

Rodeheaver Boys' Ranch, Inc.

Financial Statements and Independent
Auditor's Report

December 31, 2013

Rodeheaver Boys' Ranch, Inc.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rodeheaver Boys' Ranch, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Rodeheaver Boys' Ranch, Inc. (the "Ranch"), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, cash flows, and functional expenses 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ranch as of December 31, 2013, 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.

Caru, Riggs & Ingram, L.L.C.

Palatka, Florida
July 31, 2014

Rodeheaver Boys' Ranch, Inc.

Statement of Financial Position
As of December 31, 2013

Assets

Current assets:

Cash	\$ 105,411
Investment in equity securities	71,715
Receivable from Foundation	50,000
Other receivables	35,000
Inventories	40,930

Total current assets	303,056
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Property and equipment:

Land	425,630
Buildings and improvements	4,349,600
Automotive	301,827
Furniture, fixtures and equipment	832,763
Less: accumulated depreciation	(2,957,302)

Total property and equipment	2,952,518
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Other assets:

Restricted cash	17,129
Investments in real estate	25,511
Investment in limited partnership	19,009
Beneficial interest in trust	144,000
Qualified interest in Foundation (see note 1)	984,826

Total other assets	1,190,475
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Total assets	\$ 4,446,049
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Liabilities and net assets

Current liabilities:

Accounts payable and other accrued liabilities	\$ 51,947
Boys' deposits	17,129
Deferred revenue	24,150

Total liabilities	93,226
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Net assets:

Unrestricted	3,117,782
Temporarily restricted	1,066,041
Permanently restricted	169,000

Total net assets	4,352,823
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Total liabilities and net assets	\$ 4,446,049
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See accompanying notes.

Rodeheaver Boys' Ranch, Inc.
Statement of Activities
Year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenue, gains and losses				
Contributions:				
Vehicle improvement program	\$ 371,525	\$ -	\$ -	\$ 371,525
Other cash contributions	820,523	303,372	-	1,123,895
In-kind	44,193	-	-	44,193
Boys' support	76,693	-	-	76,693
Sales and special events	152,216	-	-	152,216
Miscellaneous	101,754	-	-	101,754
Investment income on perpetual trust	8,265	-	-	8,265
Gain on investments	16,394	-	-	16,394
Interest income	110	-	-	110
Change in qualified interest in Foundation	-	(752,055)	-	(752,055)
Net assets released from restrictions:				
Satisfaction of purpose restrictions	299,410	(299,410)	-	-
Total support, revenue, gains and losses	1,891,083	(748,093)	-	1,142,990
Expenses				
Program services:				
Boys' care	1,024,248	-	-	1,024,248
Vehicle improvement program	178,826	-	-	178,826
Agricultural programs	82,530	-	-	82,530
Support services:				
General and administrative	235,922	-	-	235,922
Cost of sales and special events	40,867	-	-	40,867
Fundraising	256,604	-	-	256,604
Total expenses	1,818,997	-	-	1,818,997
Change in net assets	72,086	(748,093)	-	(676,007)
Net assets, January 1, 2013	3,045,696	1,814,134	169,000	5,028,830
Net assets, December 31, 2013	\$ 3,117,782	\$ 1,066,041	\$ 169,000	\$ 4,352,823

See accompanying notes.

Rodeheaver Boys' Ranch, Inc.

Statement of Cash Flows
Year ended December 31, 2013

Cash flows from operating activities	
Change in net assets	\$ (676,007)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	208,832
Contributed fixed assets	(6,769)
Gain on investments	(16,394)
Change in qualified interest in Foundation	752,055
Change in:	
Receivables	(85,000)
Inventory	(4,430)
Prepaid expense	12,000
Accounts payable	13,210
Deferred revenue	24,150
Boys' deposits	(2,035)
Net cash provided by operating activities	219,612
Cash flows from investing activities	
Purchase of capital assets	(182,731)
Cash flows from financing activities	
Payments on debt	(74,271)
Net decrease in cash	(37,390)
Cash, beginning of year	159,930
Cash, end of year	\$ 122,540
Supplemental disclosures of cash flow information:	
Interest paid	\$ 1,170
Noncash investing activities:	
Contributed fixed assets	6,769

See accompanying notes.

