

**RANCHO CIELO, INC.**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 2017 AND 2016

AND INDEPENDENT AUDITORS' REPORT

**RANCHO CIELO, INC.**

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## HAYASHI | WAYLAND

### INDEPENDENT AUDITORS' REPORT

**To the Board of Directors  
Rancho Cielo, Inc.  
Salinas, California**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Rancho Cielo, Inc.** (a California nonprofit benefit corporation), which comprise the statement of financial position as of September 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

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

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

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



**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Rancho Cielo, Inc.** as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

March 8, 2018

*Hayashi Wayland, LLP*



**RANCHO CIELO, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 388,904	\$ 587,839
Accounts receivable	192,631	147,290
Pledges receivable, current portion	12,536	22,433
Promise to give – land lease, current portion	124,362	129,974
Prepaid expenses	–	2,350
Inventory	24,947	17,042
Total current assets	<u>743,380</u>	<u>906,928</u>
NONCURRENT ASSETS:		
Pledges receivable, net, less current portion	19,308	23,440
Promise to give – land lease, non-current portion	2,193,177	2,317,539
Stewardship fund	307,248	274,813
Cash restricted for construction	5,441,842	3,692,522
Pledges receivable restricted for construction	1,857,153	2,206,595
Property and equipment, net	4,676,817	4,234,698
Total noncurrent assets	<u>14,495,545</u>	<u>12,749,607</u>
TOTAL ASSETS	<u>\$ 15,238,925</u>	<u>\$ 13,656,535</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 40,309	\$ 52,654
Accrued wages and related liabilities	46,877	49,311
Security deposit and incentive fund payable	5,753	6,631
Long-term debt – current portion	4,583	5,000
Total current liabilities	<u>97,522</u>	<u>113,596</u>
LONG TERM DEBT	<u>–</u>	<u>4,583</u>
TOTAL LIABILITIES	<u>97,522</u>	<u>118,179</u>
NET ASSETS:		
Unrestricted	5,210,948	4,860,312
Temporarily restricted	9,930,455	8,678,044
Total net assets	<u>15,141,403</u>	<u>13,538,356</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,238,925</u>	<u>\$ 13,656,535</u>

See Notes to Financial Statements.

**RANCHO CIELO, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND SUPPORT:</b>						
Grants	\$ 244,750	\$ 434,918	\$ 679,668	\$ 359,000	\$ 374,759	\$ 733,759
Contributions	503,645	1,548,437	2,052,082	622,964	1,746,441	2,369,405
Facility rental income	218,227	—	218,227	203,130	—	203,130
Donated rent, services and materials	10,696	363,278	373,974	18,528	1,516,689	1,535,217
Program revenues	426,080	—	426,080	485,069	—	485,069
Total revenues and support	<u>1,403,398</u>	<u>2,346,633</u>	<u>3,750,031</u>	<u>1,688,691</u>	<u>3,637,889</u>	<u>5,326,580</u>
<b>OTHER INCOME (EXPENSE):</b>						
Special events, net of \$62,553 and \$49,745 in expenses in 2017 and 2016, respectively	559,610	20,454	580,064	391,842	75,860	467,702
Miscellaneous income	2,572	5,558	8,130	3,726	27,849	31,575
Interest income	21,281	—	21,281	19,294	—	19,294
Realized and unrealized income (loss) on investments	33,040	—	33,040	14,687	—	14,687
Gain/loss on sale of equipment	(2,100)	—	(2,100)	(1,300)	—	(1,300)
Total other income (expense)	<u>614,403</u>	<u>26,012</u>	<u>640,415</u>	<u>428,249</u>	<u>103,709</u>	<u>531,958</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>1,120,234</u>	<u>(1,120,234)</u>	<u>—</u>	<u>658,209</u>	<u>(658,209)</u>	<u>—</u>
Total revenues, support, other income (expense) and net assets released from restrictions	<u>3,138,035</u>	<u>1,252,411</u>	<u>4,390,446</u>	<u>2,775,149</u>	<u>3,083,389</u>	<u>5,858,538</u>
<b>EXPENSES:</b>						
Program	2,001,241	—	2,001,241	2,229,714	—	2,229,714
General and administrative	537,059	—	537,059	588,930	—	588,930
Fundraising	249,099	—	249,099	225,144	—	225,144
Total expenses	<u>2,787,399</u>	<u>—</u>	<u>2,787,399</u>	<u>3,043,788</u>	<u>—</u>	<u>3,043,788</u>
<b>CHANGE IN NET ASSETS</b>	350,636	1,252,411	1,603,047	(268,639)	3,083,389	2,814,750
<b>NET ASSETS:</b>						
Beginning of year	<u>4,860,312</u>	<u>8,678,044</u>	<u>13,538,356</u>	<u>5,128,951</u>	<u>5,594,655</u>	<u>10,723,606</u>
End of year	<u>\$ 5,210,948</u>	<u>\$ 9,930,455</u>	<u>\$ 15,141,403</u>	<u>\$ 4,860,312</u>	<u>\$ 8,678,044</u>	<u>\$ 13,538,356</u>

