

Financial Statements and Independent Auditor's Report

America Can! Cars for Kids

For the year ended August 31, 2017 and 2016



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AMERICA CAN! CARS FOR KIDS
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
AUGUST 31, 2017 AND 2016

AMERICA CAN! CARS FOR KIDS

AUGUST 31, 2017 AND 2016

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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 statement of financial position as of August 31, 2017, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Cars for Kids as of August 31, 2016, were audited by other auditors whose report dated February 7, 2017, expressed an unmodified opinion on those statements.

LANE GORMAN TRUBITT, LLC

Dallas, Texas
1/18/2018

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

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 811,773	\$ 514,076
Accounts receivable, net	134,338	48,089
Inventory	594,546	558,495
Prepaid expenses	63,122	31,338
Total current assets	1,603,779	1,151,998
PROPERTY AND EQUIPMENT - NET	2,596,679	2,657,899
	\$ 4,200,458	\$ 3,809,897
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 199,127	\$ 190,256
Accounts payable	296,365	313,098
Accrued liabilities	201,420	275,766
Accrued wages payable	36,980	23,796
Total current liabilities	733,892	802,916
LONG-TERM DEBT, less current maturities	1,031,853	1,229,997
Total liabilities	1,765,745	2,032,913
NET ASSETS		
Unrestricted	2,434,713	1,776,984
	\$ 4,200,458	\$ 3,809,897

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,

	2017	2016
REVENUES		
Auction revenue	\$ 8,176,768	\$ 7,040,870
Consignment revenue	702,742	635,403
Other income (expense)	499,821	159,860
Bad debt recoveries (expense)	98,544	(98,544)
TOTAL REVENUES AND SUPPORT	9,477,875	7,737,589
EXPENSES		
Program service expenses		
Contributions to the Charter Holder	2,259,375	1,012,304
Vehicle preparation	848,517	-
Auction costs	1,607,408	-
Total program service expenses	4,715,300	1,012,304
General and administration expenses		
General administration	870,161	5,411
Plant maintenance and operations	307,806	202,423
Debt service	71,175	95,700
Security and monitoring services	208,479	142,045
Total general and administration expenses	1,457,621	445,579
Fundraising	2,647,225	6,773,582
TOTAL EXPENSES	8,820,146	8,231,465
CHANGE IN UNRESTRICTED NET ASSETS	657,729	(493,876)
NET ASSETS - Unrestricted, beginning of year	1,776,984	2,270,860
NET ASSETS - Unrestricted, end of year	\$ 2,434,713	\$ 1,776,984

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

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 657,729	\$ (493,876)
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation	107,109	107,011
Bad debt (recoveries) expense	(98,544)	98,544
Changes in operating assets and liabilities		
Accounts receivable	12,295	37,188
Notes receivable	-	1,148,363
Inventory	(36,051)	84,807
Prepaid expenses	(31,784)	19,002
Accounts payable	(16,733)	(216,192)
Accrued liabilities	(74,346)	154,693
Accrued wages payable	13,184	(39,387)
Net cash provided by operating activities	532,859	900,153
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(45,889)	(24,136)
Net cash used in investing activities	(45,889)	(24,136)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(189,273)	(742,792)
Net cash used in investing activities	(189,273)	(742,792)
Net increase in cash and cash equivalents	297,697	133,225
Cash and cash equivalents at beginning of year	514,076	380,851
Cash and cash equivalents at end of year	\$ 811,773	\$ 514,076
Cash paid during the year:		
Interest	\$ 67,675	\$ 95,700
Taxes	\$ 29,411	\$ 131,880

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, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016.

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 \$- and \$95,494 at August 31, 2017 and 2016, respectively.

Inventory

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

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 and consignment 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.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain fiscal 2016 amounts have been reclassified to conform to the fiscal 2017 presentation. These reclassifications had no impact on the change in the net assets. Classifications do not coincide with the presentation for Cars for Kids financial information in the consolidated financial statements of the Charter Holder.

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.

Income Taxes

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, 2017 and 2016, unrelated business income tax liabilities of \$61,634 and \$150,000, 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 2014.

Advertising Costs

Advertising costs are expensed when incurred. Total advertising costs for the years ended August 31, 2017 and 2016 were \$2,647,225 and \$2,894,011, 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.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard 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 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 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.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

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 balance sheet - the new ASU will require both types of leases to be recognized on the balance sheet. 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.

