RANCHO CIELO, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
SEPTEMBER 30, 2020

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, 2020, 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.

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HAYASHI & WAYLAND ACCOUNTING & CONSULTING, LLP | LOCATIONS IN CARMEL, KING CITY, PASO ROBLES & SALINAS

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, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited **Rancho Cielo's** 2019 financial statements, and we expressed an unmodified audit opinion on these audited financial statements in our report dated May 14, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hayashi Wayland, LLP

April 27, 2021
Salinas, CA

RANCHO CIELO, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2020
(WITH SUMMARIZED TOTALS FOR SEPTEMBER 30, 2019)

	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,285,057	$ 1,375,043
Accounts receivable	152,562	146,312
Pledges receivable, net, current portion	38,712	486,314
Promise to give – land lease, net, current portion	108,937	113,854
Prepaid expenses	2,035	1,772
Inventory	19,533	13,670
Total current assets	2,606,836	2,136,965
NONCURRENT ASSETS:		
Pledges receivable, net, less current portion	444,980	221,220
Promise to give – land lease, net, non-current portion	1,851,394	1,960,331
Investments	369,354	327,731
Endowment fund	246,108	241,792
Cash restricted for construction	382,067	–
Property and equipment, net	12,167,938	12,141,802
Total noncurrent assets	15,461,841	14,892,876
TOTAL ASSETS	$ 18,068,677	$ 17,029,841
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 102,195	$ 69,326
Refundable advance	304,140	–
Accrued wages and related liabilities	101,696	72,569
Security deposit and incentive fund payable	15,477	16,246
Accrued scholarships	24,650	18,500
Total current liabilities	548,158	176,641
TOTAL LIABILITIES	548,158	176,641
NET ASSETS:		
Without donor restrictions	13,565,721	13,195,402
With donor restrictions	3,954,798	3,657,798
Total net assets	17,520,519	16,853,200
TOTAL LIABILITIES AND NET ASSETS	$ 18,068,677	$ 17,029,841

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
REVENUES AND SUPPORT:				
Grants	$ 609,035	$ 506,875	$ 1,115,910	$ 646,683
Contributions	503,610	779,869	1,283,479	1,345,441
Facility rental income	217,587	21,987	239,574	215,860
Donated rent, services and materials	53,134	112,948	166,082	369,889
Program revenues	227,902	–	227,902	315,150
Total revenues and support	1,611,268	1,421,679	3,032,947	2,893,023
OTHER INCOME (EXPENSE):				
Special events, net of $114,759 and $92,354 in expenses in 2020 and 2019, respectively	722,112	–	722,112	732,593
Miscellaneous income	21,967	–	21,967	18,095
Investment return – net	32,619	14,768	47,387	21,667
Gain(loss) on sale of equipment	–	–	–	1,069
Total other income (expense)	776,698	14,768	791,466	773,424
NET ASSETS RELEASED FROM RESTRICTIONS	1,139,447	(1,139,447)	–	–
Total revenues, support, other income (expense) and net assets released from restrictions	3,527,413	297,000	3,824,413	3,666,447
EXPENSES:				
Program	2,336,892	–	2,336,892	1,942,073
General and administrative	465,626	–	465,626	487,108
Fundraising	354,576	–	354,576	346,268
Total expenses	3,157,094	–	3,157,094	2,775,449
CHANGE IN NET ASSETS	370,319	297,000	667,319	890,998
NET ASSETS:				
Beginning of year	13,195,402	3,657,798	16,853,200	15,962,202
End of year	$13,565,721	$ 3,954,798	$17,520,519	$16,853,200

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019)

