RANCHO CIELO, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
SEPTEMBER 30, 2019

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, 2019, 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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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, 2019, 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*** 2018 financial statements, and we expressed an unmodified audit opinion on these audited financial statements in our report dated February 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

May 14, 2020

Hayashi Wayland, LLP

RANCHO CIELO, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019
(WITH SUMMARIZED TOTALS FOR SEPTEMBER 30, 2018)

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,375,043	$ 2,186,961
Accounts receivable	146,312	93,022
Pledges receivable, net, current portion	486,314	22,312
Promise to give – land lease, net, current portion	113,854	118,992
Prepaid expenses	1,772	–
Inventory	13,670	14,290
Total current assets	2,136,965	2,435,577
NONCURRENT ASSETS:		
Pledges receivable, net, less current portion	221,220	4,642
Promise to give – land lease, net, non-current portion	1,960,331	2,074,185
Stewardship fund	327,731	323,116
Endowment fund	241,792	151,774
Cash restricted for construction	–	1,865,038
Pledges receivable restricted for construction, net	–	1,356,944
Property and equipment, net	12,141,802	9,327,168
Total noncurrent assets	14,892,876	15,102,867
TOTAL ASSETS	$ 17,029,841	$ 17,538,444
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 69,326	$ 1,487,172
Accrued wages and related liabilities	72,569	63,571
Security deposit and incentive fund payable	16,246	25,499
Accrued scholarships	18,500	–
Total current liabilities	176,641	1,576,242
TOTAL LIABILITIES	176,641	1,576,242
NET ASSETS:		
Without donor restrictions	13,195,402	9,991,832
With donor restrictions	3,657,798	5,970,370
Total net assets	16,853,200	15,962,202
TOTAL LIABILITIES AND NET ASSETS	$ 17,029,841	$ 17,538,444

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
REVENUES AND SUPPORT:				
Grants	$ 399,394	$ 247,289	$ 646,683	$ 575,010
Contributions	785,816	559,625	1,345,441	1,459,608
Facility rental income	215,860	–	215,860	261,698
Donated rent, services and materials	17,012	352,877	369,889	60,433
Program revenues	315,150	–	315,150	295,201
Total revenues and support	1,733,232	1,159,791	2,893,023	2,651,950
OTHER INCOME (EXPENSE):				
Special events, net of $92,354 and $102,204 in expenses in 2019 and 2018, respectively	732,593	–	732,593	620,889
Miscellaneous income	18,095	–	18,095	14,309
Investment return – net	11,301	10,366	21,667	56,148
Gain(loss) on sale of equipment	1,069	–	1,069	(532)
Total other income (expense)	763,058	10,366	773,424	690,814
NET ASSETS RELEASED FROM RESTRICTIONS	3,482,729	(3,482,729)	–	–
Total revenues, support, other income (expense) and net assets released from restrictions	5,979,019	(2,312,572)	3,666,447	3,342,764
EXPENSES:				
Program	1,942,073	–	1,942,073	1,744,772
General and administrative	487,108	–	487,108	460,202
Fundraising	346,268	–	346,268	316,991
Total expenses	2,775,449	–	2,775,449	2,521,965
CHANGE IN NET ASSETS	3,203,570	(2,312,572)	890,998	820,799
NET ASSETS:				
Beginning of year	9,991,832	5,970,370	15,962,202	15,141,403
End of year	$13,195,402	$ 3,657,798	$16,853,200	$15,962,202

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)

