REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS FOR

CAL FARLEY'S BOYS RANCH AND SUBSIDIARY

September 30, 2017 and 2016

MOSSADAMS

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Report of Independent Auditors

To the Board of Directors
Cal Farley's Boys Ranch

Report on Financial Statements

We have audited the accompanying consolidated statement of financial position of Cal Farley's Boys Ranch and subsidiary (collectively Cal Farley's) as of September 30, 2017 and 2016, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cal Farley's Boys Ranch and Subsidiary as of September 30, 2017, and related consolidated statements of activities, cash flows and functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Report on Summarized Comparative Information

We have previously audited Cal Farley's Boys Ranch and Subsidiary's September 30, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss Adams LLP

Albuquerque, New Mexico
February 20, 2018

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ASSETS

	Years Ended September 30, 2017	2016
Cash and cash equivalents	$ 856,468	$ 1,031,882
Accrued interest receivable	122,525	115,748
Other receivables	219,465	200,655
Unconditional promises to give, net	19,713,188	18,005,722
Prepaid expenses	789,852	594,876
Inventories	902,745	986,601
Unrestricted investments	12,563,373	12,967,597
Restricted investments	18,615,625	18,981,429
Beneficial interest in perpetual trusts	35,427,927	33,785,192
Funds invested with Cal Farley's Boys Ranch Foundation	5,354,752	8,844,542
Property and equipment, net	35,986,823	34,577,980
Total assets	$ 130,552,743	$ 130,092,224

LIABILITIES AND NET ASSETS

	2017	2016
LIABILITIES		
Accounts payable	$ 2,414,110	$ 2,473,560
Accrued liabilities	2,080,228	2,248,604
Line of credit	2,000,000	4,650,000
Total liabilities	6,494,338	9,372,164
NET ASSETS		
Unrestricted	49,556,707	49,962,687
Temporarily restricted	22,508,853	20,691,305
Permanently restricted	51,992,845	50,066,068
Total net assets	124,058,405	120,720,060
Total liabilities and net assets	$ 130,552,743	$ 130,092,224

 See accompanying notes.

	September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	$ 16,614,965	$ 3,376,189	$ 520,000	$ 20,511,154
Change in value of unconditional promises to give	-	855,225	3,161	858,386
Change in value of beneficial interest in perpetual trusts	-	-	1,642,735	1,642,735
Investment return:				
Interest, dividends, and other	4,316,908	704,500	-	5,021,408
Realized (loss) gain	(511,830)	100,966	-	(410,864)
Unrealized (loss) gain	(479,043)	90,026	-	(389,017)
Change in value of mineral interests	536,330	-	-	536,330
Total investment return	3,862,365	895,492	-	4,757,857
Other income	363,073	-	-	363,073
Net assets released from restrictions - satisfaction of time or purpose restrictions	3,548,477	(3,309,358)	(239,119)	-
Total support and revenue	24,388,880	1,817,548	1,926,777	28,133,205
EXPENSES				
Program Services:				
Boys Ranch operations	28,452,928	-	-	28,452,928
Center for Women and Children	1,541,225	-	-	1,541,225
Program support and alumni services	2,264,115	-	-	2,264,115
Community-based services	1,536,712	-	-	1,536,712
Total program services	33,794,980	-	-	33,794,980
Support services:				
Fund-raising activities	8,429,075	-	-	8,429,075
Administrative and general	4,646,273	-	-	4,646,273
Total support services	13,075,348	-	-	13,075,348
Total expenses	46,870,328	-	-	46,870,328
OTHER ACTIVITIES				
Support from Cal Farley's Boys Ranch Foundation	20,353,015	-	-	20,353,015
Net gain on insurance proceeds	1,722,453			1,722,453
Total other activities	22,075,468	-	-	22,075,468
CHANGE IN NET ASSETS	(405,980)	1,817,548	1,926,777	3,338,345
NET ASSETS, beginning of year	49,962,687	20,691,305	50,066,068	120,720,060
NET ASSETS, end of year	$ 49,556,707	$ 22,508,853	$ 51,992,845	$ 124,058,405

