



Report of Independent Auditors
and Combined Financial Statements

**Cal Farley's Boys Ranch and Subsidiary
and Cal Farley's Boys Ranch Foundation**

September 30, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Cal Farley's Boys Ranch and Subsidiary and
Cal Farley's Boys Ranch Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the combined financial statements of Cal Farley's Boys Ranch and Subsidiary, and Cal Farley's Boys Ranch Foundation, which comprise the combined statements of financial position as of September 30, 2022 and 2021, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of Cal Farley's Boys Ranch and Subsidiary, and Cal Farley's Boys Ranch Foundation as of September 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cal Farley's Boys Ranch and Subsidiary, and Cal Farley's Boys Ranch Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cal Farley's Boys Ranch and Subsidiary, and Cal Farley's Boys Ranch Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cal Farley's Boys Ranch and Subsidiary, and Cal Farley's Boys Ranch Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cal Farley's Boys Ranch and Subsidiary, and Cal Farley's Boys Ranch Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Albuquerque, New Mexico
March 7, 2023

Combined Financial Statements

**Cal Farley's Boys Ranch and Subsidiary
and Cal Farley's Boys Ranch Foundation
Combined Statements of Financial Position
September 30, 2022 and 2021**

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,192,754	\$ 5,611,912
Accrued interest receivable	177,499	132,171
Other receivables	758,506	294,613
Unconditional promises to give	17,263,898	23,163,090
Prepaid expenses	1,547,582	1,211,674
Inventories	765,648	769,675
Investments without donor restrictions	345,885,308	409,717,869
Investments with donor restrictions	49,833,153	49,718,940
Beneficial interest in perpetual trusts	34,465,492	40,759,812
Property and equipment, net	23,157,641	25,893,409
	\$ 480,047,481	\$ 557,273,165
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,065,625	\$ 1,182,014
Accrued liabilities	1,683,228	1,939,618
Gift annuity liability	1,756,629	1,850,668
	4,505,482	4,972,300
NET ASSETS		
Without donor restrictions	374,486,859	438,665,575
With donor restrictions	101,055,140	113,635,290
	475,541,999	552,300,865
TOTAL LIABILITIES AND NET ASSETS	\$ 480,047,481	\$ 557,273,165

See accompanying notes.

**Cal Farley's Boys Ranch and Subsidiary
and Cal Farley's Boys Ranch Foundation
Combined Statement of Activities
Year Ended September 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 25,632,668	\$ 1,694,517	\$ 27,327,185
Contributions of investments	159,330	-	159,330
Contributions of food and clothing	43,172	-	43,172
Contributions of equipment, animals, and other	103,642	-	103,642
Change in value of unconditional promises to give	-	(6,126,124)	(6,126,124)
Change in value of beneficial interest in perpetual trusts	-	(6,294,319)	(6,294,319)
Investment return			
Interest, dividends, and other, net	38,051,600	1,856,192	39,907,792
Realized loss	(1,879,168)	360,375	(1,518,793)
Unrealized loss	(97,022,330)	(1,244,791)	(98,267,121)
Change in value of mineral interests	9,722,901	-	9,722,901
Total investment return	<u>(51,126,997)</u>	<u>971,776</u>	<u>(50,155,221)</u>
Other support income	96,477	-	96,477
Change in donor restriction	-	-	-
Net assets released from restrictions - satisfaction of time or purpose restrictions	<u>2,826,000</u>	<u>(2,826,000)</u>	<u>-</u>
Total support and revenue	<u>(22,265,708)</u>	<u>(12,580,150)</u>	<u>(34,845,858)</u>
EXPENSES			
Program services			
Boys Ranch operations	28,873,966	-	28,873,966
Program support and alumni services	<u>1,972,262</u>	<u>-</u>	<u>1,972,262</u>
Total program services	<u>30,846,228</u>	<u>-</u>	<u>30,846,228</u>
Support services			
Fund-raising activities	6,546,018	-	6,546,018
Administrative and general	<u>4,520,762</u>	<u>-</u>	<u>4,520,762</u>
Total support services	<u>11,066,780</u>	<u>-</u>	<u>11,066,780</u>
Total expenses	<u>41,913,008</u>	<u>-</u>	<u>41,913,008</u>
CHANGE IN NET ASSETS	(64,178,716)	(12,580,150)	(76,758,866)
NET ASSETS, beginning of year	<u>438,665,575</u>	<u>113,635,290</u>	<u>552,300,865</u>
NET ASSETS, end of year	<u>\$ 374,486,859</u>	<u>\$ 101,055,140</u>	<u>\$ 475,541,999</u>

See accompanying notes.

