the course of preparing Cars for Kids' financial statements to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expenses in the current year. A reconciliation is not provided herein, as the beginning and ending amounts of unrecognized benefits are zero, with no interim additions, reductions, or settlements. However, the conclusions regarding the uncertainty in income taxes will be subjective to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

Tax positions taken related to Cars for Kids' tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. For the years ended August 31, 2018 and 2017, unrelated business income tax liabilities of \$8,335 and \$61,634, respectively, were recorded.

Cars for Kids recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. Cars for Kids' informational returns filed in the U.S. federal jurisdiction are generally subject to examination for three years after the later of the due date or date of filing. As a result, Cars for Kids is no longer subject to income tax examinations by tax authorities for years prior to 2015.

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs for the years ended August 31, 2018 and 2017 were \$2,874,904 and \$2,647,225, respectively, and are included in fundraising expenses in the accompanying statements of activities and changes in net assets.

Functional Allocation of Expenses

The costs of providing funding to the Charter Holder and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for the years beginning after December 15, 2019, and for all periods presented. Early application of the amendments in this ASU is permitted. Cars for Kids is currently assessing the impact this standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The objective of this ASU is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit's liquidity, financial performance, and cash flows. The key provisions include net asset classes, investment return, expenses, liquidity and availability of resources, and the statement of cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. Cars for Kids is currently assessing the impact this standard will have on its financial statements.

In February 2016, the FASB issued ASU Update No. 2016-02, *Leases (Topic 842)*. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP - which requires only capital leases to be recognized on the statement of financial position - the new ASU will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 is effective for the years beginning after January 1, 2020 and for all periods presented. Early application of the amendments in this ASU is permitted. Cars for Kids is currently assessing the impact this standard will have on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue Recognition (Topic 606): Revenue from Contracts with Customers*. This ASU introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for fiscal years beginning after December 31, 2017, including interim periods within that reporting period. Cars for Kids is currently assessing the impact this standard will have on its financial statements.

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 2,783,970	\$ 2,776,153
Vehicles	12,100	12,100
Computer equipment	50,611	50,611
Furniture and equipment	<u>64,380</u>	<u>30,345</u>
	2,911,061	2,869,209
Less accumulated depreciation	<u>(353,188)</u>	<u>(272,530)</u>
	<u>\$ 2,557,873</u>	<u>\$ 2,596,679</u>

For the years ended August 31, 2018 and 2017, depreciation expense was \$111,003 and \$107,109, respectively.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

3. NOTES PAYABLE

During the fiscal year ended August 31, 2015, Cars for Kids entered into a note payable agreement to finance property purchased commencing on September 11, 2016 with maturity on February 28, 2023. The note is collateralized by the property and bears interest at 5%. The outstanding balance of the note at August 31, 2018 and 2017 was \$1,032,158 and \$1,230,980, respectively.

The note is due as follows for the fiscal years ending August 31:

2019	\$	209,459
2020		220,227
2021		231,755
2022		243,781
2023		126,936
Thereafter		-
Less current maturities		1,032,158
Total noncurrent		(209,459)
	\$	822,699

4. DEFINED CONTRIBUTION PLAN

Cars for Kids contributes 6% of all eligible employees' salary into America Can! Cars for Kids 401(k) Profit Sharing Plan and Trust. Cars for Kids' contributions for the years ended August 31, 2018 and 2017, totaled \$41,793 and \$19,692, respectively.

5. CONTRIBUTIONS TO AFFILIATED ORGANIZATIONS

During the years ended August 31, 2018 and 2017, Cars for Kids contributed cash to the Charter Holder totaling \$1,742,553 and \$2,259,375, respectively for charter school operations.

6. COMMITMENTS AND CONTINGENCIES

Litigation

The Cars for Kids can be involved in various lawsuits in the normal course of business. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statement. Management believes that losses resulting from these matters, if any, would be covered under the Company's professional liability insurance policy and would not have a material effect on the financial position of the Company.

During the year ended August 31, 2018, Cars for Kids was Plaintiff in an ongoing matter with Kars4Kids. Expenses related to this matter which total \$1,338,588 are included in the accompanying statements of activities and changes in net assets for the year ended August 31, 2018.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

6. COMMITMENTS AND CONTINGENCIES (Continued)

Lease Commitments

Cars for Kids leases several pieces of equipment under non-cancelable operating leases that expire through November 2021. Minimum future lease payments under these non-cancelable operating leases are as follows for the years ended August 31:

2019	\$	23,439
2020		17,753
2021		7,717
2022		5,727
2023		5,727
Thereafter		-
	<u>\$</u>	<u>60,363</u>

The accompanying statements of activities and changes in net assets include lease expense of \$32,567 and \$33,299 for the years ended August 31, 2018 and 2017, respectively.

7. RELATED PARTY TRANSACTIONS

During the fiscal years ended August 31, 2018 and 2017, Cars for Kids approved payments totaling \$206,000 and \$152,000, respectively, to Marqcom, Inc. for access to software to be utilized by the Charter Holder. Rights for the utilization of the software was contributed to the Charter Holder by Cars for Kids for the years ended August 31, 2018 and 2017. Marqcom, Inc. is a corporation owned by the Chief Executive Officer ("CEO") of the Charter Holder and these payments were in addition to his employment contract and performance bonuses.

Cars for Kids holds cash and a note payable totaling \$641,618 and \$1,032,158, respectively, as of August 31, 2018 with a bank whose chief executive officer is also a member of the Charter Holder's Board of Directors. At August 31, 2017, these amounts totaled \$810,512 and \$1,230,980, respectively.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 18, 2019, the date the financial statements were available to be issued.