

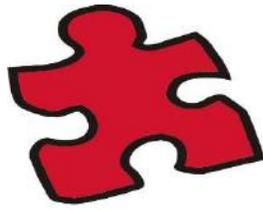
**RAINBOW ACRES
(A NONPROFIT CORPORATION)**

FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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**Schutte &
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Solving Accounting, Audit & Tax Puzzles

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and
Audit Committee of
Rainbow Acres

We have audited the accompanying financial statements of Rainbow Acres (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits 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

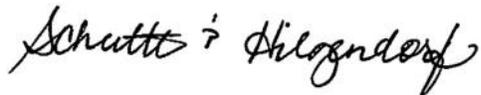
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Acres as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standards

As discussed in Note 2, the Financial Accounting Standards Board recently issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities which supersedes accounting standards that currently exist under GAAP and addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information about expenses and return on investments. In August 2016, the FASB issued ASU 2016-14 which is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018.

On November 17, 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The statement is intended to reduce diversity in the presentation of cash and restricted cash equivalents. The update requires that restricted cash and restricted cash equivalents be included as components of cash and cash equivalents as present on the statement of cash flows. The effective date of the amendment is for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization has selected to transition to this new standard early.

Both ASUs have been applied retrospectively to all periods presented.



Prescott, Arizona
October 18, 2019

RAINBOW ACRES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents (Note 2)	\$ 791,009	\$ 1,288,990
Cash restricted for Rancher funds (Note 2)	47,593	46,692
Accounts receivable (Note 2)	23,416	32,048
Pledges receivable, net of allowance and discount of \$4,721 for 2017 and \$5,481 for 2018 (Note 2 & 4)	46,399	29,254
Prepaid expenses (Note 2)	74,374	29,588
Inventory (Note 2)	5,367	5,957
	<hr/>	<hr/>
Total current assets	988,158	1,432,529
Property and equipment, net (Note 2 & 7)	10,775,096	11,001,317
Other Assets		
Cash surrender value of life insurance policies (Note 8)	23,585	25,564
Cash restricted for endowments (Note 6)	-	5,000
Endowment investments (Note 5 & 6)	2,743,762	2,605,566
Total other assets	<hr/> 2,767,347	<hr/> 2,636,130
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 14,530,601</u>	<u>\$ 15,069,976</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 116,563	\$ 50,512
Accrued liabilities	266,756	245,228
Retirement plan contributions payable	114,372	188,443
Prepaid ranchers' fees	274,781	235,867
Rancher funds - passthrough	16,615	18,450
Line of credit (Note 10)	150,000	-
Total current liabilities	<hr/> 939,087	<hr/> 738,500
Deposits (Note 9)	127,167	127,680
	<hr/>	<hr/>
TOTAL LIABILITIES	1,066,254	866,180
NET ASSETS		
Without donor restrictions		
Undesignated	9,187,073	9,864,770
Board designated	455,433	500,308
With donor restrictions		
Restricted by time or purpose (Note 12)	1,580,766	1,691,497
Held in perpetuity (Note 12)	2,241,075	2,147,221
	<hr/>	<hr/>
TOTAL NET ASSETS	13,464,347	14,203,796
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,530,601</u>	<u>\$ 15,069,976</u>

See notes to financial statements
and independent auditors' report

RAINBOW ACRES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018			
	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose Restrictions	Perpetual Restrictions	
REVENUE, GAINS AND OTHER SUPPORT				
Operating Revenue				
Fees for services to ranchers	\$ 4,143,434	\$ -	\$ -	\$ 4,143,434
Less: scholarships and discounts	(1,224,279)	-	-	(1,224,279)
Net fees for services to ranchers	2,919,155	-	-	2,919,155
Contributions	414,984	1,129,420	93,854	1,638,258
Grants	-	25,978	-	25,978
In-kind donations	25,425	-	-	25,425
Interest and dividend income	1,477	68,028	-	69,505
Other revenues	146,345	-	-	146,345
	<u>3,507,386</u>	<u>1,223,426</u>	<u>93,854</u>	<u>4,824,666</u>
Non-operating gains/(losses)				
Realized/unrealized gain(loss) on investments	(8,598)	(195,368)	-	(203,966)
Gain/(loss) on sale of property and equipment	3,500	-	-	3,500
Gain/(loss) on value of life insurance policies	-	(1,979)	-	(1,979)
Total revenue, support, gains	<u>3,502,288</u>	<u>1,026,079</u>	<u>93,854</u>	<u>4,622,221</u>
Reclassification and release from net asset restrictions	<u>1,136,810</u>	<u>(1,136,810)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE, GAINS, RECLASSIFICATIONS AND RELEASES FROM RESTRICTIONS	<u>4,639,098</u>	<u>(110,731)</u>	<u>93,854</u>	<u>4,622,221</u>
EXPENSES				
Program services	4,069,477	-	-	4,069,477
Management and administration	675,438	-	-	675,438
Fund raising and development	616,755	-	-	616,755
TOTAL EXPENSES	<u>5,361,670</u>	<u>-</u>	<u>-</u>	<u>5,361,670</u>
INCREASE(DECREASE) IN NET ASSETS	<u>(722,572)</u>	<u>(110,731)</u>	<u>93,854</u>	<u>(739,449)</u>
NET ASSETS, BEGINNING OF THE YEAR	<u>10,365,078</u>	<u>1,691,497</u>	<u>2,147,221</u>	<u>14,203,796</u>
NET ASSET, END OF YEAR	<u>\$ 9,642,506</u>	<u>\$ 1,580,766</u>	<u>\$ 2,241,075</u>	<u>\$ 13,464,347</u>