	September 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	$ 17,339,908	$ 959,972	$ 11,000	$ 18,310,880
Change in value of unconditional promises to give	-	2,237,098	(5,292)	2,231,806
Change in value of beneficial interest in perpetual trusts	-	-	(293,112)	(293,112)
Investment return:				
Interest, dividends, and other	3,738,871	760,771	-	4,499,642
Realized (loss) gain	(146,857)	31,909	-	(114,948)
Unrealized gain (loss)	134	453,865	-	453,999
Change in value of mineral interests	(5,666,297)	-	-	(5,666,297)
Total investment return	(2,074,149)	1,246,545	-	(827,604)
Other income	447,923	-	-	447,923
Net assets released from restrictions -				
satisfaction of time or purpose restrictions	2,632,125	(2,429,577)	(202,548)	-
Change in donor restriction	(174,245)	174,245	-	-
Total support and revenue	18,171,562	2,188,283	(489,952)	19,869,893
EXPENSES				
Program Services:				
Boys Ranch operations	28,769,234	-	-	28,769,234
Center for Women and Children	1,755,080	-	-	1,755,080
Program support and alumni services	2,061,654	-	-	2,061,654
Community-based services	1,791,341	-	-	1,791,341
Total program services	34,377,309	-	-	34,377,309
Support services:				
Fund-raising activities	7,871,404	-	-	7,871,404
Administrative and general	5,363,706	-	-	5,363,706
Total support services	13,235,110	-	-	13,235,110
Total expenses	47,612,419	-	-	47,612,419
OTHER ACTIVITIES				
Support from Cal Farley's Boys Ranch Foundation	20,238,218	-	-	20,238,218
Net gain on insurance proceeds	2,092,745			2,092,745
Total other activities	22,330,963	-	-	22,330,963
CHANGE IN NET ASSETS	(7,109,894)	2,188,283	(489,952)	(5,411,563)
NET ASSETS, beginning of year	57,072,581	18,503,022	50,556,020	126,131,623
NET ASSETS, end of year	$ 49,962,687	$ 20,691,305	$ 50,066,068	$ 120,720,060

	Years Ended September 30, 2017	Years Ended September 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase(Decrease) in net assets	$ 3,338,345	$ (5,411,563)
Adjustments to reconcile change in net assets to net cash from provided by operating activities:		
Depreciation	4,398,008	3,882,581
Net gain on disposition of property and equipment	(10,352)	(9,755)
Loss on impairment of assets	-	18,004
Net realized loss on investments	410,864	114,948
Net unrealized loss (gain) on investments	395,301	(453,999)
Noncash donations of investments	(585,453)	(298,737)
Noncash donations of property and equipment	(3,808)	-
Restricted contributions	(3,896,189)	(970,972)
Investment income restricted for investment	(704,500)	(760,771)
Unrealized gain on unconditional promises to give	(858,386)	(2,231,806)
Unrealized (gain) loss of beneficial interest in perpetual trusts	(1,642,735)	293,112
Unrealized (gain) loss on mineral interests	(536,330)	5,666,297
Change in:		
Accrued interest receivable	(6,777)	4,287
Other receivables	(18,810)	1,049,405
Unconditional promises to give, net	(849,080)	(417,314)
Prepaid expenses	(194,976)	261,300
Inventories	83,856	28,975
Funds invested with Cal Farley's Boys Ranch Foundation	3,489,790	(59,947)
Accounts payable	(125,439)	358,909
Accrued liabilities	(102,387)	(70,382)
Net cash provided by operating activities	2,580,942	992,572
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(20,700,264)	(28,831,403)
Proceeds from maturities and sales of investments	21,785,910	33,215,361
Acquisitions of property and equipment	(5,822,895)	(11,844,167)
Proceeds from sale of property and equipment	30,204	23,352
Net cash used by investing activities	(4,707,045)	(7,436,857)
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment in primarily property and equipment or scholarships	3,376,189	959,972
Investment in permanent endowment	520,000	11,000
Investment income restricted for investment	704,500	760,771
Net change in line of credit	(2,650,000)	4,650,000
Net cash provided by financing activities	1,950,689	6,381,743
NET DECREASE IN CASH	(175,414)	(62,542)
CASH AND CASH EQUIVALENTS, beginning of year	1,031,882	1,094,424
CASH AND CASH EQUIVALENTS, end of year	$ 856,468	$ 1,031,882

Cal Farley’s Boys Ranch and Subsidiary
Consolidated Statement of Functional Expenses