**Cal Farley's Boys Ranch and Subsidiary
and Cal Farley's Boys Ranch Foundation
Combined Statement of Activities
Year Ended September 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 20,251,187	\$ 1,623,544	\$ 21,874,731
Contributions of investments	390,733	-	390,733
Contributions of equipment, animals, and other	14,003	-	14,003
Change in value of unconditional promises to give	-	2,856,741	2,856,741
Change in value of beneficial interest in perpetual trusts	-	4,726,601	4,726,601
Investment return			
Interest, dividends, and other, net	11,668,274	1,259,988	12,928,262
Realized loss	11,100,584	329,450	11,430,034
Unrealized loss	55,356,601	1,868,472	57,225,073
Change in value of mineral interests	1,739,278	-	1,739,278
Total investment return	<u>79,864,737</u>	<u>3,457,910</u>	<u>83,322,647</u>
Other support income	68,283	-	68,283
Change in donor restriction	(200,000)	200,000	-
Net assets released from restrictions - satisfaction of time or purpose restrictions	<u>2,672,269</u>	<u>(2,672,269)</u>	<u>-</u>
Total support and revenue	<u>103,061,212</u>	<u>10,192,527</u>	<u>113,253,739</u>
EXPENSES			
Program services			
Boys Ranch operations	25,631,941	-	25,631,941
Program support and alumni services	1,721,949	-	1,721,949
Total program services	<u>27,353,890</u>	<u>-</u>	<u>27,353,890</u>
Support services			
Fund-raising activities	10,055,200	-	10,055,200
Administrative and general	4,017,544	-	4,017,544
Total support services	<u>14,072,744</u>	<u>-</u>	<u>14,072,744</u>
Total expenses	<u>41,426,634</u>	<u>-</u>	<u>41,426,634</u>
OTHER ACTIVITIES			
Loss on settlement	(2,500,000)	-	(2,500,000)
Gain on extinguishment of debt	3,767,303	-	3,767,303
CHANGE IN NET ASSETS	62,901,881	10,192,527	73,094,408
NET ASSETS, beginning of year	<u>375,763,694</u>	<u>103,442,763</u>	<u>479,206,457</u>
NET ASSETS, end of year	<u>\$ 438,665,575</u>	<u>\$ 113,635,290</u>	<u>\$ 552,300,865</u>

See accompanying notes.

**Cal Farley's Boys Ranch and Subsidiary
and Cal Farley's Boys Ranch Foundation
Combined Statements of Cash Flows
Years Ended September 30, 2022 and 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (76,758,866)	\$ 73,094,408
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	3,235,398	3,442,408
Net gain on disposal of property and equipment	(17,716)	(46,338)
Net realized loss (gain) on investments	1,547,010	(11,381,367)
Net unrealized loss (gain) on investments	98,267,121	(57,225,073)
Noncash donation of investments	(159,330)	(390,733)
Noncash donation of property and equipment	(60,390)	(14,003)
Forgiveness of Paycheck Protection Program loan and interest	-	(3,767,303)
Restricted contributions	(1,694,517)	(1,623,544)
Investment income restricted for investment	(1,856,192)	(1,259,988)
Unrealized gain on mineral interests	(9,722,901)	(1,739,278)
Unrealized loss (gain) on unconditional promises to give	6,392,464	(2,816,344)
Unrealized loss (gain) on beneficial interest in perpetual trust	6,294,319	(4,726,601)
Unrealized gain of gift annuities	(169,121)	(248,499)
Change in		
Accrued interest receivable	(45,328)	15,016
Other receivables	(463,893)	166,081
Unconditional promises to give	(493,272)	388,654
Prepaid expenses	(335,908)	(80,697)
Inventories	4,027	234,912
Accounts payable	(125,309)	956,777
Accrued liabilities	(247,470)	(1,001,959)
Gift annuity liability recognized as income upon death of donor	(69,918)	(27,200)
Net cash provided by (used) in operating activities	23,520,208	(8,050,671)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(204,065,985)	(157,030,491)
Proceeds from maturities and sales of investments	177,852,434	162,648,053
Acquisitions of property and equipment	(505,660)	(1,288,845)
Proceeds from sale of property and equipment	84,136	47,530
Proceeds from gift annuities	145,000	60,320
Net cash (used in) provided by investing activities	(26,490,075)	4,436,567

See accompanying notes.

**Cal Farley's Boys Ranch and Subsidiary
and Cal Farley's Boys Ranch Foundation
Combined Statements of Cash Flows
Years Ended September 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted primarily for property and equipment or scholarships	724,987	161,568
Proceeds from contributions with donor restriction for investment in permanent endowment	969,530	1,461,976
Investment income with donor restriction for investment	<u>1,856,192</u>	<u>1,259,988</u>
Net cash provided by financing activities	<u>3,550,709</u>	<u>2,883,532</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	580,842	(730,572)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,611,912</u>	<u>6,342,484</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,192,754</u>	<u>\$ 5,611,912</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CASH FLOW INFORMATION		
Forgiveness of Paycheck Protection Program Loan and Interest	<u>\$ -</u>	<u>\$ 3,767,303</u>

See accompanying notes.