	PROGRAM SERVICES					SUPPORT SERVICES			
	Drummond Culinary Academy	Transitional Housing	Youth Corps	Other	Total Program	General and Administrative	Fundraising	2020 Total	2019 Total
EXPENSES:									
Salaries and related costs	$ 283,258	$ 145,037	$ 220,119	$ 308,849	$ 957,263	$ 287,087	$ 234,066	$ 1,478,416	$ 1,352,016
Payroll taxes	24,431	12,597	23,638	26,465	87,131	18,423	19,548	125,102	127,999
Employee benefits	21,232	3,156	4,158	23,535	52,081	25,089	8,504	85,674	86,226
Total salaries and related expenses	328,921	160,790	247,915	358,849	1,096,475	330,559	262,118	1,689,192	1,566,241
Program costs	83,107	3,410	3,524	63,507	153,548	719	1,017	155,284	169,955
Depreciation	42,550	31,174	119,996	252,328	446,048	10,237	1,238	457,523	215,973
Insurance	12,937	12,812	31,535	21,299	78,583	17,745	2,419	98,747	131,810
Utilities	21,869	21,213	22,037	48,870	113,989	8,909	6,090	128,988	93,725
Vehicle expense	8,317	1,508	14,459	16,096	40,380	–	90	40,470	48,117
Professional consultants	6,919	4,702	9,082	38,992	59,695	47,335	5,784	112,814	125,817
Supplies	10,111	5,464	1,454	50,440	67,469	7,302	400	75,171	50,812
Repairs and maintenance	15,125	9,265	29,593	11,825	65,808	1,855	494	68,157	50,070
Printing and reproductions	741	91	18	502	1,352	2,546	36,161	40,059	33,060
Public relations	11,015	860	797	5,848	18,520	2,066	15,111	35,697	45,266
Office and postage	9,888	4,167	2,971	12,089	29,115	13,389	7,967	50,471	30,286
Dues and subscription	285	264	–	–	549	1,280	357	2,186	2,091
Bank charges	3,106	10	270	3,003	6,389	5,337	4,898	16,624	17,356
Security systems	2,161	1,643	5,323	3,286	12,413	906	168	13,487	10,497
Scholarships	–	–	–	8,000	8,000	–	–	8,000	24,000
Taxes and licenses	1,469	–	1,313	–	2,782	619	1,832	5,233	5,922
Rent	16,884	937	69,523	48,343	135,687	8,119	8,037	151,843	148,601
Training	10	30	–	50	90	6,663	395	7,148	5,850
Total expenses	$ 575,415	$ 258,340	$ 559,810	$ 943,327	$ 2,336,892	$ 465,626	$ 354,576	$ 3,157,094	$ 2,775,449

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 667,319	$ 890,998
Adjustments to reconcile change in net assets to cash and equivalents provided by operating activities:		
Contributions restricted for construction	(336,798)	(140,275)
Contributions restricted for endowment	–	(56,950)
Unrealized and realized income (loss) on investments	(12,443)	5,353
Change in discount on pledges and grants receivable	28,672	60,813
Change in allowance for uncollectible receivable	94,716	72,469
Depreciation	457,523	215,973
Amortization of discount – promise to give, land lease	113,854	118,992
(Gain)Loss on sale of property and equipment	–	(1,069)
In-kind contribution of property and equipment	(102,200)	(319,236)
Change in operating assets and liabilities:		
Accounts receivable	(6,250)	(53,290)
Pledges receivable	100,454	(813,861)
Prepaid expenses	(263)	(1,772)
Inventory	(5,863)	620
Accounts payable	32,869	(1,426,586)
Accrued wages and related liabilities	29,127	8,998
Security deposit and incentive fund payable	(769)	(9,253)
Accrued scholarships	6,150	18,500
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,066,098	(1,429,576)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(15,573)	(81,951)
Purchases of property and equipment	(381,459)	(2,702,631)
Proceeds from sale of property and equipment	–	1,069
Reinvestment of investment income	(17,923)	(18,036)
Assets restricted for construction	–	3,221,982
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(414,955)	420,433
CASH FLOWS FROM FINANCING ACTIVITES:		
Contributions restricted for construction	336,798	140,275
Contributions restricted for endowment	–	56,950
Proceeds from refundable advance	304,140	–
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	640,938	197,225
NET CHANGE IN CASH AND RESTRICTED CASH	1,292,081	(811,918)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	1,375,043	2,186,961
CASH AND RESTRICTED CASH, END OF YEAR	$ 2,667,124	$ 1,375,043

RANCHO CIELO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2019)
(Continued)

	2020	2019
CASH	$ 2,285,057	$ 1,375,043
RESTRICTED CASH	382,067	–
TOTAL	$ 2,667,124	$ 1,375,043
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment acquired	$ 483,659	$ 3,021,867
In-kind contribution of property and equipment	(102,200)	(319,236)
Cash paid to acquire property and equipment	$ 381,459	$ 2,702,631

See Notes to Financial Statements.