See Notes to Financial Statements.

**RANCHO CIELO, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,603,047	\$ 2,814,750
Adjustments to reconcile change in net assets to cash and equivalents provided by operating activities:		
Contributions restricted for construction	(1,858,872)	(1,909,529)
Unrealized and realized income (loss) on investments	(33,040)	(14,687)
Change in discount on pledges and grants receivable	(72,910)	7,188
Change in allowance for uncollectible receivable	(36,265)	53,143
Depreciation	171,988	165,814
Changing in value of promise to give, land lease	–	(2,550,940)
Amortization of discount – promise to give, land lease	129,974	1,275,470
Loss on sale of property and equipment	2,100	1,300
In-kind contribution of property and equipment	(323,212)	(22,982)
Change in operating assets and liabilities:		
Certificates of deposit	–	108,601
Accounts receivable	(45,341)	(16,544)
Pledges receivable	123,204	57,214
Prepaid expenses	2,350	53,240
Inventory	(7,905)	6,019
Accounts payable	(12,345)	(6,767)
Accrued wages and related liabilities	(2,434)	(17,762)
Security deposit and incentive fund payable	(878)	3,856
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(360,539)</u>	<u>7,384</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(292,390)	(128,041)
Reinvestment of investment income	–	(5,867)
Assets restricted for construction	(1,399,878)	(1,848,948)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(1,692,268)</u>	<u>(1,982,856)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES –</b>		
Contributions restricted for construction	1,858,872	1,909,529
Principle payments on long term debt	(5,000)	(417)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>1,853,872</u>	<u>1,909,112</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(198,935)</u>	<u>(66,360)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>587,839</u>	<u>654,199</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 388,904</u>	<u>\$ 587,839</u>

**RANCHO CIELO, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**  
(Continued)

	<u>2017</u>	<u>2016</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH		
INVESTING AND FINANCING ACTIVITIES:		
Property and equipment acquired	\$ 615,602	\$ 161,023
Debt incurred to acquire property and equipment	-	(10,000)
In-kind contribution of property and equipment	<u>(323,212)</u>	<u>(22,982)</u>
Cash paid to acquire property and equipment	<u>\$ 292,390</u>	<u>\$ 128,041</u>

See Notes to Financial Statements.



**RANCHO CIELO, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017				2016			
	Support Services				Support Services			
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
EXPENSES:								
Salaries and related costs	\$ 796,644	\$ 261,412	\$ 151,638	\$ 1,209,694	\$ 966,133	\$ 261,534	\$ 119,203	\$ 1,346,870
Payroll taxes	76,401	28,574	12,892	117,867	100,309	24,135	11,048	135,492
Employee benefits	<u>50,942</u>	<u>24,358</u>	<u>7,696</u>	<u>82,996</u>	<u>54,166</u>	<u>26,479</u>	<u>2,575</u>	<u>83,220</u>
Total salaries and related expenses	<u>923,987</u>	<u>314,344</u>	<u>172,226</u>	<u>1,410,557</u>	<u>1,120,608</u>	<u>312,148</u>	<u>132,826</u>	<u>1,565,582</u>
Program costs	160,625	15,760	720	177,105	194,725	3,378	874	198,977
Depreciation	168,072	3,916	–	171,988	161,697	4,117	–	165,814
Insurance	275,427	42,927	452	318,806	285,650	34,733	–	320,383
Utilities	59,748	5,115	–	64,863	50,594	4,108	–	54,702
Vehicle expense	64,861	212	44	65,117	81,507	483	346	82,336
Professional consultants	94,391	64,442	26,285	185,118	58,136	112,802	35,256	206,194
Supplies	36,119	6,881	698	43,698	35,448	8,994	1,777	46,219
Repairs and maintenance	64,066	2,731	890	67,687	86,853	6,909	1,049	94,811
Printing and reproduction	4,058	1,056	19,356	24,470	2,966	1,690	21,537	26,193
Public relations	24,830	791	19,398	45,019	12,724	17,666	4,647	35,037
Office and postage	4,871	13,617	5,828	24,316	422	20,025	1,799	22,246
Dues and subscription	465	1,097	285	1,847	205	1,012	–	1,217
Bank charges	145	9,179	2,199	11,523	890	9,839	1,594	12,323
Security systems	5,027	4,604	–	9,631	7,343	6,722	–	14,065
Scholarships	3,300	–	–	3,300	5,820	–	23,055	28,875
Taxes and licenses	5,172	296	679	6,147	1,176	348	–	1,524
Rent	104,824	43,068	–	147,892	117,662	43,280	–	160,942
Training	<u>1,253</u>	<u>7,023</u>	<u>39</u>	<u>8,315</u>	<u>5,288</u>	<u>676</u>	<u>384</u>	<u>6,348</u>
Total expenses	<u>\$ 2,001,241</u>	<u>\$ 537,059</u>	<u>\$ 249,099</u>	<u>\$ 2,787,399</u>	<u>\$ 2,229,714</u>	<u>\$ 588,930</u>	<u>\$ 225,144</u>	<u>\$ 3,043,788</u>

