

IDAHO YOUTH RANCH, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

**IDAHO YOUTH RANCH, INC.
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YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Idaho Youth Ranch, Inc.
Boise, Idaho

We have audited the accompanying financial statements of Idaho Youth Ranch, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 auditors' 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.

Board of Directors
Idaho Youth Ranch, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Idaho Youth Ranch, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boise, Idaho
August 30, 2018

IDAHO YOUTH RANCH, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

CURRENT ASSETS

| | |
|---------------------------------------|--------------|
| Cash and Cash Equivalents | \$ 1,647,069 |
| Investments | 5,737,153 |
| Accounts Receivable | 296,068 |
| Current Portion of Pledges Receivable | 992,745 |
| Donated Assets Held for Investment | 14,700 |
| Prepaid Expenses and Deposits | 234,550 |
| Inventory | 67,006 |
| Trust Receivables | 360,986 |
| Total Current Assets | 9,350,277 |

NONCURRENT ASSETS

| | |
|---|------------|
| Idaho Youth Land Reserve | 7,295,000 |
| Investments, Less Current Above | 5,932,588 |
| Pledges Receivable, Less Current Portion | 491,929 |
| Land, Buildings, and Equipment, Less Accumulated Depreciation of \$7,715,357 | 17,810,038 |
| Total Noncurrent Assets | 31,529,555 |

| | |
|--------------|---------------|
| Total Assets | \$ 40,879,832 |
|--------------|---------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--|------------|
| Accounts Payable | \$ 692,630 |
| Annuities Payable | 23 |
| Accrued Personnel Costs and Other Expenses | 1,231,768 |
| Deferred Revenue | 1,267,318 |
| Current Maturities of Capital Leases | 142,646 |
| Current Maturities of Long-Term Debt | 273,305 |
| Total Current Liabilities | 3,607,690 |

NONCURRENT LIABILITIES

| | |
|---|------------|
| Capital Leases, Less Current Maturities | 905,579 |
| Long-Term Debt, Less Current Maturities | 5,550,110 |
| Executive Retirement Agreements, Less Current Portion | 16,379 |
| Interest in Life Estate | 3,479,350 |
| Total Noncurrent Liabilities | 9,951,418 |
| Total Liabilities | 13,559,108 |

COMMITMENTS AND CONTINGENCIES

NET ASSETS

| | |
|------------------------|------------|
| Unrestricted | 14,800,661 |
| Temporarily Restricted | 6,587,475 |
| Permanently Restricted | 5,932,588 |
| Total Net Assets | 27,320,724 |

| | |
|----------------------------------|---------------|
| Total Liabilities and Net Assets | \$ 40,879,832 |
|----------------------------------|---------------|

See accompanying Notes to Financial Statements.

**IDAHO YOUTH RANCH, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-----------------------------|----------------------------|----------------------------|-----------------------------|
| SUPPORT AND REVENUE | | | | |
| Contributions | \$ 2,243,769 | \$ 721,782 | \$ 67,484 | \$ 3,033,035 |
| Grants | 824,162 | 1,082,062 | 250,000 | 2,156,224 |
| Fundraising | 149,955 | 195,623 | - | 345,578 |
| Program Fees and Services | 134,843 | 508,572 | - | 643,415 |
| Social Enterprise | 18,202,388 | - | - | 18,202,388 |
| Rent | 1,000 | 1,275 | - | 2,275 |
| Interest and Dividends | 276,482 | 61,493 | - | 337,975 |
| Gain on Sale of Investments | 404,536 | 94,133 | - | 498,669 |
| Gain (Loss) on Sale of Assets | 365,099 | (3,110) | - | 361,989 |
| Unrealized Gain (Loss) on Investments | (113,408) | 8,828 | - | (104,580) |
| Miscellaneous Income | 111,976 | 7,789 | - | 119,765 |
| Net Assets Released from Restrictions | 2,305,198 | (2,305,198) | - | - |
| Total Support and Revenue | <u>24,906,000</u> | <u>373,249</u> | <u>317,484</u> | <u>25,596,733</u> |
| EXPENSES | | | | |
| Program Services: | | | | |
| Residential | 2,165,826 | - | - | 2,165,826 |
| Community Services | 1,468,469 | - | - | 1,468,469 |
| Workforce Development | 117,791 | - | - | 117,791 |
| Social Enterprise | 18,527,764 | - | - | 18,527,764 |
| Total Program Expenses | <u>22,279,850</u> | <u>-</u> | <u>-</u> | <u>22,279,850</u> |
| Supporting Services: | | | | |
| General and Administration | 1,805,169 | - | - | 1,805,169 |
| Fundraising | 1,860,431 | - | - | 1,860,431 |
| Total Supporting Services | <u>3,665,600</u> | <u>-</u> | <u>-</u> | <u>3,665,600</u> |
| Total Expenses | <u>25,945,450</u> | <u>-</u> | <u>-</u> | <u>25,945,450</u> |
| NET INCREASE (DECREASE) IN NET ASSETS | | | | |
| | (1,039,450) | 373,249 | 317,484 | (348,717) |
| Net Assets - Beginning of Year | <u>15,840,111</u> | <u>6,214,226</u> | <u>5,615,104</u> | <u>27,669,441</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ 14,800,661</u></u> | <u><u>\$ 6,587,475</u></u> | <u><u>\$ 5,932,588</u></u> | <u><u>\$ 27,320,724</u></u> |