**Cal Farley's Boys Ranch and Subsidiary
and Cal Farley's Boys Ranch Foundation
Combined Statement of Functional Expenses
Year Ended September 30, 2022**

	Program Services			Support Services			Total Expenses
	Boys Ranch Operations	Program & Alumni Support	Total	Fund-Raising Activities	Administrative and General	Total	
Salaries	\$ 9,672,186	\$ 1,164,420	\$ 10,836,606	\$ 1,028,355	\$ 1,767,479	\$ 2,795,834	\$ 13,632,440
Payroll taxes	751,366	86,616	837,982	79,672	134,580	214,252	1,052,234
Employee benefits	1,865,732	178,344	2,044,076	160,468	279,822	440,290	2,484,366
Employment expenses	12,289,284	1,429,380	13,718,664	1,268,495	2,181,881	3,450,376	17,169,040
Agriculture	68,716	-	68,716	-	-	-	68,716
Chapel	14,546	-	14,546	-	-	-	14,546
Client Services	-	61,049	61,049	-	-	-	61,049
Community as Lab	58,676	-	58,676	-	-	-	58,676
Cosmetology	8,596	-	8,596	-	-	-	8,596
Country Store	30,339	-	30,339	-	-	-	30,339
Day Care Income	(106,068)	-	(106,068)	-	-	-	(106,068)
Dining Hall & Food	593,849	-	593,849	-	-	-	593,849
Donor Gifts & Promotional	29	-	29	39,680	-	39,680	39,709
Dues & Subscriptions	44,359	2,509	46,868	13,948	9,746	23,694	70,562
Fees, Interest, Penalties	1,168	-	1,168	-	6,700	6,700	7,868
Fuel and Oil	258,276	-	258,276	-	22,113	22,113	280,389
Fundraising Event	17,296	-	17,296	59,793	-	59,793	77,089
Gift Processing	-	-	-	47,499	-	47,499	47,499
Grocery Store	52,384	-	52,384	-	-	-	52,384
Home Life	742,331	-	742,331	-	-	-	742,331
Horticulture	34,681	-	34,681	-	-	-	34,681
HR Program Support	30,046	-	30,046	-	65,794	65,794	95,840
Insurance	1,385,157	-	1,385,157	-	177,975	177,975	1,563,132
Lease and Rent Expense	165,463	-	165,463	-	43,913	43,913	209,376
Legal Expense	-	-	-	-	321,684	321,684	321,684
Mailing List	163,917	-	163,917	28,007	9,268	37,275	201,192
Marketing & Advertising	222	1,608	1,830	-	33,076	33,076	34,906
Medical	1,003,483	-	1,003,483	-	14,916	14,916	1,018,399
Other Expenses	11,289	-	11,289	-	1,428	1,428	12,717
Postage	1,094,394	1,474	1,095,868	1,606,793	89,482	1,696,275	2,792,143
Printed Material	2,690,336	-	2,690,336	3,035,341	196,212	3,231,553	5,921,889
Professional Development	16,187	7,746	23,933	12,485	5,518	18,003	41,936
Professional/Contract Services	215,732	-	215,732	170,621	588,365	758,986	974,718
Program Support	13,756	-	13,756	-	-	-	13,756
Repairs and Maintenance-Building	495,876	14,170	510,046	-	15,101	15,101	525,147
Repairs and Maintenance-Equipment	91,461	-	91,461	48,569	10,796	59,365	150,826
Repairs and Maintenance-Other	79,212	-	79,212	-	55,792	55,792	135,004
Repairs and Maintenance-Software	10,506	-	10,506	165,484	166,468	331,952	342,458
Repairs and Maintenance-Vehicles	80,187	11,218	91,405	-	7,002	7,002	98,407
Roughrider Grill	12,414	-	12,414	-	-	-	12,414
Safety and Security	76,433	-	76,433	-	4,201	4,201	80,634
Scholarship Program	-	392,108	392,108	-	-	-	392,108
School	2,500,000	-	2,500,000	-	-	-	2,500,000
Small Tools and Equipment	255,608	1,544	257,152	21,674	51,911	73,585	330,737
Souvenir Shop	(10,560)	-	(10,560)	-	-	-	(10,560)
Supplies	201,859	3,249	205,108	4,222	19,695	23,917	229,025
Training	2,486	2,111	4,597	-	-	-	4,597
Travel	59,775	1,984	61,759	23,407	5,009	28,416	90,175
Utilities	812,592	42,112	854,704	-	208,722	208,722	1,063,426
Youth Activities	55,929	-	55,929	-	-	-	55,929
Youth Allowances	224,340	-	224,340	-	-	-	224,340
Other operating expenses	25,846,562	1,972,262	27,818,824	6,546,018	4,312,768	10,858,786	38,677,610
Depreciation	3,027,404	-	3,027,404	-	207,994	207,994	3,235,398
Total functional expenses	\$ 28,873,966	\$ 1,972,262	\$ 30,846,228	\$ 6,546,018	\$ 4,520,762	\$ 11,066,780	\$ 41,913,008

See accompanying notes.