Recently Adopted Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-15 - *Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an entity's Ability to Continue as a Going Concern*. The amendments in this update provide guidance about management's responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and provide related footnote disclosures. Substantial doubt about the entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. When conditions are identified that raise substantial doubt, management should consider whether its plans that are intended to mitigate those relevant conditions or events will alleviate the substantial doubt. If conditions raise substantial doubt about the entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of management's plans, the entity should disclose the following: (1) principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, (2) management's evaluation of the significance of those conditions in relation to the entity's ability to meet its obligations and (3) management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern. If substantial doubt is not alleviated as a result of management's plans, the entity should include a statement in the footnotes indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments in this ASU are effective for the annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. Cars for Kids' adoption of this standard as of September 1, 2016 did not have a material impact on the financial statements.

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 2,776,153	\$ 2,735,738
Vehicles	12,100	12,100
Computer equipment	50,611	21,000
Furniture and equipment	<u>30,345</u>	<u>54,481</u>
	2,869,209	2,823,319
Less accumulated depreciation	<u>(272,530)</u>	<u>(165,420)</u>
	<u>\$ 2,596,679</u>	<u>\$ 2,657,899</u>

For the years ended August 31, 2017 and 2016, depreciation expense was \$107,109 and \$107,011, 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 collateralized by the property. The note bears interest at 5%. The outstanding balance of the note at August 31, 2017 and 2016 was \$1,230,980 and \$1,420,253, respectively.

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

2018	\$	199,127
2019		209,459
2020		220,227
2021		231,755
2022		243,781
Thereafter		<u>126,631</u>
		1,230,980
Less current maturities		<u>(199,127)</u>
Total noncurrent	\$	<u>1,031,853</u>

4. DEFINED CONTRIBUTION PLAN

Cars for Kids contributes 4% 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, 2017 and 2016, totaled \$19,692 and \$21,630, respectively.

5. CONTRIBUTIONS TO AFFILIATED ORGANIZATIONS

During the years ended August 31, 2017 and 2016, Cars for Kids contributed cash to the Charter Holder totaling \$2,259,375 and \$1,012,304, respectively for charter school operations.

6. COMMITMENTS UNDER OPERATING LEASE

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:

2018	\$	21,756
2019		16,932
2020		12,026
2021		1,989
Thereafter		<u>-</u>
	\$	<u>52,703</u>

The accompanying statements of activities and changes in net assets include lease expense of \$33,299 and \$157,521 for the years ended August 31, 2017 and 2016, respectively.

7. RELATED PARTY TRANSACTIONS

During the fiscal years ended August 31, 2017 and 2016, Cars for Kids approved payments totaling \$152,000 and \$144,000, 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, 2017 and 2016. 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.

America Can! Cars for Kids
NOTES TO FINANCIAL STATEMENTS

7. RELATED PARTY TRANSACTIONS (Continued)

During the fiscal year ended August 31, 2013, Cars for Kids formed Education Innovation Solutions, Inc. (“EIS”), a for profit corporation. During the fiscal year ended August 31, 2016, Cars for Kids was issued non-voting shares and made investments and advances to EIS of \$560,000. Cars for Kids has written off its investment and EIS, and EIS has repurchased the non-voting shares issued to Cars for Kids with a note receivable for \$790,449. The note receivable has been fully allowed for as EIS has no sales to date and has been dissolved. Voting shareholders of EIS consist of the CEO of the Charter Holder and another employee. Three board members of Cars for Kids have been elected as the Board of Directors of EIS.

During the year ended August 31, 2016, Cars for Kids reached a settlement agreement with EIS in which EIS was dissolved and all rights were transferred to a separate Texas entity (“Newco”). In the agreement Newco shall pay Cars for Kids a percentage of the collected gross revenues, if any, arising out of the software until \$1,500,000 has been received. Payments shall be made in the following manner: (1) 5% of gross revenues until \$800,000 has been received by Cars for Kids then (2) 1.75% of gross revenues after \$800,000 has been received until \$1,500,000 has been received.

Cars for Kids has not received any payments under this agreement during the years ended August 31, 2017 and 2016.

Cars for Kids holds cash and a note payable of \$810,512 and \$1,230,980, respectively, as of August 31, 2017 with a bank whose chief executive officer is also a member of the Charter Holder’s Board of Directors.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through 1/18/2018, the date the financial statements were available to be issued.