



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

CAL FARLEY'S BOYS RANCH AND SUBSIDIARY

September 30, 2018 and 2017

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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 statements of financial position of Cal Farley's Boys Ranch and subsidiary (collectively Cal Farley's) as of September 30, 2018 and 2017, 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, 2018, 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.

Emphasis of Matter

As described in Note 2 of the financial statements, in 2018, the entity adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter – Report on Summarized Comparative Information

We have previously audited Cal Farley's Boys Ranch and Subsidiary's September 30, 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mess Adams LLP

Albuquerque, New Mexico
February 26, 2019

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Cal Farley's Boys Ranch and Subsidiary

Consolidated Statements of Financial Position

ASSETS

	Years Ended September 30,	
	2018	2017
Cash and cash equivalents	\$ 2,761,772	\$ 856,468
Accrued interest receivable	131,818	122,525
Other receivables	379,190	219,465
Unconditional promises to give	17,403,141	19,713,188
Prepaid expenses	269,157	789,852
Inventories	1,008,367	902,745
Investments without donor restrictions	11,858,048	12,563,373
Investments with donor restrictions	21,513,891	18,615,625
Beneficial interest in perpetual trusts	36,098,101	35,427,927
Funds invested with Cal Farley's Boys Ranch Foundation	5,747,392	5,354,752
Property and equipment, net	30,645,803	35,986,823
Total assets	\$ 127,816,680	\$ 130,552,743

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 982,019	\$ 2,414,110
Accrued liabilities	2,403,423	2,080,228
Line of credit	-	2,000,000
Total liabilities	3,385,442	6,494,338

NET ASSETS

Without donor restrictions	50,654,022	49,556,707
With donor restrictions	73,777,216	74,501,698
Total net assets	124,431,238	124,058,405
Total liabilities and net assets	\$ 127,816,680	\$ 130,552,743

Cal Farley's Boys Ranch and Subsidiary Consolidated Statements of Activities

	September 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 21,395,653	\$ 1,860,145	\$ 23,255,798
Change in value of unconditional promises to give		(155,406)	(155,406)
Change in value of beneficial interest in perpetual trusts		670,174	670,174
Investment return:			
Interest, dividends, and other	3,946,454	711,022	4,657,476
Realized (loss) gain	(1,708,087)	65,103	(1,642,984)
Unrealized gain (loss)	(887,318)	(12,235)	(899,553)
Change in value of mineral interests	224,886	-	224,886
Total investment return	<u>1,575,935</u>	<u>763,890</u>	<u>2,339,825</u>
Other income	259,547	-	259,547
Net assets released from restrictions - satisfaction of time or purpose restrictions	<u>3,863,285</u>	<u>(3,863,285)</u>	<u>-</u>
Total support and revenue	<u>27,094,420</u>	<u>(724,482)</u>	<u>26,369,938</u>
EXPENSES			
Program Services:			
Boys Ranch operations	27,701,714	-	27,701,714
Center for Women and Children	199,856	-	199,856
Program support and alumni services	1,924,863	-	1,924,863
Community-based services	251,146	-	251,146
Total program services	<u>30,077,579</u>	<u>-</u>	<u>30,077,579</u>
Support services:			
Fund-raising activities	8,967,742	-	8,967,742
Administrative and general	4,411,492	-	4,411,492
Total support services	<u>13,379,234</u>	<u>-</u>	<u>13,379,234</u>
Total expenses	<u>43,456,813</u>	<u>-</u>	<u>43,456,813</u>
OTHER ACTIVITIES			
Support from Cal Farley's Boys Ranch Foundation	17,442,617	-	17,442,617
Net gain on insurance proceeds	17,091	-	17,091
Total other activities	<u>17,459,708</u>	<u>-</u>	<u>17,459,708</u>
CHANGE IN NET ASSETS	1,097,315	(724,482)	372,833
NET ASSETS, beginning of year	<u>49,556,707</u>	<u>74,501,698</u>	<u>124,058,405</u>
NET ASSETS, end of year	<u>\$ 50,654,022</u>	<u>\$ 73,777,216</u>	<u>\$ 124,431,238</u>

Cal Farley's Boys Ranch and Subsidiary Consolidated Statements of Activities (continued)