**Cal Farley's Boys Ranch and Subsidiary
and Cal Farley's Boys Ranch Foundation
Combined Statement of Functional Expenses
Year Ended September 30, 2021**

	Program Services			Support Services			Total Expenses
	Boys Ranch	Program & Alumni	Total	Fund-Raising	Administrative and	Total	
	Operations	Support		Activities	General		
Salaries	\$ 10,433,920	\$ 1,073,458	\$ 11,507,378	\$ 670,440	\$ 1,923,290	\$ 2,593,730	\$ 14,101,108
Payroll taxes	823,828	78,869	902,697	50,711	135,374	186,085	1,088,782
Employee benefits	2,036,533	150,739	2,187,272	95,643	11,829	107,472	2,294,744
Employment expenses	13,294,281	1,303,066	14,597,347	816,794	2,070,493	2,887,287	17,484,634
Agriculture	172,981	-	172,981	-	-	-	172,981
Chapel	15,181	-	15,181	-	-	-	15,181
Client Services	-	46,956	46,956	-	-	-	46,956
Community as Lab	38,961	-	38,961	-	-	-	38,961
Cosmetology	2,254	-	2,254	-	-	-	2,254
Country Store	157,257	-	157,257	-	-	-	157,257
Day Care Income	(119,085)	-	(119,085)	-	-	-	(119,085)
Dining Hall & Food	470,928	-	470,928	-	-	-	470,928
Donor Gifts & Promotional	-	-	-	6,800	-	6,800	6,800
Dues & Subscriptions	43,616	3,013	46,629	8,046	12,087	20,133	66,762
Fees, Interest, Penalties	1,136	-	1,136	-	7,810	7,810	8,946
Fuel and Oil	175,519	-	175,519	-	17,994	17,994	193,512
Fundraising Event	14,636	-	14,636	10,123	-	10,123	24,759
Gift Processing	-	-	-	211,189	-	211,189	211,189
Grocery Store	21,025	-	21,025	-	-	-	21,025
Home Life	750,233	-	750,233	-	-	-	750,233
Horticulture	33,524	-	33,524	-	-	-	33,524
HR Program Support	15,469	-	15,469	-	62,080	62,080	77,549
Insurance	1,214,334	-	1,214,334	-	203,388	203,388	1,417,722
Lease and Rent Expense	156,302	-	156,302	-	45,167	45,167	201,470
Legal Expense	-	-	-	-	223,798	223,798	223,798
Mailing List	-	-	-	252,424	-	252,424	252,424
Marketing & Advertising	148	829	977	-	148,807	148,807	149,784
Medical	1,082,438	-	1,082,438	-	907	907	1,083,345
Other Expenses	985	900	1,885	-	1,514	1,514	3,399
Postage	(10,228)	1,198	(9,030)	2,661,100	3,486	2,664,586	2,655,555
Printed Material	-	-	-	5,603,267	-	5,603,267	5,603,267
Professional Development	27,689	9,243	36,932	2,977	5,585	8,562	45,494
Professional/Contract Services	219,992	-	219,992	265,932	508,657	774,589	994,581
Program Support	44,822	-	44,822	-	-	-	44,822
Repairs and Maintenance-Building	352,472	10,313	362,785	-	19,497	19,497	382,283
Repairs and Maintenance-Equipment	86,986	-	86,986	22,904	5,406	28,310	115,295
Repairs and Maintenance-Other	60,109	-	60,109	-	55,446	55,446	115,555
Repairs and Maintenance-Software	2,843	-	2,843	169,421	167,022	336,443	339,286
Repairs and Maintenance-Vehicles	100,272	15,398	115,670	-	7,275	7,275	122,945
Roughrider Grill	13,280	-	13,280	-	-	-	13,280
Safety and Security	104,105	-	104,105	-	2,401	2,401	106,505
Scholarship Program	-	294,141	294,141	-	-	-	294,141
School	2,500,000	-	2,500,000	-	-	-	2,500,000
Small Tools and Equipment	199,614	1,889	201,504	9,383	18,057	27,440	228,944
Souvenir Shop	(18,470)	-	(18,470)	(39)	-	(39)	(18,509)
Supplies	175,629	2,435	178,064	2,404	15,566	17,970	196,034
Training	1,192	(1,748)	(556)	-	-	-	(556)
Travel	39,467	930	40,397	12,475	4,248	16,723	57,120
Utilities	653,019	33,386	686,405	-	198,249	198,249	884,654
Youth Activities	56,991	-	56,991	-	-	-	56,991
Youth Allowances	250,232	-	250,232	-	-	-	250,232
Other operating expenses	22,402,136	1,721,949	24,124,085	10,055,200	3,804,941	13,860,141	37,984,226
Depreciation	3,229,805	-	3,229,805	-	212,603	212,603	3,442,408
Total functional expenses	\$ 25,631,941	\$ 1,721,949	\$ 27,353,890	\$ 10,055,200	\$ 4,017,544	\$ 14,072,744	\$ 41,426,634

See accompanying notes.