RAINBOW ACRES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017			Total
	Without Donor Restrictions	With Donor Restrictions		
		Time or Purpose Restrictions	Perpetual Restrictions	
REVENUE, GAINS AND OTHER SUPPORT				
Operating Revenue				
Fees for services to ranchers	\$ 4,177,285	\$ -	\$ -	\$ 4,177,285
Less: scholarships and discounts	(1,350,923)	-	-	(1,350,923)
Net fees for services to ranchers	2,826,362	-	-	2,826,362
Contributions	891,237	1,023,213	68,590	1,983,040
Grants	-	-	-	-
In-kind donations	16,422	-	-	16,422
Interest and dividend income	729	64,109	-	64,838
Other revenues	79,570	-	-	79,570
	<u>3,814,320</u>	<u>1,087,322</u>	<u>68,590</u>	<u>4,970,232</u>
Non-operating gains/(losses)				
Realized/unrealized gain(loss) on investments	1,455	294,799	-	296,254
Gain/(loss) on sale of property and equipment	(1,833)	-	-	(1,833)
Gain/(loss) on value of life insurance policies	-	(3,009)	-	(3,009)
Total revenue, support, gains	<u>3,813,942</u>	<u>1,379,112</u>	<u>68,590</u>	<u>5,261,644</u>
Reclassification and release from net asset restrictions	1,201,855	(1,201,855)	-	-
TOTAL REVENUE, GAINS, RECLASSIFICATIONS AND RELEASES FROM RESTRICTIONS	<u>5,015,797</u>	<u>177,257</u>	<u>68,590</u>	<u>5,261,644</u>
EXPENSES				
Program services	3,802,441	-	-	3,802,441
Management and administration	577,172	-	-	577,172
Fund raising and development	607,902	-	-	607,902
TOTAL EXPENSES	<u>4,987,515</u>	<u>-</u>	<u>-</u>	<u>4,987,515</u>
INCREASE(DECREASE) IN NET ASSETS	<u>28,282</u>	<u>177,257</u>	<u>68,590</u>	<u>274,129</u>
NET ASSETS, BEGINNING OF THE YEAR	<u>10,336,796</u>	<u>1,514,240</u>	<u>2,078,631</u>	<u>13,929,667</u>
NET ASSET, END OF YEAR	<u><u>\$ 10,365,078</u></u>	<u><u>\$ 1,691,497</u></u>	<u><u>\$ 2,147,221</u></u>	<u><u>\$ 14,203,796</u></u>

See notes to financial statements
and independent auditors' report

RAINBOW ACRES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018			
	PROGRAM SERVICES	MANAGEMENT & GENERAL	FUNDRAISING & DEVELOPMENT	TOTAL
Advertising and public relations (Note 2)	\$ 1,371	\$ 3,751	\$ 12,940	\$ 18,062
Bad debt expense	-	1,864	-	1,864
Bank and investment fees	-	26,038	-	26,038
Computer expense	-	17,815	2,000	19,815
Conferences, conventions, and meetings	1,302	1,110	2,993	5,405
Depreciation	419,273	8,035	3,785	431,093
Dues and subscriptions	658	8,443	5,483	14,584
Eagle accreditation	-	3,445	-	3,445
Employee benefits	313,294	32,703	14,425	360,422
Equipment rental and maintenance	1,393	4,539	-	5,932
Housing allowances	8,134	8,133	12,583	28,850
Insurance	103,135	18,374	3,391	124,900
Interest (Note 10)	2,554	20	-	2,574
Licenses and permits	10,677	4,400	-	15,077
Occupancy	427,873	4,080	2,396	434,349
Payroll taxes	156,311	29,063	23,748	209,122
Printing and postage	130	12,521	33,747	46,398
Professional fees	-	32,413	111,238	143,651
Program expenses - Ranchers				
Cable	19,293	-	-	19,293
Activities and supplies	68,912	-	-	68,912
Animal science program	8,592	-	-	8,592
Food	170,687	-	-	170,687
Greenhouse	1,363	-	-	1,363
Health, wellness and development	10,484	-	-	10,484
Household supplies	4,449	-	-	4,449
Travel, trips	33,941	-	-	33,941
Retirement plan contributions (Note 13)	50,771	-	11,022	61,793
Salaries and wages	2,102,343	415,951	314,122	2,832,416
Special events	20,777	-	-	20,777
Supplies	2,798	10,782	1,310	14,890
Telecommunications	14,542	8,650	1,930	25,122
Training and development	14,563	12,388	765	27,716
Travel and transportation	55,172	6,998	58,427	120,597
Vehicle	30,626	-	-	30,626
Miscellaneous	14,059	3,922	450	18,431
	<u>\$ 4,069,477</u>	<u>\$ 675,438</u>	<u>\$ 616,755</u>	<u>\$ 5,361,670</u>
	75.9%	12.6%	11.5%	

