

GOOD SHEPHERD SERVICES



Financial Statements
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2014 AND 2013

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

GOOD SHEPHERD SERVICES
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Good Shepherd Services

We have audited the accompanying statements of financial position of Good Shepherd Services ("Good Shepherd") which comprise the statements of financial position as of June 30, 2014 and 2013, 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.

Auditors' 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 Good Shepherd Services as of June 30, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Marks Paneth LLP

New York, NY
December 22, 2014



**GOOD SHEPHERD SERVICES
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
Cash and cash equivalents (Notes 2E and 13)	\$ 3,984,688	\$ 3,279,184
Investments (Notes 2F, 2N, 5 and 10)	29,848,725	24,497,130
Client service receivables, net (Notes 2H, 2K and 3)	11,150,421	12,467,561
Pledges receivable, net (Notes 2C, 2K and 4)	4,368,488	3,145,315
Prepaid expenses and other assets	1,620,439	1,189,287
Property and equipment, net (Notes 2G and 6)	24,502,883	23,779,355
Deferred financing costs, net (Note 2J)	259,598	305,697
Debt service reserves (Notes 7 and 5)	-	659,390
 TOTAL ASSETS	 \$ 75,735,242	 \$ 69,322,919
LIABILITIES		
Accounts payable and accrued expenses (Notes 2H, 11 and 12A)	\$ 4,337,172	\$ 4,045,010
Accrued salaries and payroll taxes	2,025,413	1,636,583
Accrued vacation	2,702,226	2,555,818
Deferred revenue and due to funder (Note 2H)	1,667,487	2,071,640
Long-term obligations (Note 7)	5,945,363	6,701,882
 TOTAL LIABILITIES	 16,677,661	 17,010,933
COMMITMENTS AND CONTINGENCIES (Notes 11 and 12)		
NET ASSETS (Note 2B)		
Unrestricted:		
Board designated reserves for endowment (Note 10)	26,021,339	22,106,859
Net investment in property and equipment	18,817,118	18,042,560
	44,838,457	40,149,419
Temporarily restricted (Note 9)	8,382,395	6,325,838
Permanently restricted (Note 10)	5,836,729	5,836,729
 TOTAL NET ASSETS	 59,057,581	 52,311,986
 TOTAL LIABILITIES AND NET ASSETS	 \$ 75,735,242	 \$ 69,322,919

The accompanying notes are an integral part of these financial statements.