	Program Services					Support Services				
	Boys Ranch Operations	Center for Women and Children	Program & Alumni Support	Community-based Services	Total	Fund-raising Activities	Administrative and General	Total	2017 Total Expenses	2016
Salaries	$ 10,540,327	$ 869,803	$ 1,404,998	$ 1,029,941	$ 13,845,069	$ 858,164	$ 2,056,151	$ 2,914,315	$ 16,759,384	$ 16,950,393
Payroll taxes	808,903	68,479	101,721	73,887	1,052,990	64,477	145,378	209,855	1,262,845	1,297,729
Employee benefits	3,005,903	106,642	233,679	136,768	3,482,992	203,226	403,580	606,806	4,089,798	5,116,546
Employment expenses	14,355,133	1,044,924	1,740,398	1,240,596	18,381,051	1,125,867	2,605,109	3,730,976	22,112,027	23,364,668
Utilities	720,786	62,267	31,565	13,004	827,622	-	276,841	276,841	1,104,463	1,092,340
Repairs and maintenance	780,315	19,153	25,765	2,707	827,940	65,470	363,710	429,180	1,257,120	1,364,256
Insurance	777,863	70,285	-	-	848,148	-	124,343	124,343	972,491	988,921
Supplies	69,861	1,671	8,778	719	81,029	808	13,432	14,240	95,269	116,786
Mail Supplies	-	-	-	-	-	172,164	-	172,164	172,164	289,704
Postage	-	88	3,379	871	4,338	1,764,942	4,978	1,769,920	1,774,258	2,072,376
Mailing list	-	-	-	-	-	243,988	-	243,988	243,988	260,542
Printed material	-	-	-	-	-	4,579,780	-	4,579,780	4,579,780	3,591,716
Transportation	-	8,914	-	-	8,914	-	-	-	8,914	26,046
Travel	74,521	129	21,060	15,128	110,838	47,575	41,818	89,393	200,231	289,132
Fuel	209,286	7,939	-	12,005	229,230	-	20,717	20,717	249,947	274,255
Moving	-	-	-	4,116	4,116	-	4,519	4,519	8,635	3,941
Client services	-	16,243	24,882	43,864	84,989	-	-	-	84,989	138,770
Contract/Professional Services	307,117	-	-	-	307,117	255,428	323,159	578,587	885,704	1,454,798
Program Support	6,855	-	-	-	6,855	-	-	-	6,855	31,583
Legal expense	-	-	-	3,563	3,563	-	78,987	78,987	82,550	131,807
Home life	478,353	-	-	-	478,353	-	-	-	478,353	479,694
Youth activities	474,343	-	-	-	474,343	-	-	-	474,343	465,078
Casework Services	38,835	-	-	-	38,835	-	-	-	38,835	48,993
Day Care	(66,498)	(2,972)	-	-	(69,470)	-	-	-	(69,470)	(73,600)
Campus Operations	(5,494)	33,680	-	-	28,186	-	-	-	28,186	33,233
School	3,440,333	-	-	-	3,440,333	-	-	-	3,440,333	2,568,010
Dining hall	1,485,447	2,701	-	-	1,488,148	-	-	-	1,488,148	1,524,271
Country Store/Souvenir Shop	(25,369)	-	-	-	(25,369)	-	-	-	(25,369)	(16,568)
Alumni program and scholarships	-	-	544,175	-	544,175	-	-	-	544,175	527,687
Health and hygiene	1,044,421	-	-	-	1,044,421	-	-	-	1,044,421	1,106,992
Chapel	45,534	-	-	-	45,534	-	-	-	45,534	50,352
Agriculture/food processing/horticulture	185,446	-	-	-	185,446	-	-	-	185,446	215,092
Community as lab	52,149	-	-	-	52,149	-	-	-	52,149	74,533
Training	152,807	-	(175,907)	-	(23,100)	-	-	-	(23,100)	(20,657)
Advertising	-	-	541	-	541	-	17,492	17,492	18,033	11,377
Marketing	-	-	-	-	-	831	105,458	106,289	106,289	65,371
Professional development	73,293	306	22,784	2,444	98,827	10,493	49,657	60,150	158,977	201,224
Laundry/Custodial	64,616	931	-	-	65,547	-	-	-	65,547	71,752
Fund Raising Event	-	-	-	-	-	108,655	-	108,655	108,655	119,203
Safety/Security	73,783	-	-	-	73,783	-	3,007	3,007	76,790	80,039
Fees, Interest, Penalties	3,587	-	-	-	3,587	42,906	4,337	47,243	50,830	8,361
Lease Expense	18,291	-	5,500	191,175	214,966	-	-	-	214,966	200,796
Other expenses	58,215	12,939	11,195	6,520	88,869	10,168	31,827	41,995	130,864	496,964
Other operating expenses	24,893,829	1,279,198	2,264,115	1,536,712	29,973,854	8,429,075	4,069,391	12,498,466	42,472,320	43,729,838
Depreciation	3,559,099	262,027	-	-	3,821,126	-	576,882	576,882	4,398,008	3,882,581
Total functional expenses	$ 28,452,928	$ 1,541,225	$ 2,264,115	$ 1,536,712	$ 33,794,980	$ 8,429,075	$ 4,646,273	$ 13,075,348	$ 46,870,328	$ 47,612,419

See accompanying notes.

Note 1 – Organization

Cal Farley's Boys Ranch (“Cal Farley’s”) is a nonprofit organization that provides professional programs and services in a Christ-centered atmosphere to strengthen families and support the overall development of children. The Cal Farley's campus-based, residential programs include Cal Farley's Boys Ranch, located 36 miles northwest of Amarillo, Texas, which is a basic care facility for children and youth ages 5-18; and the Genie Farley Harriman Center for Women and Children (“Center for Women and Children”), located 45 miles west of Lubbock, Texas, where Cal Farley’s extends its continuum-of-care to include young children and their single mothers. Furthermore, Cal Farley's services include collaborative community engagement programs as well as extensive community-based and general casework services that span the Amarillo, Austin, Dallas/Ft. Worth, Houston, Lubbock and San Antonio areas in Texas, and Oklahoma City, Oklahoma, through its Family Resource Centers. Cal Farley's also offers aftercare to its alumni through a college scholarship program, vocational attainment assistance, and various case management services.

