

RANCHO CIELO, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
SEPTEMBER 30, 2021

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, 2021, 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, 2021, 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, Inc.'s** 2020 financial statements, and we expressed an unmodified audit opinion on these audited financial statements in our report dated April 27, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hayashi Wayland, LLP

April 5, 2022
Salinas, CA



RANCHO CIELO, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2021
(WITH SUMMARIZED TOTALS FOR SEPTEMBER 30, 2020)

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,142,472 | \$ 2,285,057 |
| Accounts receivable | 252,329 | 152,562 |
| Pledges receivable, net, current portion | 236,693 | 38,712 |
| Promise to give – land lease, net, current portion | 104,233 | 108,937 |
| Prepaid expenses | 1,233 | 2,035 |
| Inventory | <u>22,422</u> | <u>19,533</u> |
| Total current assets | <u>3,759,382</u> | <u>2,606,836</u> |
| NONCURRENT ASSETS: | | |
| Pledges receivable, net, less current portion | 44,528 | 444,980 |
| Promise to give – land lease, net, non-current portion | 1,747,161 | 1,851,394 |
| Investments | 719,521 | 369,354 |
| Endowment fund | 742,407 | 246,108 |
| Cash restricted for construction | 291,105 | 382,067 |
| Property and equipment, net | <u>11,870,509</u> | <u>12,167,938</u> |
| Total noncurrent assets | <u>15,415,231</u> | <u>15,461,841</u> |
| TOTAL ASSETS | <u>\$ 19,174,613</u> | <u>\$ 18,068,677</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 146,041 | \$ 102,195 |
| Refundable advance | 323,533 | 304,140 |
| Accrued wages and related liabilities | 105,641 | 101,696 |
| Security deposit and incentive fund payable | 25,738 | 15,477 |
| Accrued scholarships | <u>27,400</u> | <u>24,650</u> |
| Total current liabilities | <u>628,353</u> | <u>548,158</u> |
| TOTAL LIABILITIES | <u>628,353</u> | <u>548,158</u> |
| NET ASSETS: | | |
| Without donor restrictions | 15,023,653 | 13,565,721 |
| With donor restrictions | <u>3,522,607</u> | <u>3,954,798</u> |
| Total net assets | <u>18,546,260</u> | <u>17,520,519</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 19,174,613</u> | <u>\$ 18,068,677</u> |

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2020)

| | Without Donor Restrictions | With Donor Restrictions | 2021 Total | 2020 Total |
|---|----------------------------------|----------------------------|---------------------|---------------------|
| REVENUES AND SUPPORT: | | | | |
| Grants | \$ 729,363 | \$ 307,393 | \$ 1,036,756 | \$ 1,115,910 |
| Contributions | 941,232 | 882,742 | 1,823,974 | 1,283,479 |
| Facility rental income | 313,393 | - | 313,393 | 239,574 |
| Donated rent, services and materials | 71,696 | 26,902 | 98,598 | 166,082 |
| Program revenues | <u>239,967</u> | <u>-</u> | <u>239,967</u> | <u>227,902</u> |
| Total revenues and support | <u>2,295,651</u> | <u>1,217,037</u> | <u>3,512,688</u> | <u>3,032,947</u> |
| OTHER INCOME (EXPENSE): | | | | |
| Special events, net of \$115,601 and \$114,759 in expenses in 2021 and 2020, respectively | 725,371 | - | 725,371 | 722,112 |
| Bingo, net of \$286,336 and \$-0- in expenses in 2021 and 2020, respectively | (46,239) | - | (46,239) | - |
| Miscellaneous income | 34,716 | - | 34,716 | 21,967 |
| Investment return – net | 81,205 | 82,540 | 163,745 | 47,387 |
| Gain(loss) on sale of equipment | <u>(288)</u> | <u>-</u> | <u>(288)</u> | <u>-</u> |
| Total other income (expense) | <u>794,765</u> | <u>82,540</u> | <u>877,305</u> | <u>791,466</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>1,731,768</u> | <u>(1,731,768)</u> | <u>-</u> | <u>-</u> |
| Total revenues, support, other income (expense) and net assets released from restrictions | <u>4,822,184</u> | <u>(432,191)</u> | <u>4,389,993</u> | <u>3,824,413</u> |
| EXPENSES: | | | | |
| Program | 2,483,674 | - | 2,483,674 | 2,336,892 |
| General and administrative | 527,481 | - | 527,481 | 465,626 |
| Fundraising | <u>353,097</u> | <u>-</u> | <u>353,097</u> | <u>354,576</u> |
| Total expenses | <u>3,364,252</u> | <u>-</u> | <u>3,364,252</u> | <u>3,157,094</u> |
| CHANGE IN NET ASSETS | 1,457,932 | (432,191) | 1,025,741 | 667,319 |
| NET ASSETS: | | | | |
| Beginning of year | <u>13,565,721</u> | <u>3,954,798</u> | <u>17,520,519</u> | <u>16,853,200</u> |
| End of year | <u>\$15,023,653</u> | <u>\$ 3,522,607</u> | <u>\$18,546,260</u> | <u>\$17,520,519</u> |