See accompanying Notes to Financial Statements.

**IDAHO YOUTH RANCH, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018**

| | Program Services | | | | Supporting Services | | Total |
|--------------------------------|---------------------|---------------------|-----------------------|----------------------|----------------------------|---------------------|----------------------|
| | Residential | Community Services | Workforce Development | Social Enterprise | General and Administration | Fundraising | |
| Salaries and Wages | \$ 1,314,199 | \$ 949,064 | \$ 68,152 | \$ 7,341,849 | \$ 797,741 | \$ 672,876 | \$ 11,143,881 |
| Temporary Labor | 528 | 483 | 44 | 839,891 | - | - | 840,946 |
| Payroll Taxes and Insurance | 140,961 | 121,766 | 7,466 | 721,055 | 97,542 | 53,734 | 1,142,524 |
| Employee Benefits | 119,801 | 66,806 | 6,385 | 1,242,442 | 132,730 | 52,363 | 1,620,527 |
| Employee Job Related | 21,507 | 35,675 | 1,461 | 62,488 | 10,607 | 11,143 | 142,881 |
| Employee Recruitment | 397 | 6,028 | 19 | 2,980 | 369 | 1,257 | 11,050 |
| Business Travel and Meals | 15,429 | 25,238 | 673 | 109,561 | 26,743 | 14,844 | 192,488 |
| Client Health | 7,637 | 320 | - | - | - | - | 7,957 |
| Animal Therapy | 15,022 | 110 | - | - | - | - | 15,132 |
| Other Client Therapy | 865 | 2,577 | 3 | - | - | - | 3,445 |
| Client Necessities | 55,297 | 11,295 | 1,357 | - | - | 556 | 68,505 |
| Scholarships | - | - | - | - | 52,568 | - | 52,568 |
| Trainee Stipends | - | - | 17,211 | - | - | - | 17,211 |
| Occupancy | 30,909 | 450 | 19 | 1,299,578 | 1,159 | 1,307 | 1,333,422 |
| Utilities | 69,135 | 40,148 | 1,166 | 1,329,339 | 37,375 | 9,309 | 1,486,472 |
| Repairs and Maintenance | 56,288 | 36,043 | 1,617 | 810,790 | 11,546 | 14,381 | 930,665 |
| Equipment Rent | 10,905 | 2,321 | - | 640,043 | 29 | 15,139 | 668,437 |
| Depreciation and Amortization | 111,676 | 24,380 | 1,178 | 731,512 | 35,704 | 27,001 | 931,451 |
| Professional Services | 45,999 | 37,098 | 4,871 | 92,404 | 391,850 | 162,799 | 735,021 |
| Advertising and Promotions | 12,469 | 13,961 | 1,124 | 152,503 | 792 | 625,139 | 805,988 |
| Transportation Expense | 34,277 | 10,786 | 94 | 257,342 | 6,722 | 765 | 309,986 |
| General Supplies | 69,754 | 57,094 | 3,497 | 975,095 | 64,334 | 91,381 | 1,261,155 |
| Insurance | 23,864 | 19,560 | 1,240 | 158,487 | 17,712 | 2,523 | 223,386 |
| Credit Card and Bank Fees | 5,747 | 3,414 | 124 | 408,664 | 18,336 | 30,950 | 467,235 |
| Interest | 951 | 608 | 55 | 170,132 | 80,654 | 6,609 | 259,009 |
| Miscellaneous | 2,209 | 3,244 | 35 | 13,368 | 20,503 | 66,355 | 105,714 |
| Cost of Goods Sold - Purchased | - | - | - | 293,830 | - | - | 293,830 |
| Cost of Goods Sold - Other | - | - | - | 874,411 | 153 | - | 874,564 |
| Total | \$ 2,165,826 | \$ 1,468,469 | \$ 117,791 | \$ 18,527,764 | \$ 1,805,169 | \$ 1,860,431 | \$ 25,945,450 |

See accompanying Notes to Financial Statements.