Tascosa Films, LLC (“Tascosa”) is a wholly owned subsidiary of Cal Farley’s. The purpose of Tascosa is to create and share a film project. The film project will help to share the Cal Farley’s mission and enhance awareness of Cal Farley’s program to both potential clients and potential funders.

Cal Farley's Campus Support Center is located in Amarillo, Texas, and provides administrative and fund-raising functions to Cal Farley's and the Cal Farley's Boys Ranch Foundation ("the Foundation").

The accompanying consolidated financial statements are those of Cal Farley's and Tascosa and do not include the Foundation. Combined financial statements have been separately issued combining all of these related entities. See Note 14 for a summary of related entity transactions.

Note 2 – Summary of Significant Accounting Policies

Consolidated financial statements presentation – The consolidated financial statements include the accounts and transactions of Cal Farley’s and Tascosa (collectively, the Organization). The Organization’s consolidated financial statements are reflected on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. All material intercompany balances and transactions have been eliminated. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Summarized comparative totals – The statement of functional expenses included certain prior year summarized comparative information in total but not by function classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Cal Farley’s consolidated financial statements for the year ended September 30, 2016, from which the summarized information was derived.

Note 2 – Summary of Significant Accounting Policies (continued)

Unrestricted net assets – These assets are not subject to stipulations imposed by the donor and are currently available for expenditures. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by explicit donor restrictions. Contributions are reported as unrestricted where donor-imposed restrictions are met in the same reporting period as they are received. 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 stipulations or law. Unrestricted net assets include net assets transferred from temporarily restricted net assets after temporary restrictions imposed by the donor have been accomplished or the stipulated time period has elapsed. A donor's restriction, however, may be released or modified by the donor, a court, or in the circumstances and manner set forth in the Uniform Prudent Management of Institutional Funds Act.

Temporarily restricted net assets – These assets are subject to explicit restrictions imposed by the donor on the expenditure of contributions or income and gains on contributed assets. The temporary restrictions may expire due to the passage of time or the occurrence of expenditures that fulfill the restrictions. Temporarily restricted net assets also include accumulated net investment income earned by the permanently restricted net assets, except for net investment income permanently restricted by the donor.

Permanently restricted net assets – These assets are subject to explicit stipulations imposed by the donor to be maintained in perpetuity. Permanently restricted net assets consist of contributions and pledges specifically restricted by the donor for the purpose of forming a permanent endowment to generate income.

Use of estimates – The preparation of consolidated financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Organization places its temporary cash investments with high credit quality financial institutions. Cal Farley's maintains a Repurchase Agreement with one bank, and all excess funds are "swept" each night and redeposited the next day. Per the Repurchase Agreement these "swept" amounts are not considered deposits of the bank; however, they are collateralized with pledged securities.

Other receivables – Receivables are included in the accompanying combined statements of financial position at amount net of the allowance for doubtful accounts.

Cal Farley's writes off receivables when they become uncollectible. Cal Farley's has had minimal losses on accounts receivable in prior years and therefore no allowance was deemed necessary as of September 30, 2017 and 2016.

Note 2 – Summary of Significant Accounting Policies (continued)

Unconditional promises to give – Unconditional promises to give consist of split interest agreements and multi-year pledges. Promises to give that are expected to be collected within one year are recorded at net realizable value. Multiyear pledges are recorded and calculated using the present value of an annuity and the interest element is reported as a contribution. Split interest agreements are recorded at fair value using the Organization's beneficial interest of the related assets.

An allowance for uncollectible accounts is estimated by management based on its historical loss analysis and is adjusted for those specific unconditional promises to give for which collection is uncertain. Such amounts will be written-off if and when they are deemed uncollectible.

Inventories – Purchased inventories are valued at cost, determined on the first-in, first-out basis. Certain livestock inventories are carried at estimated fair market value. Donated inventories are valued at fair value, determined at the time of the gift.

Investments – Investments are recorded at fair value in accordance with ASC 820 Fair Value Measurements and Disclosures (see Note 4) and the realized and unrealized gains and losses on investments are recorded as increases or decreases in unrestricted, temporarily restricted or permanently restricted net assets based upon donor imposed restrictions or applicable law.

Funds invested with Cal Farley's Boys Ranch Foundation – These assets consist of investment assets held at the Foundation that have been Board designated for use in future capital improvements as needed.

Property and equipment – Property and equipment are recorded at cost or estimated fair value at the date of donation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets over their estimated service lives of approximately 10 to 40 years on buildings and improvements and 3 to 10 years on furniture, equipment, and machinery on a straight-line basis.

Impairment of long-lived assets – Cal Farley's reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. As of September 30, 2017 and 2016, Cal Farley's recognized an impairment in the amount of $0 and $18,004 on various buildings due to damage from a hail storm. The impairment is netted against the gain on insurance proceeds in the statement of activities.