	PROGRAM SERVICES					SUPPORT SERVICES			
	Drummond Culinary Academy	Transitional Housing	Youth Corps	Other	Total Program	General and Administrative	Fundraising	2019 Total	2018 Total
EXPENSES:									
Salaries and related costs	$ 283,695	$ 141,882	$ 269,070	$ 160,851	$ 855,498	$ 270,198	$ 226,320	$ 1,352,016	$ 1,218,615
Payroll taxes	23,176	14,245	29,497	14,799	81,717	27,206	19,076	127,999	114,738
Employee benefits	26,608	7,744	4,131	10,487	48,970	27,823	9,433	86,226	78,476
Total salaries and related expenses	333,479	163,871	302,698	186,137	986,185	325,227	254,829	1,566,241	1,411,829
Program costs	127,246	1,606	3,413	30,777	163,042	5,253	1,660	169,955	181,641
Depreciation	29,101	31,037	111,867	39,508	211,513	4,460	–	215,973	176,801
Insurance	26,036	17,246	50,896	15,097	109,275	20,131	2,404	131,810	104,930
Utilities	24,161	19,262	30,922	10,860	85,205	8,174	346	93,725	75,503
Vehicle expense	14,496	3,704	14,544	15,373	48,117	–	–	48,117	41,312
Professional consultants	5,562	1,326	3,862	30,364	41,114	77,385	7,318	125,817	152,606
Supplies	13,935	2,235	1,251	24,570	41,991	6,993	1,828	50,812	29,300
Repairs and maintenance	7,012	2,120	32,687	5,924	47,743	1,672	655	50,070	35,409
Printing and reproduction	671	55	29	1,488	2,243	1,961	28,856	33,060	29,651
Public relations	11,473	283	109	5,611	17,476	2,389	25,401	45,266	39,548
Office and postage	2,064	410	426	7,120	10,020	13,277	6,989	30,286	40,197
Dues and subscription	230	268	–	–	498	1,237	356	2,091	2,213
Bank charges	4,874	–	366	150	5,390	5,119	6,847	17,356	5,183
Security systems	1,608	888	4,201	1,786	8,483	1,846	168	10,497	14,248
Scholarships	–	–	–	24,000	24,000	–	–	24,000	6,836
Taxes and licenses	1,710	–	2,286	–	3,996	249	1,677	5,922	6,765
Rent	18,431	303	67,030	47,055	132,819	8,858	6,924	148,601	141,354
Training	991	676	215	1,081	2,963	2,877	10	5,850	26,639
Total expenses	$ 623,080	$ 245,290	$ 626,802	$ 446,901	$ 1,942,073	$ 487,108	$ 346,268	$ 2,775,449	$ 2,521,965

See Notes to Financial Statements.

RANCHO CIELO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 890,998	$ 820,799
Adjustments to reconcile change in net assets to cash and equivalents provided by operating activities:		
Contributions restricted for construction	(140,275)	(665,325)
Contributions restricted for endowment	(56,950)	(175,500)
Unrealized and realized income (loss) on investments	5,353	(3,631)
Change in discount on pledges and grants receivable	60,813	49,085
Change in allowance for uncollectible receivable	72,469	26,171
Depreciation	215,973	176,801
Amortization of discount – promise to give, land lease	118,992	124,362
(Gain)Loss on sale of property and equipment	(1,069)	532
In-kind contribution of property and equipment	(319,236)	(20,707)
Change in operating assets and liabilities:		
Accounts receivable	(53,290)	99,609
Pledges receivable	(813,861)	(70,367)
Prepaid expenses	(1,772)	–
Inventory	620	10,657
Accounts payable	(1,426,586)	36,353
Accrued wages and related liabilities	8,998	16,694
Security deposit and incentive fund payable	(9,253)	19,746
Accrued scholarships	18,500	–
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1,429,576)	445,279
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(81,951)	(150,499)
Purchases of property and equipment	(2,702,631)	(3,398,366)
Proceeds from sale of property and equipment	1,069	1,900
Reinvestment of investment income	(18,036)	(13,512)
Assets restricted for construction	3,221,982	4,077,013
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	420,433	516,536
CASH FLOWS FROM FINANCING ACTIVITES:		
Contributions restricted for construction	140,275	665,325
Contributions restricted for endowment	56,950	175,500
Principle payments on long term debt	–	(4,583)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	197,225	836,242
NET CHANGE IN CASH AND CASH EQUIVALENTS	(811,918)	1,798,057
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,186,961	388,904
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,375,043	$ 2,186,961

RANCHO CIELO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH SUMMARIZED TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)
(Continued)

	2019	2018
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment acquired	$ 3,021,867	$ 3,419,073
In-kind contribution of property and equipment	(319,236)	(20,707)
Cash paid to acquire property and equipment	$ 2,702,631	$ 3,398,366

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.

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

Silver Star Youth Program
Rancho Cielo's flagship program offers intensive educational instruction to students between the ages of 15 1/2 and 18. All students are screened prior to acceptance and must have a desire to make positive changes in their lives. Most students are on probation when referred to Rancho Cielo; Graduates receive a high school diploma. The program is operated in partnership with the Monterey County Probation Department, which provides supervision, case management for students involved in the juvenile court, meals and transportation, 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 of September 30, 2019 and 2018, respectively, and as noncurrent if they mature in greater than one year from September 30, 2019 and 2018, respectively.

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, 2019 and 2018.

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

Pledges Receivable – Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Pledges receivable during the years ended September 30, 2019, and 2018 were discounted using interest rates of 5.60% and 6.03%, 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, 2019 and 2018, the allowance was $130,803 and $200,472, 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.

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.

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 – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. Rancho Cielo, Inc. adopted the new guidance effective October 1, 2018 and applied the changes retrospectively. Implementation of this guidance resulted in a change in presentation of net assets, expenses and additional disclosures surrounding Rancho Cielo's liquidity and availability of financial assets and functional expense allocation.