	September 30, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 16,614,965	\$ 3,896,189	\$ 20,511,154
Change in value of unconditional promises to give	-	858,386	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 gain (loss)	(479,043)	90,026	(389,017)
Change in value of mineral interests	536,330	-	536,330
Total investment return	<u>3,862,365</u>	<u>895,492</u>	<u>4,757,857</u>
Other income	363,073	-	363,073
Net assets released from restrictions - satisfaction of time or purpose restrictions	<u>3,548,477</u>	<u>(3,548,477)</u>	<u>-</u>
Total support and revenue	<u>24,388,880</u>	<u>3,744,325</u>	<u>28,133,205</u>
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	<u>1,536,712</u>	<u>-</u>	<u>1,536,712</u>
Total program services	<u>33,794,980</u>	<u>-</u>	<u>33,794,980</u>
Support services:			
Fund-raising activities	8,429,075	-	8,429,075
Administrative and general	<u>4,646,273</u>	<u>-</u>	<u>4,646,273</u>
Total support services	<u>13,075,348</u>	<u>-</u>	<u>13,075,348</u>
Total expenses	<u>46,870,328</u>	<u>-</u>	<u>46,870,328</u>
OTHER ACTIVITIES			
Support from Cal Farley's Boys Ranch Foundation	20,353,015	-	20,353,015
Net gain on insurance proceeds	<u>1,722,453</u>	<u>-</u>	<u>1,722,453</u>
Total other activities	<u>22,075,468</u>	<u>-</u>	<u>22,075,468</u>
CHANGE IN NET ASSETS	(405,980)	3,744,325	3,338,345
NET ASSETS, beginning of year	<u>49,962,687</u>	<u>70,757,373</u>	<u>120,720,060</u>
NET ASSETS, end of year	<u>\$ 49,556,707</u>	<u>\$ 74,501,698</u>	<u>\$ 124,058,405</u>

Cal Farley's Boys Ranch and Subsidiary Consolidated Statements of Cash Flows

	Years Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 372,833	\$ 3,338,345
Adjustments to reconcile change in net assets to net cash from provided by operating activities:		
Depreciation	4,371,294	4,398,008
Net (gain) loss on disposition of property and equipment	1,564,290	(10,352)
Net realized loss on investments	81,745	410,864
Net unrealized loss on investments	899,553	395,301
Noncash donations of investments	(398,317)	(585,453)
Noncash donations of property and equipment	-	(3,808)
Donor restricted contributions	(1,860,145)	(3,896,189)
Investment income restricted for investment	(711,022)	(704,500)
Unrealized (gain) loss on unconditional promises to give	155,406	(858,386)
Unrealized gain of beneficial interest in perpetual trusts	(670,174)	(1,642,735)
Unrealized gain on mineral interests	(224,886)	(536,330)
Change in:		
Accrued interest receivable	(9,293)	(6,777)
Other receivables	(159,725)	(18,810)
Unconditional promises to give, net	2,154,641	(849,080)
Prepaid expenses	520,695	(194,976)
Inventories	(105,622)	83,856
Funds invested with Cal Farley's Boys Ranch Foundation	(392,640)	3,489,790
Accounts payable	(1,432,091)	(125,439)
Accrued liabilities	323,195	(102,387)
Net cash provided by operating activities	<u>4,479,737</u>	<u>2,580,942</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(10,869,760)	(20,700,264)
Proceeds from maturities and sales of investments	8,318,724	21,785,910
Acquisitions of property and equipment	(1,094,546)	(5,822,895)
Proceeds from sale of property and equipment	499,982	30,204
Net cash used by investing activities	<u>(3,145,600)</u>	<u>(4,707,045)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment in primarily property and equipment or scholarships	1,789,845	3,376,189
Investment in donor restricted endowment	70,300	520,000
Investment income restricted for investment	711,022	704,500
Net change in line of credit	(2,000,000)	(2,650,000)
Net cash provided by financing activities	<u>571,167</u>	<u>1,950,689</u>
NET INCREASE (DECREASE) IN CASH	1,905,304	(175,414)
CASH AND CASH EQUIVALENTS, beginning of year	<u>856,468</u>	<u>1,031,882</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,761,772</u>	<u>\$ 856,468</u>

See accompanying notes.