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2020)

| | PROGRAM SERVICES | | | | | SUPPORT SERVICES | | 2021 Total | 2020 Total |
|--|---------------------------------|-------------------------|-------------------|---------------------|---------------------|----------------------------------|-------------------|---------------------|---------------------|
| | Drummond Culinary Academy | Transitional Housing | Youth Corps | Other | Total Program | General and Administrative | Fundraising | | |
| EXPENSES: | | | | | | | | | |
| Salaries and related costs | \$ 283,482 | \$ 131,740 | \$ 279,177 | \$ 378,584 | \$ 1,072,983 | \$ 340,118 | \$ 251,580 | \$ 1,664,681 | \$ 1,478,416 |
| Payroll taxes | 24,419 | 12,946 | 29,098 | 30,874 | 97,337 | 5,972 | 21,069 | 124,378 | 125,102 |
| Employee benefits | 22,167 | 3,764 | 17,020 | 35,020 | 77,971 | 36,855 | 11,587 | 126,413 | 85,674 |
| Total salaries and related expenses | 330,068 | 148,450 | 325,295 | 444,478 | 1,248,291 | 382,945 | 284,236 | 1,915,472 | 1,689,192 |
| Depreciation | 49,260 | 33,217 | 120,433 | 262,569 | 465,479 | 13,432 | 1,238 | 480,149 | 457,523 |
| Rent | 17,299 | 424 | 68,073 | 47,098 | 132,894 | 6,652 | 8,037 | 147,583 | 151,843 |
| Utilities | 23,448 | 21,382 | 24,729 | 55,394 | 124,953 | 10,781 | 6,855 | 142,589 | 128,988 |
| Professional consultants | 6,804 | 8,891 | 5,634 | 45,075 | 66,404 | 60,251 | 5,568 | 132,223 | 112,814 |
| Insurance | 9,075 | 11,946 | 25,563 | 30,450 | 77,034 | 23,784 | 1,856 | 102,674 | 98,747 |
| Program costs | 63,742 | 2,892 | 2,175 | 31,003 | 99,812 | 577 | 104 | 100,493 | 155,284 |
| Supplies | 13,846 | 10,968 | 1,024 | 44,957 | 70,795 | 6,574 | 381 | 77,750 | 75,171 |
| Repairs and maintenance | 7,985 | 6,046 | 25,379 | 12,146 | 51,556 | 1,746 | 460 | 53,762 | 68,157 |
| Security | 4,226 | 2,275 | 31,760 | 7,116 | 45,377 | 1,982 | 89 | 47,448 | 13,487 |
| Vehicle expense | 9,043 | 2,282 | 8,297 | 22,723 | 42,345 | – | 3 | 42,348 | 40,470 |
| Office and postage | 5,098 | 3,552 | 3,794 | 11,379 | 23,823 | 9,210 | 5,008 | 38,041 | 50,471 |
| Printing and reproduction | 690 | 19 | 24 | 5,026 | 5,759 | 387 | 24,663 | 30,809 | 40,059 |
| Bank charges | 2,510 | 24 | 240 | 5,191 | 7,965 | 5,696 | 6,780 | 20,441 | 16,624 |
| Public relations | 3,370 | 446 | 386 | 5,366 | 9,568 | 1,366 | 6,330 | 17,264 | 35,697 |
| Scholarships | – | – | – | 5,825 | 5,825 | – | – | 5,825 | 8,000 |
| Taxes and licenses | 1,515 | – | 1,454 | – | 2,969 | 424 | 935 | 4,328 | 5,233 |
| Dues and subscriptions | 642 | 280 | – | 646 | 1,568 | 1,227 | 554 | 3,349 | 2,186 |
| Training | 61 | 45 | – | 1,151 | 1,257 | 447 | – | 1,704 | 7,148 |
| Total expenses | \$ 548,682 | \$ 253,139 | \$ 644,260 | \$ 1,037,593 | \$ 2,483,674 | \$ 527,481 | \$ 353,097 | \$ 3,364,252 | \$ 3,157,094 |

