

Financial Statements and Independent Auditor's Report

America Can! Cars for Kids

For the years ended August 31, 2019 and 2018



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AMERICA CAN! CARS FOR KIDS

AUGUST 31, 2019 AND 2018

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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, 2019 and 2018, the related statements of activities and changes in net assets, 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.

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, 2019 and 2018, 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
December 11, 2019

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

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 264,794	\$ 693,138
Accounts receivable	53,423	56,350
Inventory	766,870	636,985
Prepaid expenses	108,790	32,762
Total current assets	1,193,877	1,419,235
PROPERTY AND EQUIPMENT - NET	2,557,945	2,557,873
Total assets	\$ 3,751,822	\$ 3,977,108
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 220,227	\$ 209,459
Accounts payable	635,727	301,939
Accrued liabilities	166,563	194,721
Accrued wages payable	43,596	87,609
Total current liabilities	1,066,113	793,728
LONG-TERM DEBT, less current maturities	602,275	822,699
Total liabilities	1,668,388	1,616,427
NET ASSETS		
Without donor restrictions	2,083,434	2,360,681
Total liabilities and net assets	\$ 3,751,822	\$ 3,977,108

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,

	2019	2018
REVENUES		
Auction revenue	\$ 8,950,572	\$ 9,151,153
Consignment revenue	208,990	250,441
Thrift store revenue	170,952	19,457
Other income	200,157	21,521
TOTAL REVENUES AND SUPPORT	9,530,671	9,442,572
EXPENSES		
Program service expenses		
Advertising	493,794	424,370
Auction costs	2,637,103	2,458,735
Contributions to the Charter Holder	880,526	1,742,553
Total program service expenses	4,011,423	4,625,658
General and administration expenses		
General administration	2,389,727	1,915,637
Plant maintenance and operations	352,513	287,476
Debt service	44,747	57,172
Security and monitoring services	179,296	180,127
Total general and administration expenses	2,966,283	2,440,412
Fundraising	2,830,212	2,450,534
TOTAL EXPENSES	9,807,918	9,516,604
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(277,247)	(74,032)
NET ASSETS - Without donor restrictions, beginning of year	2,360,681	2,434,713
NET ASSETS - Without donor restrictions, end of year	\$ 2,083,434	\$ 2,360,681

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

America Can! Cars for Kids
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2019

	Supporting Services			Total
	Program Services	General and Administration	Fundraising	
Advertising	\$ 493,794	\$ -	\$ 2,804,388	\$ 3,298,182
Auction costs	204,635	-	-	204,635
Contributions	880,526	-	-	880,526
Data processing	-	140,265	-	140,265
Depreciation	-	120,560	-	120,560
Employee benefits	166,883	7,485	2,659	177,027
Insurance	-	48,814	-	48,814
Interest	-	44,747	-	44,747
Meals, travel & entertainment	-	14,210	-	14,210
Other	-	35,919	-	35,919
Payroll taxes	112,548	5,048	1,793	119,389
Professional fees	-	2,030,213	-	2,030,213
Rent & lease	-	50,446	-	50,446
Repairs & maintenance	-	78,961	-	78,961
Salaries	1,341,924	77,540	21,372	1,440,836
Security fees	-	179,296	-	179,296
Supplies	-	27,441	-	27,441
Taxes	-	4,550	-	4,550
Thrift store	13,831	-	-	13,831
Utilities	-	100,788	-	100,788
Vehicle preparation	797,282	-	-	797,282
Total functional expenses	\$ 4,011,423	\$ 2,966,283	\$ 2,830,212	\$ 9,807,918

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

America Can! Cars for Kids
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2018

	Program Services	Supporting Services		Total
		General and Administration	Fundraising	
Advertising	\$ 424,370	\$ -	\$ 2,404,762	\$ 2,829,132
Auction costs	248,161	-	-	248,161
Contributions	1,742,553	-	-	1,742,553
Data processing	-	163,781	-	163,781
Depreciation	-	111,003	-	111,003
Employee benefits	161,586	17,917	5,473	184,976
Insurance	-	47,857	-	47,857
Interest	-	57,172	-	57,172
Meals, travel & entertainment	-	16,230	-	16,230
Other	-	2,264	-	2,264
Payroll taxes	85,428	9,473	2,894	97,795
Professional fees	-	1,486,112	-	1,486,112
Rent & lease	-	32,567	-	32,567
Repairs & maintenance	-	57,005	-	57,005
Salaries	1,104,321	122,451	37,405	1,264,177
Security fees	-	180,127	-	180,127
Supplies	-	32,350	-	32,350
Taxes	-	19,176	-	19,176
Thrift store	6,886	-	-	6,886
Utilities	-	84,927	-	84,927
Vehicle preparation	852,353	-	-	852,353
Total functional expenses	<u>\$ 4,625,658</u>	<u>\$ 2,440,412</u>	<u>\$ 2,450,534</u>	<u>\$ 9,516,604</u>