See notes to financial statements
and independent auditors' report

RAINBOW ACRES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017			
	PROGRAM SERVICES	MANAGEMENT & GENERAL	FUNDRAISING & DEVELOPMENT	TOTAL
Advertising and public relations (Note 2)	\$ 1,191	\$ 1,192	\$ 9,054	\$ 11,437
Bad debt expense	-	21,339	-	21,339
Bank and investment fees	-	18,558	-	18,558
Computer expense	-	7,988	6,356	14,344
Conferences, conventions, and meetings	166	4,177	1,800	6,143
Depreciation	398,915	8,035	3,682	410,632
Dues and subscriptions	400	8,218	430	9,048
Employee benefits	284,532	31,108	14,460	330,100
Equipment rental and maintenance	4,759	4,645	-	9,404
Housing allowances	8,134	8,133	8,133	24,400
Insurance	111,525	18,039	6,248	135,812
Interest (Note 10)	1,515	-	-	1,515
Licenses and permits	10,412	150	-	10,562
Occupancy	401,755	5,768	3,387	410,910
Payroll taxes	147,847	23,736	28,933	200,516
Printing and postage	201	6,140	40,111	46,452
Professional fees	-	50,999	19,245	70,244
Program expenses - Ranchers				-
Cable	17,938	-	-	17,938
Activities and supplies	18,602	-	-	18,602
Animal science program	8,196	-	-	8,196
Food	161,192	-	-	161,192
Greenhouse	9,907	-	-	9,907
Health, wellness and development	15,685	-	-	15,685
Household supplies	19,976	-	-	19,976
Travel, trips	20,631	-	-	20,631
Retirement plan contributions (Note 13)	60,838	-	36,615	97,453
Salaries and wages	1,957,951	328,183	368,760	2,654,894
Special events	14,115	-	-	14,115
Supplies	2,943	8,013	576	11,532
Telecommunications	12,864	8,140	1,934	22,938
Training and development	7,347	11,360	278	18,985
Travel and transportation	60,717	1,917	56,735	119,369
Vehicle	33,095	-	-	33,095
Miscellaneous	9,092	1,334	1,165	11,591
	<u>\$ 3,802,441</u>	<u>\$ 577,172</u>	<u>\$ 607,902</u>	<u>\$ 4,987,515</u>
	76.2%	11.6%	12.2%	

See notes to financial statements
and independent auditors' report

RAINBOW ACRES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

CASH FLOW FROM OPERATING ACTIVITIES	2018	2017
Increase(decrease) in net assets	\$ (739,449)	\$ 274,129
Adjustments to reconcile increase(decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation expense	431,093	410,632
Bad debt expense	1,864	21,339
Realized (gain) loss on investments	(52,948)	(23,175)
Unrealized (gain) loss on investments	256,914	(273,080)
(Gain) Loss on disposition of assets	(3,500)	1,833
Vehicles donated	(5,812)	(5,000)
Change in value of life insurance policies	1,979	3,009
Reduction of retirement plan contributions payable	(37,000)	(17,319)
Decrease (Increase) in:		
Accounts receivable	8,632	11,024
Pledges receivable	(19,009)	139,233
Prepaid expenses	(44,786)	(7,333)
Inventory	590	(1,837)
Security deposits	-	32,750
Increase (Decrease) in:		
Accounts payable	66,051	(65,304)
Accrued liabilities	21,528	14,127
Retirement plan contributions payable	(37,071)	(36,071)
Prepaid ranchers' fees	38,914	61,053
Rancher funds - passthrough	(1,835)	4,609
Deposits	(513)	(1,405)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(114,358)	543,214
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(199,060)	(164,430)
Proceeds from sale of property and equipment	3,500	9,766
Reinvested dividends and interest	(69,096)	(64,218)
Net proceeds (purchases) of investments, net of fees	(273,066)	8,216
NET CASH (USED) BY INVESTING ACTIVITIES	(537,722)	(210,666)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on lines of credit	150,000	100,000
Payments on lines of credit	-	(100,000)
NET CASH PROVIDED(USED) BY FINANCING ACTIVITIES	150,000	-
NET INCREASE(DECREASE) IN CASH	(502,080)	332,548
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
AT BEGINNING OF PERIOD	1,340,682	1,008,134
CASH AT END OF PERIOD	\$ 838,602	\$ 1,340,682
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 2,554	\$ 1,515

See notes to financial statements
and independent auditors' report

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 – ORGANIZATION AND PURPOSE

Rainbow Acres (a nonprofit corporation) was incorporated in Arizona in the month of September 1973. Rainbow Acres (“The Organization”) provides a Christian community for developmentally-disabled adults dedicated to enhancing the quality of life by assisting such individuals to achieve mental, physical, social, spiritual and vocational growth to their fullest potential with dignity and purpose. Persons enrolled at the Organization are usually referred to as Ranchers. The Organization is located on a campus in Camp Verde, Arizona. The Organization’s programs are supported primarily through fees charged to Ranchers (usually paid by parents, siblings, and other members of their families, or sometimes paid from Social Security payments), and contributions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). The significant accounting policies followed are described below.