Rodeheaver Boys' Ranch, Inc.

Statement of Functional Expenses
Year ended December 31, 2013

	Program Services				Support Services			
	Boys' care	Vehicle Improvement Program	Agriculture	Total Program Services	General and Administrative	Cost of Sales and Special Events	Fund ² Raising	Total Expenses
Payroll and personnel	\$ 537,021	\$ 48,926	\$ 8,488	\$ 594,435	\$ 134,475	\$ -	\$ 82,007	\$ 810,917
Depreciation	102,349	2,584	15,790	120,723	18,854	-	69,255	208,832
Sales and special events	-	-	-	-	-	40,867	-	40,867
Food and sustenance	71,032	-	-	71,032	-	-	-	71,032
Repairs and maintenance	35,588	1,880	1,655	39,123	7,693	-	126	46,942
Utilities	75,613	2,097	6,422	84,132	9,533	-	539	94,204
Interest expense	265	-	7,575	7,840	905	-	-	8,745
Vehicle operation	46,314	74,041	6,678	127,033	50	-	7,093	134,176
Insurance	65,801	4,846	1,976	72,623	9,406	-	825	82,854
Legal and professional	-	2,650	478	3,128	32,428	-	-	35,556
Miscellaneous	5,684	-	569	6,253	463	-	-	6,716
Advertising	-	37,935	-	37,935	-	-	58,823	96,758
Telephone	20,669	272	-	20,941	638	-	-	21,579
Printing and postage	40	14	-	54	10	-	7,586	7,650
Supplies	19,222	868	27,097	47,187	5,965	-	6,933	60,085
Boys' activities/gifts	2,639	-	-	2,639	-	-	-	2,639
Allowances	30,880	-	-	30,880	-	-	-	30,880
Rent	-	44	5,712	5,756	-	-	20,052	25,808
Travel and meetings	67	-	90	157	607	-	832	1,596
Clothing	473	-	-	473	-	-	-	473
Medical expenses	10,216	-	-	10,216	-	-	-	10,216
School expenses	375	-	-	375	-	-	-	375
Fees, dues, licenses	-	2,669	-	2,669	12,419	-	2,533	17,621
Property taxes	-	-	-	-	2,476	-	-	2,476
Totals	\$ 1,024,248	\$ 178,826	\$ 82,530	\$ 1,285,604	\$ 235,922	\$ 40,867	\$ 256,604	\$ 1,818,997

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity

Rodeheaver Boys' Ranch, Inc. (the "Ranch") is a nonprofit organization under the Florida Not-For-Profit Corporation Act, located in southern Putnam County, Florida. The Ranch is exempt from income taxes according to provisions of Section 501(c)(3) of the Internal Revenue Code.

The Ranch is a private, voluntary health and welfare organization providing residential group care to dependent and neglected boys. The primary function of the Ranch is to provide practical education and a healthy farm environment for the boys.

The Rodeheaver Foundation, Inc.

The Rodeheaver Foundation, Inc. (the "Foundation") was created in December 1995. The original Articles of Incorporation of the Foundation stated that the specific purpose for which the Foundation was formed was to obtain through any and all means permitted by law, monies, intangible property, tangible property and real property and, from time to time as may be necessary in the sole discretion of the Trustees, to use the same for the care, support, maintenance and education of the boys at Rodeheaver Boys' Ranch, Inc. located in Palatka, Florida, a non-profit corporation which provides a home for needy boys, and to contribute to the operating and capital expense budget of Rodeheaver Boys' Ranch, Inc. In May 2013, the Foundation's articles were amended to allow the Foundation to support any qualified non-profit corporation that provides care for needy children, including the Ranch. The Foundation is a legally separate entity managed and governed by a separate Board of Directors. As such, the Ranch has no ability to influence the actions of the Foundation.

The Ranch and the Foundation do not meet the criteria for consolidation under generally accepted accounting principles. Therefore, the accompanying financial statements are solely those of the Ranch and do not include the financial position, change in net assets, or cash flows of the Foundation.

