



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

CAL FARLEY'S BOYS RANCH FOUNDATION

September 30, 2019 and 2018

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Report of Independent Auditors

To the Board of Directors
Cal Farley's Boys Ranch Foundation

Report on Financial Statements

We have audited the accompanying statements of financial position of Cal Farley's Boys Ranch Foundation (the Foundation), as of September 30, 2019 and 2018, and the related statement of activities and cash flows for the years then ended. Our responsibility is to express an opinion on these financial statements based on our audits.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cal Farley's Boys Ranch Foundation as of September 30, 2019 and 2018, and the related statements of activities and cash flows for the years 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 2019, the entity adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. Our opinion is not modified with respect to this matter.

Mess Adams LLP

Albuquerque, New Mexico
February 26, 2020

Cal Farley's Boys Ranch Foundation

Statements of Financial Position

ASSETS

	September 30,	
	2019	2018
Cash and cash equivalents	\$ 215,370	\$ 264,627
Accrued interest and dividend receivable	16,621	12,757
Accounts receivable - other	283	1,065
Gifts receivable	5,000	-
Prepaid expenses	125	-
Investments without donor restrictions	325,041,693	328,714,985
Investments with donor restrictions	22,408,277	22,680,680
	<u>347,687,369</u>	<u>351,674,114</u>
Total assets	<u>\$ 347,687,369</u>	<u>\$ 351,674,114</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accrued liabilities	\$ 44,659	\$ 47,462
Payable to Cal Farley's Boys Ranch	5,093	-
Gift annuity liability	2,147,326	2,184,366
Funds invested for Cal Farley's Boys Ranch	6,689,629	5,747,392
	<u>8,886,707</u>	<u>7,979,220</u>
Total liabilities	<u>8,886,707</u>	<u>7,979,220</u>

NET ASSETS

Without donor restrictions	316,392,385	321,014,214
With donor restrictions	22,408,277	22,680,680
	<u>338,800,662</u>	<u>343,694,894</u>
Total net assets	<u>338,800,662</u>	<u>343,694,894</u>
	<u>\$ 347,687,369</u>	<u>\$ 351,674,114</u>
Total liabilities and net assets	<u>\$ 347,687,369</u>	<u>\$ 351,674,114</u>

Cal Farley's Boys Ranch Foundation Statements of Activities

	September 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 946,468	\$ 25	\$ 946,493
Investment return:			
Interest, dividends, and other	14,935,343	936,106	15,871,449
Realized loss	(395,839)	(24,590)	(420,429)
Unrealized loss	(3,800,362)	(101,595)	(3,901,957)
Change in value of mineral interests	34,098	-	34,098
Total investment return	10,773,240	809,921	11,583,161
Net assets released from restrictions - satisfaction of time or purpose restrictions	1,082,349	(1,082,349)	-
Total support and revenue	12,802,057	(272,403)	12,529,654
ADMINISTRATIVE AND GENERAL EXPENSES	(27,590)	-	(27,590)
OTHER ACTIVITIES			
Support to Cal Farley's Boys Ranch	(17,396,296)	-	(17,396,296)
Total other activities	(17,396,296)	-	(17,396,296)
CHANGE IN NET ASSETS	(4,621,829)	(272,403)	(4,894,232)
NET ASSETS, beginning of year	321,014,214	22,680,680	343,694,894
NET ASSETS, end of year	\$ 316,392,385	\$ 22,408,277	\$ 338,800,662

Cal Farley's Boys Ranch Foundation

Statements of Activities (continued)

	September 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 555,539	\$ 25	\$ 555,564
Investment return:			
Interest, dividends, and other	9,381,510	950,431	10,331,941
Realized gain	1,512,224	94,680	1,606,904
Unrealized gain (loss)	5,982,802	(4,267)	5,978,535
Change in value of mineral interests	154,386	-	154,386
Total investment return	17,030,922	1,040,844	18,071,766
Net assets released from restrictions - satisfaction of time or purpose restrictions	1,081,274	(1,081,274)	-
Total support and revenue	18,667,735	(40,405)	18,627,330
ADMINISTRATIVE AND GENERAL EXPENSES			
	(4,897)	-	(4,897)
OTHER ACTIVITIES			
Support to Cal Farley's Boys Ranch	(17,442,617)	-	(17,442,617)
Total other activities	(17,442,617)	-	(17,442,617)
CHANGE IN NET ASSETS	1,220,221	(40,405)	1,179,816
NET ASSETS, beginning of year	319,793,993	22,721,085	342,515,078
NET ASSETS, end of year	\$ 321,014,214	\$ 22,680,680	\$ 343,694,894