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

	Program Services				Support Services				2018 Total Expenses	2017
	Boys Ranch Operations	Center for Women and Children	Program & Alumni Support	Community- based Services	Total	Fund-raising Activities	Administrative and General	Total		
Salaries	\$ 10,807,005	\$ 2,642	\$ 1,061,746	\$ 105,428	\$ 11,976,821	\$ 951,650	\$ 1,896,545	\$ 2,848,195	\$ 14,825,016	\$ 16,759,384
Payroll taxes	832,638	241	75,857	7,619	916,355	69,078	134,288	203,366	1,119,721	1,262,845
Employee benefits	2,728,755	(2,188)	194,192	23,745	2,944,504	168,663	296,086	464,749	3,409,253	4,089,798
Employment expenses	14,368,398	695	1,331,795	136,792	15,837,680	1,189,391	2,326,919	3,516,310	19,353,990	22,112,027
Utilities	716,254	-	29,817	7,632	753,703	-	214,475	214,475	968,178	1,104,463
Repairs and maintenance	569,238	-	16,271	554	586,063	53,927	286,001	339,928	925,991	1,257,120
Insurance	870,600	32,136	-	-	902,736	-	180,466	180,466	1,083,202	972,491
Supplies	60,400	-	2,074	-	62,474	1,665	12,265	13,930	76,404	95,269
Mail Supplies	-	-	-	-	-	157,186	-	157,186	157,186	172,164
Postage	-	-	2,314	758	3,072	2,213,251	3,215	2,216,466	2,219,538	1,774,258
Mailing list	-	-	-	-	-	228,568	-	228,568	228,568	243,988
Printed material	-	-	-	-	-	4,319,718	-	4,319,718	4,319,718	4,579,780
Transportation	-	-	-	-	-	-	-	-	-	8,914
Travel	52,332	-	961	4,959	58,252	57,557	33,306	90,863	149,115	200,231
Fuel	258,436	-	-	-	258,436	-	22,093	22,093	280,529	249,947
Moving	-	-	-	-	-	-	-	-	-	8,635
Client services	-	-	61,387	29,965	91,352	-	-	-	91,352	84,989
Contract/Professional Services	261,956	-	-	-	261,956	320,157	339,293	659,450	921,406	885,704
Program Support	32,644	-	-	-	32,644	-	-	-	32,644	6,855
Legal expense	-	-	-	-	-	-	56,424	56,424	56,424	82,550
Home life	469,379	-	-	-	469,379	-	-	-	469,379	478,353
Tascosa Films	-	-	-	-	-	-	80,964	80,964	80,964	-
Youth activities	438,175	-	-	-	438,175	-	-	-	438,175	474,343
Casework Services	35,160	-	-	-	35,160	-	-	-	35,160	38,835
Day Care	(79,675)	-	-	-	(79,675)	-	-	-	(79,675)	(69,470)
Campus Operations	(7,979)	-	-	-	(7,979)	-	-	-	(7,979)	28,186
School	3,195,749	-	-	-	3,195,749	-	-	-	3,195,749	3,440,333
Dining hall	1,438,410	-	-	-	1,438,410	-	-	-	1,438,410	1,488,148
Country Store/Souvenir Shop	(9,010)	-	-	-	(9,010)	-	-	-	(9,010)	(25,369)
Alumni program and scholarships	-	-	460,822	-	460,822	-	-	-	460,822	544,175
Health and hygiene	1,047,589	-	-	-	1,047,589	-	-	-	1,047,589	1,044,421
Chapel	26,052	-	-	-	26,052	-	-	-	26,052	45,534
Agriculture/food processing/horticulture	(30,572)	-	-	-	(30,572)	-	-	-	(30,572)	185,446
Community as lab	51,862	-	-	-	51,862	-	-	-	51,862	52,149
Training	48	-	9,383	-	9,431	-	-	-	9,431	(23,100)
Advertising	-	-	-	-	-	-	17,641	17,641	17,641	18,033
Marketing	-	-	-	-	-	197,840	96,124	293,964	293,964	106,289
Professional development	47,831	-	5,085	1,167	54,083	14,466	29,482	43,948	98,031	158,977
Laundry/Custodial	59,454	-	-	-	59,454	-	-	-	59,454	65,547
Fund Raising Event	-	-	-	-	-	164,031	-	164,031	164,031	108,655
Safety/Security	62,296	-	-	-	62,296	-	4,799	4,799	67,095	76,790
Fees, Interest, Penalties	2,016	-	-	-	2,016	42,340	26,119	68,459	70,475	50,830
Lease Expense	23,283	-	-	82,781	106,064	3,746	41,734	45,480	151,544	214,966
Other expenses	45,852	44,101	4,954	(13,462)	81,445	3,899	87,338	91,237	172,682	130,864
Other operating expenses	24,006,178	76,932	1,924,863	251,146	26,259,119	8,967,742	3,858,658	12,826,400	39,085,519	42,472,320
Depreciation	3,695,536	122,924	-	-	3,818,460	-	552,834	552,834	4,371,294	4,398,008
Total functional expenses	\$ 27,701,714	\$ 199,856	\$ 1,924,863	\$ 251,146	\$ 30,077,579	\$ 8,967,742	\$ 4,411,492	\$ 13,379,234	\$ 43,456,813	\$ 46,870,328

