

AMERICA CAN! CARS FOR KIDS
FINANCIAL REPORT FOR THE YEAR ENDED
AUGUST 31, 2015 AND 2014

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6



INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors of
America Can! Cars for Kids
Dallas, Texas

We have audited the accompanying financial statements of American Can! Cars for Kids (Cars for Kids) as of August 31, 2015 and 2014, which comprise the statements of financial position, and the related statements of activities 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 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.

America Can! Cars for Kids

Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of America Can! Cars for Kids as of August 31, 2015 and 2014, 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.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 15, 2016

**AMERICA CAN! CARS FOR KIDS
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2015 AND 2014**

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 380,851	\$ 1,789,050
Notes receivable- current portion	77,335	-
Accounts receivable	85,277	208,960
Due from others	-	38,838
Inventory	643,302	656,924
Prepaid expense	50,340	25,047
Total Current Assets	1,237,105	2,718,819
NON-CURRENT ASSETS		
Notes receivables- non-current portion	1,169,572	-
Property and equipment, net of accumulated depreciation	2,740,774	84,656
TOTAL ASSETS	\$ 5,147,451	\$ 2,803,475
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 204,489	\$ -
Accounts payable	529,290	354,476
Accrued liabilities	121,073	85,600
Payroll deductions payable	5,292	4,905
Accrued wages payable	57,891	42,664
Total Current Liabilities	918,035	487,645
LONG TERM DEBT- NON-CURRENT		
Notes payable-non-current maturities	1,958,556	-
TOTAL LIABILITIES	2,876,591	487,645
NET ASSETS		
Unrestricted	2,270,860	2,315,830
TOTAL LIABILITIES AND NET ASSETS	\$ 5,147,451	\$ 2,803,475

The Notes to Financial Statements are an integral part of these statements.

**AMERICA CAN! CARS FOR KIDS
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2014 and 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2015</u>	<u>Totals 2014</u>
REVENUES				
Auction revenue	\$ 6,804,334	\$ -	\$ 6,804,334	\$ 7,542,785
Consignment revenue	490,239	-	490,239	389,302
Other income	73,772	-	73,772	42,243
SUPPORT				
Contributions from Charter Holder	1,387,416	-	1,387,416	2,274,088
Total revenue and support	<u>8,755,761</u>	<u>-</u>	<u>8,755,761</u>	<u>10,248,418</u>
EXPENSES				
General administration	405,421	-	405,421	9,448
Plant maintenance and operations	121,864	-	121,864	105,539
Security and monitoring services	152,863	-	152,863	-
Fund raising	6,221,212	-	6,221,212	6,052,652
Total expenses	<u>6,901,360</u>	<u>-</u>	<u>6,901,360</u>	<u>6,167,639</u>
Excess of revenues over expenses	1,854,401	-	1,854,401	4,080,779
Other revenue (expenses)				
Contributions to the charter holder	(1,916,943)	-	(1,916,943)	(1,534,500)
Gain on sale of assets	577,572	-	577,572	-
Loss on investment	(560,000)	-	(560,000)	(230,449)
Total other revenue/ expense	<u>(1,899,371)</u>	<u>-</u>	<u>(1,899,371)</u>	<u>(1,764,949)</u>
Change in net assets	(44,970)	-	(44,970)	2,315,830
Net assets, beginning of year	<u>2,315,830</u>	<u>-</u>	<u>2,315,830</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 2,270,860</u>	<u>\$ -</u>	<u>\$ 2,270,860</u>	<u>\$ 2,315,830</u>

The Notes to Financial Statements are an integral part of these statements.

