

Financial Statements and Independent Auditor's Report

America Can! Cars for Kids

For the years ended August 31, 2020 and 2019



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AMERICA CAN! CARS FOR KIDS

AUGUST 31, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis-of-Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, Cars for Kids changed its method of accounting for revenue recognition due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. Our opinion is not modified with respect to that matter.

Emphasis-of-Matter – Global Pandemic

As discussed in Note 7 to the financial statements, the World Health Organization has characterized COVID-19 as a pandemic. While Cars for Kids expects this matter to negatively impact its results, the extent of the impact of COVID-19 on Cars for Kids' operational and financial performance will depend on future developments. Our opinion is not modified with respect to that matter.

LANE GORMAN TRUBETT, LLC

Dallas, Texas
January 26, 2021

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

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,197,807	\$ 264,794
Accounts receivable	37,750	53,423
Inventory	940,430	766,870
Prepaid expenses	97,992	108,790
Total current assets	3,273,979	1,193,877
PROPERTY AND EQUIPMENT - NET	2,493,712	2,557,945
Total assets	\$ 5,767,691	\$ 3,751,822
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 231,755	\$ 220,227
Accounts payable	1,298,724	635,727
Accrued liabilities	356,236	166,563
Accrued wages payable	34,216	43,596
Total current liabilities	1,920,931	1,066,113
LONG-TERM DEBT, less current maturities	680,524	602,275
Total liabilities	2,601,455	1,668,388
NET ASSETS		
Without donor restrictions	3,166,236	2,083,434
Total liabilities and net assets	\$ 5,767,691	\$ 3,751,822

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,

	2020	2019
REVENUES		
Auction revenue	\$ 11,377,667	\$ 8,950,572
Consignment revenue	144,493	208,990
Thrift store revenue	180,700	170,952
Other income	872,964	200,157
TOTAL REVENUES AND SUPPORT	12,575,824	9,530,671
EXPENSES		
Program service expenses		
Advertising	1,053,660	493,794
Auction costs	3,076,730	2,637,103
Contributions to the Charter Holder	2,187,944	880,526
Total program service expenses	6,318,334	4,011,423
General and administration expenses		
General administration	1,662,709	2,389,727
Plant maintenance and operations	338,698	352,513
Debt service	36,726	44,747
Security and monitoring services	26,199	179,296
Total general and administration expenses	2,064,332	2,966,283
Fundraising	3,110,356	2,830,212
TOTAL EXPENSES	11,493,022	9,807,918
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,082,802	(277,247)
NET ASSETS - Without donor restrictions, beginning of year	2,083,434	2,360,681
NET ASSETS - Without donor restrictions, end of year	\$ 3,166,236	\$ 2,083,434

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

America Can! Cars for Kids
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended August 31, 2020

	Program Services	Supporting Services		Total
		General and Administration	Fundraising	
Advertising	\$ 1,053,660	\$ -	\$ 3,045,293	\$ 4,098,953
Auction costs	177,352	-	-	177,352
Contributions	2,187,944	-	-	2,187,944
Data processing	-	461,564	-	461,564
Depreciation	-	129,772	-	129,772
Employee benefits	187,772	8,150	5,882	201,804
Insurance	-	31,996	-	31,996
Interest	-	36,726	-	36,726
Meals, travel & entertainment	-	5,066	-	5,066
Other	-	9,063	-	9,063
Payroll taxes	144,626	6,276	4,530	155,432
Professional fees	-	1,016,209	-	1,016,209
Rent & lease	-	46,605	-	46,605
Repairs & maintenance	-	64,505	-	64,505
Salaries	1,744,735	75,726	54,651	1,875,112
Security fees	-	26,199	-	26,199
Supplies	-	32,488	-	32,488
Taxes	-	17,846	-	17,846
Thrift store	5,757	-	-	5,757
Utilities	-	96,141	-	96,141
Vehicle preparation	816,488	-	-	816,488
Total functional expenses	<u>\$ 6,318,334</u>	<u>\$ 2,064,332</u>	<u>\$ 3,110,356</u>	<u>\$ 11,493,022</u>

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

	Program Services	Supporting Services		Total
		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	<u>\$ 4,011,423</u>	<u>\$ 2,966,283</u>	<u>\$ 2,830,212</u>	<u>\$ 9,807,918</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,

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,082,802	\$ (277,247)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities		
Depreciation	129,772	120,560
Changes in operating assets and liabilities		
Accounts receivable	15,673	2,927
Inventory	(173,560)	(129,885)
Prepaid expenses	10,798	(76,028)
Accounts payable	662,997	333,788
Accrued liabilities	189,673	(28,158)
Accrued wages payable	(9,380)	(44,013)
Net cash provided by (used in) operating activities	1,908,775	(98,056)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(65,539)	(120,632)
Net cash used in investing activities	(65,539)	(120,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to long-term debt	310,000	-
Principal payments on long-term debt	(220,223)	(209,656)
Net cash provided by (used in) financing activities	89,777	(209,656)
Net increase (decrease) in cash and cash equivalents	1,933,013	(428,344)
Cash and cash equivalents at beginning of year	264,794	693,138
Cash and cash equivalents at end of year	\$ 2,197,807	\$ 264,794
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 36,726	\$ 44,747
Cash refunded during the year for unrelated business income tax - net	\$ 37,791	\$ -

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”).