Cal Farley's Boys Ranch Foundation Statements of Cash Flows

	Years Ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (4,894,232)	\$ 1,179,816
Adjustments to reconcile change in net assets to net cash from used by operating activities:		
Net realized (gain) loss on investments	420,429	(1,606,904)
Net unrealized (gain)loss on investments	3,901,957	(5,978,535)
Investment income - restricted	(936,106)	(950,431)
Donor restricted contributions	(25)	(25)
Unrealized gain of gift annuities	(292,433)	(166,695)
Unrealized gain on mineral interests	(34,098)	(154,386)
Change in:		
Accrued interest and dividend receivable	(3,864)	(912)
Accounts receivable - other	782	(1,065)
Prepaid expenses	(125)	125
Unconditional promises to give	(5,000)	-
Accrued liabilities	(2,803)	14,242
Payables to Cal Farley's Boys Ranch	5,093	(8,964)
Gift annuity liability	(39,608)	(256,775)
Funds invested for Cal Farley's Boys Ranch	942,237	392,640
Net cash used in operating activities	<u>(937,796)</u>	<u>(7,537,869)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	101,784,258	63,222,912
Proceeds from maturities and sales of investments	(102,126,850)	(56,618,841)
Proceeds from gift annuities	295,000	135,000
Net cash (used in) provided by investing activities	<u>(47,592)</u>	<u>6,739,071</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment income - with donor restriction	936,106	950,431
Investment in donor restricted endowment	25	25
Net cash provided by financing activities	<u>936,131</u>	<u>950,456</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(49,257)	151,658
CASH AND CASH EQUIVALENTS, beginning of year	<u>264,627</u>	<u>112,969</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 215,370</u></u>	<u><u>\$ 264,627</u></u>

Cal Farley's Boys Ranch Foundation

Notes to Financial Statements

Note 1 – Organization

Cal Farley's Boys Ranch Foundation (the Foundation) is organized to provide financial support to Cal Farley's Boys Ranch (Cal Farley's) through investment and reinvestment of funds, properties and other donations of value received as contributions and support. 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 aftercare to its alumni through a college scholarship program, vocational attainment assistance, and various case management services. 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 ended September 30, 2018. The Community Engagement Center in Amarillo was closed during the year ended September 30, 2019.

Cal Farley's Campus Support Center is located in Amarillo, Texas, and provides administrative and fund-raising functions to Cal Farley's, as well as to the Foundation. The Foundation's Board of Directors is elected by Cal Farley's.

The accompanying financial statements are those of the Foundation and do not include Cal Farley's. Combined financial statements have been separately issued, combining all of the related entities. See Note 7 for a summary of related party transactions.

Note 2 – Summary of Significant Accounting Policies

Financial Statements Presentation

The Foundation's financial statements are reflected on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 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.

Cal Farley's Boys Ranch Foundation

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Use of Estimates

The preparation of 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 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 Foundation places its temporary cash investments with high credit quality financial institutions.

Investments

Investments are recorded at fair value in accordance with Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (see Note 3) 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 for Cal Farley's Boys Ranch

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.

Income Taxes

The Foundation 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, the Foundation has been classified as an organization that is not a private foundation under the IRC Section 509(a) and, as such, contributions to the Foundation qualify for deduction as charitable contributions. However, income generated from activities unrelated to the Foundation's exempt purpose is subject to tax under IRC Section 511.

The Financial Accounting Standards Board (FASB) provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation'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.

Cal Farley's Boys Ranch Foundation

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

ASU 2016-02 – The FASB issued Accounting Standards Update 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, 2020, and interim periods in fiscal years beginning after December 15, 2021. 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 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 has adopted this new pronouncement as of October 1, 2018.

Revenue Recognition

Contributions – The Foundation 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.