See Notes to Financial Statements.

**RANCHO CIELO, INC.**  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities** – Rancho Cielo, Inc. (Organization) is a California nonprofit public benefit corporation founded in 2000 for the purpose of establishing and maintaining a comprehensive system of prevention and intervention services for juvenile offenders in Monterey County to ensure public safety and allow successful reintegration into the community.

The Organization is governed by a board of directors and receives contributions from individuals, corporations, local foundations as well as fees for services.

The Organization provides educational programs for students who could not achieve their academic goals in a traditional school setting. The Organization also provides support services, vocational training and job placement services to at-risk youth. The grounds of the Organization also provide opportunities for recreation and outdoor activities for youth. Rancho Cielo offers disconnected and underserved youth aged 16-24 opportunities for vocational training, high school diplomas, mental health counseling, life skills and job readiness, and enrichment activities in order for them to lead healthy, happy, self-sufficient futures.

**Drummond Culinary Academy**

Executive Chef takes the students through a nationally-recognized culinary arts curriculum, including Safe Food Handlers Certification. The ten-month program, split between the kitchen and the John Muir Charter high school academic classroom, results in a culinary certificate and a high school diploma. Students will complete a 200 hour externship program working with local restaurants to gain additional employment experience. The program offers job readiness training, as well as placement and referral services for graduates.

**Rancho Cielo Construction Academy**

The Construction Academy is a unique experience, where students are engaged in our classroom, vocational activities and workshops through Rancho Cielo's partnership with Hartnell College's East Campus, John Muir Charter School and GRID Alternatives specializing in Solar Panel installation. Job readiness, Job referral and placement are also part of the program.

**Rancho Cielo Youth Corps**

A crew-based employment program for young people 18-24 who have traditionally been considered the "hardest to employ." Dependability, Teamwork, Respect, Punctuality and other job retention skills are a key part of this Job Readiness employment program. Our crews learn through their involvement in a variety of construction projects that teach everything from work ethics to complex construction skills. They are employed by Rancho Cielo during their tenure in the Youth Corps. This program is critical to the cultural change we are trying to affect, providing youth with positive opportunities to learn new skills and self-sufficiency.

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Silver Star Youth Program**

Rancho Cielo's flagship program offers intensive educational instruction to students between the ages of 15 1/2 and 18. All students are screened prior to acceptance and must have a desire to make positive changes in their lives. Most students are on probation when referred to Rancho Cielo; Graduates receive a high school diploma. The program is operated in partnership with the [Monterey County Probation Department](#), which provides supervision, case management for students involved in the juvenile court, meals and transportation; the [Monterey County Office of Education](#), which provides teachers and classroom aides for Rancho Cielo's Community School, Turning Point Job Training, and Monterey County Behavioral Health.

**Transitional Housing Program**

With 15 residential beds, the Rancho Cielo Transitional Housing Village has 5,475 safe nights' rest per year for Rancho Cielo students or graduates unsafe in their own neighborhood. The residents must be willing and able to take on the responsibility of living on campus. They must also be willing to participate in the program; this is not just housing. Case management works with each resident to identify barriers to success and connect him/her with services for which s/he is eligible.