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2020)

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 1,025,741 | \$ 667,319 |
| Adjustments to reconcile change in net assets to cash and equivalents provided by operating activities: | | |
| Contributions restricted for construction | (250,150) | (336,798) |
| Contributions restricted for endowment | (423,154) | - |
| Unrealized and realized (gain) loss on investments | (122,888) | (12,443) |
| Change in discount on pledges and grants receivable | (7,502) | 28,672 |
| Change in allowance for uncollectible receivable | 1,367 | 94,716 |
| Depreciation | 480,149 | 457,523 |
| Amortization of discount – promise to give, land lease | 108,937 | 113,854 |
| (Gain) loss on sale of property and equipment | 288 | - |
| In-kind contribution of property and equipment | (21,824) | (102,200) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (99,767) | (6,250) |
| Pledges receivable | 208,606 | 100,454 |
| Prepaid expenses | 802 | (263) |
| Inventory | (2,889) | (5,863) |
| Accounts payable | 43,846 | 32,869 |
| Refundable advance | 19,393 | 304,140 |
| Accrued wages and related liabilities | 3,945 | 29,127 |
| Security deposit and incentive fund payable | 10,261 | (769) |
| Accrued scholarships | 2,750 | 6,150 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>977,911</u> | <u>1,066,098</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (695,975) | (15,573) |
| Purchases of property and equipment | (161,184) | (381,459) |
| Reinvestment of investment income | (27,603) | (17,923) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>(884,762)</u> | <u>(414,955)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Contributions restricted for construction | 250,150 | 336,798 |
| Contributions restricted for endowment | 423,154 | - |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>673,304</u> | <u>336,798</u> |
| NET CHANGE IN CASH AND RESTRICTED CASH | 766,453 | 1,292,081 |
| CASH AND RESTRICTED CASH, BEGINNING OF YEAR | <u>2,667,124</u> | <u>1,375,043</u> |
| CASH AND RESTRICTED CASH, END OF YEAR | <u>\$ 3,433,577</u> | <u>\$ 2,667,124</u> |

RANCHO CIELO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2021
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2020)
(Continued)

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| CASH | \$ 3,142,472 | \$ 2,285,057 |
| RESTRICTED CASH | <u>291,105</u> | <u>382,067</u> |
| TOTAL | <u>\$ 3,433,577</u> | <u>\$ 2,667,124</u> |
| SUPPLEMENTAL DISCLOSURES OF NONCASH | | |
| INVESTING AND FINANCING ACTIVITIES: | | |
| Property and equipment acquired | \$ 183,008 | \$ 483,659 |
| In-kind contribution of property and equipment | <u>(21,824)</u> | <u>(102,200)</u> |
| Cash paid to acquire property and equipment | <u>\$ 161,184</u> | <u>\$ 381,459</u> |

See Notes to Financial Statements.

RANCHO CIELO, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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, Inc. 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.

Ag Mechanical and Electrical Program

The Ag Mechanical & Electrical program is a unique experience, giving students hands-on training, as well as academic instruction in the classroom, leading to the completion of high school diploma in partnership with John Muir Charter School. Students who participate in the program will learn the mechanics, food safety, electrical of the salad factory line, commonly referred to as “Value Added.” Students have the opportunity to maintain and repair machinery and equipment that is essential to the agriculture industry as well as learn from industry professionals.