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, and 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, referral and placement are also part of the program.

Rancho Cielo Youth Corps
The Youth Corps program is 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.

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, and 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 the resident with services for which they are eligible.

Basis of Presentation – The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The net assets, revenues, gains and losses, other support and expenses and other changes in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Organization and changes therein are classified as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board for various purposes.

Net Assets With Donor Restrictions – 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, or net assets that are perpetual in nature and subject to donor-imposed restrictions that they be maintained in perpetuity by the Organization. Generally, the donors of assets to be held in perpetuity permit the Organization to use all or a part of the income earned on related investments for general or specified purposes.

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 and as noncurrent if they mature in greater than one year.

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, 2020 and September 30, 2019, respectively.

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 year ended September 30, 2020 and 2019 were discounted using interest rates of 5.04% and 5.60%, 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, 2020 and 2019, the allowance was $34,206 and $130,803, respectively.

Inventory – Inventory consists of food and supplies for the Organization's culinary program. 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 are stated at cost or, if donated, at the approximate fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions otherwise, the contributions are recorded as net assets without donor restrictions. 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, accounts receivable, pledges receivable, accounts payable and accrued liabilities are carried at cost which approximates their fair value due to the short-term maturity of these instruments.

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. <u>ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</u>

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 and endowment funds are classified as Level 2, because they are 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. Albany Road investments are also classified as Level 3 since observable input are minimal (Refer to Note 5).

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 use without donor restrictions 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 with donor restriction 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.

Functional Allocation of Expenses – The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries and fringe benefits are allocated on the basis of estimates of time and effort. Other allocated expenses, such as depreciation, internet, insurance, utilities and rent are allocated based on actual or estimated use using various allocated basis including square footage.

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.

Reclassifications – Certain prior year amounts have been reclassified to conform with the current year financial statements presentation.

Effects of New Pronouncement – As of October 1, 2019, the Organization adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that restricted cash and cash equivalents be included in beginning and ending cash in the statement of cash flows. The adoption of ASU 2016-18 also resulted in the reclassification of certain items related to restricted cash in the cash flows statement for the year ended September 30, 2020.

In June 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this update clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The Organization has adjusted the presentation of these statements accordingly.

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

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)*. This new standard redefines revenue recognition around the instance of transfer of control, rather than the transfer of risks and rewards, and provides recognition guidance in instances of variable consideration, licenses and contract costs. For entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020, the ASU is effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application of the amendments in this update is permitted. The Organization has no plan for early implementation of this Statement.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new standard, a lessee recognizes in the balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For nonpublic entities, this new standard is effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Organization has no plan for early implementation of this Statement.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This standard removes, modifies and adds certain disclosure requirements of ASC Topic 820. The ASU is effective for all entities for annual reporting periods beginning after December 15, 2019. Early adoption is permitted upon issuance of this Update. The Organization has no plan for early implementation of this Statement.

Summarized Totals for September 30, 2019 – The financial statements include certain summarized comparative information for the prior year. The information is not presented by net asset class and does not include sufficient detail to be in conformity with U.S. GAAP.

Subsequent Events – Subsequent events have been evaluated through April 27, 2021, which is the date the financial statements were available to be issued. See Note 17 for further information.

NOTE 2. CASH AND CASH EQUIVALENTS

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

	2020	2019
Cash in bank	$ 705,054	$ 985,799
Certificates of deposit	1,601,956	184,414
Money market accounts	359,464	204,180
Petty cash	650	650
Total cash and cash equivalents	2,667,124	1,375,043
Less restricted for construction	382,067	–
Total non-construction cash and cash equivalents	$ 2,285,057	$ 1,375,043

NOTE 3. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of September 30:

	2020	2019
Pledges receivable	$ 541,833	$ 893,770
Allowance for uncollectible receivables	(34,206)	(130,803)
Discount to present value	(23,935)	(55,433)
Total pledges receivable – net	$ 483,692	$ 707,534

Pledges receivable are due as follows:

	2020	2019
Pledges receivable:		
Receivable in less than one year	$ 38,712	$ 486,314
Receivable within one to five years	444,980	221,220
Total pledge receivable	$ 483,692	$ 707,534

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, 2020 and 2019.