Note 2 – Summary of Significant Accounting Policies (continued)

Gift Annuities

Gift annuities require the Foundation to pay a fixed amount periodically to designated beneficiaries. Under the charitable gift annuity arrangement, the Foundation has recorded the assets at fair value, the present value of the expected future payments is recorded as a liability and the excess of the gift over such liability is recognized as contribution revenue without donor restriction. The Foundation maintains state mandated segregated reserves for its charitable gift annuity program. Reserve requirements vary by state and the Foundation maintains its reserve accounts in accordance with those requirements. The reserve accounts are segregated in separate and distinct custodial accounts, independent from all other funds of the Foundation. They are not available to apply to payments of the debts and obligations of the Foundation or for any purpose other than funding for its charitable gift annuity program.

Note 3 – Fair Value Measurements

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, 2019 and 2018.

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

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.

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 a Hedge Fund, Closed End Fund, Special Opportunity Funds and Private Equity Investments.

The investment expenses are netted against investment income. The investment expenses for the years ended September 30, 2019 and 2018 are approximately \$1,388,000 and \$1,456,000, respectively.

Cal Farley's Boys Ranch Foundation

Notes to Financial Statements

Note 3 – Fair Value Measurements (continued)

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis (no liabilities are reported at fair value) as of September 30, 2019 and 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 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.

The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation 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, 2019 as follows:

	Fair Value Measurements Using:			Total
	Level 1	Level 2	Level 3	
Investments:				
Money market funds and other short-term investments	\$ 3,389,135	\$ -	\$ -	\$ 3,389,135
Mutual funds	251,240,022	-	-	251,240,022
Marketable equity securities	300,416	-	-	300,416
Notes receivable	-	-	-	-
Real estate, mineral interests and other	-	-	2,939,554	2,939,554
Total investments	<u>\$ 254,929,573</u>	<u>\$ -</u>	<u>\$ 2,939,554</u>	257,869,127
Investments measured at net asset value (practical expedient)				<u>89,580,843</u>
Total investments at fair value				<u>\$ 347,449,970</u>

Cal Farley's Boys Ranch Foundation

Notes to Financial Statements

Note 3 – Fair Value Measurements (continued)

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	\$ 3,209,721	\$ -	\$ -	\$ 3,209,721
Mutual funds	275,582,591	-	-	275,582,591
Marketable equity securities	263,703	-	-	263,703
Notes receivable	-	-	2,769	2,769
Real estate, mineral interests and other	-	-	2,905,656	2,905,656
Total investments	\$ 279,056,015	\$ -	\$ 2,908,425	281,964,440
Investments measured at net asset value (practical expedient)				69,431,225
Total investments at fair value				\$ 351,395,665

During the year ended September 30, 2019, there were \$3,269 of sales of Level 3 assets. The tables below present additional information about Level 3 assets measured at fair value on a recurring basis as of September 30, 2018. Both observable and unobservable inputs may be used to determine the fair value of positions that the Foundation 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	\$ 6,361	\$ 2,754,523	\$ 2,760,884
Total net gains realized and unrealized	-	152,706	152,706
Payments/Sales	(3,592)	(1,573)	(5,165)
Ending balance, September 30, 2018	\$ 2,769	\$ 2,905,656	\$ 2,908,425
Total gain for the period included in change in net assets due to change in unrealized gain or losses at September 30, 2018	\$ -	\$ 154,386	\$ 154,386

Cal Farley's Boys Ranch Foundation

Notes to Financial Statements

Note 3 – Fair Value Measurements (continued)

The following summarizes the nature and risk of those investments that are reported at estimated fair value utilizing net asset value as of September 30, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fund of hedge funds -				
Total return (a) (d)	\$ 58,738,972	\$ -	quarterly, annually	60 days
Private equity funds (b)	25,832,892	10,417,461	none	-
Closed end funds -				
Special opportunities (c)	<u>5,008,979</u>	<u>2,541,898</u>	none	-
Total	<u>\$ 89,580,843</u>	<u>\$ 12,959,359</u>		