Cal Farley's Boys Ranch and Subsidiary and Cal Farley's Boys Ranch Foundation

Notes to Combined 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 include aftercare to its alumni through a college scholarship program, vocational attainment assistance, and various case management services.

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

Cal Farley's Boys Ranch Foundation (the Foundation) is organized to provide financial support to Cal Farley's through investment and reinvestments of funds, properties, and other donations of value received as contributions and support. The Board of Directors of the Foundation is elected by the Board of Directors of Cal Farley's.

Cal Farley's Campus Support Center is located in Amarillo, Texas, and provides administrative and fundraising functions to Cal Farley's and the Foundation.

Note 2 – Summary of Significant Accounting Policies

Financial statements presentation – The combined financial statements include the accounts and transactions of Cal Farley, Tascosa, and the Foundation (collectively, the Organization). Cal Farley's has majority voting and economic interest in the Foundation, and, therefore, the financial statements have been combined. The Organization's combined 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 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 (UPMIFA).

Cal Farley's Boys Ranch and Subsidiary and Cal Farley's Boys Ranch Foundation

Notes to Combined Financial Statements

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 the combined 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 combined 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. The Organization maintains a Repurchase Agreement with a local bank and all excess funds are “swept” each night and redeposited the next day. Per the Repurchase Agreement, the “swept” amounts are not considered deposits of the bank; however, they are collateralized with pledged securities.

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

The Organization writes off receivables when they become uncollectible. However, the Organization has had minimal losses on accounts receivable in prior years, and, therefore, no allowance was deemed necessary as of September 30, 2022 and 2021.

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

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

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

Investments – Investments are recorded at fair value in accordance with Accounting Standards Codification (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 restriction and without donor restriction based upon donor imposed restrictions or applicable law.

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

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

Impairment of long-lived assets – Cal Farley's reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. As of September 30, 2022 and 2021, there was no impairment of long-lived assets.

Income taxes – The Organization 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 Organization has been classified as an organization that is not a private foundation under the IRC Section 509(a) and, as such, contributions to the Organization qualify for deduction as charitable contributions. However, income generated from activities unrelated to the Organization'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 financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization'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 – The Organization 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.

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

Gift annuities – Gift annuities require the Foundation to pay a fixed amount periodically to designated beneficiaries. Under the charitable gift 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.

Loss on settlement – During 2021, a settlement agreement was entered into by Cal Farley's. The settlement agreement required a total payment of \$2,500,000, and Cal Farley's met its obligations under the settlement agreement. This amount is classified as other activities on the consolidated statement of activities.

Recent accounting pronouncements – FASB Accounting Standards Update (ASU) 2016-02 and 2020-05 – *Leases*: Changes the way lessees will recognize leases as they will recognize most leases on the 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, 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 combined financial statements upon adoption.

FASB ASU 2020-07 – *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*: Requires the presentation of contributed nonfinancial assets, also known as gifts-in-kind, as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Management has adopted this accounting standard in current year as reflected in the statement of activities and the notes to the financial statements. Management has adopted this standard as reflected in the combined statement of activities and notes to the combined financial statements. There was no adjustment to the change in net assets from the implementation of the standard.

Reclassifications – Certain 2021 amounts have been reclassified to conform with 2022 presentation.

**Cal Farley's Boys Ranch and Subsidiary
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Note 3 – Unconditional Promises to Give

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

	2022	2021
Less than one year	\$ 507,404	\$ -
One to five years	5,586,069	6,079,447
More than five years	11,170,425	17,083,643
Total	\$ 17,263,898	\$ 23,163,090

As of September 30, 2022 and 2021, amounts presented above for split interest agreements were recorded at fair value using the Organization's 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 3.6% and 1.0%, the IRS discount rate at September 30, 2022 and 2021. Cal Farley's has determined all amounts to be collectible.

Note 4 – 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, 2022 and 2021.

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

Government securities, taxable municipal securities, and corporate bonds and notes 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.

Notes receivables are valued based off the promissory note established between the payor and Cal Farley's.

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

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 12 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.

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, hedge fund, closed end fund, and private equity investments.

The investment expenses are netted against investment income. Investment expenses for the years ended September 30, 2022 and 2021, are approximately \$1,736,000 and \$1,625,000, respectively.