**Basis of Presentation** – The financial statements have been prepared on the accrual basis of accounting and use the following net asset classifications:

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

***Temporarily restricted net assets*** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

***Permanently restricted net assets*** – Net assets to be held in perpetuity as directed by donors. As of September 30, 2017 and 2016, the Organization had no permanently restricted net assets.

**Cash and Cash Equivalents** – Cash and equivalents includes currency on hand, cash in banks and money market instruments maturing within 90 days.

**Certificates of Deposit** – Certificates of deposit are classified as current if they have a maturity date within one year of September 30, 2017 and 2016, respectively, and as noncurrent if they mature in greater than one year from September 30, 2017 and 2016, respectively. Certificates of deposit are included in cash restricted for construction on the statement of financial position.

**Accounts Receivable** – Accounts receivable are composed of rental fees, service fees and miscellaneous receivables. Management believes that all accounts receivable are fully collectible, therefore, no allowance for doubtful accounts have been recorded at September 30, 2017 and 2016.

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Pledges Receivable** – Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Pledges receivable during the years ended September 30 2017, and 2016 were discounted using interest rates of 5.13% and 4.51%, respectively. Amortization of these discounts is included in contributions revenue in the accompanying statements of activities and changes in net assets. Pledges receivable are stated at the amount expected to be collected on the outstanding balances, and are presented net of an allowance for uncollectibility. The allowance is based on an assessment of pledges receivable collectability by management. At September 30, 2017 and 2016, the allowance was \$226,402 and \$262,667, respectively.

**Inventory** – Inventory consists of donated vehicles and equipment held for sale or use and supplies for the Organization’s job training programs. The Organization records inventory at its fair value when received based on lower of cost or net realizable value.

**Property and Equipment** – All acquisitions and major improvements of property and equipment in excess of \$2,500 are capitalized. Maintenance and repairs which do not extend the useful life of the respective assets are expensed as incurred. Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and building improvement	39 years
Land improvements	15 – 50 years
Equipment	5 – 7 years
Vehicles	3 years

**Financial Instruments** – Financial instruments included in the Organization’s statements of financial position include cash and cash equivalents, certificates of deposit, accounts receivable, pledges receivable, accounts payable and debt.

**Fair Value Measurements** – Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Organization considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability.

The three-level hierarchy for fair value measurements is defined as follows:

**Level 1** – Valuation is based on observable inputs using quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Level 2** – Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not active or valuation methods using models, interest rates and yield curves as observable inputs.

**Level 3** – Valuation is based on unobservable inputs for the assets, reflecting the Organization’s consideration about the assumptions that a market participant would use in pricing the asset or liability, to the extent that observable inputs (Levels 1 and 2) are not available. Level 3 assets and liabilities include situations where there is little or no market activity for the asset or liabilities, and significant management judgment or estimates are required.

The Stewardship fund is classified as Level 2, because it is valued using published market quotes reported by a third-party trustee. The Organization records the values based on the statements received from the Community Foundation of Monterey County as of September 30.

Promise to give – land lease is classified as Level 3 because it is measured at fair value using significant unobservable inputs to determine rent and cost of living adjustments.

While the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such assets and liabilities existed, or had such assets and liabilities been liquidated, and these differences could be material to the financial statements.

**Contributions and Grants** – All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Amounts received that are designed for future periods or restricted by the donor or grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

**Donated Services and Materials** – The Organization records various types of in-kind contributions. Contributed services are recognized at their fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of donated noncash assets are recorded at their fair values in the period received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A number of volunteers have made significant contributions of their time and talent to promote the Organization's programs and activities. No amounts have been recognized in the statement of activities for this time and talent, because the recognition criteria have not been satisfied.

**Expense Allocation** – Expenses relating to more than one function are allocated to program, general and administrative and fundraising expenses based on employee utilization or other appropriate usage factors.

**Income Taxes** – As a tax-exempt not-for-profit organization, the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701(d), but is subject to taxes on unrelated business income when earned.

Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

**Use of Estimates** – Preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Recent Accounting Pronouncements** – In May 2014, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective

date, will replace almost all pre-existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP). Implementation for non-public entities must occur in years beginning after December 15, 2018. Early application of the amendments in this Update is permitted. The Organization has no plan for early implementation of this Statement. At this time the Organization is not certain of the effect the adoption of ASU 2014-09 will have on the accompanying financial statements.

