

# Financial Statements and Independent Auditor's Report

## **America Can! Cars for Kids**

For the ten-month and twelve-month periods then ended  
June 30, 2021 and August 31, 2021



AMERICA CAN! CARS FOR KIDS  
JUNE 30, 2021 AND AUGUST 31, 2020

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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 June 30, 2021 and August 31, 2020, the related statements of activities and changes in net assets, functional expenses, and cash flows for the ten-month and twelve-month periods 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 June 30, 2021 and August 31, 2020, and the changes in its net assets and its cash flows for the ten-month and twelve-month periods then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter – Global Pandemic

As discussed in Note 9 to the financial statements, the World Health Organization has characterized COVID-19 as a pandemic. While Cars for Kids expects this matter to 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  
November 8, 2021

America Can! Cars for Kids  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2021 and August 31, 2020

	June 30, 2021	August 31, 2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,687,086	\$ 2,197,807
Accounts receivable	86,118	37,750
Inventory	704,782	940,430
Prepaid expenses	171,192	97,992
Total current assets	3,649,178	3,273,979
<b>PROPERTY AND EQUIPMENT - NET</b>	<b>2,394,261</b>	<b>2,493,712</b>
Total assets	<b>\$ 6,043,439</b>	<b>\$ 5,767,691</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 241,729	\$ 231,755
Accounts payable	254,724	1,298,724
Accrued liabilities	292,896	356,236
Accrued wages payable	133,793	34,216
Total current liabilities	923,142	1,920,931
<b>LONG-TERM DEBT, less current maturities</b>	<b>168,162</b>	<b>680,524</b>
Total liabilities	1,091,304	2,601,455
<b>NET ASSETS</b>		
Without donor restrictions	4,952,135	3,166,236
Total liabilities and net assets	<b>\$ 6,043,439</b>	<b>\$ 5,767,691</b>

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

America Can! Cars for Kids  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Ten Months Ended June 30, 2021 and Year Ended August 31, 2020

	Ten Months Ended June 30, 2021	Year Ended August 31, 2020
<b>REVENUES AND GAINS</b>		
Contributions of nonfinancial assets		
Auction revenue from sales of cars, boats and other vehicles	\$ 10,479,802	\$ 10,437,237
Thrift store revenue	48,596	180,700
Cars, boats and other vehicles	704,782	940,430
Consignment revenue	149,598	144,493
Gain on extinguishment of debt	310,000	-
Recovery of bad debt	152,500	-
Other income	8,781	872,964
<b>TOTAL REVENUES AND SUPPORT</b>	<b>11,854,059</b>	<b>12,575,824</b>
<b>EXPENSES</b>		
Program service expenses		
Advertising	823,939	1,053,660
Auction costs	2,336,447	3,076,730
Contributions to the Charter Holder	2,781,339	2,187,944
Total program service expenses	5,941,725	6,318,334
General and administration expenses		
General administration	1,176,114	1,662,709
Plant maintenance and operations	298,872	338,698
Debt service	21,736	36,726
Security and monitoring services	64,555	26,199
Total general and administration expenses	1,561,277	2,064,332
Fundraising	2,565,158	3,110,356
<b>TOTAL EXPENSES</b>	<b>10,068,160</b>	<b>11,493,022</b>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	1,785,899	1,082,802
NET ASSETS - Without donor restrictions, beginning of year	3,166,236	2,083,434
NET ASSETS - Without donor restrictions, end of year	<b>\$ 4,952,135</b>	<b>\$ 3,166,236</b>

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

America Can! Cars for Kids  
STATEMENT OF FUNCTIONAL EXPENSES  
Ten Months Ended June 30, 2021

	Program Services	Supporting Services		Total
		General and Administration	Fundraising	
Advertising	\$ 823,939	\$ -	\$ 2,471,816	\$ 3,295,755
Auction costs	124,606	-	-	124,606
Contributions	2,781,339	-	-	2,781,339
Data processing	-	271,154	-	271,154
Depreciation	-	114,950	-	114,950
Employee benefits	186,086	8,037	10,774	204,897
Insurance	-	41,550	-	41,550
Interest	-	21,736	-	21,736
Meals, travel & entertainment	-	1,904	-	1,904
Other	-	12,489	-	12,489
Payroll taxes	121,847	5,263	7,054	134,164
Professional fees	-	748,138	-	748,138
Rent & lease	-	38,937	-	38,937
Repairs & maintenance	-	51,483	-	51,483
Salaries	1,304,312	56,333	75,514	1,436,159
Security fees	-	64,555	-	64,555
Supplies	-	19,839	-	19,839
Taxes	-	12,171	-	12,171
Thrift store	43,887	-	-	43,887
Utilities	-	92,738	-	92,738
Vehicle preparation	555,709	-	-	555,709
Total functional expenses	<u>\$ 5,941,725</u>	<u>\$ 1,561,277</u>	<u>\$ 2,565,158</u>	<u>\$ 10,068,160</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, 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  
STATEMENTS OF CASH FLOWS  
Ten Months Ended June 30, 2021 and Year Ended August 31, 2020