**IDAHO YOUTH RANCH, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|--------------|
| Net Decrease in Net Assets | \$ (348,717) |
| Adjustments to Reconcile Net Decrease in Net Assets to Net Cash Provided by Operating Activities: | |
| Depreciation and Amortization | 931,451 |
| Gain on Sale of Investments | (498,669) |
| Gain on Sale of Assets | (361,989) |
| Unrealized Loss on Investments | 104,580 |
| Change in Liability for Interest in Life Estate | (79,005) |
| Noncash Contribution of Investments | (65,584) |
| (Increase) Decrease in Assets: | |
| Accounts Receivable | (146,737) |
| Pledges Receivable | 1,036,741 |
| Prepaid Expenses | (26,928) |
| Inventory | 365,972 |
| Trust Receivables, Net | 10,400 |
| Increase (Decrease) in Liabilities: | |
| Accounts Payable | 234,718 |
| Annuities Payable | (650) |
| Accrued Personnel Costs and Other Expenses | (290,502) |
| Deferred Revenue | (683,601) |
| Net Cash Provided by Operating Activities | 181,480 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|-------------|
| Purchase of Property and Equipment | (2,297,428) |
| Proceeds from Sale of Property and Equipment | 1,262,836 |
| Purchase of Investments | (2,171,361) |
| Proceeds from Sale of Investments | 2,758,273 |
| Net Cash Used by Investing Activities | (447,680) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---------------------------------------|-----------|
| Net Decrease on Line of Credit | (65,961) |
| Principal Payments on Capital Leases | (72,838) |
| Principal Payments on Long-Term Debt | (257,388) |
| Net Cash Used by Financing Activities | (396,187) |

NET DECREASE IN CASH AND CASH EQUIVALENTS

| | |
|---|-----------|
| Cash and Cash Equivalents - Beginning of Year | 2,309,456 |
|---|-----------|

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 1,647,069

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

| | |
|--|---------------|
| Financing of Property and Equipment | \$ 1,113,599 |
| Cash Paid for Interest | \$ 260,232 |
| Noncash Contributions of Inventory and Other Items | \$ 18,172,929 |

See accompanying Notes to Financial Statements.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 ORGANIZATION

Nature of Operations

Idaho Youth Ranch, Inc. (the Organization) is a private, nonprofit organization incorporated in the state of Idaho on April 7, 1953. The Organization, which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), maintains its headquarters in Boise, Idaho, and has operating facilities at several locations primarily within the state.

Programs and Services

The Organization operates the following facilities/activities, all fully licensed by the state of Idaho.

Residential – Hands of Promise Ranch Interim

Located near Middleton, Idaho in Canyon County, this facility provides the setting for a structured residential program assisting children who are at risk due to abuse, neglect, family conflict, or abandonment. Services are tailored to meet each child's unique situation and may include animal assisted therapy, behavioral therapy, functional family therapy, and life skill development. An equestrian therapy program and a 4-H program are available as an integral part of the therapeutic services.

Residential – Hays House

Located in Boise, Idaho, this facility provides emergency short-term residential care, crisis intervention, and safe shelter for Treasure Valley homeless and runaway children ranging from 9 to 18 years of age.

Community Services – Family Counseling

This program is based in Boise, Idaho and at Anchor House in Coeur d'Alene, Idaho. Counseling and case management services are designed to keep families together, reunite families who have experienced out-of-home care, improve family functioning, and in some cases prevent the need for out-of-home placement. Therapy is targeted toward at-risk youth using the most comprehensive and effective techniques to direct vulnerable youth back to the path of a promising future. Blending three results-based therapies; Functional Family Therapy, Eaqala Equine Therapy, and Dialectical Behavior Therapy the Idaho Youth Ranch provides a proven treatment model unavailable anywhere else in Idaho.