On February 25, 2016, the FASB issued *Accounting Standards Update (ASU) 2016-02, Leases (Topic 842)*. Non-public entities are required to adopt the standard for reporting periods beginning after December 15, 2019. All entities may elect to early-adopt. The core principle of the new leases standard is that leases should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities balance sheets. The Organization has no plan for early implementation of this Statement. At this time the Organization is not certain of the effect the adoption of ASU 2016-02 will have on the accompanying financial statements.

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, representing the first time since the mid-1990's that financial reporting for not-for-profit organizations has been addressed. While the guidance is effective for fiscal years beginning after December 15, 2017, early adoption is allowed. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The Organization has no plan for early implementation of this Statement. At this time the Organization is not certain of the effect the adoption of ASU 2016-14 will have on the accompanying financial statements.

In November 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash*. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. The amendments are effective for fiscal years beginning after December 15, 2018, early adoption is permitted. The Organization has no plan for early implementation of this Statement. At this time the Organization is not certain of the effect the adoption of ASU 2016-18 will have on the accompanying financial statements.

**Subsequent Events** – Subsequent events have been evaluated through March 8, 2018, which is the date the financial statements were available to be issued.

**NOTE 2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Cash in bank	\$ 2,254,572	\$ 2,520,935
Certificates of deposit	3,169,197	1,355,679
Money market accounts	405,827	404,947
Petty cash	<u>1,150</u>	<u>1,150</u>
Total cash and cash equivalents	5,830,746	4,280,361
Less amounts restricted for construction	<u>5,441,842</u>	<u>3,692,522</u>
Total non-construction cash and cash equivalents	<u>\$ 388,904</u>	<u>\$ 587,839</u>

**NOTE 3. PLEDGES RECEIVABLE**

Pledges receivable consist of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Pledges receivable – construction	\$ 2,241,980	\$ 2,696,019
Allowance for uncollectible receivables – construction	(223,448)	(257,102)
Discount to present value	<u>(161,379)</u>	<u>(232,322)</u>
Total restricted pledges receivable construction – net	<u>\$ 1,857,153</u>	<u>\$ 2,206,595</u>
Pledges receivable non-construction	\$ 37,044	\$ 55,650
Allowance for uncollectible receivables non-construction	(2,954)	(5,565)
Discount to present value	<u>(2,246)</u>	<u>(4,212)</u>
Total non-construction pledges receivable – net	<u>\$ 31,844</u>	<u>\$ 45,873</u>

Pledges receivable are due as follows:

	<u>2017</u>	<u>2016</u>
Construction:		
Receivable in less than one year	\$ 708,035	\$ 740,920
Receivable within one to five years	<u>1,149,117</u>	<u>1,465,675</u>
Total construction	<u>\$ 1,857,153</u>	<u>\$ 2,206,595</u>
Non-construction:		
Receivable in less than one year	\$ 12,536	\$ 22,433
Receivable within one to five years	<u>19,308</u>	<u>23,440</u>
Total non-construction	<u>\$ 31,844</u>	<u>\$ 45,873</u>

**NOTE 4. PROMISE TO GIVE – LAND LEASE AND FAIR VALUE DISCLOSURES**

The Organization entered into a land lease agreement with the County of Monterey in 2006. The term of lease is 49 years, with two 25 year options to renew. The annual lease payment is \$1. An unconditional promise to give has been recorded to reflect the fair value of the use of the land based upon the fair value of the donated rent. Prior to the year ended September 30, 2016, this had been determined to be \$60,000 per year with a 4.5% cost of living increase at 10 year intervals. During the year ended September 30, 2016, the land was appraised and the value of the donated rent was determined to be \$135,840 per year. The future value of the donated rent has been discounted to its present value using a rate of 4.51% for the years ending September 30, 2017 and 2016. For the years ended September 30, 2017 and 2016, the Organization recorded donated lease expense of \$135,840, which is included in occupancy expenses in the accompanying statements of functional expenses.