Financial statement presentation follows the recommendations promulgated by the Financial Accounting Standards Board (FASB) in accordance with GAAP. The Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, based upon the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations may be expended for any purpose in performing the primary objectives of the Organization. Certain net assets without donor restrictions are designated for specific purposes or uses by the Organization’s Board and classified as *Board Designated Net Assets*.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donors have stipulated that the funds or assets be maintained in perpetuity.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All contributions are considered to be available without restriction unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as donor restricted support.

Donor-restricted contributions and grants are reported as increases in net assets with donor restrictions. When a donor restriction ends or purpose is accomplished, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions, and are reported in the statement of activities as net assets released from restrictions.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Endowment funds have been accounted for and related disclosures made in accordance with “Endowment of Not-for-profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds.” This provides guidance on net asset classification of donor-restricted endowment funds for non-profits subject to an enacted version of UPMIFA and required enhanced disclosures for all endowment funds.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that 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.

Cash and Cash Equivalents

The Organization considers short term, highly liquid investments which are readily convertible to cash within ninety (90) days of purchase to be cash equivalents. As of December 31, 2018 and 2017, the Organization had cash deposits in excess of the Federal Deposit Insurance Corporation limits in the amount of \$526,683 and \$1,036,364, respectively. The Organization has not experienced any losses from these accounts. Cash restricted for endowments is listed separately on the Statement of Financial Position, and cash restricted by the Board is included in cash and cash equivalents. Cash restricted for Rancher funds, which includes donor-restricted funds for Rancher vacations and Rancher passthrough funds, is listed separately on the Statements of Financial Position.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Statements of Financial Position, the sum of which equals the amounts shown in the Statements of Cash Flows.

	<u>12/31/2018</u>	<u>12/31/2017</u>
Cash and cash equivalents	\$791,009	\$1,288,990
Cash restricted for Rancher funds	47,593	46,692
Cash restricted for endowments	<u>-</u>	<u>5,000</u>
	<u>\$838,602</u>	<u>\$1,340,682</u>

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values based on quoted prices in active markets (Level 1) in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets for which the investment relates.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable consist primarily of Ranchers' fees that are due on the first day of each month. There are no amounts charged if payments are late. As of December 31, 2018 and 2017, the Organization considers Ranchers' fees to be fully collectible. Ranchers' accounts are reviewed on a continuous basis. Determinations are made regarding whether a scholarship for a particular Rancher is warranted or whether parents or those financially responsible need to be contacted. Accounts deemed uncollectible are either charged an allowance or written off to bad debt. The allowance for doubtful accounts is \$0 at December 31, 2018 and 2017.

Pledges Receivable

Unconditional promises to give (or *pledges receivable*) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met. Pledges are reviewed periodically for collectability, and accounts deemed uncollectible are either charged an allowance or written off to bad debt. During 2017, \$21,030 of pledges receivable were written off. The allowance for doubtful pledges is \$4,750 and \$3,170, respectively, at December 31, 2018 and 2017.

Prepaid expenses

Prepaid expenses consist of insurance payments, software usage payments, water treatment media payments, and payments made in advance for events that will occur in the next fiscal year. Prepaid expenses are recognized as expense either ratably over the term of the agreement or when the event occurs.

Inventories

Inventories are applicable to food service goods and stated at lower of cost or market, utilizing the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost at date of acquisition or completion, or fair market value at date of donation in the case of gifts. The Organization's policy is to record purchases of property and equipment at costs in excess of \$5,000 as capital assets.

Donations of vehicles and equipment are recorded as in-kind support and are reported as support without donor restriction unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property or equipment, are reported as support with donor restrictions.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donations of real property may be absent donor restrictions, with donor restrictions of time or purpose, or with donor restrictions to be held on perpetuity. Periodically, the Organization receives or purchases property and equipment with restricted monies. Property or an amount of cash as agreed upon with the donor could technically revert back to the donor if not utilized for the specified purposes.