Auto and Diesel Repair Program

Students in this program develop automotive knowledge and receive basic level training in servicing and maintenance of gas and diesel engine vehicles. Vocational training includes a combination of hands-on and textbook teaching related to topics including safety, tool identification and usage, inspection processes, engine basics, power train/transmissions, suspensions/brakes, exhaust/emissions and electrical.

Drummond Culinary Academy

The Culinary Academy is dedicated to providing underserved youth with an opportunity to gain classroom training, work experience, and transferrable skills that help them become employable in the culinary and hospitality industry. The 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 high school academic classroom, results in a culinary certificate and a high school diploma. Students 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.

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

Construction Academy

The Construction Academy is a unique experience, where students are engaged in our classroom, vocational activities and workshops through the Organization's partnership with John Muir Charter School. Job readiness, referral and placement are also part of the program.

Youth Corps Program

Youth Corps is an on-the-job training program, serving young people 18-24, to be prepared for regular full-time employment. Crews learn through their involvement in a variety of landscaping and maintenance projects and are employed by the Organization during their tenure in the program. This program is critical to the cultural change Rancho Cielo, Inc. is trying to affect, providing youth with positive opportunities to learn new skills and self-sufficiency.

Silver Star Youth Program

Rancho Cielo, Inc.'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, Inc. but may come recommended from the juvenile court, schools or parents. 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 provides teachers and classroom aides for Rancho Cielo, Inc.'s Community School. Students benefit from a small classroom size and a curriculum tailored to meet their needs. They are taught a California State Standards-based core curriculum in English, math, social studies, science, physical education, and fine arts.

Transitional Housing Program

With 22 residential beds, the Organization's Transitional Housing Village has 8,030 safe nights' rest per year for Rancho Cielo, Inc. 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; it 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.

NOTE 1.

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue Recognition - Rancho Cielo, Inc. recognizes revenue from programs, facility rentals as well as special events. Program revenue consists of Drummond Culinary Academy catering services and related facility rentals as well as Youth Corps job readiness and placement program services. Facility rental income is recognized in the period in which agreed-upon access to Rancho Cielo, Inc. facilities and grounds is provided. Special event revenue is comprised of sales of veggie bags and barbeque meals as well as Bingo admissions. Program and special event revenue is recognized in the period in which the service is provided or sale occurs. In the event there is a pre-payment, Rancho Cielo, Inc. recognizes a liability until the related revenue is recognized.

Contributions, including unconditional promises to give and donations, have no exchange component, though many have restrictions as to purpose. Contributions are considered to be without donor restrictions unless specifically restricted by the donor or grantor. Grants received that are unconditional in nature with no barriers to overcome prior to recognition or exchange components are considered contributions. Contributions are recognized as revenues in the period received or promised. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Amounts received that are designed for future periods or restricted by the donor or grantor for specific purpose are reported as with donor restriction support that increases the related net asset class with donor restriction.

Gains and losses on investments and other assets and liability are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Financial Instruments – Financial instruments included in the Organization's statements of financial position include accounts receivable, pledges receivable, accounts payable and accrued liabilities. They are carried at cost which approximates their fair value due to the short-term maturity of these instruments.

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

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. Receivables are recorded using the allowance method and are presented net of the allowance for uncollectible accounts. The allowance is based on prior years' experience and management analysis of receivable balances. Management believes that all accounts receivable are fully collectible, therefore, no allowance for doubtful accounts has been recorded at September 30, 2021 and September 30, 2020, respectively.

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, 2021 and 2020 were discounted using interest rates of 4.27% and 5.04%, respectively. Amortization of these discounts is included in contribution 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, 2021 and 2020, the allowance was \$35,573 and \$34,206, respectively.

Prepaid Expenses – Prepaid amounts represent advance payments for goods or services that will be expensed in the periods in which they benefit.

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.

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.

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.