The Ranch and the Foundation are financially interrelated organizations. Accordingly, in the accompanying financial statements, the Ranch has recognized its interest in the net assets of the Foundation and has adjusted that interest for its share of the change in net assets of the Foundation. Distribution for the purposes set forth above are subject to the sole discretion of the Trustees of the Foundation, as described above.

The Rodeheaver-Westbury Trust for Boys

The Rodeheaver-Westbury Trust for Boys was created by the donors of the property occupied by the Ranch to receive the property if and when it is not used for the purpose of a ranch for boys for a period of five years. The original deeds specified that the property would revert to the grantors or their successors under the above conditions. The trust has no other assets and is inactive.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The financial statements of the Ranch have been prepared on the accrual basis of accounting.

Accounting for Net Assets

The Ranch's net assets, the excess of assets over liabilities, are reported in three mutually exclusive classes:

Permanently Restricted – Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Ranch.

Temporarily Restricted – Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions which expire by passage of time or are fulfilled by actions of the Ranch.

Unrestricted – Those net assets that are not temporarily or permanently restricted.

The Ranch reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. However, donor-restricted contributions whose restrictions are met within the same fiscal year are reported as unrestricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "net assets released from restrictions."

Cash

Cash consists of an operating account, four checking accounts for designated funds, a petty cash account, as well as a restricted cash account for amounts held on behalf of residents. The Ranch's deposits are insured by the FDIC. At times, bank balances may exceed FDIC insurance limits.

Investments

Investments in equity securities and limited partnerships are reported at fair value. The fair value of the beneficial interest in trust is estimated by using the net present value of estimated future cash flows. Investments in real estate are recorded at cost or estimated fair value when a donation is received.

Receivables

Receivables consist of donor pledges which are expected to be fully collectible within one year. Accordingly, an allowance for doubtful accounts was not deemed necessary.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost ("FIFO") or market. Contributed inventories are recorded at estimated fair value when received.

Property and Equipment

Property and equipment are stated at cost for purchased items and at estimated fair value on the day received for donated items. Depreciation is computed using the straight line and declining balance methods over lives ranging from 5 to 33 years.

The Ranch reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Ranch reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Deferred Revenue

The Ranch hosts a Bluegrass festival every year in February and November. A majority of the participants prepay for one or both of the next year's festival(s). This amount is recorded as deferred revenue by the Ranch.

Contributed Services

The Ranch recognizes contributed services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Ranch recognized approximately \$9,650 of contributed dental services for the year ended December 31, 2013.

Expense Allocation

The costs of providing the programs and activities of the Ranch have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expense Classifications

- ♦ "Boys' Care" includes expenses related to the care of the children living on the Ranch.
- ♦ The "Vehicle Improvement Program" is a vocational-technical aspect of the boys' program. The Program solicits the donation of used automobiles. These automobiles are picked up, some repairs are made, and cars are auctioned several times each year. The profits from this auction go directly to support the boys' programs.
- ♦ "Agricultural Programs" includes expenses for farm operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ♦ "General and Administrative" includes expenses required to conduct the affairs of the Ranch, which are not allocable to other functional areas.
- ♦ "Cost of Sales and Special Events" includes the cost of items sold by the Ranch and the costs of special events.
- ♦ "Fundraising" includes the costs of all fundraising activities.

Uncertain Tax Positions

The Ranch follows the accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. As of December 31, 2013, the Ranch has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Ranch is no longer subject to examination by the IRS for tax years before 2010.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Ranch to make estimates and assumptions that affect the reported amounts. Actual results could vary from the estimates that were used.

Subsequent Events

In preparing these financial statements, the Ranch has evaluated events and transactions for potential recognition or disclosure through July 31, 2014, the date the financial statements were available to be issued.

NOTE 2 – INVENTORIES

Inventories consist of the following:

Automobiles – donated for resale	\$ 26,230
Animals – farm livestock	7,500
History books	4,800
Ranch store	2,400
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Total	\$ 40,930

NOTE 3 – INVESTMENTS

Real Estate

Real estate investments consist of various donated parcels of land. The Ranch owns two parcels in Putnam County, one in Volusia County, two in Marion County and one parcel in Flagler County.