Cal Farley's Boys Ranch and Subsidiary

Notes to Financial Statements

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 our main campus of 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. Cal Farley's services also include collaborative community engagement programs and aftercare to its alumni through a college scholarship program, vocational attainment assistance, and various case management services. The Genie Farley Harriman Center for Women and Children (Center for Women and Children), located 45 miles west of Lubbock, Texas, is where Cal Farley's extended its continuum-of-care to include young children and their single mothers. This program continued throughout the year, but was closed as of September 30, 2017. In addition, our program of extensive community-based and general casework services that spanned the Amarillo, Austin, Dallas/Ft. Worth, Houston, Lubbock and San Antonio areas in Texas, and Oklahoma City, Oklahoma, through Family Resource Centers, were closed at various times throughout the year. The Community Engagement Center in Amarillo continues to help families battling poverty by providing education and resources, while also bringing together other area non-profit organizations and private individuals who provide needed resources and serve those in need.

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. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

These net assets are not subject to stipulations imposed by the donor and are currently available for expenditures. Items that affect this net asset category principally consist of revenues, contributions without restrictions; restricted contributions whose donor imposed restrictions were met during the fiscal year, expenses, and gains and losses on investments and other assets whose use is not restricted by

Cal Farley's Boys Ranch and Subsidiary

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

explicit donor stipulations or law. Net assets without donor restrictions also include net assets transferred from net assets with donor restrictions 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.

Net Assets with Donor Restrictions

These net assets are subject to explicit restrictions imposed by the donor on the expenditure of contributions or income and gains on contributed assets. These net assets may have stipulations by the donor to be maintained in perpetuity, such as an endowment, or the restrictions may expire due to the passage of time or the occurrence of expenditures that fulfill the restrictions. Net assets with donor restrictions also include accumulated net investment income earned by the net assets held in perpetuity.

Summarized Comparative Totals

The consolidated 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, 2017, from which the summarized information was derived.

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 consolidated statements of financial position at amount net of the allowance for doubtful accounts.

Cal Farley's writes off receivables when they become uncollectible. However, Cal Farley's has had minimal losses on accounts receivable in prior years and therefore no allowance was deemed necessary as of September 30, 2018 and 2017.

Cal Farley's Boys Ranch and Subsidiary

Notes to Financial Statements

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. No allowance was deemed necessary as of September 30, 2018 and 2017.

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 net assets with donor restrictions or without donor restrictions 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 a contingency reserve and 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 recorded using the straight-line method over the estimated useful lives of approximately 10 to 40 years on buildings and improvements and 3 to 10 years on furniture, equipment, and machinery. Included in property and equipment is construction in progress. Once construction is completed and the asset is placed in service, it will be depreciated over the estimated useful life of the asset.

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, 2018 and 2017, there was no impairment of long-lived assets.

Cal Farley's Boys Ranch and Subsidiary

Notes to Financial Statements

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 without or with donor restriction depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in net assets with donor restriction depending on the nature of the restriction. When a restriction expires, the net assets are reclassified to net assets without donor restriction. Non-cash contributions are recorded at fair market value at the date of the contribution.

Recent Accounting Pronouncement

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.

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 has adopted this new pronouncement as of October 1, 2017.

Cal Farley's Boys Ranch and Subsidiary Notes to Financial Statements

Note 2 – Significant Accounting Policies (continued)

ASU 2018-08 – The FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* – This ASU provides clarification in 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 determining whether a contribution is conditional.

The guidance is applicable for transactions where the entity serves as the resource recipient beginning after December 15, 2018 and for transactions in which the entity serves as the resource provider beginning after December 15, 2019. Management is in the process of determining the impact of this pronouncement.