GOOD SHEPHERD SERVICES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Year Ended June 30, 2014				Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013
OPERATING SUPPORT AND REVENUE								
Care and maintenance contracts (Note 2H)	\$ 18,639,978	\$ -	\$ -	\$ 18,639,978	\$ 18,518,358	\$ -	\$ -	\$ 18,518,358
Grants from government agencies (Notes 2H and 2I)	40,025,870	-	-	40,025,870	37,993,443	-	-	37,993,443
Medicaid	5,892,709	-	-	5,892,709	5,950,957	-	-	5,950,957
Private grants	3,729,443	11,796,897	-	15,526,340	4,291,706	9,053,756	-	13,345,462
Special events (net of direct expenses of \$986,267 and \$928,031 in 2014 and 2013, respectively)	3,826,599	-	-	3,826,599	2,699,196	-	-	2,699,196
Interest and dividends (Notes 2F and 5)	775,877	-	-	775,877	746,474	-	-	746,474
Miscellaneous revenue and other fees (Note 12C)	1,166,817	-	-	1,166,817	914,930	-	-	914,930
Net assets released from restrictions (Note 9)	9,740,340	(9,740,340)	-	-	7,179,603	(7,029,603)	(150,000)	-
TOTAL OPERATING SUPPORT AND REVENUE	<u>83,797,633</u>	<u>2,056,557</u>	<u>-</u>	<u>85,854,190</u>	<u>78,294,667</u>	<u>2,024,153</u>	<u>(150,000)</u>	<u>80,168,820</u>
EXPENSES (Note 2J)								
Program Services:								
Foster care and residential services	30,786,205	-	-	30,786,205	30,002,893	-	-	30,002,893
Community-based programs	37,836,458	-	-	37,836,458	34,676,970	-	-	34,676,970
Training services	933,724	-	-	933,724	431,618	-	-	431,618
	<u>69,556,387</u>	<u>-</u>	<u>-</u>	<u>69,556,387</u>	<u>65,111,481</u>	<u>-</u>	<u>-</u>	<u>65,111,481</u>
Supporting Services:								
Management and general	12,108,615	-	-	12,108,615	11,206,927	-	-	11,206,927
Fund raising	1,143,735	-	-	1,143,735	1,132,549	-	-	1,132,549
	<u>13,252,350</u>	<u>-</u>	<u>-</u>	<u>13,252,350</u>	<u>12,339,476</u>	<u>-</u>	<u>-</u>	<u>12,339,476</u>
TOTAL OPERATING EXPENSES	<u>82,808,737</u>	<u>-</u>	<u>-</u>	<u>82,808,737</u>	<u>77,450,957</u>	<u>-</u>	<u>-</u>	<u>77,450,957</u>
Change In Net Assets From Operations	<u>988,896</u>	<u>2,056,557</u>	<u>-</u>	<u>3,045,453</u>	<u>843,710</u>	<u>2,024,153</u>	<u>(150,000)</u>	<u>2,717,863</u>
NONOPERATING ACTIVITIES								
Contributions - permanently restricted	-	-	-	-	-	-	125	125
Realized and unrealized gain on investments (Notes 2F and 5)	3,700,142	-	-	3,700,142	1,771,404	-	-	1,771,404
TOTAL NONOPERATING ACTIVITIES	<u>3,700,142</u>	<u>-</u>	<u>-</u>	<u>3,700,142</u>	<u>1,771,404</u>	<u>-</u>	<u>125</u>	<u>1,771,529</u>
CHANGE IN TOTAL NET ASSETS	4,689,038	2,056,557	-	6,745,595	2,615,114	2,024,153	(149,875)	4,489,392
Net assets - beginning of year	<u>40,149,419</u>	<u>6,325,838</u>	<u>5,836,729</u>	<u>52,311,986</u>	<u>37,534,305</u>	<u>4,301,685</u>	<u>5,986,604</u>	<u>47,822,594</u>
NET ASSETS - END OF YEAR	<u>\$ 44,838,457</u>	<u>\$ 8,382,395</u>	<u>\$ 5,836,729</u>	<u>\$ 59,057,581</u>	<u>\$ 40,149,419</u>	<u>\$ 6,325,838</u>	<u>\$ 5,836,729</u>	<u>\$ 52,311,986</u>

The accompanying notes are an integral part of these financial statements.