Note 2 – Summary of Significant Accounting Policies (continued)

Income taxes – Cal Farley's is exempt from federal income taxes on related income under Section 501 (a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in IRC Section 501 (c)(3). Further, Cal Farley's has been classified as an organization that is not a private foundation under the IRC Section 509(a) and, as such, contributions to Cal Farley's qualify for deduction as charitable contributions. However, income generated from activities unrelated to Cal Farley's exempt purpose is subject to tax under IRC Section 511. Tascosa Films, LLC is a wholly owned subsidiary of Cal Farley's and therefore considered a disregarded entity for federal income tax purposes.

Financial Accounting Standards Board (FASB) provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Cal Farley's tax return to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" 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 expense and liability in the current year. Management has determined that there are no material uncertain income tax positions.

Revenue recognition

Contributions – Cal Farley's also follows FASB ASC Subtopic 958-605, Not-for-Profit Entities: Revenue Recognition (or ASC 958-605). Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give, including receivables under certain split-interest agreements, are required to be recorded when received and such contributions are required to be reported as permanently restricted support or temporarily restricted support and are then reclassified to unrestricted net assets upon satisfaction of donor restrictions.

Recent Accounting Pronouncement – ASU 2014-15 – In August 2014, FASB issued ASU 2014-15, *Going Concern:* Introduces the concept of going concern into GAAP, and requires management to evaluate whether or not there is any substantial doubt about the entity's ability to continue as a going concern. Substantial doubt exists if conditions and events indicate it is probable (likely to occur) that the entity won't be able to meet its obligations as they become due within one year of issuance. The evaluation does not consider any mitigating effect of management's plans. Effective for years ending after December 15, 2016, and early adoption is permitted. There was no impact from adoption of this standard.

ASU 2016-14 – The FASB issued Accounting Standards Update 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) during August 2016. ASU 2016-14 revises the current net asset classification requirements and information presented in financial statements and notes about a non-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. Management is evaluating the effect that implementation of ASU 2016-14.

Note 2 – Summary of Significant Accounting Policies (continued)

ASU 2016-02 – *Leases:* Changes the way lessees will recognize leases as they will recognize most leases on-balance sheet and will increase reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and interim periods in fiscal years beginning after December 15, 2020. The ASU mandates a modified retrospective transition method for all entities. Management is currently evaluating the impact of this ASU, but does not anticipate a significant impact to the financial statements upon adoption

Note 3 – Unconditional Promises to Give

Cal Farley's anticipates collections of unconditional promises to give as follows at September 30:

	2017	2016
Less than one year	$ 3,022,005	$ 2,603,407
One to five years	6,660,582	6,101,289
More than five years	10,030,601	9,301,026
Total	$ 19,713,188	$ 18,005,722

As of September 30, 2017 and 2016, amounts presented above for split interest agreements were recorded at fair value using the Organizations beneficial interest of the related assets. Multi-year pledges were recorded at fair value using the present value of an annuity and the present value factor interest rate used was 2.4% and 1.4%, the IRS discount rate at September 30, 2017 and 2016. Cal Farley's has determined all amounts to be collectible.

Note 4 – Fair Value Measurement

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2017 and 2016.

Money market funds and other short-term investments are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Government Securities, Taxable Municipal Securities, and Corporate Bonds are valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades which may be considered indicative of an active market. Where quoted prices are available in an active market, the investments are classified within Level 1 of the valuation hierarchy. If quoted prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, discounted cash flows and other observable inputs. Such securities would be classified within Level 2 of the valuation hierarchy.

Equity Securities are valued at the closing price reported on the active market on which the individual securities are traded.

Note 4 – Fair Value Measurement (continued)

Mutual funds are valued at the net asset value (NAV) of shares held and are valued at the closing price reported on the active market on which the individual securities are traded.

Cash value life insurance policies are valued based on the cash surrender value on the individual policy provided by the insurance carrier in which the Ranch is the beneficiary.

Real estate and mineral interests are valued by using significant unobservable inputs including, if available, discounted cash flow analysis, comparable analysis, or third-party appraisals (Level 3). The value of mineral interests reflects value of actual producing wells utilizing a third party valuation that is a standardized valuation method that takes the prior twelve months’ revenue multiplied by a factor of three. Management reviews and evaluates the values provided by all third parties and agrees with the valuation methods and assumptions used in determining the fair value of the above investments.

Notes receivable are valued by using significant unobservable inputs including, if available, discounted cash flow analysis, comparable analysis, or third-party appraisals (Level 3).

Investments measured at NAV are assets measured at net asset value per share practical expedient and consist of the Organization’s beneficial interest in perpetual trusts.

The investment expenses are netted against investment income. The investment expenses for the year ended September 30, 2017 and 2016 are approximately $198,000 and $367,000, respectively.