Community Services – Adoptions

Located in Coeur d'Alene, Idaho, a full range of adoption services are available. These include the placement of infants, special needs adoptions, home studies, post-placement supervision, international and interstate adoption support, and nonagency adoptions. An "open-adoption" philosophy is applied to help facilitate collaboration and cooperation between birth parents and adoptive parents throughout the child's lifetime.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 ORGANIZATION (CONTINUED)

Programs and Services (Continued)

Workforce Development – YouthWorks!

YouthWorks! is a comprehensive job training and job placement program created to help disadvantaged young people from the ages of 16 to 22 develop the skills they need to find and keep meaningful employment. The program includes classroom instruction, on-the-job training in Idaho Youth Ranch thrift stores and local businesses, job placement, one-on-one mentoring, and oversight.

Social Enterprise

The Organization sells donated and purchased merchandise through retail thrift stores operated at 26 locations throughout Idaho and one location in Ontario, Oregon, one outlet store located in Boise, online book and collectible sales based out of Boise, and one vehicle sales lot in Boise. Storage and distribution warehouses are located in Boise, Twin Falls, Rupert, and Coeur d'Alene, Idaho. Proceeds from retail thrift operations provide some of the financial support for treatment programs and services. In addition, the stores provide community service and volunteer opportunities, work experience, and training for Idaho Youth Ranch program clients and other community members. The Organization makes affordable goods available to the general public and facilitates the re-use or recycling of items that would otherwise be discarded in state landfills.

Administration and Fundraising

The corporate, administrative, and fundraising offices are located in Boise, Idaho.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

All financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization follows financial statement presentation requirements issued by the Financial Accounting Standards Board (FASB) for nonprofit entities. Under these provisions, net assets, revenues, gains, and losses are classified based on donor-imposed restrictions.

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Resources that are free of donor-imposed restrictions. All revenues, expenses, gains, and losses that are not changes in temporarily or permanently restricted net assets are considered unrestricted. Any limitations on these funds are determined by the board of directors.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Temporarily Restricted Net Assets

Resources for which donor-imposed restrictions will be met either by the passage of time or by satisfying the purpose of the restriction.

Permanently Restricted Net Assets

Resources which donors have specified must be maintained in perpetuity. The related income is temporarily restricted based on the donor's instructions.

When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For the purpose of the financial statements, the Organization considers all highly liquid investments available for current use with initial maturity of three months or less to be cash equivalents. The Organization does not consider assets or other resources to be cash equivalents that would otherwise qualify if those resources are subject to temporary or permanent restrictions imposed by the donor (such as investments held to provide long-term operating support).

The Organization maintains its cash deposits at various financial institutions which at times may exceed federally insured limits.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through writing them off in the period in which they are determined to be uncollectible. Management determines whether accounts will be collected by regularly evaluating individual receivables. Recoveries of receivables previously written-off are recorded when received. Management determined that an allowance for doubtful accounts was not necessary as of June 30, 2018.

Pledges Receivable

Unconditional promises to give are recorded at present value of future cash flows. Conditional promises to give are recorded when conditions are met as stipulated by the donor.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventories of purchased goods and supplies are stated at the lower of cost (first-in, first-out) or net realizable value. The Organization considers the costs (store expenses, processing, transportation, and retail management) associated with bringing the donated goods inventory to sale in its estimate of the fair value of the inventory. The estimate of the donated goods inventory value is based on a calculation of donated goods turnover rate multiplied by the percent of sales in excess of cost of goods sold.

Idaho Youth Land Reserve and Interest in Life Estate

The Idaho Youth Land Reserve represents \$7,295,000 of property donated to the Organization during the year ended June 30, 2014. The donation was in return for a cash payment of \$1,000,000 and the issuance of long-term debt in the amount of \$2,494,266. The property was recorded at fair market value at the time of donation and will be held at carrying value on a subsequent basis. This property is located in Horseshoe Bend, Idaho and is subject to a life interest in real estate, whereby the Organization cannot use the asset until the earlier of its abandonment by the donors, or the death of both donors. During the period of life interest in real estate, the donors are responsible for all costs associated with the property, including real estate taxes.