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

For the years ended September 30, 2020 and 2019, the Organization recorded donated lease expense of $135,840, which is included in occupancy expenses in the accompanying statements of functional expenses.

Promise to give – land lease at September 30, 2020, 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	3,803,520
Total promises to give	4,618,560
Less discounts to net present value	2,658,229
Promise to give – land lease, net	1,960,331
Less current portion	108,937
Noncurrent portion	$ 1,851,394

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:

	2020			2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Promise to give – land lease, net	$	$	$ 1,960,331	$ –	$ –	$ 2,074,185

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:

	2020	2019
Beginning balance	$ 2,074,185	$ 2,193,177
Amortization of present value of Promise to give	21,986	16,848
Donated land lease expense	(135,840)	(135,840)
Ending balance	$ 1,960,331	$ 2,074,185

NOTE 5. INVESTMENTS

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 Organization invested in Albany Road Real Estate Partners Fund III, LLC (the "LLC"), which is stated at fair value as estimated in an unquoted market. The fair value of the Organization's interest in the LLC is determined based upon the most recent net asset value information provided by the LLC. The LLC invests in real estate assets. The fair value of the marketable securities held by the LLC are valued at their last sale price on such date, or if no sale occurred on any such date, the mean between the closing "bid" and "asked" prices on such date. The LLC values the derivatives at fair value based on quotations obtained from valuation agents or swap counterparties based on recent market transactions.

The related gain/loss is included in realized gain (loss) on investments-net in the statements of activities and changes in net assets. The Partnership and Makena value alternative investments in the underlying funds utilizing the net asset valuations provided by the underlying private investment companies, without adjustment, when the net asset valuations of the investments are determined using a measurement basis consistent with U.S. GAAP for investment companies. The underlying funds management may determine fair value by using methodologies after giving consideration to a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, current and projected performance and expected cash flows. The Manager has designed ongoing due diligence processes with respect to its underlying fund and their investment managers, which assist the Manager in assessing the quality of the information provided and determining whether further investigation is necessary. The Manager has established a valuation committee to oversee the valuation process. The valuation committee is responsible for developing the master funds' written valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies. Withdrawals are subject to certain requirements.

Investments held, at September 30 are as follows:

	2020	2019
Stewardship Fund – Community Foundation	$ 345,944	$ 327,731
Albany Road – alternative investment	23,410	–
Total	$ 369,354	$ 327,731

NOTE 5. INVESTMENTS (Continued)

The following tables present the fair value of investments on the accompanying statements of financial position as of September 30, by fair value hierarchy.

	2020						2019					
	Level 1		Level 2		Level 3		Level 1		Level 2		Level 3	
Stewardship Fund	$	–	$	345,944	$	–	$	–	$	327,731	$	–
Albany Road	$	–	$	–	$	23,410	$	–	$	–	$	–

NOTE 6. PROPERTY AND EQUIPMENT

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

	2020	2019
Buildings	$ 11,546,767	$ 11,246,094
Land improvements	1,610,103	1,600,951
Furniture and equipment	473,632	419,925
Autos and trucks	92,934	78,963
Technology	126,838	5,000
Total	13,850,274	13,350,933
Accumulated depreciation	(1,990,240)	(1,532,718)
Total depreciable property and equipment – net	11,860,034	11,818,215
Construction in progress:		
Recreation fields	1,729	1,729
Vocational center	290,205	–
Modular buildings	–	266,862
Donated vehicles	15,970	–
IT infrastructure	–	53,342
Signage	–	1,654
Total construction in progress	307,904	323,587
Property and equipment – net	$ 12,167,938	$ 12,141,802

For the years ended September 30, 2020 and 2019, depreciation expense was $457,523 and $215,973, respectively.