GOOD SHEPHERD SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	Foster Care	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2014	Total 2013
Salaries	\$ 13,177,474	\$ 23,983,535	\$ 287,474	\$ 37,448,483	\$ 4,514,841	\$ 829,664	\$ 5,344,505	\$ 42,792,988	\$ 39,708,622
Payroll taxes and employee benefits	4,607,635	7,270,703	92,359	11,970,697	1,470,615	239,508	1,710,123	13,680,820	11,534,780
Total Salaries and Related Costs	17,785,109	31,254,238	379,833	49,419,180	5,985,456	1,069,172	7,054,628	56,473,808	51,243,402
Foster boarding home payments	3,708,522	53,350	-	3,761,872	13,246	161	13,407	3,775,279	3,825,379
Children:							-		
Allowance	20,756	-	-	20,756	-	-	-	20,756	25,162
Activities and program supplies	123,399	762,514	428	886,341	5,923	72	5,995	892,336	876,404
Tuition	3,837	150	-	3,987	-	-	-	3,987	2,685
Bedding, linens and uniforms	9,774	1,623	-	11,397	3,193	39	3,232	14,629	11,070
Clothing	29,474	99	-	29,573	1,944	24	1,968	31,541	242,999
Purchase of health services	770,180	368	-	770,548	-	-	-	770,548	612,309
Food	886,409	208,049	3,019	1,097,477	64,341	784	65,125	1,162,602	1,095,696
Supplies, equipment purchased and rental	305,171	332,419	1,357	638,947	170,557	2,077	172,634	811,581	690,528
Medical supplies and equipment	257,238	-	-	257,238	30	-	30	257,268	233,447
Rent	975,275	990,074	33,623	1,998,972	136,703	1,665	138,368	2,137,340	2,029,720
Utilities	483,675	272,617	-	756,292	91,018	1,108	92,126	848,418	810,042
Transportation	261,432	220,787	293	482,512	81,956	998	82,954	565,466	482,918
Telephone	256,219	283,603	4,245	544,067	116,669	1,421	118,090	662,157	594,754
Postage	22,522	14,360	157	37,039	27,708	337	28,045	65,084	78,739
Dues, licenses, permits	94,921	41,994	400	137,315	139,212	1,695	140,907	278,222	380,961
Legal, auditing and advisory fees	198,609	69,185	35,400	303,194	333,583	4,062	337,645	640,839	369,562
Insurance	100,452	32,914	-	133,366	1,513,942	18,436	1,532,378	1,665,744	1,482,527
Purchased services	984,388	524,095	452,686	1,961,169	1,637,904	19,946	1,657,850	3,619,019	3,188,886
Related school expense	62,372	32	-	62,404	-	-	-	62,404	58,001
Stipends	220,337	391,110	110	611,557	9,755	119	9,874	621,431	819,903
Repairs and maintenance	1,387,464	1,124,066	4,182	2,515,712	594,415	7,239	601,654	3,117,366	2,839,533
Office supplies/printing	78,623	125,015	15,896	219,534	55,690	678	56,368	275,902	335,595
Subscription/publication	12,784	434	-	13,218	7,262	88	7,350	20,568	14,072
Staff training/tuition	439,680	97,221	585	537,486	17,858	217	18,075	555,561	1,889,371
Conference expense	4,953	6,491	-	11,444	3,978	48	4,026	15,470	13,519
Public/recruitment	35,357	41,864	814	78,035	31,483	383	31,866	109,901	97,401
Miscellaneous expenses	66,799	103,304	673	170,776	91,506	1,114	92,620	263,396	624,429
Other than Personnel Costs	11,800,622	5,697,738	553,868	18,052,228	5,149,876	62,711	5,212,587	23,264,815	23,725,612
TOTAL EXPENSES BEFORE INTEREST, DEPRECIATION AND AMORTIZATION	29,585,731	36,951,976	933,701	67,471,408	11,135,332	1,131,883	12,267,215	79,738,623	74,969,014
Depreciation and amortization	1,124,094	868,377	-	1,992,471	761,919	9,278	771,197	2,763,668	2,203,235
Interest expense and fees	76,380	16,105	23	92,508	211,364	2,574	213,938	306,446	278,708
	1,200,474	884,482	23	2,084,979	973,283	11,852	985,135	3,070,114	2,481,943
TOTAL EXPENSES	\$ 30,786,205	\$ 37,836,458	\$ 933,724	\$ 69,556,387	\$ 12,108,615	\$ 1,143,735	\$ 13,252,350	\$ 82,808,737	\$ 77,450,957

The accompanying notes are an integral part of these financial statements.