The following table presents information about Cal Farley’s assets that are measured at fair value on a recurring basis (no liabilities are reported at fair value) as of September 30, 2017 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. The three levels for measuring fair value are based on the reliability of inputs and are as follows:

The three levels are defined as follows:

> **Level 1** – Inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
>
> **Level 2** – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
>
> **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Cal Farley’s uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, Cal Farley’s measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

Note 4 – Fair Value Measurement (continued)

Assets Measured at Fair Value on a Recurring Basis at September 30, 2017 as follows:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds and other short-term investments	$ 2,844,550	$ 198,804	$ -	$ 3,043,354
U.S. government securities	118,565	13,995,897	-	14,114,462
Taxable municipal securities	-	-	-	-
Marketable equity securities	340,040	-	-	340,040
Mutual funds	522,412	-	-	522,412
Corporate bonds and notes	-	6,712,510	-	6,712,510
Notes receivable	-	-	41,398	41,398
Cash value life insurance policies	-	1,360,075	-	1,360,075
Real estate, mineral interests and other	-	-	5,044,747	5,044,747
Total assets in the fair value hierarchy	$ 3,825,567	$ 22,267,286	$ 5,086,145	31,178,998
Investments measured at NAV (practical expedient)				35,427,927
Investments at fair value				$ 66,606,925

Assets Measured at Fair Value on a Recurring Basis at September 30, 2016 as follows:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds and other short-term investments	$ 3,846,246	$ 205,312	$ -	$ 4,051,558
U.S. government securities	200,344	14,211,509	-	14,411,853
Taxable municipal securities	-	1,151,928	-	1,151,928
Marketable equity securities	346,307	-	-	346,307
Mutual funds	379,777	-	-	379,777
Corporate bonds and notes	94,952	5,546,702	-	5,641,654
Notes receivable	-	-	44,171	44,171
Cash value life insurance policies	-	1,300,992	-	1,300,992
Real estate, mineral interests and other	-	-	4,620,786	4,620,786
Total assets in the fair value hierarchy	$ 4,867,626	$ 22,416,443	$ 4,664,957	31,949,026
Investments measured at NAV (practical expedient)				33,785,192
Investments at fair value				$ 65,734,218

Note 4 – Fair Value Measurement (continued)

The tables below present additional information about Level 3 assets measured at fair value on a recurring basis as of September 30, 2017 and 2016, respectively. Both observable and unobservable inputs may be used to determine the fair value of positions that Cal Farley's has classified within the Level 3 category.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) at September 30, 2017 as follows:

	Notes Receivable	Real Estate, Mineral Interests and Other	Total
Beginning balance, September 30, 2016	$ 44,171	$ 4,620,786	$ 4,664,957
Total net losses realized and unrealized	-	(25,289)	(25,289)
Change in value of accounts	-	536,330	536,330
Purchases	-	-	-
Payments/Sales	(2,773)	(87,080)	(89,853)
Ending balance, September 30, 2017	$ 41,398	$ 5,044,747	$ 5,086,145
Total gain for the period included in income attributable to change in unrealized gain at September 30, 2017	$ -	$ 104	$ 104

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) at September 30, 2016 as follows:

	Notes Receivable	Real Estate, Mineral Interests and Other	Total
Beginning balance, September 30, 2015	$ 46,975	$ 10,329,065	$ 10,376,040
Total net losses realized and unrealized	-	(143,432)	(143,432)
Change in value of accounts	-	(5,666,297)	(5,666,297)
Purchases	-	102,500	102,500
Payments/Sales	(2,804)	(1,050)	(3,854)
Ending balance, September 30, 2016	$ 44,171	$ 4,620,786	$ 4,664,957
Total gain for the period included in income attributable to change in unrealized gain at September 30, 2016	$ -	$ 1,054	$ 1,054

Note 4 – Fair Value Measurement (continued)

The following schedule summarizes investments not including beneficial interest in perpetual trusts classified according to any donor restrictions at September 30, 2017 and 2016:

	2017	2016
Unrestricted investments	$ 12,563,373	$ 12,967,597
Restricted investments:		
Temporarily restricted	4,524,873	5,160,677
Permanently restricted	14,090,752	13,820,752
Total restricted investments	18,615,625	18,981,429
Total investments	$ 31,178,998	$ 31,949,026

Note 5 – Beneficial Interest in Perpetual Trusts

Cal Farley's receives charitable trusts from donors. Some of these trusts are considered perpetual trusts because Cal Farley's will never receive the trust assets, but they have an irrevocable right to receive all or a portion of the income earned from the trust assets in perpetuity. Cal Farley's has recorded the asset and has recognized permanently restricted contribution revenue at the fair market value of Cal Farley's beneficial interest in the trust assets. Subsequent changes in fair value of the beneficial interest in the trust assets are recorded as change in value of beneficial interest in perpetual trusts in the permanently restricted net asset class. Change in value of the perpetual trust was $1,642,735 and $(293,112) for the years ended September 30, 2017 and 2016, respectively.