NOTE 7. REFUNDABLE ADVANCE

The Organization received $304,140 of funding under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin until the date that the SBA remits the borrower's loan forgiveness amount to the lender. The Organization anticipates that they will be eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization has recorded the loan as a refundable advance in accordance with the guidance in ASC 958-605 in which the loan proceeds would be considered a conditional contribution.

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of September 30:

	2020	2019
Time restrictions:		
Promise to give – land lease, net	$ 1,960,332	$ 2,074,185
Other pledges – net	235,892	45,001
Purpose restrictions:		
Capital campaign	1,268,742	763,288
Program logic model	25,000	65,126
Infrastructure grant	25,991	–
Modular classrooms	–	250,905
Youth program	144,718	167,585
Scholarship	48,030	49,931
Endowment earnings	13,643	9,327
Subtotal	3,722,348	3,425,348

Donor endowment corpus net assets at September 30 consist of the following:

General endowment	232,450	232,450
Subtotal	232,450	232,450
Total	$ 3,954,798	$ 3,657,798

NOTE 8. **NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

During the course of the year, net assets that were subject to donor-imposed restrictions were fulfilled by actions of the Organization pursuant to those restrictions. These net assets are shown in the Statement of Activities as "net assets released from restriction." The detail of the net assets released from restrictions at September 30 is as follows:

	2020	2019
Promise to give – land lease, net	$ 135,840	$ 135,840
Capital campaign	4,731	2,732,251
Program logic model	40,126	34,874
Infrastructure grant	124,009	–
Modular classrooms	250,905	–
Youth program	481,417	472,224
Scholarship	8,000	24,004
Other pledges – time restriction	83,967	81,241
Endowment earnings	10,452	2,295
Total	$ 1,139,447	$ 3,482,729

NOTE 9. **ENDOWMENT HELD AT COMMUNITY FOUNDATION**

The Community Foundation holds endowment funds for the Organization in the amount of $246,108. The Organization has granted variance power to the Community Foundation. In the event of the dissolution of the Organization or in the event it shall no longer be an organization described in Section 170(c) of the Internal Revenue Code of 1954, as amended, the Community Foundation shall continue to hold the funds and shall distribute the income therefrom to such organizations as in their opinion most nearly serve the purposes and objectives of the Organization. All funds held are subject to the power of the Community Foundation to modify any restrictions or conditions on the distribution of funds for any specified charitable purpose or to specified organizations if in their sole judgment such restriction becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the area served by them.

The earnings payout of the fund is evaluated at least annually by the Community Foundation. Considering the total return from investments, fees, expenses, and the effects of inflation, the annual payout is typically between 5% and 7% of the fair market value of the fund at December 31 of the preceding calendar year. For the year ending September 30, 2020, the fair market value of the funds increased by $6,932 and $2,616 was distributed in fees.

NOTE 10. DONATED SERVICES AND MATERIALS

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

2020	General Operations	Youth Programs	Capital Improve-ments	Total
Fixed assets	$ 11,638	$ 29,918	$ 34,644	$ 76,200
Land lease	1,026	20,960	–	21,986
Supplies	3,255	37,392	–	40,647
Professional services	247	1,002	–	1,249
Maintenance and repairs	–	–	–	–
Vehicles	–	26,000	–	26,000
Total before special events	16,166	115,272	34,644	166,082
Special events	106,674	–	–	106,674
Total	$ 122,840	$ 115,272	$ 34,644	$ 272,756

2019	General Operations	Youth Programs	Capital Improve-ments	Total
Fixed assets	$ 16,185	$ 151,400	$ 130,545	$ 298,130
Land lease	787	16,062	–	16,849
Supplies	885	29,090	–	29,975
Professional services	1,898	622	–	2,520
Maintenance and repairs	–	1,309	–	1,309
Vehicles	–	21,106	–	21,106
Total before special events	19,755	219,589	130,545	369,889
Special events	54,371	–	–	54,371
Total	$ 74,126	$ 219,589	$ 130,545	$ 424,260

NOTE 11. 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 2021. Rental income for the years ended September 30, 2020 and 2019 totaled $239,574 and $215,860, respectively. Future minimum rental income on operating lease agreements as of September 30, 2020 is as follows:

2021	$ 240,865
2022	19,800
2023	13,500
Total	$ 274,165

NOTE 12. RELATED PARTY TRANSACTIONS

Several members on the board of directors own companies which provide construction, materials, and other related services to the Organization. One member in particular owns five of these companies which primarily provide construction services.