Limited Partnership

During 2013, the Ranch owned approximately .60% of the ML Spalding Limited Partnership. The fair value of this investment was initially estimated on the date of donation and is adjusted, as necessary, based on the partnership's profits or losses.

Beneficial Interest in Trust

This investment consists of a perpetual trust held on behalf of the Ranch by Harris Trust and Savings Bank. Under the terms of the trust, the Ranch has the irrevocable right to receive the income on the trust assets in perpetuity. Distributions are paid in quarterly installments.

NOTE 4 – FAIR VALUE MEASUREMENTS

The Ranch follows the provisions of FASB ASC 820 regarding *Fair Value Measurements*. Using those provisions, the Ranch has characterized its investments based on the priority of the inputs used to value the investments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the statement of financial position are categorized based on the valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Ranch has the ability to access. These investments are exchange-traded investments in equity securities.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments.

Level 3. These are investments where values are based on process or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments.

Rodeheaver Boys' Ranch, Inc.

Notes to Financial Statements

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

Where applicable, as a valuation technique, the Ranch uses the market approach. The following tabulation summarizes the Ranch's fair value measurements for assets that are measured on a recurring basis.

Fair Value Measurements at Reporting Date Using:

Description	12/31/2013	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Equity securities	\$ 71,715	\$ 71,715	\$ -	\$ -
Beneficial interest in trust	144,000	-	-	144,000
Limited partnership	19,009	-	-	19,009
Total	\$ 234,724	\$ 71,715	\$ -	\$ 163,009

There were no changes in the Ranch's Level 3 assets during 2013.

NOTE 5 – QUALIFIED INTEREST IN FOUNDATION

The Foundation and the Ranch are considered financially interrelated as defined by the Financial Accounting Standards Board. Therefore, the Ranch has recorded its interest in the net assets of the Foundation in the accompanying financial statements as follows:

Temporarily restricted	\$ 959,826
Permanently restricted	25,000
Total	\$ 984,826

During 2013, certain donors of the Foundation broadened their restrictions and allowed their contributions to be used for beneficiaries other than the Ranch, at the discretion of the Foundation. Consequently, the Ranch's interest in the Foundation's net assets was significantly reduced during the year.

Rodeheaver Boys' Ranch, Inc.

Notes to Financial Statements

NOTE 6 – NET ASSET RESTRICTIONS

Permanently restricted net assets consist of the following:

A perpetual trust held on behalf of the Ranch by Harris Trust and Savings Bank. Under the terms of the trust, the Ranch has the irrevocable right to receive the income on the trust assets in perpetuity. Distributions are paid in quarterly installments.	\$ 144,000
Qualified Interest in Foundation related to permanently restricted net assets of the Foundation.	25,000
<u>Total</u>	<u>\$ 169,000</u>

Temporarily restricted net assets consist of the following:

Contributions restricted for the purchase of renovations, salaries, and other projects.	\$ 106,215
Qualified interest in Foundation related to temporarily restricted net assets of the Foundation.	959,826
	<u>\$ 1,066,041</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

At December 31, 2013, the Ranch had a grant receivable of \$50,000 due from the Foundation.

During 2013, the Ranch received approximately \$174,800 in donations from seven board or advisory council members.

NOTE 8 – LETTER-OF-CREDIT

The Ranch has a \$25,000 letter-of-credit with Harbor Community Bank in connection with motor vehicle dealer license. The credit line is unsecured. There were no amounts outstanding at December 31, 2013.

Rodeheaver Boys' Ranch, Inc.

Notes to Financial Statements

NOTE 9 – SALES AND SPECIAL EVENTS

Sales and special events revenues and costs of sales consist of the following for 2013:

- Bluegrass festival expenses, including advertisement, electricity for the park, permit fees, and portable toilets.
- Food and concession sales, including the cost of purchasing and cooking food to sell at events such as the bluegrass festival and the annual open house.
- Merchandise sales, including costs of selling jellies, honey, t-shirts, bricks, crafts, and cookbooks.
- Annual open house expenses, including advertisements, foods, and awards.

Sales and ticket revenues	\$ 152,216
Less: direct expenses	40,867
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Net profit	\$ 111,349
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