Associated with the \$7,295,000 Idaho Youth Land Reserve, the Organization recorded an interest in life estate in the amount of \$3,789,534. This interest in life estate will be recorded into income each year based on the underlying changes in the age of the donors. During the year ended June 30, 2018, a net decrease of \$79,005 was recorded to the Liability for Interest in Life Estate and resulted in a corresponding increase in temporarily restricted contributions in the statement of activities.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at original cost. Donated assets are recorded at fair market value at the date of donation. Generally, according to the Organization's capitalization policy, property and equipment over \$5,000, are capitalized; while replacements, maintenance, and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred. Depreciation is provided on a straight-line basis over the following estimated useful lives:

| | |
|------------------------------------|-----------------|
| Land | Not Depreciated |
| Buildings and Improvements | 10 to 50 Years |
| Furniture, Fixtures, and Equipment | 3 to 20 Years |
| Vehicles | 3 to 10 Years |

Depreciation and amortization expense for the year ended June 30, 2018 was \$931,451.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation methodologies used at June 30, 2018.

Investment Valuation and Income Recognition

The Organization's investments are valued at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments in equity securities, including common stocks, preferred stock, options, exchange traded funds, and American depository receipts that are traded on a national securities exchange are stated at the last quoted sales price. Investments in money market and mutual funds are valued at the net asset value of shares held on the valuation date. Investments in the alternative funds are valued using the net asset value of units owned by the Organization, which are based on observable and unobservable market prices for the underlying assets, held by the alternative funds.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Valuation and Income Recognition (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Purchases and sales of securities are recorded on a trade-date basis. Investment income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Organization's gains and losses on investments bought and sold as well as held during the year.

Revenue Recognition

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted contributions are segregated for accounting purposes in order to ensure compliance with the donor's wishes. The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor restrictions are placed on the donated assets. Cash donations that are specified for the purchase of land, buildings, and equipment are classified as temporarily restricted until the designated asset has been acquired.

Noncash contributions which have a readily determinable market value or which are intended for internal use by the Organization (such as equipment and supplies) are recorded as revenue based upon their market value at the date of donation. Noncash contributions, which do not have a readily determinable market value or are not intended for internal use by the Organization (such as clothing and furniture donations to be sold at the thrift stores) are not recorded as revenue until a reliable estimate of fair value is determined or they are converted to cash.

Contributions of a conditional nature with specified terms are recorded to deferred revenue when received and revenue is recognized as the funds are expended as instructed by the donor. In the event conditions are not met the unused contribution would be returned to the donor.

Gift cards sold and loyalty points earned are recorded as deferred revenue until used and the revenue is earned. Revenues for ticket sales that are refundable are deferred until the event occurs.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Cost reimbursement grants are recorded as revenue when the costs are incurred. On multi-year grants, conditions need to be met in the current year to be eligible for the remainder of the grant funds. Accordingly, revenues are not recognized until the current year condition of the grant is met or the likelihood of having to return collected funds is remote.

Functional Expenses

The costs of providing the various programs have been summarized on a functional basis in the statement of activities using cost centers. The Organization's policy is to allocate and record expenses to various cost centers based on the direct association of that expense to the particular cost center. Cost centers are segregated into individual programs, overall program administration, general administration, and fundraising. Costs that cannot be directly associated with only one cost center are allocated to cost centers based on defined percentages that differ depending on the type of expense. Allocation methods vary depending on the costs to be allocated and may be based on total expenses, total revenue, square footage, hours worked, or employee counts. Significant attention is focused to assure that only costs directly attributable to programs are allocated to programs. Remaining administrative and fundraising costs are not allocated to programs.

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 at the date of the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of 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.

Income Taxes

The Organization is a tax-exempt organization under Section 501(c)(3) of the IRC and is subject to federal income tax only on net unrelated business income. The Organization currently has no unrelated business income and is not considered a private foundation within the meaning of Section 509(a) of the IRC and all charitable contributions are considered tax deductible.

New Accounting Pronouncement Effective in Future Accounting Periods

Nonprofit Financial Statements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 *Not-For-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. This standard was issued to improve the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal year beginning after December 15, 2017, with early adoption permitted. Management will be evaluating the effects of this new standard.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement Effective in Future Accounting Periods (Continued)

Revenue from Contracts with Customers

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Management is evaluating the impact of the amended revenue recognition guidance on the entity's financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which is a comprehensive lease accounting standard that requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the balance sheet for leases with terms exceeding 12 months. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. The standard will be effective for the entity for annual periods beginning after December 15, 2019; however, early application is permitted. Management is currently evaluating the impact this guidance will have on its financial statements.