**AMERICA CAN! CARS FOR KIDS
STATEMENT OF CASH FLOWS
AUGUST 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (44,970)	\$ 2,315,830
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	19,195	-
Gain on disposal of land	(577,572)	-
Non cash contribution of asset	(1,387,416)	
Changes in operating assets and liabilities		
Accounts receivable	123,683	-
Note receivable	53,093	
Due from others	38,838	(247,798)
Inventory	13,622	(656,924)
Prepaid expense	(25,293)	(25,047)
Accounts payable	174,814	354,476
Accrued liabilities	35,473	85,600
Payroll deductions payable	387	4,905
Accrued wages payable	15,227	42,664
	<u>(1,560,919)</u>	<u>1,873,706</u>
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of land, buildings and equipment	(1,427,355)	(84,656)
Net cash used in investing activities	<u>(1,427,355)</u>	<u>(84,656)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	1,600,000	-
Principal payments on debt	(19,925)	-
Net cash provided by financing activities	<u>1,580,075</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(1,408,199)	1,789,050
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,789,050</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 380,851</u>	<u>1,789,050</u>
Interest paid	<u>\$ 35,642</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of these statements.

**AMERICA CAN! CARS FOR KIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2015**

NOTE 1. ORGANIZATION

America 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 (Charter Holder). Cars for Kids fundraises on behalf of the Charter Holder by auctioning off donated vehicles, boats and other items. Prior to August 31, 2013, Cars for Kids operated as a business segment of the Charter Holder and was reported with the operating results of the Charter Holder. America Can! Cars for Kids is a separate entity for its fiscal year ending August 31, 2015 and 2014, but is still included as part of the America Can! consolidated financial statement.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cars for Kids financial resources are classified into net asset categories in accordance with activities or restrictions specified by donors. The balances and activities are classified into three categories according to the existence or absence of donor imposed restrictions.

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

Temporarily restricted – net assets that are 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 net assets as of August 31, 2015 and 2014.

Permanently restricted – net assets that are 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, 2015 and 2014.

**AMERICA CAN! CARS FOR KIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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 twelve months or less.

Inventory

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

Capital Assets

Capital assets 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. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expenses as incurred. Donations of assets are recorded at fair value at the date of donation, which is then treated as cost.

Revenue Recognition and Presentation

Motor vehicle sales are recognized at the point of sale to the customer.

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions with donor imposed restrictions that are satisfied in the same period are reported as released from restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**AMERICA CAN! CARS FOR KIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Personal Leave

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

Loss on Investment

During the years ended August 31, 2015 and 2014, Cars for Kids invested \$560,000 and \$230,449, respectively, in Educational Innovation Solutions, Inc. (EIS), a newly formed for-profit corporation that provides information technology solutions. However, because EIS is a startup business with no revenue for the years ended August 31, 2015 and 2014, Cars for Kids recorded a write down of its investment. During the year ended August 31, 2015, Cars for Kids received a note receivable of \$790,449 from EIS to repurchase the Cars for Kids investment. Cars for Kids has recorded an allowance for the full amount of the note receivable.

Reclassifications

Certain fiscal 2014 amounts have been reclassified to conform to the fiscal 2015 presentation. These reclassifications had no impact on the change in net assets. Classifications do not coincide with the presentation for Cars for Kids financial information in the consolidated statements of the Charter Holder.

NOTE 3. CAPITAL ASSETS

Capital assets consist of the following:

	2015	2014
Construction in progress	\$ -	\$ 84,656
Building and improvements	2,735,738	-
Vehicles	12,100	-
Computer equipment	21,000	-
Furniture and equipment	30,345	-
	2,799,183	84,656
Less accumulated depreciation	(58,409)	-
	\$ 2,740,774	\$ 84,656

For the year ended August 31, 2015 and 2014, depreciation expense was \$19,195 and \$0, respectively.

**AMERICA CAN! CARS FOR KIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2015**

NOTE 4. DEFINED CONTRIBUTION PLAN

Cars for Kids contributes 4% of all employees' salary into America Can Cars for Kids 401(k) Profit Sharing Plan and Trust. Cars for Kids' contribution for the year ended August 31, 2015 and 2014, totaled \$28,947 and \$42,288, respectively.