Fixed assets are depreciated primarily using the straight-line method over the estimated useful lives of individual assets as follows:

Buildings and improvements	7 to 40 years
Furniture, fixtures, machinery and equipment	5 to 10 years
Office equipment	3 to 7 years
Vehicles	5 to 10 years

Functional Allocation of Expenses

The costs of providing the programs and other various activities have been summarized on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are directly identifiable, such as most salaries and wages, are charged directly to programs on the basis of periodic analyses and studies. Expenses such as employee benefits and payroll taxes are allocated based on salary allocations by department. Other program-related expenses, such as depreciation, insurance, and utilities, are allocated based on property and equipment usage by department. Administration and fundraising expenses include both directly identifiable and allocated expenses not easily identifiable with specific program operations but related to the overall support and management of the Organization. All other expenses are allocated on the basis of estimates of time and effort.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising expenses are \$15,097 and \$5,319 for the years ended December 31, 2018 and 2017, respectively, and are included in *Advertising and public relations* in the Statements of Functional Expenses.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization has been classified as an Arizona Nonprofit Corporation that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code; in addition, the Organization has no Unrelated Business Income Tax liabilities. Therefore, no provision has been made for income taxes due in the accompanying financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Contributed Services and Materials

Generally, professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. However, many individuals volunteer their time and perform a variety of tasks that do not meet the criterion for recognition. Management estimates that hours of assistance given by volunteers and board members totaled approximately 11,230 hours during 2018 and 11,465 hours during 2017. More than 25 individuals and 35 different groups, with more than 300 individuals, volunteered in 2017, and more than 30 individuals and 60 groups, with more than 350 individuals, volunteered in 2018.

Contributions of tangible assets are recognized at fair market value when received. Contributed services and materials of \$25,425 and \$16,422 have been reflected in the financial statements as of December 31, 2018 and 2017, respectively. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or property and equipment.

Change in Accounting Principals

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

On November 17, 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The statement is intended to reduce diversity in the presentation of cash and restricted cash equivalents. The update requires that restricted cash and restricted cash equivalents be included as components of cash and cash equivalents as present on the statement of cash flows. The effective date of the amendment is for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization has selected to transition to this new standard early.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year’s format. Net assets are unchanged due to these reclassifications.

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents the Organization’s financial assets at December 31,

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$791,009	\$1,288,990
Accounts receivable	23,416	32,048
Pledges receivable	<u>46,399</u>	<u>29,254</u>
Total financial assets at year-end	860,824	1,350,292
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed purpose restrictions	323,683	289,677
Pledges receivable due in 1 to 4 years, net	<u>4,835</u>	<u>14,006</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$532,306</u>	<u>\$1,046,609</u>

The Organization maintains sufficient resources to meet donor-imposed restrictions. As part of the Organization’s liquidity management plan, the board has established a reserve fund (see Note 5). Although the goal is to leave these funds invested, they can be drawn upon if necessary to meet unexpected liquidity needs. The balance of these funds as of December 31, 2018 and 2017, respectively, was \$227,419 and \$0.

In addition, the Organization maintains a revolving line of credit with JPMorgan Chase Bank that can be drawn upon to meet unexpected liquidity needs (see Note 10). The credit limit is \$500,000, and as of December 31, 2018 and 2017, the amount available to draw upon was \$350,000 and \$500,000, respectively.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31, 2017:

	<u>Due in</u> <u>1 Year</u>	<u>Due in</u> <u>1-4 Years</u>	<u>Total</u>
Annual support campaign pledges receivable	\$16,730	\$17,245	\$33,975
Less:			
Discount to net present value	-	1,551	1,551
Allowance for uncollectible pledges	<u>1,482</u>	<u>1,688</u>	<u>3,170</u>
Net pledges receivable	<u>\$15,248</u>	<u>\$14,006</u>	<u>\$29,254</u>

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 4 – PLEDGES RECEIVABLE (continued)

Pledges receivable consist of the following at December 31, 2018:

	Due in <u>1 Year</u>	Due in <u>1-4 Years</u>	<u>Total</u>
Annual support campaign pledges receivable	\$44,300	\$7,580	\$51,880
Less:			
Discount to net present value	-	731	731
Allowance for uncollectible pledges	<u>2,736</u>	<u>2,014</u>	<u>4,750</u>
Net pledges receivable	<u>\$41,564</u>	<u>\$4,835</u>	<u>\$46,399</u>

Pledges have been discounted at a 7.80% annual rate of interest. The pledges receivable are not restricted in use but are restricted by time.

NOTE 5 – INVESTMENTS

The Organization hires third party investment managers to manage the investment assets of the Organization. Investment securities are stated at fair value based on quoted prices in active markets (all Level 1 measurements) and consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash and money market accounts	\$ 21,362	\$ 5,333
Marketable equity securities	1,421,901	1,450,205
Preferred Stock	38,496	32,287
Corporate/government bonds	1,022,669	850,828
Mutual funds	226,592	251,336
Other Investments/Partnership	<u>12,742</u>	<u>15,577</u>
	<u>\$2,743,762</u>	<u>\$2,605,566</u>

An analysis of investments at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Board designated (without donor restriction)	\$ 227,419	\$ -
With donor-stipulated purpose restrictions	275,268	463,345
Held in perpetuity per donor restrictions	<u>2,241,075</u>	<u>2,142,221</u>
	<u>\$2,743,762</u>	<u>\$2,605,566</u>