	Ten Months Ended June 30, 2021	Year Ended August 31, 2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,785,899	\$ 1,082,802
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation	114,950	129,772
Gain on extinguishment of debt	(310,000)	-
Changes in operating assets and liabilities		
Accounts receivable	(48,368)	15,673
Inventory	235,648	(173,560)
Prepaid expenses	(73,200)	10,798
Accounts payable	(1,044,000)	662,997
Accrued liabilities	(63,340)	189,673
Accrued wages payable	99,577	(9,380)
Net cash provided by operating activities	697,166	1,908,775
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(15,499)	(65,539)
Net cash used in investing activities	(15,499)	(65,539)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additions to long-term debt	-	310,000
Principal payments on long-term debt	(192,388)	(220,223)
Net cash provided by (used in) financing activities	(192,388)	89,777
Net increase in cash and cash equivalents	489,279	1,933,013
Cash and cash equivalents at beginning of year	2,197,807	264,794
Cash and cash equivalents at end of year	\$ 2,687,086	\$ 2,197,807
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for interest	\$ 21,736	\$ 36,726
Cash paid (refunded) for unrelated business income tax - net	\$ 539	\$ (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

America 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. Periodically, Cars for Kids will analyze its needs to fund its operations and approve transfers of excess funds to the Charter Holder.

Cars for Kids is governed by its independent Board of Trustees which comprised of five 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”).

### Change in Fiscal Year End

The fiscal year end of Cars for Kids was changed from August 31 to June 30. Accordingly the current financial statements are prepared for ten months from September 1, 2020 to June 30, 2021 and as a result, the comparative amounts in the financial statements and the related notes are not comparable.

### Reclassifications

Certain accounts in the prior period financial statements have been reclassified, for comparative purposes, to conform to the presentation in the current period financial statements. These reclassifications had no impact on the net asset balance of Cars for Kids.

### 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 June 30, 2021 and August 31, 2020. 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.

America Can! Cars for Kids  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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. Management has determined that no allowance for doubtful accounts is necessary at June 30, 2021 and August 31, 2020, respectively.

Recoveries of accounts receivable previously written off are recorded when received. Recoveries of amounts previously written off were approximately \$152,500 and \$0 during the periods ending June 30, 2021 and August 31, 2020, respectively.

Inventory

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

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

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

America Can! Cars for Kids  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is 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.

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 period. 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 periods ended June 30, 2021 and August 31, 2020, unrelated business income tax expense of \$11,407 and \$16,171, 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 periods ended June 30, 2021 and August 31, 2020 were \$3,295,755 and \$4,098,953, 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.

Newly Adopted Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards 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 assists 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. The adoption of the accounting standard effective September 1, 2020, did not have a material impact on Cars for Kids' financial position or changes in its net assets.

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 adoption of the accounting standard effective September 1, 2020, applied on a retrospective basis, improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The amendment did not change the recognition and measurement requirements.

America Can! Cars for Kids  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU Update 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 statements of financial position - the new ASU will require both types of leases to be recognized on the statements of financial position. Various subsequent accounting standards have been issued by the FASB that clarify, modify, or expand the guidance for Topic 842. 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 this 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 June 30, 2021 and August 31, 2020, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 2,687,086	\$ 2,197,807
Accounts receivable	<u>86,118</u>	<u>37,750</u>
Financial assets, at period-end	2,773,204	2,235,557
Less: amounts unavailable for general expenditure within one year	<u>0</u>	<u>0</u>
Total financial assets available to meet cash needs within one year	<u>\$ 2,773,204</u>	<u>\$ 2,235,557</u>

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. Specifically, the \$704,782 in inventory as of June 30, 2021 will provide the resources to add additional liquidity to Cars for Kids.

America Can! Cars for Kids  
NOTES TO FINANCIAL STATEMENTS

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2021	2020
Building and improvements	\$ 2,885,529	\$ 2,876,529
Vehicles	12,100	12,100
Computer equipment	94,683	94,683
Furniture and equipment	120,419	113,919
	3,112,731	3,097,231
Less accumulated depreciation	(718,470)	(603,519)
	\$ 2,394,261	\$ 2,493,712

For the periods ended June 30, 2021 and August 31, 2020, depreciation expense was \$114,950 and \$129,772, 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 11, 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 June 30, 2021 and August 31, 2020 was \$409,891 and \$602,279, respectively.

Maturities of Mortgage loans are as follows for the years ended June 30:

2022	\$ 241,729
2023	168,162
Thereafter	0
	409,891
Less current maturities	(241,729)
Total noncurrent	\$ 168,162

Economic Injury Disaster Loan Advance

On April 22, 2020, Cars for Kids received an Economic Injury Disaster Loan (“EIDL”) Advance from the United States Small Business Administration (“SBA”), 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 and has been reflected in the June 30, 2021 statement of activities and changes in net assets, as a gain on extinguishment of debt. The outstanding balance of the advance at June 30, 2021 and August 31, 2020 was \$0 and \$10,000, respectively.

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, were 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. The account was closed as of February 18, 2021.