NOTE 5. CONTRIBUTIONS TO/FROM AFFILIATED ORGANIZATIONS

During the year ended August 31, 2015, the Charter Holder contributed assets to Cars for Kids totaling \$1,387,416 and Cars for Kids contributed cash and in-kind services totaling \$1,916,944 to the Charter Holder for charter school operations.

During the year ended August 31, 2014, the Charter Holder contributed cash and assets to Cars for Kids totaling \$2,274,088 and Cars for Kids contributed cash and in-kind services totaling \$1,534,500 to the Charter Holder for charter school operations.

NOTE 6. COMMITMENTS UNDER OPERATING LEASES

During the year ended August 31, 2015 and 2014, Cars for Kids made debt payments on behalf of the Charter Holder in lieu of lease payments. Lease expense for Cars for Kids for the years ended August 31, 2015 and 2014, totaled approximately \$306,000 and \$226,000, respectively.

NOTE 7. 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, 2015 with maturity on February 28, 2023. The note is collateralized by the property. The note bears interest at 5%. The outstanding balance of the note at August 31, 2015 was \$1,600,000.

During the fiscal year ended August 31, 2015, the Charter Holder transferred capital assets and the related debt to Cars for Kids. The note matures on September 20, 2022 and bears an interest rate of 4.9% until September 20, 2017. The rate then will adjust to 1% in excess of the prime interest rate up to 5.9% and no less than 4.5%. The outstanding balance of the note at August 31, 2015 was \$563,045.

**AMERICA CAN! CARS FOR KIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2015**

NOTE 7. NOTES PAYABLE - CONTINUED

The notes are due as follows:

Fiscal year ending August 31:	
2016	\$ 204,489
2017	214,737
2018	225,499
2019	236,800
2020	248,667
2021-2023	<u>1,032,853</u>
Total	2,163,045
Less current portion	<u>204,489</u>
Total noncurrent	<u>\$ 1,958,556</u>

NOTE 8. INCOME TAX

Under a group ruling issued by the Internal Revenue Service, Cars for Kids is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended, except to the extent it has unrelated business taxable income.

Generally accepted accounting principles require that the Cars for Kids recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties and disclosure.

Tax positions taken related to the 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. Accordingly, the Cars for Kids has not recorded an income tax liability for uncertain tax benefits. For the year ended August 31, 2015, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of August 31, 2015, Cars for Kids' tax years 2012 and thereafter remain subject to examination.

**AMERICA CAN! CARS FOR KIDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2015**

NOTE 9. SUBSEQUENT EVENTS

Cars for Kids has adopted U.S. generally accepted accounting principles relating to subsequent events. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Management has evaluated all events or transactions that occurred after August 31, 2015 up through January 15, 2016, the date the financial statements were available to be issued, and determined that no events have occurred that warrant disclosure.

NOTE 10. RELATED PARTY TRANSACTIONS

During the fiscal year ended August 31, 2015 and 2014, America Can! Cars for Kids approved payments totaling \$120,500 and \$126,667, 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 America Can! Cars for Kids for the years ended August 31, 2015 and 2014. Marqcom, Inc. is a corporation owned by the CEO of the Charter Holder and these payments were in addition to his employment contract and performance bonuses.

During the fiscal years ended August 31, 2015 and 2014, America Can! Cars for Kids formed Education Innovation Solutions, Inc. (EIS), a for profit corporation. During the fiscal year ended August 31, 2015 and 2014, America Can! Cars for Kids was issued non-voting shares and made investments and advances to EIS of \$560,000 and \$230,449, respectively. America Can! Cars for Kids has written off its investments and EIS has repurchased the non-voting shares issued to America Can! 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. Voting shareholders of EIS consist of the CFO of the Charter Holder and another employee. Three board members of America Can! Cars for Kids have been elected as the Board of Directors of EIS.