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, 2020 and 2019. 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.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue Recognition (“Topic 606”): Revenue from Contracts with Customers* (“ASU No. 2014-09”). 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. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (“Topic 606”): Deferral of the Effective Date*, which deferred the effective date of Topic 606 by one year, such that the amendments in Topic 606 were effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

In June 2020, in response to the concerns regarding the implementation of Topic 606 in the midst of the COVID-19 pandemic, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases Topic 842: Effective Dates for Certain Entities*, which provided certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of Topic 606 with an additional one-year deferral of the implementation of Topic 606. The guidance set forth in in Topic 606 is effective for annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. Earlier application is permitted.

Cars for Kids adopted the updated guidance of Topic 606 with an initial date of application of September 1, 2019, applying the modified retrospective transition method for contracts not completed at the date of initial application. Adoption of Topic 606 using the modified retrospective method required Cars for Kids to apply the guidance retrospectively with the cumulative effect of initially applying the updated guidance recognized as an adjustment to the opening balance of net assets at the date of initial application. Cars for Kids elected to use the practical expedient outlined at FASB Accounting Standards Codification (“ASC”) 606-10-655-1(f)(4) to reflect the aggregate effect of all contract modifications that occurred before the date of initial application, rather than retrospectively restating each such contract. Cars for Kids elected to use the practical expedient outlined at FASB ASC 340-40-25-4 to recognize incremental costs of obtaining a contract as an expense when incurred when the amortization period of the asset that Cars for Kids otherwise would have recognized is one year or less. The adoption of Topic 606 and the application of these practical expedients had no material effect on the financial statements.

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, 2020 and 2019, respectively.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Revenue consists of sales of used vehicle auction sales, used vehicle consignment sales, sales of thrift store goods and other income. Revenues are recorded net of taxes collected from customers and remitted to government agencies. Cars for Kids has evaluated each revenue stream as follows:

Used Vehicles – Cars for Kids auctions used vehicles and recognizes revenue at the point of sale, at which point the earnings process is deemed to be complete. For each vehicle sale, Cars for Kids considers their performance obligation to be the delivery of the related vehicle. The transaction price is determined with the customer at the time of sale and clearly identifiable on the auction invoice. Cars for Kids receives payment directly from the customer at the time of sale.

Consignment Vehicles – Cars for Kids auctions vehicles on consignment for a fee and recognizes consignment fee revenue at the point of sale, at which point the earnings process is deemed to be complete. For each consignment sale, Cars for Kids considers their performance obligation to be the delivery of the related consigned vehicle. The transaction price is determined with the consignor at the time of consignment and clearly identifiable on the consignment agreement. Cars for Kids receives payment directly from the customer at the time of sale.

Thrift Store Goods – Cars for Kids sells donated goods through its thrift store and recognizes revenue at the point of sale, at which point the earnings process is deemed to be complete. For each sale, Cars for Kids considers their performance obligation to be the delivery of the related goods. The transaction price is determined with the customer at the time of sale and clearly identifiable on the receipt. Cars for Kids receives payment directly from the customer at the time of sale.

Other Income - Consists of insurance reimbursements, forfeited customer deposits, and towing costs covered by donors. Revenue associated with these items is recorded when the services or activities are provided and Cars for Kids does not believe it is required to provide additional services or activities.

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, 2020 and 2019, unrelated business income tax expense of \$16,171 and \$2,792, 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.

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs for the years ended August 31, 2020 and 2019 were \$4,098,953 and \$3,298,182, 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.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The objective of this ASU is to increase transparency of contributed nonfinancial assets for not-for-profit (“NFP”) entities through enhancements to presentation and disclosure. The amendments in this ASU apply to NFPs that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The amendments in this ASU will improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for NFPs, including additional disclosure requirements for recognized contributed services. The amendments will not change the recognition and measurement requirements. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021, and interim reporting periods within annual reporting periods beginning after June 15, 2022. Early application of the amendments is permitted. The amendments in this ASU should be applied on a retrospective basis.

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*. 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.

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 fiscal years beginning after December 15, 2021 and for interim reporting periods within fiscal years beginning after December 15, 2022. Early application of the amendments in this ASU is permitted.

Cars for Kids is currently assessing the impact these recent accounting pronouncements will have on its 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, 2020 and 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 2,197,807	\$ 264,794
Accounts receivable	37,750	53,423
Financial assets, at year-end	2,235,557	318,217
Less: amounts unavailable for general expenditure within one year:	-	-
Total financial assets available to meet cash needs within one year	\$ 2,235,557	\$ 318,217

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

2. LIQUIDITY (Continued)

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:

	2020	2019
Building and improvements	\$ 2,876,529	\$ 2,860,529
Vehicles	12,100	12,100
Computer equipment	94,683	94,683
Furniture and equipment	113,919	64,380
	3,097,231	3,031,692
Less accumulated depreciation	(603,519)	(473,747)
	\$ 2,493,712	\$ 2,557,945

For the years ended August 31, 2020 and 2019, depreciation expense was \$129,772 and \$120,560, respectively.