Earnings (losses) on investments held in perpetuity have been reclassified as either with or without donor restrictions, depending on donor stipulations for how earnings (losses) should be treated.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5 – INVESTMENTS (continued)

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended December 31, 2017:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Dividends and interest	\$ 109	\$ 64,109	\$ 64,218
Capital gain distributions	-	6,126	6,126
Net realized/unrealized gains	829	288,673	289,502
Investment fees	<u>-</u>	<u>(1,944)</u>	<u>(1,944)</u>
Total investment return	<u>\$ 938</u>	<u>\$356,964</u>	<u>\$357,902</u>

Investment return and its classification in the statement of activities for the year ended December 31, 2018:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Dividends and interest	\$ 1,085	\$ 68,011	\$ 69,096
Capital gain distributions	-	13,587	13,587
Net realized/unrealized (losses)	(9,279)	(208,955)	(218,234)
Investment fees	<u>-</u>	<u>(2,158)</u>	<u>(2,158)</u>
Total investment return	<u>\$ (8,194)</u>	<u>\$(129,515)</u>	<u>\$(137,709)</u>

NOTE 6 – ENDOWMENTS

The Organization’s endowments consist primarily of managed funds in Vanguard, Stifel and Edward Jones. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Board designated funds function as “quasi-endowment” for the Organization, are invested like endowment funds and are classified as without donor restriction.

Interpretation of Relevant Law:

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets held in perpetuity (a) the original value of gifts donated to be held in perpetuity, as stipulated by the donor (b) the original value of subsequent gifts to endowment to be held in perpetuity, as stipulated by the donor, and (c) accumulations to the endowment to be held in perpetuity, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 6 – ENDOWMENTS (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in net assets held in perpetuity is classified as net assets restricted by time and purpose until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment only – including Board-designated)

Endowment Net Asset Composition by Type of Fund as of December 31, 2017:

	<u>Without Donor Restriction</u>		<u>With Donor Restriction</u>		<u>Total</u>
	<u>Undesignated</u>	<u>Board Designated</u>	<u>Time & Purpose Restricted</u>	<u>Held In Perpetuity</u>	
Endowment Funds					
Investments	\$ -	\$ -	\$463,345	\$2,142,221	\$2,605,566
Cash	-	-	-	5,000	5,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$463,345</u>	<u>\$2,147,221</u>	<u>\$2,610,566</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2018:

	<u>Without Donor Restriction</u>		<u>With Donor Restriction</u>		<u>Total</u>
	<u>Undesignated</u>	<u>Board Designated</u>	<u>Time & Purpose Restricted</u>	<u>Held In Perpetuity</u>	
Endowment Funds					
Investments	\$ -	\$227,419	\$275,268	\$2,241,075	\$2,743,762

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 6 – ENDOWMENTS (continued)

Changes in Endowment Net Assets for the Fiscal Years Ended December 31, 2018 and 2017

	<u>Without Donor Restriction</u>		<u>With Donor Restriction</u>		<u>Total</u>
	<u>Undesignated</u>	<u>Board Designated</u>	<u>Time & Purpose Restricted</u>	<u>Held In Perpetuity</u>	
Endowment net assets, At December 31, 2016	<u>\$ -</u>	<u>\$ 12,101</u>	<u>\$167,577</u>	<u>\$2,078,631</u>	<u>\$2,258,309</u>
Investment return:					
Interest and dividends	\$ -	\$ 109	\$64,109	\$ -	\$ 64,218
Net realized/unrealized gain/(loss)	-	829	294,799	-	295,628
Investment fees	-	-	(1,944)	-	(1,944)
Total investment return	-	938	356,964	-	357,902
Contributions	-	-	-	68,590	68,590
Amounts appropriated for expenditure	-	(13,039)	(61,196)	-	(74,235)
2017 Activity	-	(12,101)	295,768	68,590	351,319
Endowment net assets, at December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$463,345</u>	<u>\$2,147,221</u>	<u>\$2,610,566</u>
Investment return:					
Interest and dividends	\$ -	\$ 1,085	\$68,011	\$ -	\$ 69,096
Net realized/unrealized gain/(loss)	-	(9,279)	(195,368)	-	(204,647)
Investment fees	-	-	(2,158)	-	(2,158)
Total investment return	-	(8,194)	(129,515)	-	(137,709)
Contributions	-	235,613	-	93,854	329,467
Amounts appropriated for expenditure	-	-	(58,562)	-	(58,562)
2018 Activity	-	227,419	(188,077)	93,854	133,196
Endowment net assets, at December 31, 2018	<u>\$ -</u>	<u>\$227,419</u>	<u>\$275,268</u>	<u>\$2,241,075</u>	<u>\$2,743,762</u>

Risk Objectives and Risk Parameters

The Organization has adopted an investment and spending policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include the assets of the donor-restricted funds that the entity must hold in perpetuity plus any board restricted quasi-endowment funds.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 6 – ENDOWMENTS (continued)

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to outperform over market cycle an appropriate pre-specified market index rate of return, and to achieve favorable investment results relative to investors with similar objectives and policies, and to achieve the maximum total return over the long term that is commensurate with a reasonable degree of risk.