During the years ended September 30, 2020 and 2019, the Organization's revenue consisted of $293,218 and $503,060, respectively, from related parties. Amounts due from these related parties, as of September 30, 2020 and 2019, were $159,100 and $232,770, respectively. During the years ended September 30, 2020 and 2019, the Organization paid $232,047 and $3,703,186, respectively, to related parties. Amounts due to these related parties, as of September 30, 2020 and 2019, were $30,821 and $-0-, respectively.

Approximately $60,269 and $95,348 in services and materials were donated by related parties during the years ended September 30, 2020 and 2019, respectively.

NOTE 13. 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 1,000 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, 2020 and 2019, employer contributions aggregated $20,199 and $19,888, respectively.

NOTE 14. CONCENTRATION OF CREDIT RISK

Cash and cash equivalents and investments at September 30, 2020, include accounts insured by the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). As of September 30, 2020 and 2019, the bank balances exceeded FDIC limits by $350,148 and $637,486, respectively. As of September 30, 2020 and 2019, the bank balances exceeded SPIC limits by $1,101,956 and $1,579,549, respectively. The Organization has not experienced any losses in such accounts and believes it was not exposed to any significant risk at September 30, 2020.

NOTE 15. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds, exchange traded funds and mutual funds.

The Organization considers investment income without donor restrictions, appropriated earnings from donor-restricted and contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, program expenses and fundraising expenses to be paid in the subsequent year.

NOTE 15. LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets and
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the Organization.

The following table reflects the Organization's financial assets as of September 30, 2020 reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available to meet general expenditures within one year also include net assets with donor restrictions.

Cash and cash equivalents	$ 2,032,013
Accounts receivable	152,562
Pledges receivable, current portion	358,899
Prepaid expenses	2,035
Financial assets available for general expenditure within one year	$ 2,545,509

NOTE 16. CONTINGENCIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, to date, the Organization has been able to keep up with operations due to the funding received by the Paycheck Protection Program application, for $304,140, which was received on April 18, 2020. This funding has helped pay for program and administrative staff to continue to support the operations of the Organization. National philanthropy organizations predict that individual contributions will decline in the immediate future as unemployment is high and retirement portfolios have declined in value. The Organization has 2 summer fundraisers, both of which are at risk for an estimated 50% reduction in donations, as they are primarily funded by local agriculture companies, many of whom are suffering losses. Additionally, the Organization received a $90,000 gift in 2019 from The Quail: A Motorsports Gathering, which was cancelled in 2020. These three funding sources combined equal almost $300,000, about the same that the Organization received in PPP funding.

NOTE 16. CONTINGENCIES (Continued)

A small number of pledges to the Ted Taylor Ag Vocational Center Capital Campaign were pushed out to later due dates.

The Drummond Academy Dining Room generally produces enough earned revenue to cover about 30% of The Culinary Academy's expense budget. While most of that expense is in labor, the Organization has maintained those expenses without the corresponding revenue. However, the Academy Dining Room was open during the summer to try to regain some of those lost revenues. Earned revenue is not budgeted for the summer months, as the Academy is normally closed during the summer.

While the Organization aims to maintain breakeven operations, ongoing issues surrounding the pandemic could lead to more severe impact. Management has established contingency plans to monitor revenue in the upcoming year along with expense reduction measures should they become necessary. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions. However, management does not expect a material impact to its estimates at this time.

NOTE 17. SUBSEQUENT EVENTS

The Organization was granted full forgiveness of its first Paycheck Protection Program loan paid in full by the Small Business Administration in the amount of $304,140, plus outstanding interest $2,483 effective February 12, 2021.

On February 23, 2021, the Organization received a second round of funding under the Paycheck Protection Program for $323,533 which is created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin until the date that the SBA remits the borrower's loan forgiveness amount to the lender. All remaining principal and accrued interest is due and payable February 23, 2026. The Organization anticipates that they will be eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.