- a) The strategies of the underlying hedge funds in this category primarily include hedged fixed income arbitrage, event driven, macro, multi-strategy, equity hedged and long/short strategies. Some investments within the fund have partially or fully suspended redemptions. The suspension may be lifted at any time, subject to the discretion of the investment fund. There are no plans to liquidate these funds.
- b) This category is invested in a broad range of private equity funds including, but not limited to, funds of funds that make direct investments in different private equity-related disciplines including, but not limited to, venture capital, buyouts, debt funds and real estate. The fund has a term of fifteen years with up to three one-year extensions. These nonmarketable funds do not permit redemptions prior to the termination of the fund, except with the manager's consent. Due to the illiquid nature of the funds' investments, the valuation reported to the investor will be based on the most recent valuations reported to the fund. There are no plans to liquidate these funds.
- c) This closed-end portfolio of funds has a structure similar to a traditional private equity fund. It is anticipated that a significant amount, and possibly all, of the portfolio's investments will consist of securities for which there is no public market and/or that are subject to restrictions on sale. Each closed-end portfolio will have a term of seven years with, in the discretion of the Board of Directors, up to two one-year extensions for orderly liquidation of its investments. Investments in the portfolio and reported to the investor will be valued based on the most recent valuations reported to the fund. There are no plans to liquidate these funds.
- d) Certain investments in these funds had lock-up provision changes in February 2011 whereby the lock-up period in an investment in the Fund is limited to a one-year lockup. After the lock-up period, some or all shares are available to be redeemed as of the last business day of any calendar quarter. The lock-up provision applies separately to each subscription for purchases of shares. There are no plans to liquidate these funds.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the estimated fair value of investments reported in the statement of financial position as of September 30, 2019. However, the diversification of the Foundation's invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class.

Cal Farley's Boys Ranch Foundation Notes to Financial Statements

Note 3 – Fair Value Measurements (continued)

The Foundation's policy is to recognize transfers between Levels 1, 2, and 3 and transfers due to strategy reclassifications, if any, as if the transfer occurred at the beginning of the period. For the years ended September 30, 2019 and September 30, 2018, there were no transfers.

The following schedule summarizes investments classified according to any restrictions at September 30:

	2019	2018
Investments without donor restrictions	\$ 325,041,693	\$ 328,714,985
Investments with donor restrictions	22,408,277	22,680,680
Total investments	\$ 347,449,970	\$ 351,395,665

Note 4 – Gift Annuities

During the years ended September 30, 2019 and 2018, the Foundation recognized charitable gift annuity contributions and income in the amount of \$295,000 and \$135,000 respectively, and recognized the change in the amount of \$292,432 and \$167,000, respectively, which were reported in the statement of activities. As of September 30, 2019 and 2018, approximately \$3,016,000 and \$2,930,000, respectively, of charitable gift annuity assets are included in investments without donor restrictions on the statements of financial position. These amounts are held in segregated reserves. Liabilities associated with these gift annuities were approximately \$2,147,000 and \$2,184,000 at September 30, 2019 and 2018, respectively.

Note 5 – Net Assets

Net assets consist of the following as of September 30:

	2019	2018
Net Assets Without Donor Restrictions		
Undesignated	\$ 313,375,989	\$ 318,084,257
Designated - gift annuity reserves	3,016,396	2,929,957
Total Net Assets Without Donor Restrictions	316,392,385	321,014,214
Net Assets With Donor Restrictions		
Subject to the passage of time:		
Remainder Interests in Property and Investments	930,780	970,780
	930,780	970,780
Subject to Cal Farley's spending policy and appropriation:		
Endowment funds restricted in perpetuity	18,463,950	18,463,925
Endowment funds accumulated gains	3,013,547	3,245,975
	21,477,497	21,709,900
Total Net Assets With Donor Restrictions	22,408,277	22,680,680
	\$ 338,800,662	\$ 343,694,894

Cal Farley's Boys Ranch Foundation

Notes to Financial Statements

Note 6 – Endowments

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 Subtopic 958-205, *Not-for-Profit: Financial Statement*, (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 requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The Foundation'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 the Foundation, the guidance in ASC 958-205, and absent explicit donor stipulations to the contrary, the Foundation 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 the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation 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 the Foundation 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 the Foundation
- 7) The investment policies of the Foundation

Net asset classification by type of endowment as of September 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Restricted in perpetuity	\$ -	\$ 18,463,950	\$ 18,463,950
Restricted by purpose or time	-	3,013,547	3,013,547
	<u>\$ -</u>	<u>\$ 21,477,497</u>	<u>\$ 21,477,497</u>