ASU 2018-13 – In August 2018, FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for fiscal years beginning after December 15, 2019. Changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Management is in the process of determining the impact of this pronouncement.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentations. The reclassifications are due to the adoption of Accounting Standards Update 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified at September 30, 2017 as *unrestricted* are now classified as *without donor restriction*. Net assets previously classified as *temporarily restricted* and *permanently restricted* are now classified as net assets *with donor restrictions*. The reclassifications had no effect on the previously reported change in net assets.

Note 3 – Unconditional Promises to Give

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

	2018	2017
Less than one year	\$ 1,358,414	\$ 3,022,005
One to five years	5,787,696	6,660,582
More than five years	10,257,031	10,030,601
Total	\$ 17,403,141	\$ 19,713,188

Cal Farley's Boys Ranch and Subsidiary

Notes to Financial Statements

Note 3 – Unconditional Promises to Give (continued)

As of September 30, 2018 and 2017, 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 3.4% and 2.4%, the IRS discount rate at September 30, 2018 and 2017. 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, 2018 and 2017.

Money market funds and other short-term investments are valued at valued at cost plus accrued interest.

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.

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.

Cal Farley's Boys Ranch and Subsidiary Notes to Financial Statements

Note 4 – Fair Value Measurement (continued)

The investment expenses are netted against investment income. The investment expenses for the year ended September 30, 2018 and 2017 are approximately \$196,000 and \$198,000, 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, 2018 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 defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices for identical assets or liabilities in active market.

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.

Assets measured at fair value on a recurring basis at September 30, 2018 as follows:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds and other short-term investments	\$ 5,131,503	\$ -	\$ -	\$ 5,131,503
U.S. government securities	1,890,799	11,991,095	-	13,881,894
Taxable municipal securities	-	-	-	-
Marketable equity securities	348,646	-	-	348,646
Mutual funds	846,981	-	-	846,981
Corporate bonds and notes	-	6,546,665	-	6,546,665
Notes receivable	-	-	38,410	38,410
Cash value life insurance policies	-	1,435,997	-	1,435,997
Real estate, mineral interests and other	-	-	5,141,843	5,141,843
Total assets in the fair value hierarchy	<u>\$ 8,217,929</u>	<u>\$ 19,973,757</u>	<u>\$ 5,180,253</u>	33,371,939
Investments measured at NAV (practical expedient)				<u>36,098,101</u>
Investments at fair value				<u>\$ 69,470,040</u>

Cal Farley's Boys Ranch and Subsidiary

Notes to Consolidated Financial Statements

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			Total
	Level 1	Level 2	Level 3	
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	<u>\$ 3,825,567</u>	<u>\$ 22,267,286</u>	<u>\$ 5,086,145</u>	31,178,998
Investments measured at NAV (practical expedient)				<u>35,427,927</u>
Investments at fair value				<u>\$ 66,606,925</u>

The tables below present additional information about Level 3 assets measured at fair value on a recurring basis as of September 30, 2018 and 2017, 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, 2018 as follows:

	Notes Receivable	Real Estate, Mineral Interests and Other	Total
Beginning balance, September 30, 2017	\$ 41,398	\$ 5,044,747	\$ 5,086,145
Total net losses realized and unrealized	-	(62,708)	(62,708)
Change in value of accounts	-	224,886	224,886
Purchases	-	-	-
Payments/Sales	(2,988)	(65,082)	(68,070)
Ending balance, September 30, 2018	<u>\$ 38,410</u>	<u>\$ 5,141,843</u>	<u>\$ 5,180,253</u>
Total loss for the period included in change in net assets due to change in unrealized gain or losses at September 30, 2018	<u>\$ -</u>	<u>\$ (104,359)</u>	<u>\$ (104,359)</u>

Cal Farley's Boys Ranch and Subsidiary Notes to Consolidated Financial Statements

Note 4 – Fair Value Measurement (continued)

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

The following schedule summarizes investments not including beneficial interest in perpetual trusts classified according to any donor restrictions at September 30, 2018 and 2017:

	2018	2017
Investments without donor restrictions	\$ 11,858,048	\$ 12,563,373
Investments with donor restrictions	21,513,891	18,615,625
Total investments	\$ 33,371,939	\$ 31,178,998

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 contribution revenue with donor restrictions 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 net assets with donor restrictions. Distributed income received from these trusts is recorded in investment income in the net assets without donor restrictions. Change in value of the perpetual trust was \$670,174 and \$1,642,735 for the years ended September 30, 2018 and 2017, respectively.