The following table presents information about the Organization's assets that are measured at fair value on a recurring basis (no liabilities are reported at fair value) as of September 30, 2022 and 2021, 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 Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization 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.

**Cal Farley's Boys Ranch and Subsidiary
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Assets measured at fair value on a recurring basis at September 30, 2022, as follows:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds and other short-term investments	\$ 9,945,747	\$ -	\$ -	\$ 9,945,747
U.S. Government securities	5,207,857	8,232,052	-	13,439,909
Taxable municipal securities	-	571,110	-	571,110
Marketable equity securities	409,373	-	-	409,373
Mutual funds	224,437,616	-	-	224,437,616
Corporate bonds and notes	-	6,276,958	-	6,276,958
Cash value life insurance policy	-	1,628,636	-	1,628,636
Notes receivable	-	-	21,575	21,575
Real estate, mineral interests, and other	-	-	21,937,006	21,937,006
Total assets in the fair value hierarchy	<u>\$ 240,000,593</u>	<u>\$ 16,708,756</u>	<u>\$ 21,958,581</u>	278,667,930
Investments measured at net asset value (practical expedient)				<u>151,516,023</u>
Investments at fair value				<u>\$ 430,183,953</u>

Assets measured at fair value on a recurring basis at September 30, 2021, as follows:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds and other short-term investments	\$ 8,681,664	\$ -	\$ -	\$ 8,681,664
U.S. Government securities	4,965,771	10,756,339	-	15,722,110
Taxable municipal securities	-	662,712	-	662,712
Marketable equity securities	622,065	-	-	622,065
Mutual funds	276,402,005	-	-	276,402,005
Corporate bonds and notes	-	7,672,970	-	7,672,970
Cash value life insurance policy	-	1,594,085	-	1,594,085
Notes receivable	-	-	28,213	28,213
Real estate, mineral interests, and other	-	-	11,517,886	11,517,886
Total assets in the fair value hierarchy	<u>\$ 290,671,505</u>	<u>\$ 20,686,106</u>	<u>\$ 11,546,099</u>	322,903,710
Investments measured at net asset value (practical expedient)				<u>177,292,911</u>
Investments at fair value				<u>\$ 500,196,621</u>

For Level 3 assets measured at fair value on a recurring basis as of September 30, 2022 and 2021, purchases were \$850,000 and \$860,050 and payments/sales were \$1,704,388 and \$49,646, respectively.

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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, 2022:

	<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)	\$ 65,548,033	\$ 8,136,544	quarterly, annually	60 days
Private equity funds (b)	48,826,727	54,038,099	none	-
Closed end funds -				
Special opportunities (c)	2,675,771	1,702,915	none	-
Beneficial interest in perpetual trusts	<u>34,465,492</u>	<u>-</u>	none	-
Total	<u>\$ 151,516,023</u>	<u>\$ 63,877,558</u>		

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, 2021:

	<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)	\$ 82,452,079	\$ 11,966,734	quarterly, annually	60 days
Private equity funds (b)	50,186,649	35,851,137	none	-
Closed end funds -				
Special opportunities (c)	3,894,371	1,702,915	none	-
Beneficial interest in perpetual trusts	<u>40,759,812</u>	<u>-</u>	none	-
Total	<u>\$ 177,292,911</u>	<u>\$ 49,520,786</u>		

- 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.
- 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 15 years with up to three one-year extensions. These non-marketable 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.

**Cal Farley's Boys Ranch and Subsidiary
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- 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.
- Certain investments in this category have gate provisions, which allow a manager to limit redemptions despite the normal liquidity provisions, if the manager receives redemptions in excess of the gate (a level stated in their governing documents). The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

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, 2022. However, the diversification of the Organization's invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class.

The Organization'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, 2022 and 2021, there were no transfers.

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

	<u>2022</u>	<u>2021</u>
Investments without donor restrictions	\$ 345,885,308	\$ 409,717,869
Investments with donor restrictions	<u>49,833,153</u>	<u>49,718,940</u>
Total investments	<u>\$ 395,718,461</u>	<u>\$ 459,436,809</u>

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. Subsequent changes in fair value of the beneficial interest are recorded as change in value of beneficial interest in perpetual trusts in net assets with donor restrictions. Change in the value of the perpetual trust was approximately \$(6,294,319) and \$4,726,601 for the years ended September 30, 2022 and 2021, respectively.

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Note 6 – Gift Annuities

During the years ended September 30, 2022 and 2021, the Foundation recognized charitable gift annuity contributions and income in the amount of \$145,000 and \$60,320, and recognized the change in value of charitable gift annuities in the amount of \$169,121 and \$248,499, which are reported in the statements of activities. As of September 30, 2022 and 2021, approximately \$2,509,000 and \$2,511,000, 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 was approximately \$1,757,000 and \$1,851,000 at September 30, 2022 and 2021, respectively.