**NOTE 4. PROMISE TO GIVE – LAND LEASE AND FAIR VALUE DISCLOSURES (Continued)**

Promise to give – land lease at September 30, 2017, are as follows:

Receivable in less than one year	\$ 135,840
Receivable in one to five years	679,200
Receivable in more than five years	<u>4,211,040</u>
Total promises to give	5,026,080
Less discounts to net present value	<u>2,708,541</u>
Promise to give – land lease, net	2,317,539
Less current portion	<u>124,362</u>
Noncurrent portion	<u>\$ 2,193,177</u>

**Change in Accounting Estimate**

For the year ended September 30, 2016, the Organization had an appraisal completed to determine if the estimate of the value of the donated land needed to be adjusted. At the time of the gift the value of the estimate was determined with the assistance of a board member who had experience with real estate, but a formal appraisal had not been completed at that time. As a result of the appraisal the Organization revised the estimated value of the land lease effective October 1, 2015. The effect of this change in estimate resulted in an increase to In-kind contributions of \$1,411,310 after being netted with the current year increased rental expense of \$135,840. The increase in the value of the land and unamortized discount for the year ended September 30, 2016 are as follows:

	<u>Promise to give – land lease</u>	<u>Unamortized discount</u>	<u>Promise to give – land lease – net</u>
Beginning Value	\$ 2,610,875	\$ 1,438,832	\$ 1,172,043
Change in value	<u>2,551,042</u>	<u>1,275,575</u>	<u>1,275,470</u>
Adjusted Value	<u>\$ 5,161,920</u>	<u>\$ 2,714,407</u>	<u>\$ 2,447,513</u>

The following tables present the fair value of the promise to give – land lease, net on the accompanying statements of financial position, as of September 30, by fair value hierarchy:

	<u>2017</u>			<u>2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Promise to give – land lease, net	\$ –	\$ –	\$ 2,317,539	\$ –	\$ –	\$ 2,447,513

**NOTE 4. PROMISE TO GIVE – LAND LEASE AND FAIR VALUE DISCLOSURES (Continued)**

The following tables provide a rollforward of the promise to give – land lease measured at fair value using significant unobservable inputs (Level 3) during the years ended September 30:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 2,447,513	\$ 1,172,043
Amortization of present value of Promise to give	5,866	1,411,310
Donated land lease expense	<u>(135,840)</u>	<u>(135,840)</u>
Ending balance	<u>\$ 2,317,539</u>	<u>\$ 2,447,513</u>

**NOTE 5. STEWARDSHIP FUND AND FAIR VALUE DISCLOSURES**

The Organization has established a stewardship fund with the Community Foundation for the benefit of the Organization, and it can either take the annual payout as determined by the Community Foundation Board of Directors or the annual payout amount can be reinvested until the Organization requests it. The Organization has the option of withdrawing a portion or all of the fund’s principal at any time upon written request by the Board of the Organization. The Community Foundation is acting as an investment agent, investing assets that continue to belong to the Organization.

The following tables present the fair value of the assets held at the Community Foundation on the accompanying statements of financial position, as of September 30, by fair value hierarchy:

	<u>2017</u>			<u>2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Stewardship fund	\$ -	\$ 307,248	\$ -	\$ -	\$ 274,813	\$ -

**NOTE 6. PROPERTY AND EQUIPMENT**

Property and equipment, net, consists of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 3,255,073	\$ 3,255,073
Land improvements	1,408,962	1,408,962
Furniture and equipment	159,511	134,882
Autos and trucks	59,223	85,928
Software	<u>5,000</u>	<u>5,000</u>
Total	4,887,769	4,889,845
Accumulated depreciation	<u>(1,169,448)</u>	<u>(1,034,229)</u>
Total depreciable property and equipment – net	<u>3,718,321</u>	<u>3,855,616</u>
Construction in progress:		
Recreation fields	1,729	1,729
Vocational center	858,016	294,426
Modular buildings	93,551	75,524
Buses	<u>5,200</u>	<u>7,403</u>
Total construction in progress	<u>958,496</u>	<u>379,082</u>
Property and equipment – net	<u>\$ 4,676,817</u>	<u>\$ 4,234,698</u>

For the years ended September 30, 2017 and 2016, depreciation expense was \$171,988 and \$165,814, respectively.