Strategies Employed for Achieving Objectives

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 targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. Currently, this involves a mix of 40% fixed income investments and 60% equity investments.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution 4% of the 12-quarter rolling average of the market value of the endowment fund. Any remaining earnings will be reinvested into the fund to grow the endowment. Distributions will not be made from the corpus of donor-restricted funds. This is consistent with the entities' objective to maintain the purchasing power of the endowment assets held in perpetuity as well as provide additional real growth through new gifts and investment return.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 343,416	\$ 343,416
Land improvements	11,970	11,970
Buildings	13,548,672	13,522,704
Building improvements	1,114,438	933,767
Barns and corrals	131,692	131,692
Furniture & fixtures	268,608	268,608
Machinery & equipment	187,417	187,417
Office equipment	82,244	82,244
Vehicles	521,394	486,487
Construction in progress	<u>-</u>	<u>56,882</u>
	16,025,187	15,935,207
Less accumulated depreciation	<u>(5,434,755)</u>	<u>(5,023,870)</u>
Total, net of accumulated depreciation	<u>\$10,775,096</u>	<u>\$11,001,317</u>

Depreciation expense for the year ended December 31, 2018 and 2017 is \$431,093 and \$410,632, respectively.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 7 – PROPERTY AND EQUIPMENT (continued)

Construction in progress for the year ended December 31, 2018 and 2017 consist of:

Beginning balance at December 31, 2016	\$125,345
Construction in Progress	106,517
Construction completed in 2017	<u>(174,980)</u>
Balance at December 31, 2017	\$ 56,882
Construction in Progress	169,965
Construction completed in 2018	<u>(226,847)</u>
Ending balance at December 31, 2018	<u>\$ _____ -</u>

NOTE 8 – LIFE INSURANCE

Two life insurance policies were donated to the Organization by founding members Mark Showers and Marilyn Showers in prior years. These policies are reflected in the Statement of Financial Position and, under the terms of the donors, may not be sold or cancelled. The face values or net death benefit of these policies are \$280,000 and \$120,000 respectively. Current net equity or surrender value of these policies at December 31, 2018 and 2017 is \$23,585 and \$25,564, respectively.

NOTE 9 – DEPOSITS

Deposits consist of refundable rancher and employee residence deposits, and employee deposits for uniforms, keys, and identification tags. These consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Rancher deposits	\$119,267	\$120,840
Employee rental deposits	1,100	1,100
Employee property deposits	<u>6,800</u>	<u>5,740</u>
	<u>\$127,167</u>	<u>\$127,680</u>

NOTE 10 – LINES OF CREDIT

In January 2018, the Organization renewed a revolving line of credit with JPMorgan Chase Bank. The credit limit is \$500,000 with interest payable monthly at 2.30% per annum over the bank's Prime Rate. The line was drawn on during the year for operational purposes, and the outstanding line of credit balance as of December 31, 2018 and 2017, respectively, was \$150,000 and \$0. The line of credit is secured by buildings and land.

Interest expense was \$2,574 and \$1,515 for the years ended December 31, 2018 and 2017, respectively.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 11 – ADOH RESTRICTION

The Organization currently has a funding agreement with the Arizona Department of Housing that in exchange for an award of \$750,000, it will construct and manage independent living apartments on the premises currently held by Rainbow Acres for the purposes of providing rental housing for developmentally disabled adults. The Organization must utilize the apartments for the intended purpose for a period of twenty years or else return the award of \$750,000 plus any accrued interest at .5% per month until default is cured.

The agreement is based on a 20-year note maturing on January 1, 2032. The amount of the award originated in stages during the construction of the independent apartment units to its maximum amount of \$750,000. The Organization provided additional capital to build the apartments. The interest rate for the life of the loan is a fixed rate of zero (0.0) percent as long as the covenants of the housing agreement are met. On the maturity date, if no event of default occurs, Rainbow Acres' obligation to repay the note shall terminate and the Organization will be entitled to a release of the Deed of Trust that secures the note upon payment of a reasonable fee for preparation and recordation of the release. The note will be deemed satisfied upon the Organization's fulfilling the obligations of the note as stated above thereby releasing the obligation to repay funds. The property referred to as the Independent Living Apartments at 2120 West Reservation Loop Road in the City of Camp Verde, County of Yavapai is collateral for the note payable. Because of the unlikely probability that the Organization will default, the obligation has not met the criteria for recognition as a contingent liability. The donor restriction will remain until forgiven.