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

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 following table presents fair values on the accompanying statements of financial position as of September 30, by fair value hierarchy.

| | 2021 | | | 2020 | | |
|--------------------------------------|------------|------------|--------------|---------|------------|--------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Certificates of Deposit | \$ 247,289 | \$ – | \$ – | \$ – | \$ – | \$ – |
| Endowment Fund | \$ – | \$ 742,407 | \$ – | \$ – | \$ 246,108 | \$ – |
| Stewardship Fund | \$ – | \$ 414,394 | \$ – | \$ – | \$ 345,944 | \$ – |
| Albany Road | \$ – | \$ – | \$ 57,838 | \$ – | \$ – | \$ 23,410 |
| Promise to give – land lease, net | \$ – | \$ – | \$ 1,851,394 | \$ – | \$ – | \$ 1,960,331 |

A portion of the Organization’s certificates of deposit (CDs) are classified as non-current in investments as they have a maturity date greater than one year from September 30, 2021. The CDs are classified as Level 1 as valuation is based on observable inputs using quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

The Community Foundation of Monterey County (CFMC) 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 CFMC as of September 30 (Refer to Notes 5 and 9).

The Albany Road investment is classified as Level 3 since observable inputs are minimal (Refer to Note 5). The Promise to Give – land lease is also classified as Level 3 because it is measured at fair value using significant unobservable inputs to determine rent and cost of living adjustments (Refer to Note 4).

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.

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

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 |

Accrued Vacation – Employees in “regular” and “interim” positions who are regularly paid at least 30 hours per week are eligible for vacation. Upon initial eligibility employees earn 80 hours (10 days) per year with maximum earned 160 hours (20 days). After completing five years employees earn 120 hours (15 days) per year with maximum earned 240 hours (30 days). After completing fifteen years, employees earn 160 hours (20 days) per year with maximum earned hours of 320 hours (40 days).

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.

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.

Advertising Costs – The Organization expenses the production costs of advertising the first time the advertising takes place. Advertising expenses totaled \$5,646 and \$13,378 for the years ending September 30, 2021 and September 30, 2020 respectively.

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 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.

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

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 – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

Summarized Totals for September 30, 2020 – 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. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2020, from which the summarized information was derived.

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

Effects of New Pronouncement – The Organization adopted the following Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU) during the year-ended September 30, 2021:

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Management has adopted this ASU as it believes the standard improves the usefulness and understandability of Rancho Cielo, Inc.'s financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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 ASU removes, modifies, and adds certain disclosure requirements of ASC Topic 820. The effect of adopting this ASU resulted in the removal or modification of certain fair value measurement disclosures presented in the financial statements.

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

Recent Accounting Pronouncements Not Yet Implemented – In February 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. Rancho Cielo, Inc. has no plan for early implementation of this Statement. At this time, the Organization is evaluating the effect, if any, that the adoption of ASU 2016-02 will have on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 was issued to improve GAAP by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this ASU address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. The amendments in this ASU are effective for annual periods beginning after June 15, 2021. Early application of the amendments in this update is permitted. Rancho Cielo, Inc. has no plan for early implementation of this Statement. At this time, the Organization is evaluating the effect, if any, that the adoption of ASU 2020-07 will have on the financial statements.

Subsequent Events – Subsequent events have been evaluated through April 5, 2022, 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:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Cash in bank | \$ 1,466,896 | \$ 705,054 |
| Certificates of deposit | 1,531,017 | 1,601,956 |
| Money market accounts | 434,914 | 359,464 |
| Petty cash | <u>750</u> | <u>650</u> |
| Total cash and cash equivalents | 3,433,577 | 2,667,124 |
| Less restricted for construction | <u>291,105</u> | <u>382,067</u> |
| Total non-construction cash and cash equivalents | <u>\$ 3,142,472</u> | <u>\$ 2,285,057</u> |

NOTE 3. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of September 30:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Pledges receivable | \$ 333,227 | \$ 541,833 |
| Allowance for uncollectible receivables | (35,573) | (34,206) |
| Discount to present value | <u>(16,433)</u> | <u>(23,935)</u> |
| Total pledges receivable – net | <u>\$ 281,221</u> | <u>\$ 483,692</u> |

Pledges receivable are due as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|-----------------------|-----------------------|
| Pledges receivable: | | |
| Receivable in less than one year | \$ 236,693 | \$ 38,712 |
| Receivable within one to five years | <u>44,528</u> | <u>444,980</u> |
| Total pledge receivable | <u>\$ 281,221</u> | <u>\$ 483,692</u> |

NOTE 4. PROMISE TO GIVE – LAND LEASE

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, 2021 and 2020. The amount of amortization recorded as support for the years ending September 30, 2021 and 2020, was \$26,902 and \$21,986 respectively.