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

Recent Accounting Pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, will replace almost all pre-existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. Implementation for non-public entities must occur in years beginning after December 15, 2018. The Organization has no plan for early implementation of this Statement. At this time the Organization is not certain of the effect the adoption of ASU 2014-09 will have on the accompanying financial statements.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* Non-public entities are required to adopt the standard for reporting periods beginning after December 15, 2020. All entities may elect to early-adopt. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. The Organization has no plan for early implementation of this Statement. At this time the Organization is not certain of the effect the adoption of ASU 2016-02 will have on the accompanying financial statements.

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

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. This standard is effective for nonpublic companies for years beginning after December 15, 2018. The Organization has no plan for early implementation of this Statement. At this time the Organization is not certain of the effect the adoption of ASU 2018-08 will have on the accompanying financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820).* The amendments in this Update modify the disclosure requirements on fair value measurements, including the removal of the requirement to disclose: 1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; 2) the policy for timing of transfers between levels; 3) the valuation processes for Level 3 fair value measurements; 4) for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. In lieu of a rollforward for Level 3 fair value measurement, a nonpublic entity is required to disclose transfers

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

into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Organization has no plan for early implementation of this Statement. At this time the Organization is not certain of the effect the adoption of ASU 2018-13 will have on the financial statements.

Summarized Totals for September 30, 2018 – 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 May 14, 2020, which is the date the financial statements were available to be issued. See Note 15 for further information.

NOTE 2. CASH AND CASH EQUIVALENTS

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

	2019	2018
Cash in bank	$ 985,799	$ 2,252,002
Certificates of deposit	184,414	1,141,847
Money market accounts	204,180	657,000
Petty cash	650	1,150
Total cash and cash equivalents	1,375,043	4,051,999
Less amounts restricted for construction	–	1,865,038
Total non-construction cash and cash equivalents	$ 1,375,043	$ 2,186,961

NOTE 3. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of September 30:

	2019	2018
Pledges receivable – construction	$ –	$ 1,666,514
Allowance for uncollectible receivables – construction	–	(197,277)
Discount to present value	–	(112,293)
Total restricted pledges receivable construction – net	$ –	$ 1,356,944
Pledges receivable non-construction	$ 893,770	$ 31,950
Allowance for uncollectible receivables non-construction	(130,803)	(3,195)
Discount to present value	(55,433)	(1,801)
Total non-construction pledges receivable – net	$ 707,534	$ 26,954

NOTE 3. PLEDGES RECEIVABLE (Continued)

Pledges receivable are due as follows:

	2019	2018
Construction:		
Receivable in less than one year	$ –	$ 771,177
Receivable within one to five years	–	585,767
Total construction	$ –	$ 1,356,944
Non-construction:		
Receivable in less than one year	$ 486,314	$ 22,312
Receivable within one to five years	221,220	4,642
Total non-construction	$ 707,534	$ 26,954

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, 2019 and 2018. For the years ended September 30, 2019 and 2018, 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, 2019, 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	3,939,360
Total promises to give	4,754,400
Less discounts to net present value	2,680,215
Promise to give – land lease, net	2,074,185
Less current portion	113,854
Noncurrent portion	$ 1,960,331

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

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:

	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Promise to give – land lease, net	$ –	$ –	$ 2,074,185	$ –	$ –	$ 2,193,177

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:

	2019	2018
Beginning balance	$ 2,193,177	$ 2,317,539
Amortization of present value of Promise to give	16,848	11,478
Donated land lease expense	(135,840)	(135,840)
Ending balance	$ 2,074,185	$ 2,193,177

NOTE 5. STEWARDSHIP FUND AND FAIR VALUE DISCLOSURES

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

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

	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Stewardship fund	$ –	$ 327,731	$ –	$ –	$ 323,116	$ –

NOTE 6. PROPERTY AND EQUIPMENT

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

	2019	2018
Buildings	$ 11,246,094	$ 3,287,574
Land improvements	1,600,951	1,408,962
Furniture and equipment	419,925	167,611
Autos and trucks	78,963	79,697
Software	5,000	5,000
Total	13,350,933	4,948,844
Accumulated depreciation	(1,532,718)	(1,346,181)
Total depreciable property and equipment – net	11,818,215	3,602,663
Construction in progress:		
Recreation fields	1,729	1,729
Vocational center	–	5,613,327
Modular buildings	266,862	109,449
IT infrastructure	53,342	–
Signage	1,654	–
Total construction in progress	323,587	5,724,505
Property and equipment – net	$ 12,141,802	$ 9,327,168

In 2019, the Organization placed in service the Ted Taylor Ag Vocational Center with a building cost of $7,942,471. The new facility will host Ag Mechanics and Electrical Training for students.

For the years ended September 30, 2019 and 2018, depreciation expense was $215,973 and $176,801, respectively.