Note 7 – Property and Equipment

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

	2022	2021
Land	\$ 4,447,841	\$ 4,447,841
Buildings	69,572,733	69,436,372
Furniture and fixtures	6,342,167	6,169,347
Roads and grounds	5,342,759	5,342,759
Utility lines and equipment	3,964,561	3,964,561
Land improvements	601,641	601,641
Sewage complex	3,518,401	3,518,401
Transportation and hauling	5,520,470	5,896,347
Farm and ranch machinery	1,966,948	1,781,277
Construction in progress	31,858	66,847
	101,309,379	101,225,393
Less accumulated depreciation	(78,151,738)	(75,331,984)
Total property and equipment, net	\$ 23,157,641	\$ 25,893,409

Depreciation expense for the years ended September 30, 2022 and 2021, was \$3,235,398 and \$3,442,408, respectively.

Note 8 – Leases

The Organization leases certain facilities and equipment under certain noncancelable 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, 2022 and 2021, the lease expense was \$209,376 and \$201,470, respectively.

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

<u>Years Ending September 30,</u>	<u>Future Minimum Lease Rentals</u>
2023	\$ 189,547
2024	151,298
2025	95,216
2026	41,677
2027	<u>18,685</u>
Total minimum future lease payments	<u>\$ 496,423</u>

Note 9 – Gifts In-Kind

Gifts in-kind are recorded at fair market value on the date of donation as an increase in contributions and a corresponding increase in either operating expenses or property and equipment, net, in the accompanying statements of activities and financial position. The contributions are recorded as without donor restriction unless explicit donor stipulations specify how the donated assets must be used.

The Organization's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Organization. If an asset is provided that does not allow the Organization to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

The Organization received investments that were converted to cash of \$159,330 and \$390,733 for September 30, 2022 and 2021, respectively. The Organization also received \$43,172 and \$0 of donated clothing and food that was used for our youth. \$103,642 and \$14,003 of other items such as animals, vehicles, equipment, gift cards, and supplies for rodeo were also received as of September 30, 2022 and 2021.

Note 10 – Notes Payable

On April 14, 2020, Cal Farley's executed a promissory note with First United Bank, which facilitated a loan in accordance with the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Section 1102, Paycheck Protection Program. Under the CARES Act, Section 1102, Paycheck Protection Program, the SBA has five years to audit any applicant. Cal Farley's at the time of submitting its application, evaluated the economic uncertainty resulting from the COVID-19 pandemic and the potential impact of that uncertainty on the ongoing operations of the business. Based on the risk of Cal Farley's having to limit or close its operations and unavailability of other sources of liquidity it was determined that the loan request was necessary. The Small Business Administration (SBA) Payroll Protection Loan totaled \$3,749,700, with an interest rate of 1.00%. Management opted to account for the proceeds as a loan in accordance with FASB ASC 470, *Debt*. During the year ended September 30, 2021, Cal Farley's received forgiveness and recorded the amount as gain on extinguishment of debt.

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Note 11 – Net Assets

Net assets consist of:

	2022	2021
Net assets without donor restrictions		
Undesignated	\$ 332,819,827	\$ 401,195,489
Net investment in property and equipment	23,157,641	25,893,409
Designated - board reserve	16,000,000	9,065,611
Designated - gift annuity reserves	2,509,391	2,511,066
Total net assets without donor restrictions	\$ 374,486,859	\$ 438,665,575
Net assets with donor restrictions		
Subject to expenditure for specified purpose		
Operations and program support	\$ 154,292	\$ 177,107
Scholarships	1,730,158	1,416,236
Capital projects	4,269,297	3,977,097
Special medical needs	188,539	240,449
Remainder interests in property and investments	22,780	930,780
	6,365,066	6,741,669
Subject to the passage of time		
Contributions receivable	16,756,494	23,156,540
Subject to the Organization's spending policy and appropriation		
Endowment funds restricted in perpetuity	35,989,778	35,020,248
Endowment funds accumulated gains	7,478,310	7,957,021
	43,468,088	42,977,269
Subject to restriction in perpetuity		
Perpetual trusts held by others	34,465,492	40,759,812
Total net assets with donor restrictions	\$ 101,055,140	\$ 113,635,290
Total net assets	\$ 475,541,999	\$ 552,300,865

Note 12 – Endowments

Endowment funds – Effective September 1, 2007, the State of Texas enacted 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 Statements*, (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.