**GOOD SHEPHERD SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013**

	Foster Care	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2013
Salaries	\$ 12,443,620	\$ 21,967,322	\$ 200,500	34,611,442	\$ 4,273,686	\$ 823,494	\$ 5,097,180	\$ 39,708,622
Payroll taxes and employee benefits	3,824,285	6,162,508	80,350	10,067,143	1,232,231	235,406	1,467,637	11,534,780
Total Salaries and Related Costs	16,267,905	28,129,830	280,850	44,678,585	5,505,917	1,058,900	6,564,817	51,243,402
Foster boarding home payments	3,825,250	129	-	3,825,379	-	-	-	3,825,379
Children:								
Allowance	25,162	-	-	25,162	-	-	-	25,162
Activities and program supplies	101,931	762,609	180	864,720	11,535	149	11,684	876,404
Tuition	2,692	(7)	-	2,685	-	-	-	2,685
Bedding, linens and uniforms	6,599	4,471	-	11,070	-	-	-	11,070
Clothing	240,462	2,537	-	242,999	-	-	-	242,999
Purchase of health services	610,909	237	-	611,146	1,148	15	1,163	612,309
Food	791,518	223,164	1,753	1,016,435	78,250	1,011	79,261	1,095,696
Supplies, equipment purchased and rental	300,044	256,845	3,656	560,545	128,325	1,658	129,983	690,528
Medical supplies and equipment	233,409	38	-	233,447	-	-	-	233,447
Rent	804,024	1,059,056	31,954	1,895,034	132,968	1,718	134,686	2,029,720
Utilities	411,048	327,818	-	738,866	70,268	908	71,176	810,042
Transportation	239,680	184,628	291	424,599	57,575	744	58,319	482,918
Telephone	228,280	259,498	3,349	491,127	102,305	1,322	103,627	594,754
Postage	24,875	26,067	151	51,093	27,293	353	27,646	78,739
Dues, licenses, permits	94,711	54,588	813	150,112	227,905	2,944	230,849	380,961
Legal, auditing and advisory fees	37,690	35,824	34,800	108,314	257,916	3,332	261,248	369,562
Insurance	64,209	78,958	-	143,167	1,322,278	17,082	1,339,360	1,482,527
Purchased services	952,727	439,715	43,588	1,436,030	1,730,501	22,355	1,752,856	3,188,886
Related school expense	47,061	10,940	-	58,001	-	-	-	58,001
Stipends	201,402	615,187	-	816,589	3,272	42	3,314	819,903
Repairs and maintenance	1,243,508	1,050,596	4,817	2,298,921	533,717	6,895	540,612	2,839,533
Office supplies/printing	103,611	133,338	4,794	241,743	92,655	1,197	93,852	335,595
Subscription/publication	9,799	179	150	10,128	3,894	50	3,944	14,072
Staff training/tuition	1,767,906	81,580	19,174	1,868,660	20,447	264	20,711	1,889,371
Conference expense	988	11,313	-	12,301	1,202	16	1,218	13,519
Public/recruitment	39,752	28,663	512	68,927	28,111	363	28,474	97,401
Leasehold write-off	-	-	-	-	-	-	-	-
Miscellaneous expenses	184,369	55,072	532	239,973	379,553	4,903	384,456	624,429
Other than Personnel Costs	12,593,616	5,703,043	150,514	18,447,173	5,211,118	67,321	5,278,439	23,725,612
TOTAL EXPENSES BEFORE INTEREST, DEPRECIATION AND AMORTIZATION	28,861,521	33,832,873	431,364	63,125,758	10,717,035	1,126,221	11,843,256	74,969,014
Depreciation and amortization	1,058,672	833,265	-	1,891,937	307,328	3,970	311,298	2,203,235
Interest expense and fees	82,700	10,832	254	93,786	182,564	2,358	184,922	278,708
	1,141,372	844,097	254	1,985,723	489,892	6,328	496,220	2,481,943
TOTAL EXPENSES	\$ 30,002,893	\$ 34,676,970	\$ 431,618	\$ 65,111,481	\$ 11,206,927	\$ 1,132,549	\$ 12,339,476	\$ 77,450,957

The accompanying notes are an integral part of these financial statements.

GOOD SHEPHERD SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 6,745,595	\$ 4,489,392
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,717,569	2,157,137
Amortization of deferred financing costs	46,099	46,098
(Decrease) increase in unamortized discount	(32,024)	12,383
Unrealized gain on investments	(3,658,051)	(1,771,404)
Realized gain on investments	(42,091)	-
Permanently restricted contributions	-	(125)
Bad debt expense	61,084	138,371
	5,838,181	5,071,852
Sub-total		
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Client service receivables	1,317,140	(1,712,761)
Pledges receivable	(1,252,233)	731,187
Prepaid expenses and other assets	(431,152)	700,110
Increase or (decrease) in liabilities:		
Accounts payable and accrued expenses	292,162	715,571
Deferred revenue and due to funder	(404,153)	979,953
Accrued salaries and payroll taxes	388,830	21,724
Accrued vacation	146,408	192,964
	5,895,183	6,700,600
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,441,097)	(6,947,037)
Purchases of investments	(3,274,272)	(909,412)
Proceeds from sale of investments	1,622,819	174,760
	(5,092,550)	(7,681,689)
Net Cash Used in Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in capital lease obligation	-	(4,396)
Decrease in debt service reserves	659,390	(72)
Proceeds from loan refinancing and additional long-term debt	-	3,000,000
Repayments of long-term obligations	(756,519)	(900,091)
Proceeds from permanently restricted contributions	-	125
	(97,129)	2,095,566
Net Cash (Used in) Provided by Financing Activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	705,504	1,114,477
Cash and cash equivalents - beginning of the year	3,279,184	2,164,707
CASH AND CASH EQUIVALENTS- END OF YEAR	\$ 3,984,688	\$ 3,279,184
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 305,396	\$ 278,708
Supplemental Disclosure of Noncash Investing Activity:		
Construction in progress transferred to building and improvements	\$ 360,253	\$ -
Net Property and Equipment acquired by merger	\$ 12,641	\$ -