For the years ended September 30, 2021 and 2020, 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, 2021, 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>3,667,680</u> |
| Total promises to give | 4,482,720 |
| Less discounts to net present value | <u>2,631,326</u> |
| Promise to give – land lease, net | 1,851,394 |
| Less current portion | <u>104,233</u> |
| Noncurrent portion | <u>\$ 1,747,161</u> |

NOTE 5. INVESTMENTS

Investments held at September 30 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|-------------------|-------------------|
| Certificates of Deposit – Non-current | \$ 247,289 | \$ - |
| CFMC Stewardship Fund | 414,394 | 345,944 |
| Albany Road – Alternative Investment | <u>57,838</u> | <u>23,410</u> |
| Total | <u>\$ 719,521</u> | <u>\$ 369,354</u> |

The Organization has established a Stewardship Fund with CFMC for the benefit of the Organization, and it can either take the annual payout as determined by the CFMC 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. CFMC 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 LLC values 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 using methodologies that consider 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 Fund 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 Fund 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.

NOTE 6. PROPERTY AND EQUIPMENT

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

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Buildings | \$ 11,912,392 | \$ 11,546,767 |
| Land improvements | 1,544,554 | 1,610,103 |
| Furniture and equipment | 551,544 | 473,632 |
| Autos and trucks | 101,904 | 92,934 |
| Technology | <u>142,612</u> | <u>126,838</u> |
| | | |
| Total | 14,253,006 | 13,850,274 |
| | | |
| Accumulated depreciation | <u>(2,391,674)</u> | <u>(1,990,240)</u> |
| | | |
| Total depreciable property and equipment – net | <u>11,861,332</u> | <u>11,860,034</u> |
| | | |
| Construction in progress: | | |
| Recreation fields | 1,729 | 1,729 |
| Vocational center | – | 290,205 |
| Donated vehicles | 7,000 | 15,970 |
| Garden | <u>448</u> | <u>–</u> |
| | | |
| Total construction in progress | <u>9,177</u> | <u>307,904</u> |
| | | |
| Property and equipment – net | <u>\$ 11,870,509</u> | <u>\$ 12,167,938</u> |

For the years ended September 30, 2021 and 2020, depreciation expense was \$480,149 and \$457,523, respectively.

NOTE 7. REFUNDABLE ADVANCE

Rancho Cielo, Inc. received two rounds of funding in the form of loans from Pinnacle Bank under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration (SBA). The Organization anticipated that it would be eligible for forgiveness up to 100% of the loans, upon meeting certain requirements. The loans are uncollateralized and fully guaranteed by the Federal government. Rancho Cielo, Inc. has accounted for the loans as refundable advances in accordance with the guidance in ASC 958-605 in which the loan proceeds are considered a conditional contribution. Upon forgiveness, contribution income is recognized.

In April 2020, the Organization received its first round of PPP funding of \$304,140 accruing interest at 1%. No payments were required until the date that the SBA remitted Rancho Cielo, Inc.'s loan forgiveness amount to Pinnacle Bank. In February 2021, the loan was fully forgiven. The Organization recognized contribution income in the full amount of the loan as all conditions for recognition were met.

NOTE 7. REFUNDABLE ADVANCE (Continued)

In February 2021, the Organization received its second round of PPP funding of \$323,533 accruing interest at 1%. No payments are required until the date the SBA remits the Organization's loan forgiveness amount to Pinnacle Bank. The loan is outstanding as of September 30, 2021; however, it was fully forgiven subsequent to year-end. See Note 17 Subsequent Events.