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The Organization'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 Organization, the guidance in ASC 958-205, and absent explicit donor stipulations to the contrary, the Organization 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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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 the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Net asset classification by type of endowment as of September 30, 2022, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Restricted in perpetuity	\$ -	\$ 35,989,778	\$ 35,989,778
Restricted by purpose or time	-	7,478,310	7,478,310
Total	\$ -	\$ 43,468,088	\$ 43,468,088

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Changes in endowment net assets for the year ended September 30, 2022, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2021	\$ -	\$ 42,977,269	\$ 42,977,269
Investment return	-	1,851,962	1,851,962
Net appreciation (realized and unrealized)	-	(884,416)	(884,416)
Total investment return	-	967,546	967,546
Contributions	-	969,530	969,530
Appropriation of endowment assets for expenditure	-	(1,446,257)	(1,446,257)
Endowment net assets, September 30, 2022	<u>\$ -</u>	<u>\$ 43,468,088</u>	<u>\$ 43,468,088</u>

Net asset classification by type of endowment as of September 30, 2021, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Restricted in perpetuity	\$ -	\$ 35,020,248	\$ 35,020,248
Restricted by purpose or time	-	7,957,021	7,957,021
Total	<u>\$ -</u>	<u>\$ 42,977,269</u>	<u>\$ 42,977,269</u>

Changes in endowment net assets for the year ended September 30, 2021, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, September 30, 2020	\$ -	\$ 40,812,456	\$ 40,812,456
Investment return	-	1,256,533	1,256,533
Net appreciation (realized and unrealized)	-	2,197,922	2,197,922
Total investment return	-	3,454,455	3,454,455
Contributions	-	202,768	202,768
Appropriation of endowment assets for expenditure	-	(1,492,410)	(1,492,410)
Endowment net assets, September 30, 2021	<u>\$ -</u>	<u>\$ 42,977,269</u>	<u>\$ 42,977,269</u>

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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. Due to changes in the market values, there were four funds with deficiencies as of September 30, 2022, in the amount of \$183,802. The original gift related to these funds is \$1,570,776. There were no deficiencies as of September 30, 2021.

Return objectives and risk parameters – The Organization 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 Organization 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, the Organization 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 Organization 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. The Organization uses a five-year rolling rate of return average to allocate earnings to each endowment yearly unless the endowment is invested in specific securities specified by the donors, then the actual rate of return for the year is used.

Spending policy and how the investment objectives relate to spending policy – The Organization has a policy which allows for appropriating expenditures each year up to 5% or the percentage specified by the donor, of its endowment fund's average fair value over the prior five fiscal years. In establishing this policy, the Organization considered the long-term expected return on its endowment mentioned above. There was no spending of underwater endowments during September 30, 2022 and 2021.

Note 13 – 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 \$575,000 and \$588,000 for the years September 30, 2022 and 2021, respectively.

Note 14 – Self-Insurance Plan

The Organization is self-insured for employee medical claims up to \$300,000 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 the Organization during the years ended September 30, 2022 and 2021, was approximately \$1,772,000 and \$1,927,000, respectively.

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A liability has been accrued in the amount of \$214,000 and \$264,000 as of September 30, 2022 and 2021, for medical insurance claims incurred but not paid for all current employees. This amount is recorded in accrued liabilities on the combined statements of financial position.

Note 15 – 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, 2022 and 2021, Cal Farley's recognized approximately \$803,000 and \$759,000, as an accrual for paid time off. This amount is recorded in accrued liabilities on the combined statements of financial position.

Note 16 – Liquidity and Funds Available

The following table reflects the Organization's financial assets as of September 30, 2022 and 2021, 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 if the Board of Directors approves that action.

	<u>2022</u>	<u>2021</u>
Financial assets		
Cash and cash equivalents	\$ 6,192,754	\$ 5,611,912
Accounts and contributions receivable	18,199,903	23,590,049
Investments	395,718,461	459,436,809
Perpetual trusts held by others	<u>34,465,492</u>	<u>40,759,812</u>
Total financial assets	<u>454,576,610</u>	<u>529,398,582</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	(34,465,492)	(40,759,812)
Contribution and accounts receivable collectible beyond one year	(16,756,494)	(23,163,090)
Endowments and accumulated earnings subject to appropriation beyond one year	(43,468,088)	(42,977,269)
Board-designated reserves for future contingencies	(16,000,000)	(9,065,611)
Investments with donor restrictions not expected to be used within one year	(6,365,066)	(6,741,669)
Investments held in trusts and various state required gift annuity reserves	(2,509,391)	(2,511,066)
Mineral interests - not available for sale	(18,490,775)	(8,767,874)
Private equity, hedge, and closed end funds - illiquid	<u>(117,050,531)</u>	<u>(136,533,099)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 199,470,773</u>	<u>\$ 258,879,092</u>

Cal Farley's cash flows have seasonal variations during the year attributable to contributions received at calendar year end. 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 of the Directors.

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

Note 17 – Subsequent Events

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

The Organization has evaluated subsequent events through March 7, 2023, which is the date the financial statements were available to be issued.