America Can! Cars for Kids  
NOTES TO FINANCIAL STATEMENTS

5. PAYCHECK PROTECTION PROGRAM

On April 15, 2020, Cars for Kids received a loan pursuant to the Paycheck Protection Program (“PPP”), a program implemented by the SBA under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the “PPP Lender”), for an aggregate principal amount of \$300,000 (the “PPP Loan”). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, and has an initial maturity date of April 15, 2022 and is unsecured and guaranteed by the SBA.

The principal amount of the PPP Loan is subject to forgiveness under the PPP upon Cars for Kids’ request 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 by Cars for Kids. Cars for Kids used the proceeds for purpose consistent with the PPP. Cars for Kids applied for forgiveness of the PPP Loan and on June 7, 2021, Cars for Kids received notice from the PPP Lender that their application for forgiveness was approved by the SBA in the amount of \$300,000, and the forgiveness of the PPP Loan has been reflected in the June 30, 2021 statement of activities and changes in net assets as a gain on extinguishment of debt. As of August 31, 2020, this \$300,000 loan was included in Cars for Kids’ long term debt balance.

Forgiveness applications for loans under \$2 million are reviewed and approved by the PPP Lender that is servicing the loan. The SBA may undertake a review of a loan of any size during the six-year period following forgiveness or repayment of the loan, however loans in excess of \$2 million are subject to additional review and approval by the SBA. The reviews may include the loan forgiveness application, as well as whether Cars for Kids met the eligibility requirements of the program and received the proper loan amount, and as a result of such reviews, adjustments could be required to the recognition of the gain on extinguishment of debt.

6. 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 periods ended June 30, 2021 and August 31, 2020, totaled \$47,347 and \$51,873, respectively.

7. CONTRIBUTIONS OF NONFINANCIAL ASSETS

For the periods ended June 30, 2021 and August 31, 2020, contributed nonfinancial assets recognized within the statements of activities included:

	2021	2020
Cars, boats and other vehicles	\$ 11,184,584	\$ 11,377,667
Household goods – Thrift store	48,596	180,700
	\$ 11,233,180	\$ 11,558,367

Cars for kids recognized contributed nonfinancial assets within revenue, including cars, boats and other vehicles, and household goods for the thrift store. Proceeds from the sales of these contributed nonfinancial assets are used to support the Charter Holder. Contributed nonfinancial assets did not have donor-imposed restrictions.

It is Cars for Kids’ policy to sell all contributed cars, boats and other vehicles as soon as possible at auction or for salvage. Cars, boats and other vehicles sold are valued according to the actual cash proceeds on their disposition. Auction proceeds for the periods ended June 30, 2021 and August 31, 2020, totaled \$10,479,802 and \$10,437,237, respectively. Contributions of cars, boats and other vehicles included in inventory at June 30, 2021 and August 31, 2020, totaled \$704,782 and \$940,430, respectively. Inventory is valued at the average sales price for the previous twelve months.

It is Cars for Kids’ policy to sell all contributed household goods at the Thrift store. Household goods sold are valued according to the actual cash proceeds on their disposition. 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. Accordingly, contributed thrift store inventory is valued at zero.



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8. CONTRIBUTIONS TO AFFILIATED ORGANIZATIONS

During the periods ended June 30, 2021 and August 31, 2020, Cars for Kids contributed cash to the Charter Holder totaling \$2,781,339 and \$2,187,944, respectively for charter school operations.

9. 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 Cars for Kids' professional liability insurance policy and would not have a material effect on the financial position of Cars for Kids.

During the periods ended June 30, 2021 and August 31, 2020, Cars for Kids was Plaintiff in ongoing matters with Kars4Kids and Arch Insurance. Expenses related to these matters are included in the accompanying statements of activities and changes in net assets. Funds spent on these matters totaled \$559,864 and \$641,364 for the periods ended June 30, 2021 and August 31, 2020 respectively.

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 June 30:

2022	\$	27,597
2023		21,927
2024		18,187
2025		9,371
Thereafter		<u>0</u>
		<u>\$ 77,082</u>

The accompanying statements of activities and changes in net assets include rent and lease expense of \$38,937 and \$46,605 for the periods ended June 30, 2021 and August 31, 2020, respectively.

Global Pandemic

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.

10. RELATED PARTY TRANSACTIONS

During the periods ended June 30, 2021 and August 31, 2020, Cars for Kids approved payments totaling \$422,551 and \$243,266, 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.

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10. RELATED PARTY TRANSACTIONS (Continued)

Cars for Kids holds cash and cash equivalents and a note payable totaling \$1,316,228 and \$409,891, respectively, at June 30, 2021 with a bank whose CEO is also a member of the Charter Holder's Board of Directors. At August 31, 2020, these amounts totaled \$1,935,721 and \$912,279, respectively.

During the fiscal year 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. Under the agreement repayments are to be made as operating cash flows allow. Cars for Kids has fulfilled this full obligation as of January 26, 2021. There is no further obligation as of June 30, 2021.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 8, 2021, the date the financial statements were available to be issued.