**NOTE 7. LONG-TERM DEBT**

Long-term debt consists of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Note payable to the Don Chapin Company, Inc. in the amount of \$10,000. The note is payable in monthly installments of \$416.67, until maturity on August 26, 2018. The note is unsecured and non-interest bearing.	\$ 4,583	\$ 9,583
Less current portion	<u>4,583</u>	<u>5,000</u>
Long-term debt	<u>\$ –</u>	<u>\$ 4,583</u>

**NOTE 8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets, consist of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Promise to give – land lease, net	\$ 2,317,539	\$ 2,447,513
Vocational building	7,298,995	5,899,117
Modular classrooms	60,271	53,117
Youth programs	176,323	184,861
Scholarship	45,483	47,563
Other pledges – time restriction	<u>31,844</u>	<u>45,873</u>
Total	<u>\$ 9,930,455</u>	<u>\$ 8,678,044</u>

**NOTE 9. DONATED SERVICES AND MATERIALS**

The following is a summary of donated rent, services and material during the years ended September 30:

<u>2017</u>	General <u>Operations</u>	Youth <u>Programs</u>	Capital Improve- <u>ments</u>	<u>Total</u>
Fixed assets	\$ –	\$ –	\$ 323,212	\$ 323,212
Land lease	1,760	4,106	–	5,866
Supplies	1,716	30,435	–	32,150
Professional services	8,980	1,265	–	10,245
Maintenance and repairs	–	–	–	–
Vehicles	<u>–</u>	<u>2,500</u>	<u>–</u>	<u>2,500</u>
Total before special events	12,456	38,306	323,212	373,974
Special events	<u>–</u>	<u>13,104</u>	<u>–</u>	<u>13,104</u>
Total	<u>\$ 12,456</u>	<u>\$ 51,410</u>	<u>\$ 323,212</u>	<u>\$ 387,078</u>

<u>2016</u>	General <u>Operations</u>	Youth <u>Programs</u>	Capital Improve- <u>ments</u>	<u>Total</u>
Fixed assets	\$ 12,382	\$ –	\$ –	\$ 12,382
Land lease	423,393	987,917	–	1,411,310
Supplies	–	79,906	–	79,906
Professional services	10,831	–	7,640	18,471
Maintenance and repairs	–	2,548	–	2,548
Vehicles	<u>10,600</u>	<u>–</u>	<u>–</u>	<u>10,600</u>
Total before special events	457,206	1,070,371	7,640	1,535,217
Special events	<u>–</u>	<u>31,019</u>	<u>–</u>	<u>31,019</u>
Total	<u>\$ 457,206</u>	<u>\$ 1,101,390</u>	<u>\$ 7,640</u>	<u>\$ 1,566,236</u>

**NOTE 10. LEASING ACTIVITIES**

The Organization leases a portion of its facilities in Salinas, California to several tenants under non-cancellable operating lease agreements on multi-year and month-to-month arrangements expiring through June 2018. Rental income for the years ended September 30, 2017 and 2016 totaled \$190,498 and \$195,500, respectively. Future minimum rental income on operating lease agreements as of September 30, 2017 is as follows:

2018	\$	123,200
2019		<u>22,500</u>
Total	\$	<u>145,700</u>

**NOTE 11. RELATED PARTY TRANSACTIONS**

A member on the board of directors owns five companies that provide construction, materials and related services to the Organization. During the years ended September 30, 2017 and 2016, the Organization paid \$15,583 and \$59,631, respectively, to these companies. Amounts due to these companies, as of September 30, 2017 and 2016, were \$679 and \$2,169, respectively. During the year ended September 30, 2016 the Organization received a loan of \$10,000 from the Don Chapin Company to purchase equipment from the company.

Approximately \$108,196 and \$190,584 were donated by related parties during the years ended September 30, 2017, and 2016, respectively.

**NOTE 12. RETIREMENT PLAN**

In June 2010, the Board of Directors approved a Simple Individual Retirement Account plan, which is available to employees who are 18 years of age, have completed one year of service, and have worked 1000 hours or more in the plan year. Employees voluntarily make contributions to the Plan based on limits established under the Internal Revenue Code. In addition, Rancho Cielo may make discretionary matching contributions as defined by the Plan. During the years ended September 30, 2017 and 2016, employer contributions aggregated \$15,439 and \$9,961, respectively.

**NOTE 13. CONCENTRATION OF CREDIT RISK**

Cash and cash equivalents and investments at September 30, 2017, include accounts insured by the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). As of September 30, 2017 and 2016, the bank balances exceeded FDIC limits by \$3,707,853 and \$2,138,726, respectively. The Organization has not experienced any losses in such accounts and believes it was not exposed to any significant risk at September 30, 2017.

**NOTE 14. SUBSEQUENT EVENT**

Subsequent to year end the Organization entered into a construction contract for their new vocational building with amounts not to exceed \$5.46 million.