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

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (277,247)	\$ (74,032)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities		
Depreciation	120,560	111,003
Changes in operating assets and liabilities		
Accounts receivable	2,927	77,988
Inventory	(129,885)	(42,439)
Prepaid expenses	(76,028)	30,360
Accounts payable	333,788	5,574
Accrued liabilities	(28,158)	(6,699)
Accrued wages payable	(44,013)	50,629
Net cash provided by (used in) operating activities	(98,056)	152,384
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(120,632)	(72,197)
Net cash used in investing activities	(120,632)	(72,197)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(209,656)	(198,822)
Net cash used in investing activities	(209,656)	(198,822)
Net decrease in cash and cash equivalents	(428,344)	(118,635)
Cash and cash equivalents at beginning of year	693,138	811,773
Cash and cash equivalents at end of year	\$ 264,794	\$ 693,138
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 44,747	\$ 58,127
Cash refunded during the year for unrelated business income tax - net	\$ -	\$ (32,003)

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 organization 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.

Cars for Kids and the Charter Holder are governed by the same Board of Trustees which 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”).

Newly Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 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 major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenditures by function and nature in either the statement of activities and changes in net assets, a separate statement of functional expenses, or in the notes to the financial statements and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and internal direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. Cars for Kids implemented ASU 2016-14 effective September 1, 2018 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. There was no impact to net asset balances or changes in net assets. Net assets previously reported as unrestricted are now reported as net assets without donor restrictions. Cars for Kids does not have net assets which would be reported as net assets with donor restrictions

Reclassifications

Certain fiscal year 2018 amounts have been reclassified to conform to the fiscal 2019 presentation. These reclassifications had no impact on the change in the net assets.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations. Cars for Kids has no net assets with donor stipulations as of August 31, 2019 and 2018. In the event Cars for Kids receives these donor-imposed stipulations in the future, some donor-imposed stipulations may be temporary in nature, such as those that will be met, either by actions of Cars for Kids and/or the passage of time. When a restriction expires, net assets with donor restrictions would be reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Some net assets may be subject to donor-imposed stipulations that will never lapse, thus requiring that the principal be invested in perpetuity and only the income may be used in accordance with the donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor 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.

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 \$- and \$- at August 31, 2019 and 2018, 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.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory (Continued)

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.

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.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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, 2019 and 2018, unrelated business income tax liabilities of \$2,582 and \$8,335, 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 2016.

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs for the years ended August 31, 2019 and 2018 were \$3,298,182 and \$2,829,132, respectively, and are included in fundraising expenses in the accompanying statements of activities and changes in net assets.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of Cars for Kids. These expenses include salaries and the related payroll taxes. Natural expenses attributable to more than one functional expense category are allocated using a time and effort cost allocation technique.

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 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. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018 and for interim periods within fiscal years beginning after December 15, 2019. Cars for Kids is currently assessing the impact this standard will have on its financial statements.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

2. LIQUIDITY

The following reflects Cars for Kids' financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date due to donor imposed restrictions or internal designations. Amounts not available include amounts set aside for operations and that could be drawn upon if the Board of Directors approves the action.

As of August 31, 2019 and 2018, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 264,794	\$ 693,138
Accounts receivable	53,423	56,350
Financial assets, at year-end	318,217	749,488
Less: amounts unavailable for general expenditure within one year:	-	-
Total financial assets available to meet cash needs within one year	\$ 318,217	\$ 749,488

In addition to the resources described above, Cars for Kids holds a line of credit, with a capacity of \$1,000,000, to be used if any unexpected liquidity events were to occur. As part of its mission, Cars for Kids generally remits cash in excess of immediate requirements to the Charter Holder. During their routine monitoring of liquidity, Cars for Kids adjusts these remittances to ensure there are cash reserves maintained to meet its operating needs and other contractual commitments.