Subsequent Events

In preparing these financial statements, the Organization has evaluated subsequent events and transactions for potential recognition or disclosure through August 30, 2018, the date the financial statements were available to be issued.

NOTE 3 TRUST RECEIVABLES

The Organization has been designated as the beneficiary of several estates. Trust receivables represent amounts to be received from those estates. Generally, all of the trust receivables either bear interest as part of the agreement or represent an interest in assets that is being managed by the estate's trustee. Trust receivables are shown net of any associated unrealized gain (loss) of the underlying account balances on the statement of cash flows.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 PLEDGES RECEIVABLE

Pledges Receivable consisted of the following as of June 30, 2018:

| Collection Period | Pledges Receivable | Discount | Net Pledges Receivable |
|---------------------------|-----------------------|--------------------|---------------------------|
| Within One Year | \$ 1,000,000 | \$ (7,255) | \$ 992,745 |
| Between One to Five Years | 500,000 | (8,071) | 491,929 |
| Total | <u>\$ 1,500,000</u> | <u>\$ (15,326)</u> | <u>\$ 1,484,674</u> |

NOTE 5 FAIR VALUE OF INVESTMENTS

The following table sets forth by level with the fair value hierarchy, the Organization's assets and liabilities at June 30, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|----------------------|-------------|-------------|----------------------|
| Assets: | | | | |
| Common Stocks: | | | | |
| Consumer Discretionary | \$ 321,115 | \$ - | \$ - | \$ 321,115 |
| Consumer Staples | 73,650 | - | - | 73,650 |
| Energy | 43,822 | - | - | 43,822 |
| Financial | 297,470 | - | - | 297,470 |
| Healthcare | 175,499 | - | - | 175,499 |
| Industrials | 245,751 | - | - | 245,751 |
| Materials | 54,253 | - | - | 54,253 |
| Technology | 304,906 | - | - | 304,906 |
| Telecommunications | 16,919 | - | - | 16,919 |
| Mutual Funds: | | | | |
| Domestic Equity | 2,837,324 | - | - | 2,837,324 |
| Fixed Income | 3,435,881 | - | - | 3,435,881 |
| International Equity | 3,181,040 | - | - | 3,181,040 |
| Real Assets/Commodities | 201,715 | - | - | 201,715 |
| World Allocation | 480,396 | - | - | 480,396 |
| Total Investments | <u>\$ 11,669,741</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 11,669,741</u> |

The Fund of Funds is a hedge fund that invests in other hedge funds. The objective of the Fund of Funds is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle. In pursuit of the objective, the Fund of Funds may allocate substantially all of its assets across a variety of investment vehicles, generally with fixed income and equity orientations, covering many different investment styles.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 FAIR VALUE OF INVESTMENTS (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended June 30, 2018:

| | Alternative Investment |
|--|---------------------------|
| Balance - Beginning of Year | \$ 936,781 |
| Withdrawals | (758,187) |
| Total Unrealized Losses Relating to Instruments Disposed of during the Year | (178,594) |
| Balance - End of Year | <u>\$ -</u> |

NOTE 6 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment, at cost used in operations consisted of the following at June 30, 2018:

| | |
|---|----------------------|
| Land and Improvements | \$ 6,994,671 |
| Buildings and Improvements | 10,711,306 |
| Furniture and Equipment | 4,202,666 |
| Vehicles | 1,179,055 |
| Loan Origination and Asset Acquisition Fees | 114,643 |
| Total | <u>23,202,341</u> |
| Less: Accumulated Depreciation and Amortization | (7,715,357) |
| Total | 15,486,984 |
| Construction in Progress | 2,323,054 |
| Total | <u>\$ 17,810,038</u> |

The Organization's construction in progress pertained to various projects, some of which are estimated to be completed in the near term. Amounts relating to long-term construction totaled \$2,276,461 as of June 30, 2018.