Cal Farley's Boys Ranch and Subsidiary

Notes to Consolidated Financial Statements

Note 6 – Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 4,447,841	\$ 4,755,341
Buildings	72,013,393	82,176,755
Furniture and fixtures	9,331,813	9,701,834
Roads and grounds	5,454,347	5,454,347
Utility lines and equipment	4,039,730	2,675,032
Land improvements	843,373	843,373
Sewage complex	290,866	290,866
Transportation and hauling	6,347,143	6,425,664
Farm and ranch machinery	2,036,015	2,179,193
Construction in progress	290,533	2,848,211
	<u>105,095,054</u>	<u>117,350,616</u>
Less accumulated depreciation	<u>(74,449,251)</u>	<u>(81,363,793)</u>
Total property and equipment, net	<u>\$ 30,645,803</u>	<u>\$ 35,986,823</u>

Depreciation expense for the years ended September 30, 2018 and 2017 was \$4,371,294 and \$4,398,008, respectively.

Note 7 – Line of Credit

Cal Farley's has a 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. Note renews annually on June 1.

This line of credit agreement is collateralized by investments held by Cal Farley's and is guaranteed by Cal Farley's Boys Ranch Foundation. Amounts outstanding under the line of credit agreement total \$0 and \$2,000,000 as of September 30, 2018 and September 30, 2017.

Cal Farley's Boys Ranch and Subsidiary Notes to Consolidated Financial Statements

Note 8 – Net Assets

Net assets consist of:

	2018	2017
Net Assets Without Donor Restrictions		
Undesignated	\$ 14,260,827	\$ 10,368,676
Net investment in property and equipment	30,645,803	33,833,279
Designated - board reserve	5,747,392	5,354,752
Total Net Assets Without Donor Restrictions	\$ 50,654,022	\$ 49,556,707
Net Assets With Donor Restrictions		
Subject to expenditure for specified purpose:		
Operations and Program Support	\$ 147,807	\$ 151,696
Scholarships	532,583	160
Capital Projects	4,234,371	2,333,978
Special Medical Needs	160,533	89,717
Net investment in land -CWC	-	2,153,544
	5,075,294	4,729,095
Subject to the passage of time:		
Contributions receivable	16,165,225	18,304,600
Remainder Interests in Property	45,000	45,000
	16,210,225	18,349,600
Subject to Cal Farley's spending policy and appropriation:		
Endowment funds restricted in perpetuity	14,414,038	14,090,752
Endowment funds accumulated gains	1,979,558	1,904,324
	16,393,596	15,995,076
Subject to restriction in perpetuity:		
Perpetual trusts held by others	36,098,101	35,427,927
Total Net Assets With Donor Restrictions	73,777,216	74,501,698
	\$ 124,431,238	\$ 124,058,405

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. The carrying value of the land and related improvements, which were classified as net assets with donor restrictions, was approximately \$2,154,000 at September 30, 2017. In 2018, with approval from the heirs, the land of Whiteface, Texas, was sold, and the net assets with donor restrictions were released to net assets without donor restrictions.

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, 2018 and 2017, respectively, the lease expense was approximately \$152,000 and \$215,000.

Cal Farley's Boys Ranch and Subsidiary

Notes to Consolidated Financial Statements

Note 9 – Leases (continued)

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,

2019	\$ 57,160
2020	52,334
2021	39,678
2022	<u>19,149</u>
Total minimum future lease payments	<u>\$ 168,321</u>

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.

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 net assets with donor restrictions: (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 considered permanent in nature is classified as net assets with donor restrictions 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:

- The duration and preservation of the fund
- The purposes of Cal Farley's and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation

Cal Farley's Boys Ranch and Subsidiary Notes to Consolidated Financial Statements

Note 10 – Endowments (continued)

- The expected total return from income and the appreciation of investments
- Other resources of Cal Farley's
- The investment policies of Cal Farley's

Net asset classification by type of endowment as of September 30, 2018, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 16,393,596	\$ 16,393,596

Changes in endowment net assets for the year ended September 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2017	\$ -	\$ 15,995,076	\$ 15,995,076
Investment return	-	700,047	700,047
Net appreciation (realized and unrealized)	-	52,868	52,868
Total investment loss	-	752,915	752,915
Contributions	-	323,286	323,286
Appropriation of endowment assets for expenditure	-	(677,681)	(677,681)
Endowment net assets, September 30, 2018	\$ -	\$ 16,393,596	\$ 16,393,596