In addition to financial assets available to meet general expenditures over the next 12 months, Cars for Kids anticipates collecting sufficient revenue and support to cover general expenditures.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2019	2018
Building and improvements	\$ 2,860,529	\$ 2,783,970
Vehicles	12,100	12,100
Computer equipment	94,683	50,611
Furniture and equipment	64,380	64,380
	3,031,692	2,911,061
Less accumulated depreciation	(473,747)	(353,188)
	\$ 2,557,945	\$ 2,557,873

For the years ended August 31, 2019 and 2018, depreciation expense was \$120,560 and \$111,003, respectively.

4. NOTES PAYABLE

Long Term Debt

On September 11, 2016, Cars for Kids entered into a note payable agreement to finance their facility. This note payable matures on February 28, 2023 and is collateralized by the property and bears interest at 5%. Monthly installments of principal and interest are \$21,412. The outstanding balance of the note at August 31, 2019 and 2018 was \$822,502 and \$1,032,158, respectively.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

4. NOTES PAYABLE (Continued)

Line of Credit

On July 26, 2019, Cars for Kids entered into a secured revolving line of credit agreement for up to \$1,000,000 with a financial institution, to be used for general business purposes. The line of credit is secured by land, and matures on July 26, 2020. Monthly installments of interest only, are required, with all unpaid principal and accrued interest due and payable on July 26, 2020. Interest accrues on unpaid principal amounts at a rate of 0.5% over the prime rate, not to fall below 6%. As of August 31, 2019, Cars for Kids has not drawn on the line of credit.

Maturities of long-term debt are as follows for the years ended August 31:

2020	\$	220,227
2021		231,755
2022		243,781
2023		126,939
Thereafter		-
		822,502
Less current maturities		(220,227)
Total noncurrent	\$	602,275

5. DEFINED CONTRIBUTION PLAN

Cars for Kids contributes 6% of all eligible employees' salary into the America Can! Cars for Kids 401(k) Profit Sharing Plan and Trust. Cars for Kids' contributions for the years ended August 31, 2019 and 2018, totaled \$41,732 and \$41,793, respectively.

6. CONTRIBUTIONS TO AFFILIATED ORGANIZATIONS

During the years ended August 31, 2019 and 2018, Cars for Kids contributed cash to the Charter Holder totaling \$880,526 and \$1,742,553, respectively for charter school operations.

7. COMMITMENTS AND CONTINGENCIES

Litigation

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 years ended August 31, 2019 and 2018, Cars for Kids was Plaintiff in an ongoing matter with Kars4Kids. Expenses related to this matter are included in the accompanying statements of activities and changes in net assets. Funds spent on this matter totaled \$1,819,441 and \$1,338,588 for the year ended August 31, 2019 and 2018 respectively.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

7. COMMITMENTS AND CONTINGENCIES (Continued)

Lease Commitments

Cars for Kids leases several pieces of equipment under non-cancelable operating leases that expire through November 2025. Minimum future lease payments under these non-cancelable operating leases are as follows for the years ended August 31:

2020	\$	28,359
2021		18,322
2022		13,806
2023		12,963
2024		7,236
Thereafter		5,427
		<u>\$ 86,113</u>

The accompanying statements of activities and changes in net assets include rent and lease expense of \$50,446 and \$32,567 for the years ended August 31, 2019 and 2018, respectively.

8. RELATED PARTY TRANSACTIONS

During the fiscal years ended August 31, 2019 and 2018, Cars for Kids approved payments totaling \$157,125 and \$206,000, respectively, to Marqcom, Inc. for a software license utilized by the Charter Holder's curriculum. 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 \$137,735 and \$822,502, respectively, as of August 31, 2019 with a bank whose chief executive officer is also a member of the Charter Holder's Board of Directors. At August 31, 2018, these amounts totaled \$641,618 and \$1,032,158, respectively.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 11, 2019, the date the financial statements were available to be issued.

As part of the ongoing matter described in note seven, Cars for Kids periodically receives reimbursements from their insurance provider for legal expenses incurred. In October of 2019, approximately \$500,000 (unaudited) in reimbursements were received.