Note 6 – Property and Equipment

At September 30, property and equipment consisted of the following:

	2017	2016
Land	$ 4,755,341	$ 4,755,341
Buildings	82,176,755	78,562,993
Furniture and fixtures	9,701,834	9,412,012
Roads and grounds	5,454,347	5,353,621
Utility lines and equipment	2,675,032	676,479
Land improvements	843,373	774,984
Sewage complex	290,866	290,866
Transportation and hauling	6,425,664	6,709,142
Farm and ranch machinery	2,179,193	2,192,127
Construction in progress	2,848,211	3,132,580
	117,350,616	111,860,145
Less accumulated depreciation	(81,363,793)	(77,282,165)
Total property and equipment, net	$ 35,986,823	$ 34,577,980

Note 6 – Property and Equipment (continued)

Depreciation expense for the years ended September 30, 2017 and 2016 was $4,398,008 and $3,882,581, respectively.

Note 7 – Line of Credit

Cal Farley's had a line of credit agreement that consisted of three promissory notes:

- Promissory Note 1: Principal amount of up to $6,000,000, bearing interest at a variable rate per annum equal to LIBOR plus 1.75%, with a term of five years. Interest is payable quarterly, and advances can be made until September 30, 2017.
- Promissory Note 2: Principal amount of up to $6,000,000, bearing interest at 3.75% per annum, with a term of five years. Interest is payable quarterly, and advances could be made until September 30, 2013.
- Promissory Note 3: Principal amount of up to $6,000,000, bearing interest at 4.25% per annum, with a term of 10 years. Interest is payable quarterly, and advances could be made until September 30, 2013.

The above line of credit agreement was collateralized by investments held by Cal Farley's and was guaranteed by Cal Farley's Boys Ranch Foundation. Advances were made under the line of credit agreement and total amounts outstanding were $4,650,000 as of September 30, 2016, which were paid off during the year ending September 30, 2017. This line of credit was closed May 23, 2017.

During the year ending September 30, 2017, Cal Farley's entered into a new line of credit agreement consisting of one promissory note:

- Promissory Note: Principal amount of up to $6,000,000, bearing interest at a variable rate per annum equal to LIBOR plus 1.50%, with a term of 1 year. Interest is payable quarterly.

This line of credit agreement is collateralized by investments held by Cal Farley's and is guaranteed by Cal Farley's Boys Ranch Foundation. Advances were made under the line of credit agreement and total amounts outstanding were $2,000,000 as of September 30, 2017.

Note 8 – Net Assets

Temporarily restricted net assets include unconditional promises to give of approximately $17,984,000 and $15,531,000 at September 30, 2017 and 2016, respectively, from various estates. The remaining temporarily restricted net assets are for various other contributions that are generally restricted for building construction, scholarships or operations.

Certain land at Whiteface, Texas, was donated with a permanent restriction that the land be used only for a home on the campus for the Center for Women and Children, and that such land cannot be sold or mortgaged. In the event of noncompliance, the land, including buildings and improvements, will revert back to the donor's estate or heirs. During 2008, Cal Farley's received a special warranty release of the reverter for one-half of the undivided interest in the property. Buildings and improvement additions to this

Note 8 – Net Assets (continued)

permanently restricted land made during the years ended September 30, 2017 and 2016 from unrestricted sources was approximately $0 and $41,000, respectively. The associated depreciation, which was recognized as a release from restriction, was approximately $239,000 and $243,000 for the years ended September 30, 2017 and 2016, respectively. The carrying value of the land and related improvements, which are classified as permanently restricted, was approximately $2,154,000 and $2,393,000 at September 30, 2017 and 2016, respectively.

Permanently restricted net assets include promises to give of approximately $321,000 and $67,000 at September 30, 2017 and 2016, respectively, from various estates. Also included in permanently restricted net assets are perpetual trusts of approximately $35,428,000 and $33,785,000 at September 30, 2017 and 2016, respectively. The remaining permanently restricted net assets, other than those discussed above, primarily consist of endowment investments to be held indefinitely, the income from which is generally restricted based upon donor-imposed restriction or applicable law.

Note 9 – Leases

The Organization leases certain facilities and equipment under certain non-cancelable operating lease agreements. The Organization expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. For the years ending September 30, 2017 and 2016, respectively, the lease expense was $266,032 and $200,796.

Future minimum lease rentals under these non-cancelable operating leases having an initial term in excess of one year are as follows:

Year ended September 30,	
2018	$ 105,110
2019	66,744
2020	34,991
2021	22,276
2022	6,346
Total minimum future lease payments	$ 235,467

Note 10 – Endowments

Endowment funds – Effective September 1, 2007, the State of Texas enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date.