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

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

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|------------------|------------------|
| Time restrictions: | | |
| Promise to give – land lease, net | \$ 1,851,394 | \$ 1,960,332 |
| Other pledges – net | 79,585 | 235,892 |
| Purpose restrictions: | | |
| Capital campaign | 562,965 | 1,268,742 |
| Youth program | 170,720 | 144,718 |
| Endowment earnings | 86,788 | 13,643 |
| CEO search | 50,000 | – |
| Scholarship | 44,850 | 48,030 |
| Program logic model | 19,600 | 25,000 |
| Infrastructure grant | – | 25,991 |
| Subtotal | <u>2,865,902</u> | <u>3,722,348</u> |

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

| | | |
|-------------------|---------------------|---------------------|
| General endowment | <u>656,705</u> | <u>232,450</u> |
| Subtotal | <u>656,705</u> | <u>232,450</u> |
| Total | <u>\$ 3,522,607</u> | <u>\$ 3,954,798</u> |

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:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------------|---------------------|---------------------|
| Promise to give – land lease, net | \$ 135,840 | \$ 135,840 |
| Other pledges – time restriction | 187,833 | 83,967 |
| Capital campaign | 1,136,636 | 4,731 |
| Youth programs | 224,849 | 481,417 |
| Endowment earnings | 9,395 | 10,452 |
| Scholarship | 5,825 | 8,000 |
| Program logic model | 5,400 | 40,126 |
| Infrastructure grant | 25,990 | 124,009 |
| Modular classroom | – | 250,905 |
| Total | <u>\$ 1,731,768</u> | <u>\$ 1,139,447</u> |

NOTE 9. ENDOWMENT HELD AT COMMUNITY FOUNDATION

Rancho Cielo, Inc.'s endowment consists of funds held at CFMC in the amount of \$742,407. The Organization has granted variance power to CFMC. 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, CFMC 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 Rancho Cielo, Inc. All funds held are subject to the power of CFMC 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 CFMC. 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.

The activity in the CFMC Endowment Fund for the years ended September 30 is as follows:

| | <u>2021</u> | <u>2020</u> |
|------------------------|-------------------|-------------------|
| Beginning balance | \$ 246,108 | \$ 241,792 |
| Contributions | 423,154 | - |
| Interest and dividends | 16,060 | 7,564 |
| Unrealized gain (loss) | 71,628 | 7,204 |
| Expenses | (5,148) | (2,616) |
| Distributions | <u>(9,395)</u> | <u>(7,836)</u> |
| Ending Balance | <u>\$ 742,407</u> | <u>\$ 246,108</u> |

NOTE 10. DONATED SERVICES AND MATERIALS

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

| <u>2021</u> | <u>General Operations</u> | <u>Youth Programs</u> | <u>Capital Improve- ments</u> | <u>Total</u> |
|-----------------------------|-------------------------------|---------------------------|---------------------------------------|-------------------|
| Fixed assets | \$ - | \$ - | \$ 21,824 | \$ 21,824 |
| Land lease | 1,256 | 25,646 | - | 26,902 |
| Supplies | 1,000 | 27,169 | - | 28,169 |
| Professional services | <u>895</u> | <u>20,808</u> | <u>-</u> | <u>21,703</u> |
| Total before special events | 3,151 | 73,623 | 21,824 | 98,598 |
| Special events | <u>111,274</u> | <u>-</u> | <u>-</u> | <u>111,274</u> |
| Total | <u>\$ 114,425</u> | <u>\$ 73,623</u> | <u>\$ 21,824</u> | <u>\$ 209,872</u> |

NOTE 10. DONATED SERVICES AND MATERIALS (Continued)

| <u>2020</u> | <u>General Operations</u> | <u>Youth Programs</u> | <u>Capital Improve- ments</u> | <u>Total</u> |
|-----------------------------|-------------------------------|---------------------------|---------------------------------------|-------------------|
| 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 |
| Vehicles | <u>-</u> | <u>26,000</u> | <u>-</u> | <u>26,000</u> |
| Total before special events | 16,166 | 115,272 | 34,644 | 166,082 |
| Special events | <u>106,674</u> | <u>-</u> | <u>-</u> | <u>106,674</u> |
| Total | <u>\$ 122,840</u> | <u>\$ 115,272</u> | <u>\$ 34,644</u> | <u>\$ 272,756</u> |

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 September 2023. Rental income for the years ended September 30, 2021 and 2020 totaled \$313,393 and \$239,574, respectively. Future minimum rental income on operating lease agreements as of September 30, 2021 is as follows:

| | |
|-------|-------------------|
| 2022 | \$ 173,579 |
| 2023 | <u>13,500</u> |
| Total | <u>\$ 187,079</u> |

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.