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Time restrictions:		
Promise to give – land lease, net	$ 2,074,185	$ 2,193,177
Other pledges – net	45,001	26,955
Purpose restrictions:		
Vocational building	–	3,221,981
Program logic model	65,126	100,000
Modular classrooms	250,905	44,373
Youth program	930,873	163,808
Scholarship	49,931	43,319
Endowment earnings	9,327	1,257
Subtotal	3,425,348	5,794,870

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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

General endowment	$ 232,450	$ 175,500
Subtotal	232,450	175,500
Total	$ 3,657,798	$ 5,970,370

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:

	2019	2018
Promise to give – land lease, net	$ 135,840	$ 135,840
Vocational building	2,732,251	4,755,311
Program logic model	34,874	–
Modular classrooms	–	15,898
Youth program	472,224	283,238
Scholarship	24,004	6,836
Other pledges – time restriction	81,241	25,294
Endowment earnings	2,295	622
Total	$ 3,482,729	$ 5,223,039

NOTE 8. ENDOWMENT HELD AT COMMUNITY FOUNDATION

The Community Foundation holds endowment funds for the Organization in the amount of $241,792. 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, 2019, the fair market value of the funds increased by $10,365 and $2,295 was distributed in fees.

NOTE 8. ENDOWMENT HELD AT COMMUNITY FOUNDATION (Continued)

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

	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Endowment fund	$ –	$ 241,792	$ –	$ –	$ 151,774	$ –

NOTE 9. DONATED SERVICES AND MATERIALS

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

2019	General Operations	Youth Programs	Capital Improve-ments	Total
Fixed assets	$ 16,185	$ 151,400	$ 130,545	$ 298,130
Land lease	787	16,062	–	16,848
Supplies	885	29,090	–	29,975
Professional services	1,898	622	–	2,520
Maintenance and repairs	–	1,309	–	3,265
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

2018	General Operations	Youth Programs	Capital Improve-ments	Total
Fixed assets	$ –	$ 3,707	$ –	$ 3,707
Land lease	535	10,942	–	11,477
Supplies	1,862	21,751	–	23,613
Professional services	1,729	2,502	–	4,231
Maintenance and repairs	–	405	–	405
Vehicles	2,500	14,500	–	17,000
Total before special events	6,626	53,807	–	60,433
Special events	57,654	–	–	57,654
Total	$ 64,280	$ 53,807	$ –	$ 118,087

NOTE 10. LEASING ACTIVITIES

The Organization leases a portion of its facilities in Salinas, California to several tenants under non-cancellable operating lease agreements on multi-year and month-to-month arrangements expiring through June 2021. Rental income for the years ended September 30, 2019 and 2018 totaled $215,860 and $261,698, respectively. Future minimum rental income on operating lease agreements as of September 30, 2019 is as follows:

2020	$ 144,163
2021	600
Total	$ 144,763

NOTE 11. 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, 2019 and 2018, the Organization's revenue consisted of $503,060 and $103,347, respectively, from related parties. Amounts due from these related parties, as of September 30, 2019 and 2018, were $232,770 and $800,590, respectively. During the years ended September 30, 2019 and 2018, the Organization paid $3,703,186 and $374,494, respectively, to related parties. Amounts due to these related parties, as of September 30, 2019 and 2018, were $-0- and $38,056, respectively.

Approximately $95,348 and $44,530 in services and materials were donated by related parties during the years ended September 30, 2019 and 2018, respectively.

NOTE 12. RETIREMENT PLAN

In June 2010, the Board of Directors approved a Simple Individual Retirement Account plan, which is available to employees who are 18 years of age, have completed one year of service, and have worked 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, 2019 and 2018, employer contributions aggregated $19,888 and $16,501, respectively.

NOTE 13. CONCENTRATION OF CREDIT RISK

Cash and cash equivalents and investments at September 30, 2019, include accounts insured by the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). As of September 30, 2019 and 2018, the bank balances exceeded FDIC limits by $637,486 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, 2019.

NOTE 14. **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.

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, 2019 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	$ 841,496
Accounts receivable	146,312
Pledges receivable, current portion	486,314
Prepaid expenses	1,772
Financial assets available for general expenditure within one year	$ 1,475,894

NOTE 15. **SUBSEQUENT EVENTS**

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 approximately $300,000, which was received on April 18, 2020. This funding will help pay for program and administrative staff to continue to support the operations of the Organization.

NOTE 15. SUBSEQUENT EVENTS (Continued)

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 anticipated a $90,000 gift from The Quail: A Motorsports Gathering, which has been cancelled for 2020. These three funding sources combined equal almost $300,000, about the same that the Organization received in PPP funding.

It is expected that a small number of pledges to the Ted Taylor Ag Vocational Center Capital Campaign will be 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 is maintaining those expenses without the corresponding revenue. However, the Academy plans to open the Dining Room 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.