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 15,995,076	\$ 15,995,076

Cal Farley's Boys Ranch and Subsidiary

Notes to Consolidated Financial Statements

Note 10 – Endowments (continued)

Changes in endowment net assets for the year ended September 30, 2017 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2016	\$ -	\$ 15,447,266	\$ 15,447,266
Investment return	-	700,669	700,669
Net appreciation (realized and unrealized)	-	190,992	190,992
Total investment loss	-	891,661	891,661
Contributions	-	270,000	270,000
Appropriation of endowment assets for expenditure	-	(613,851)	(613,851)
Endowment net assets, September 30, 2017	<u>\$ -</u>	<u>\$ 15,995,076</u>	<u>\$ 15,995,076</u>

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 that are reported in net assets with donor restrictions were \$6,935 and \$0 as of September 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations.

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.

Cal Farley's Boys Ranch and Subsidiary Notes to Consolidated Financial Statements

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 four years and through the fiscal year-end of 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. Cal Farley's policy is to not spend from underwater endowments unless directed otherwise by the donor.

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 \$589,000 and \$663,000 for the years ended September 30, 2018 and 2017, respectively.

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, 2018 and 2017 was approximately \$2,778,000 and \$3,382,000, respectively.

A liability has been accrued in the amount of \$856,000 and \$456,000 as of September 30, 2018 and 2017 for medical insurance claims incurred but not paid for all current employees. This amount is recorded in accrued liabilities on the consolidated Statements of Financial Position.

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, 2018 and 2017. Cal Farley's recognized approximately \$794,000 and \$827,000, as an accrual for paid time off. This amount is recorded in accrued liabilities in the consolidated Statements of Financial Position.

Cal Farley's Boys Ranch and Subsidiary

Notes to Consolidated Financial Statements

Note 14 – Related Party Transactions

During the years ended September 30, 2018 and 2017, Cal Farley's received \$17,442,617 and \$20,353,015, respectively, in support from the Foundation. At September 30, 2018 and 2017, Cal Farley's had a receivable from the Foundation of \$0 and \$8,964, 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 a contingency reserve and for use in future capital improvements as needed. As of September 30, 2018 and 2017, \$5,747,392 and \$5,354,752 were outstanding and available for approved use.

Note 15 – Liquidity and Funds Available

The following table reflects Cal Farley's financial assets as of September 30, 2018 and 2017, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, restricted trust assets, perpetual trusts held by others, endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific contingency reserve. These board designations could be drawn upon in the board approves that action.

	<u>2018</u>	<u>2017</u>
Financial assets:		
Cash and cash equivalents	\$ 2,761,772	\$ 856,468
Accounts and contributions receivable	17,914,149	20,055,178
Investments	33,371,939	31,178,998
Perpetual trusts held by others	36,098,101	35,427,927
Funds held by the Foundation	5,747,392	5,354,752
Total financial assets	<u>\$ 95,893,353</u>	<u>\$ 92,873,323</u>
Less those unavailable for general expenditure within one year, due to:		
Perpetual trusts held by others not convertible to cash within next 12 months	\$ (36,098,101)	\$ (35,427,927)
Contribution and accounts receivable collectible beyond one year	(16,044,727)	(16,691,183)
Endowments and accumulated earnings subject to appropriation beyond one year	(16,393,596)	(15,995,076)
Board designated reserves for future contingencies	(5,747,392)	(5,354,752)
Mineral interests - not available for sale	(4,786,200)	(4,561,314)
Investments with donor restrictions not expected to be used within one year	<u>(5,120,295)</u>	<u>(2,620,549)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,703,042</u>	<u>\$ 12,222,522</u>

Cal Farley's cash flows have seasonal variations during the year attributable to contributions received at calendar year end. To manage liquidity, Cal Farley's maintains a secured line of credit, which it could draw upon in the event of an anticipated liquidity need. As of September 30, 2018, amounts outstanding under this line of credit amounted to \$0. Cal Farley's is also supported by the Cal Farley's Boys Ranch Foundation and has the ability to draw down funds from the Foundation as approved by the board.

Cal Farley's Boys Ranch and Subsidiary Notes to Consolidated Financial Statements

Note 16 – Subsequent Events

Cal Farley's has evaluated for inclusion as a subsequent event disclosure only those events that occurred prior to February 26, 2019, the date the consolidated financial statements were available to be issued.