NOTE 12 – RESTRICTIONS ON NET ASSETS

All donor-restricted contributions are reported as increases in net assets with donor restrictions. Donor-restricted net assets fall into two categories: assets with donor restrictions that are temporary in nature, and assets with donor restrictions that are perpetual in nature. Donor restrictions that are temporary in nature will be met by the actions of the Organization or the passage of time. Donor restrictions that are perpetual in nature require, per donor stipulation, that the donated funds or assets be maintained in perpetuity. When a restriction that is temporary in nature expires, net assets with donor restrictions are reclassified to net assets without donor restriction, and are reported in the Statement of Activities as net assets released from restrictions.

A temporary restriction exists for the independent living apartments partially funded through a grant by the Arizona Department of Housing. The Organization must use the apartments as rental housing for developmentally disabled adults for twenty years as stipulated in the funding agreement. See Note 11.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 12 – RESTRICTIONS ON NET ASSETS

Net assets restricted by time and purpose at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Rancher programs and activities	\$ 294,645	\$ 273,027
Rancher funds – passthrough	16,616	18,450
Rancher vacation funds	30,977	28,242
Independent living apartments (ADOH)	750,000	750,000
New homes and improvements capital funds	29,038	15,355
Life insurance policies	23,585	25,564
ADOT vehicles	114,238	88,260
Pledges receivable (restricted by time)	46,399	29,254
Unappropriated earnings on endowments	<u>275,268</u>	<u>463,345</u>
	<u>\$1,580,766</u>	<u>\$1,691,497</u>

Net assets held in perpetuity, per donor stipulation, at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Palmer endowment	\$1,000,000	\$1,000,000
Taber endowment	365,016	365,016
General endowment	230,159	230,159
Lattanzi funds endowment	193,500	193,028
Worden endowment	105,762	105,762
Edward Jones endowment	100,000	100,000
Lago Gardens endowment	81,876	-
House endowment	57,056	46,756
Nash house endowment	46,450	46,450
Scholarship endowment	36,256	35,050
Choir endowment	<u>25,000</u>	<u>25,000</u>
	<u>\$2,241,075</u>	<u>\$2,147,221</u>

NOTE 13 – DEFINED CONTRIBUTION RETIREMENT PLAN

The Organization contributes to a defined contribution retirement plan sponsored by the Ministers and Missionaries Benefits Board (MMBB) on behalf of all eligible employees under IRS Code 403(b)(9). Three plans are available, depending on eligibility status. The Comprehensive Plan is only available to those who have participated in the Comprehensive Plan at a previous employer and wish to continue. The Organization will contribute 16% of an eligible employee’s annual compensation to the plan on a monthly basis. The Retirement Only Plan is available to all employees that work at least 30 hours per week. The employer contribution for this plan is either \$50 per month or \$250 per month, depending on criterion documented in the plan. Eligible and participating employees may make additional contributions to a third plan, “Member Contribution Plan,” up to the currently allowed limits imposed by the IRS.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 13 – DEFINED CONTRIBUTION RETIREMENT PLAN (continued)

The Organization’s contributions to the retirement plans for the year ended December 31, 2018 and 2017 totaled \$98,793 and \$114,772, respectively.

In 2017 and 2018, employees who were eligible to participate in the Comprehensive Plan, for whom a Retirement Plan Contribution Payable liability had been established, elected not to participate in the plan, resulting in a reduction of \$37,000 and \$17,319, respectively, to the Retirement Plan Contribution Payable for the years ended December 31, 2018 and 2017. This liability reduction also reduced the Retirement Plan Contribution expense reported in the Statement of Functional Expenses by \$37,000 and \$17,319 for the years ended December 31, 2018 and 2017, respectively.

NOTE 14 – OPERATING LEASES

The Organization leases two pieces of office equipment. The first is for a postage machine with Pitney Bowes dated July 29, 2015, requiring quarterly payments of \$240 for 4 years, expiring July 2019. The second lease is for a copier system with Xerox dated May 11, 2016, requiring monthly payments of \$273 for 60 months, expiring May 2021. A new lease was signed for an additional copier system with Xerox on October 31, 2018, requiring monthly payments of \$957 for 60 months, expiring December 2023. The amounts paid in 2018 and 2017, respectively, for the office equipment leases, including fees and insurance, was \$3,897 and \$4,645, and are included in *Equipment rental and maintenance* in the Statement of Functional Expenses.

The minimum lease payments required under the above operating leases as of December 31, are as follows:

2019	\$15,729
2020	15,489
2021	12,583
2022	11,490
2023	<u>11,490</u>
	<u>\$66,781</u>

NOTE 15 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

While no single customer comprises greater than 10% of net revenues, 90% of gross revenue and 63% of net revenue are derived from a specific market and affected by economic events outside of its control. The Organization provides housing, care and programming to adults with developmental disabilities to help these individuals live to their fullest potential with dignity and purpose. The cost of providing these services has outpaced the ability of the market to pay full price resulting in an overall rate of 29.6% in financial assistance to Ranchers. The Organization recognizes the challenges of cost versus customers’ ability and willingness to pay full price. This factor also affects the ability for the Organization to maintain full capacity of its facilities.

RAINBOW ACRES
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2019, the date which the financial statements were available to be issued. No items were noted that would require disclosure in these financial statements.