4. NOTES PAYABLE

Mortgage Loan

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, 2020 and 2019 was \$602,279 and \$822,502, respectively.

Paycheck Protection Program

On April 15, 2020, Cars for Kids entered into a note payable agreement with BancorpSouth Bank through the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"), under the Coronavirus Aid, Relief, and Economic Security Act. The note bears interest at a fixed rate of 1.0% per annum, has a term of two years, is unsecured and guaranteed by the SBA. The terms of the note provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. This loan is eligible for forgiveness under the PPP to the extent that the PPP loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and interest on mortgage obligations, and covered utility payments incurred. Cars for Kids intends to apply for loan forgiveness and the SBA will make a determination on the amount of the loan that will be forgiven. Cars for Kids will continue to accrue interest on this loan until a determination has been made. The PPP loan is for payroll costs, mortgage interest, rent expense, and utilities expense. The amount of note forgiveness will be reduced if Cars for Kids does not use all of the funds during the covered period or could be reduced if Cars for Kids terminates employees or reduces salaries during the covered period. The covered period is either an 8-week or up to a 24-week period, to be determined at a later date by management when applying for the loan forgiveness. The outstanding balance of the note at August 31, 2020, was \$300,000. While Cars for Kids currently believes that its use of the PPP loan proceeds will meet the conditions for forgiveness of the loan, they cannot guarantee that it will be eligible for forgiveness of the loan, in whole or in part. If not forgiven, Cars for Kids must pay principal and interest payments of \$16,883 monthly, beginning November 15, 2020.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

4. NOTES PAYABLE (Continued)

Economic Injury Disaster Loan Advance

On April 22, 2020, Cars for Kids received an Economic Injury Disaster Loan (“EIDL”) Advance from the Small Business Administration, which is a grant program offered together with the economic injury loan program under the Coronavirus Aid, Relief, and Economic Security Act. The EIDL Advance does not have to be repaid. The outstanding balance of the advance at August 31, 2020, was \$10,000.

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 BancorpSouth Bank, to be used for general business purposes. The line of credit was secured by land, and matured on July 26, 2020 and not renewed. Monthly installments of interest only, are required, with all unpaid principal and accrued interest due and payable on July 26, 2020. Interest accrued on unpaid principal amounts at a rate of 0.5% over the prime rate, not to fall below 6%. Cars for Kids had not drawn on the line of credit.

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

2021	\$	231,755
2022		553,781
2023		126,743
Thereafter		-
		912,279
Less current maturities		(231,755)
Total noncurrent	\$	680,524

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, 2020 and 2019, totaled \$51,873 and \$41,732, respectively.

6. CONTRIBUTIONS TO AFFILIATED ORGANIZATIONS

During the years ended August 31, 2020 and 2019, Cars for Kids contributed cash to the Charter Holder totaling \$2,187,944 and \$880,526, 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, 2020 and 2019, 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 \$641,364 and \$1,819,441 for the year ended August 31, 2020 and 2019 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:

2021	\$	31,256
2022		26,538
2023		25,628
2024		17,996
Thereafter		5,427
		<u>\$ 106,845</u>

The accompanying statements of activities and changes in net assets include rent and lease expense of \$46,605 and \$50,446 for the years ended August 31, 2020 and 2019, respectively.

Other Contingencies

In December 2019, a novel strain of coronavirus (“COVID-19”) was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern” and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has caused disruptions to the global economy and financial markets with management continuing to monitor conditions. Cars for Kids is following local, state and federal guidelines. While Cars for Kids expects this matter might impact its results, the extent of the impact of COVID-19 on its operational and financial performance will depend on future developments, including the duration and spread of the outbreak government imposed restrictions and the impact of COVID-19 on its customers and donors and overall market conditions, all of which are highly uncertain and cannot be predicted.

8. RELATED PARTY TRANSACTIONS

During the fiscal years ended August 31, 2020 and 2019, Cars for Kids approved payments totaling \$243,266 and \$157,125, 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 cash equivalents and a note payable totaling \$1,935,721 and \$912,279, respectively, as of August 31, 2020 with a bank whose chief executive officer is also a member of the Charter Holder’s Board of Directors. At August 31, 2019, these amounts totaled \$137,735 and \$822,502, respectively.

During the fiscal years ended August 31, 2020, Cars for Kids entered into an agreement with the Charter Holder whereby certain costs are to be paid for by Cars for Kids on behalf of the Charter Holder. As of August 31, 2020 the amounts owed to the Charter Holder was \$1,000,000. There is no similar obligation as of August 31, 2019. Under the agreement repayments are to be made as operating cash flows allow. Cars for Kids has fulfilled this full obligation as January 26, 2021 (unaudited).

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 26, 2021, the date the financial statements were available to be issued.