FASB ASC 958-205 provides guidance on the net asset classification of donor-restricted funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and also required disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

Note 10 – Endowments (continued)

Cal Farley's endowment consists of donor-restricted endowment funds and does not include any funds designated by the Board of Directors to function as endowments. Net assets associated with endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – Based on the interpretation of UPMIFA by the Board of Directors of Cal Farley's, the guidance in ASC 958-205, and absent explicit donor stipulations to the contrary, Cal Farley's classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Cal Farley's in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Cal Farley's considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Cal Farley's and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of Cal Farley's
7. The investment policies of Cal Farley's

Net asset classification by type of endowment as of September 30, 2017, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,904,324	$ 14,090,752	$ 15,995,076

Changes in Endowment Net Assets for the Year Ended September 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 30, 2016	$ -	$ 1,626,514	$ 13,820,752	$ 15,447,266
Investment return	-	700,669	-	700,669
Net depreciation	-	190,992	-	190,992
Total investment loss	-	891,661	-	891,661
Contributions	-	-	270,000	270,000
Reclassification	-	-	-	-
Appropriation of endowment assets for expenditure	-	(613,851)	-	(613,851)
Endowment net assets, September 30, 2017	$ -	$ 1,904,324	$ 14,090,752	$ 15,995,076

Note 10 – Endowments (continued)

Net asset classification by type of endowment as of September 30, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,626,514	$ 13,820,752	$ 15,447,266

Changes in Endowment Net Assets for the Year Ended September 30, 2016are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 30, 2015	$ (31,738)	$ 1,103,383	$ 13,714,752	$ 14,786,397
Investment return	13,559	745,229	-	758,788
Net depreciation	18,179	467,595	-	485,774
Total investment loss	31,738	1,212,824	-	1,244,562
Contributions	-	-	106,000	106,000
Reclassification	-	-	-	-
Appropriation of endowment assets for expenditure	-	(689,693)	-	(689,693)
Endowment net assets, September 30, 2016	$ -	$ 1,626,514	$ 13,820,752	$ 15,447,266

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the fund. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies as of September 30, 2017 and 2016.

Return objectives and risk parameters – Cal Farley's has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the historical dollar value of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a mix of relevant benchmarks, while assuming a moderate level of investment risk. Cal Farley's currently expects its endowment funds to produce a total investment rate of return over the long term which exceeds the rate of inflation as measured by the Consumer Price Index (CPI) by at least 5%. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term, rate-of-return objectives, Cal Farley's relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Cal Farley's targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 10 – Endowments (continued)

Spending policy and how the investment objectives relate to spending policy – Cal Farley's has a policy which allows for appropriating expenditures each year up to 5% of its endowment fund's average fair value over the prior five years through the calendar year-end preceding the fiscal year in which the expenditure is planned. In establishing this policy, Cal Farley's considered the long-term expected return on its endowment.

Note 11 – Benefit Plans

401(k) Plan – Substantially all employees of Cal Farley's are eligible to participate in a plan qualified under Section 401(k) of the IRC. Eligible participants may generally make contributions up to the lesser of the amount allowed under ERISA or 100% of their compensation. The employer matched an amount equal to 100% of the employees' contribution, not exceeding 5% of the employees' compensation. Cal Farley's made matching contributions of approximately $663,000 and $677,000 for the years ended September 30, 2017 and 2016, respectively.

Defined Benefit Postretirement Health Care Plan – Cal Farley's sponsored a defined benefit postretirement health care plan for substantially all retirees and employees. Postretirement benefits included future benefits expected to be paid to or for (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with Cal Farley's. Prior to an active employee's full eligibility date, the postretirement benefit obligation was the portion of the expected postretirement benefit obligation that was attributed to that employee's service rendered to the valuation date.

A liability has been accrued in the amount of $456,000 and $836,000 as of September 30, 2017 and 2016 for medical insurance claims incurred but not paid for all current employees and retirees. This amount is recorded in accrued liabilities on the Statements of Financial Position.

Note 12 – Self-Insurance Plan

Cal Farley's is self-insured for employee medical claims up to $250,000 per employee. Monthly premiums are paid into a trust from which claims are paid by the administrator of the trust. Total amounts charged to expense by Cal Farley's during the years ended September 30, 2017 and 2016 was approximately $3,382,000 and $3,935,000, respectively.

Note 13 – Compensated Absences

Employees of the Organization are entitled to paid time off depending on job classification, length of service and other factors. Cal Farley's accrues for unused paid time off, and at September 30, 2017 and 2016 Cal Farley's recognized approximately $827,000 and $952,000, as an accrual for paid time off.

Note 14 – Related Party Transactions

During the years ended September 30, 2017 and 2016, Cal Farley's received $20,353,015 and $20,238,218, respectively, in support from the Foundation. At September 30, 2017 and 2016, Cal Farley's had a receivable from the Foundation of $8,964 and $288, respectively. During the year ended September 30, 2014, Cal Farley’s invested $9,754,665 of its assets with the Foundation. These amounts consist of investment assets held for Cal Farley’s that have been Board designated for use in future capital improvements as needed. As of September 30, 2017 and 2016, $5,354,752 and $8,844,542 was outstanding and available for approved use.

Note 15 – Subsequent Events

Cal Farley's has evaluated for inclusion as a subsequent event disclosure only those events that occurred prior to February 20, 2018, the date the consolidated financial statements were available to be issued.