Cal Farley's Boys Ranch Foundation
Notes to Financial Statements

Note 6 – Endowments (continued)

Changes in endowment net assets for the year ended September 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2018	\$ -	\$ 21,709,900	\$ 21,709,900
Investment return	-	936,106	936,106
Net appreciation (realized and unrealized)	-	(126,185)	(126,185)
Total investment return	-	809,921	809,921
Contributions	-	25	25
Appropriation of endowment assets for expenditure	-	(1,042,349)	(1,042,349)
Endowment net assets, September 30, 2019	<u>\$ -</u>	<u>\$ 21,477,497</u>	<u>\$ 21,477,497</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Restricted in perpetuity	\$ -	\$ 18,463,925	\$ 18,463,925
Restricted by purpose or time	-	3,245,975	3,245,975
	<u>\$ -</u>	<u>\$ 21,709,900</u>	<u>\$ 21,709,900</u>

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	\$ -	\$ 21,750,299	\$ 21,750,299
Investment return	-	950,431	950,431
Net appreciation (realized and unrealized)	-	90,419	90,419
Total investment return	-	1,040,850	1,040,850
Contributions	-	25	25
Appropriation of endowment assets for expenditure	-	(1,081,274)	(1,081,274)
Endowment net assets, September 30, 2018	<u>\$ -</u>	<u>\$ 21,709,900</u>	<u>\$ 21,709,900</u>

Cal Farley's Boys Ranch Foundation

Notes to Financial Statements

Note 6 – Endowments (continued)

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 net assets with donor restrictions. There were no deficiencies as of September 30, 2019 and September 30, 2018.

Return Objectives and Risk Parameters

The Foundation 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. The Foundation currently expects its endowment funds, over time, to provide 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, the Foundation 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). The Foundation 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.

Spending Policy and how the Investment Objectives Relate to Spending Policy

The Foundation 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 fiscal years. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Note 7 – Related Party Transactions

Accounts payable to Cal Farley's as of September 30, 2019 and 2018 were \$5,093 and \$0, respectively. During the years ended September 30, 2019 and 2018, the Foundation transferred \$17,396,296 and \$17,442,617, respectively, to Cal Farley's. 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, 2019 and 2018, \$6,689,629 and \$5,747,392 was outstanding and available for approved use.

Note 8 – Guarantees

Cal Farley's, a related party, has a line of credit agreement with a local bank maturing June 1, 2020, consisting of one promissory note, with the ability to borrow up to \$6,000,000. Amounts outstanding under the line of credit agreement total \$0 as of September 30, 2019 and September 30, 2018. The line of credit agreement is collateralized by investments held by Cal Farley's and is guaranteed by the Foundation.

Cal Farley's Boys Ranch Foundation Notes to Financial Statements

Note 9 – Liquidity and Funds Available

The following table reflects the Foundation's financial assets as of September 30, 2019 and 2018, 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, endowments and accumulated earnings net of appropriations within one year, or funds held for others.

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 215,370	\$ 264,627
Accrued interest and dividend receivable	16,621	12,757
Accounts receivable - other	283	1,065
Gifts receivable	5,000	-
Investments without donor restrictions	325,041,693	328,714,985
Investments with donor restrictions	22,408,277	22,680,680
Total financial assets	347,687,244	351,674,114
Less those unavailable for general expenditure within one year, due to:		
Endowments and accumulated earnings subject to appropriation beyond one year	(3,013,547)	(21,709,900)
Board designated reserves -held for Cal Farley's Boys Ranch	(6,689,629)	(5,747,392)
Investments held in trusts and various state required gift annuity reserves	(3,017,974)	(2,895,782)
Investments with donor restrictions not expected to be used within one year	(930,780)	(970,780)
Mineral Interests - not available for sale	(1,176,917)	(1,142,819)
Private equity, hedge, and closed end funds - illiquid	(89,580,843)	(69,431,225)
Financial assets available to meet cash needs for general expenditures within one year	\$ 243,277,554	\$ 249,776,216

The Foundation supports Cal Farley's Boys Ranch as approved by the board.

Note 10 – Subsequent Events

Subsequent events are events or transactions that occur after the statements of financial position date but before the financial statements are issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

The Foundation has evaluated subsequent events through February 26, 2020, which is the date that the financial statements were available to be issued.