NOTE 7 GIFT ANNUITIES

During prior years, the Organization was the beneficiary of charitable gift annuities. Under the terms of the split-interest agreement, the Organization agrees to pay a stated dollar amount to the donor until the donor's death. At the time of the donor's death, the remaining assets are available for the unrestricted use of the Organization. Based on donor life expectancy, the present value of future benefits expected to be paid by the Organization was estimated to be \$23 for the year ended June 30, 2018. The Organization made payments to annuitants in the amount of \$15,617 for the year ended June 30, 2018. Of the total amount paid, \$650 was recorded as a reduction in the liability and \$14,967 was recorded as an expense for the year ended June 30, 2018.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 NOTES PAYABLE

Long-term debt consists of the following as of June 30, 2018:

| <u>Description</u> | <u>Amount</u> |
|--|----------------------------|
| D.L. Evans Bank; monthly payments of \$22,202, including interest at 4.17%; maturing December 2031; collateralized by buildings | \$ 3,211,773 |
| Private party; annual payments of \$160,000, including interest at 2.50%; maturing May 2034; collateralized by Idaho Youth Land Reserve | 2,088,800 |
| Wells Fargo Bank; monthly payments of \$4,467, including interest at 5.20%; maturing April 2027; collateralized by real property and buildings | <u>522,842</u> |
| Total | 5,823,415 |
| Less: Current Maturities | <u>273,305</u> |
| Long-Term Debt, less Current Maturities | <u><u>\$ 5,550,110</u></u> |

The borrowing under the D.L. Evans Bank and Wells Fargo Bank are subject to certain financial covenants; the Organization is not aware of any noncompliance with these covenants.

Scheduled principal payments on long-term debt are as following as of June 30, 2018:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|----------------------------|
| 2019 | \$ 273,305 |
| 2020 | 283,897 |
| 2021 | 294,308 |
| 2022 | 293,303 |
| 2023 | 287,289 |
| Thereafter | <u>4,391,313</u> |
| Total | <u><u>\$ 5,823,415</u></u> |

NOTE 9 LINE OF CREDIT

The Organization entered into a revolving line of credit with Wells Fargo Bank, National Association (Wells Fargo) on February 3, 2009. The line of credit was most recently amended on February 22, 2018, and currently has a maximum available amount of \$2,000,000. The line of credit accrues interest based upon a variable rate of interest equal to the prime rate and is due on a monthly basis. The line of credit expires on February 28, 2019, with all unpaid sums due at that time. The line of credit is secured by inventory, accounts receivable, and equipment of the Organization. There was no amount outstanding as of June 30, 2018.

**IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 LINE OF CREDIT (CONTINUED)

The Organization entered into a nonrevolving line of credit with Wells Fargo Bank, National Association (Wells Fargo) on February 28, 2018, with a maximum available amount of \$3,625,000. The line of credit initially accrues interest at a rate of 4.25% and then based upon a variable rate of interest equal to the prime rate less 0.25% and is due on a quarterly basis. There was no amount outstanding as of June 30, 2018.

NOTE 10 CAPITAL LEASES

The Organization has financed equipment through capital leases. At June 30 2018, assets acquired under capital leases are as follows:

| | |
|--------------------------------|---------------------|
| Equipment | \$ 1,121,498 |
| Less: Accumulated Depreciation | <u>79,077</u> |
| Total | <u>\$ 1,042,421</u> |

Future minimum payments under these capital leases as of June 30, 2018 are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| 2019 | \$ 142,646 |
| 2020 | 149,434 |
| 2021 | 156,547 |
| 2022 | 163,855 |
| 2023 | 170,014 |
| Thereafter | <u>265,729</u> |
| Total | <u>\$ 1,048,225</u> |

NOTE 11 RESTRICTED FUNDS

Temporarily Restricted

Temporarily restricted net assets were available for the following purposes as of June 30, 2018:

| | |
|----------------------------------|---------------------|
| Restricted for Scholarships | \$ 304,008 |
| Restricted for Annuities | 23 |
| Restricted for Life Estate | 321,384 |
| Restricted for Capital Campaign | 5,942,571 |
| Restricted for Specific Programs | <u>19,489</u> |
| Total | <u>\$ 6,587,475</u> |

The investment income earned by the temporarily restricted categories above is temporarily restricted for the same purpose as the underlying balances.

**IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 RESTRICTED FUNDS (CONTINUED)

Temporarily Restricted (Continued)

Temporarily restricted net assets were released from restrictions for the following purposes during the year ended June 30, 2018:

| | |
|----------------------------------|----------------------------|
| Restricted for Scholarships | \$ 52,568 |
| Restricted for Annuities | 650 |
| Restricted for Capital Campaign | 294,941 |
| Restricted for Specific Programs | <u>1,957,039</u> |
| Total | <u><u>\$ 2,305,198</u></u> |

Permanently Restricted

Permanently restricted net assets were restricted for the following purposes as of June 30, 2018:

| | |
|----------------------------------|----------------------------|
| Restricted for General Endowment | \$ 3,442,787 |
| Restricted for Scholarships | 897,526 |
| Restricted for Specific Programs | <u>1,592,275</u> |
| Total | <u><u>\$ 5,932,588</u></u> |

The investment income earned by the general endowment funds is temporarily restricted and may be used according to the board of director's discretion. The investment income earned by the scholarship funds is temporarily restricted to providing youth scholarships. The investment income earned by program specific funds is temporarily restricted to provide for those programs.

NOTE 12 ENDOWMENTS

The Organization receives certain gift assets restricted for endowment purposes. The gift assets are generally donor directed for a variety of purposes. Restriction requirements for principal preservation are addressed by Idaho statute and are applicable in the absence of further guidance from the donor. As required by accounting principles generally accepted in the United States of America, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The state of Idaho enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and the Organization has determined that the majority of the Organization's net assets do not meet the definition of endowment under UPMIFA. The endowment subject to UPMIFA, and other investment assets, are managed per the Investment Policy and most contributions are subject to the terms of the Gift Acceptance Policy. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Organization. The Organization has interpreted UPMIFA as requiring preservation of the fair value of the original gift, as of the gift date, for donations permanently restricted to the endowment by the donor, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated with permanent restrictions, (b) the original value of subsequent gifts with permanent restrictions, and (c) accumulations to the permanent accounts made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Organization and the donor-restricted endowment.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Organization.
- (7) The investment policies of the Organization.

Following are the changes in endowment net assets for the fiscal year ended June 30, 2018:

| | Board Designated | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Beginning of Year Balance | \$ - | \$ 246,154 | \$ 5,615,104 | \$ 5,861,258 |
| Contributions | - | 25,000 | 317,484 | 342,484 |
| Investment Income | - | 85,422 | - | 85,422 |
| Appropriated for Expenditures | - | (52,568) | - | (52,568) |
| End of Year Balance | <u>\$ -</u> | <u>\$ 304,008</u> | <u>\$ 5,932,588</u> | <u>\$ 6,236,596</u> |

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 ENDOWMENTS (CONTINUED)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2018.

Investment and Spending Policies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner as to provide for safety of principal through diversification of investments while growing the corpus in real, inflation-adjusted terms after spending and expenses. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Organization has a policy of financial status review to determine an appropriate annual distribution to be expended for the purposes in which the endowment was established. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 13 EXECUTIVE RETIREMENT AGREEMENTS

The Organization has adopted individual supplemental executive retirement agreements. These agreements have been classified as deferred compensation, pursuant to which the Organization will pay supplemental retirement benefits to certain key employees upon retirement, subject to forfeiture, if termination occurs prior to reaching normal retirement age. There is no funding requirement for the Organization. The estimated liability for this retirement benefit obligation is \$32,331 as of June 30, 2018, and is included in accrued personnel costs and other expenses and executive retirement agreements, less current portion in the statement of financial position. The liability is based on the discounted present value of the expected future payments earned to date. Benefit related to the agreements and reflected in the change in total liability totaled \$318,707 for the year ended June 30, 2018.

IDAHO YOUTH RANCH, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 RETIREMENT PLAN

The Organization sponsors the Idaho Youth Ranch 401(k) Plan (the Plan). Employees are eligible to participate in the salary reduction arrangement in the Plan after 60 days of service with the Organization and attaining age 18. Employees are eligible to participate in Organization matching contributions after completion of one year of service. The Organization made matching contributions of \$76,986 for the year ended June 30, 2018.

NOTE 15 OPERATING LEASES

The Organization has entered into 10 operating leases for thrift store, warehouse, and program services space. The leases require monthly rental payments and have various commencement and expiration dates through August 2028.

Minimum future rental payments under the long-term operating leases as of June 30, 2018 are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|---------------|
| 2019 | \$ 1,184,262 |
| 2020 | 1,000,354 |
| 2021 | 803,781 |
| 2022 | 537,729 |
| 2023 | 315,703 |
| Thereafter | 1,115,275 |

The Organization also rents property and equipment on an as-needed, month-to-month basis.

Total rent expense under operating leases was \$1,296,766 for the year ended June 30, 2018.