During the years ended September 30, 2021 and 2020, the Organization's revenue consisted of \$182,788 and \$293,218, respectively, from related parties. Amounts due from these related parties, as of September 30, 2021 and 2020, were \$156,217 and \$159,100, respectively. During the years ended September 30, 2021 and 2020, the Organization paid \$5,908 and \$232,047, respectively, to related parties. Amounts due to these related parties, as of September 30, 2021 and 2020, were \$-0- and \$30,821, respectively.

Approximately \$1,990 and \$60,269 in services and materials were donated by related parties during the years ended September 30, 2021 and 2020, respectively.

NOTE 13. RETIREMENT PLAN

In June 2010, the Board of Directors approved a Simple Individual Retirement Account plan (Plan), which is available to employees who are 18 years of age, have completed one year of service, and where their prior-year compensation exceeds \$5,000 in the year that proceeds the current plan year. Employees voluntarily make contributions to the Plan based on limits established under the Internal Revenue Code. In addition, Rancho Cielo, Inc. will match the employee's contribution up to 3% of compensation, in accordance with the Plan. During the years ended September 30, 2021 and 2020, employer contributions aggregated \$25,060 and \$20,199, respectively.

NOTE 14. CONCENTRATION OF CREDIT RISK

Cash and cash equivalents and investments at September 30, 2021, include accounts insured by the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). As of September 30, 2021 and 2020, balances exceeded FDIC limits by \$571,881 and \$350,148, respectively. As of September 30, 2021 and 2020, balances exceeded SIPC limits by \$864,143 and \$1,101,956, respectively. The Organization has not experienced any losses in such accounts and believes it was not exposed to any significant risk at September 30, 2021.

NOTE 15. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Sources of liquidity include cash and cash equivalents, accounts receivable, current pledges receivable and prepaid expenses.

Rancho Cielo, Inc. 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 Organization considers support and investment income without donor restrictions as well as distributions from the CFMC endowment fund to be available to meet liquidity needs for general expenditures. General expenditures include administrative and general expenses, program expenses and fundraising expenses to be paid within one year of the statement of position date.

The following table reflects Rancho Cielo, Inc.'s financial assets available for general expenditure, that is, without donor or other contractual restrictions limiting their use, within one year of the statement of position. Amounts unavailable for general expenditures within one year include net assets with donor restrictions.

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 2,787,077 |
| Accounts receivable | 252,329 |
| Pledges receivable, current portion | 236,693 |
| Prepaid expenses | <u>1,233</u> |
| Financial assets available for general expenditure within one year | <u>\$ 3,277,332</u> |

NOTE 16. CONTINGENCIES

For the year-ended September 30, 2021, there was continued action taken around the world to help mitigate the spread of the pandemic including restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. This impacted the economies and financial markets of many countries, including the geographical region in which the Organization operates.

It is unknown how long these conditions will persist and what the complete financial effect will be. However, Rancho Cielo, Inc. has continued to successfully generate support for its operations and programs in the form of grants and contributions, special event income as well as program revenue through the Drummond Culinary Academy, Youth Corps Program and rental agreements. For the year-ended September 30, 2021, the Organization's revenues, support and special event income sufficiently covered its expenses for the year-ended September 30, 2021.

While the Organization has planned and budgeted for the anticipated future impact of the pandemic on its operations, conditions are uncertain as well as their ongoing financial effect on Rancho Cielo, Inc.

NOTE 17. SUBSEQUENT EVENTS

In October 2021, Rancho Cielo, Inc. received full forgiveness of its second round of PPP funding in the amount of \$323,533. The Organization recognized contribution income in the full amount of the loan for the year ending September 30, 2022, as all conditions for recognition were met.