The accompanying notes are an integral part of these financial statements.

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Good Shepherd Services ("Good Shepherd") is organized under the Not-For-Profit Corporation Law of the State of New York. Good Shepherd was granted exemption from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

Good Shepherd was organized to provide temporary or permanent shelter for children and other family members who are abused, destitute, delinquent, abandoned, neglected and dependent or in need of supervision as defined by the State Social Services Law; to place such children in foster homes and to refer children to agencies authorized and able to make such placement; to provide children and families with advice, counseling, and referral services; to provide detention facilities for children; to operate and maintain preventative services; to establish, operate and maintain residential programs for victims of domestic violence as defined by State Social Services Law; to establish, operate and maintain a substance abuse program within the meaning of Article 19 of the Mental Hygiene Law; and to disseminate information relevant to the provision of human services and entitlements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. ***Basis of Accounting*** – Good Shepherd's financial statements have been prepared on the accrual basis of accounting. Good Shepherd adheres to accounting principles generally accepted in the United States of America.
- B. ***Basis of Presentation*** – Good Shepherd maintains its net assets under the following three classes:
- Unrestricted – represents resources available for support of Good Shepherd's operations over which the Board of Directors has discretionary control. The Board of Directors requires by resolution that any unrestricted net assets in excess of net investment in property and equipment be reserved for endowment purposes.
 - Temporarily restricted – represents assets resulting from contributions and other inflows of assets whose use by Good Shepherd is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Good Shepherd pursuant to those stipulations. When a 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. In addition, temporarily restricted includes unappropriated earnings on donor-restricted endowment funds
 - Permanently restricted – represents those resources subject to donor-imposed stipulations that they be maintained intact in perpetuity by Good Shepherd. The donors of these assets permit the use of all the income earned on related investments, and the net capital appreciation thereon, for general purposes. Good Shepherd's endowment was initiated in 1991 by a \$750,000 challenge grant, known as the Dewitt Wallace – Reader's Digest Endowment Fund. The remaining balance includes donations made throughout the years by various funders.
- C. ***Unconditional promises to give*** – (pledges) are recorded as income when Good Shepherd is formally notified of the grants or contributions by the respective donors. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, while those that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.
- D. ***Contributed Services, Rent and Other In-Kind*** – Good Shepherd received noncash contributions consisting primarily of goods, services. For the years ended June 30, 2014 and 2013, Good Shepherd recorded \$60,342 and \$25,870, respectively, (representing the estimated market value of the donations on the dates received), respectively, as revenue and expenses in the accompanying financial statements because they meet the criteria as prescribed by accounting principles generally accepted in the United States of America.

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- E. ***Cash and Cash Equivalents*** – Good Shepherd considers all highly liquid debt instruments purchased with a maturity of three months or less when acquired, to be cash equivalents, except for cash and money market funds held in Good Shepherd’s investment portfolio.
- F. ***Investments and Fair Value Measurements*** – Investments are recorded at fair values. Purchases and sales of securities are recorded on a trade-date basis. Donated securities are recorded at their fair value on the date received using an average of the high and low price on the date received. Interest income is recorded on an accrual basis and dividend income is recorded based on the ex-dividend date. Investment income is recorded as revenue in the unrestricted net asset class unless restricted by the donor.

In June 2011, Good Shepherd adopted a policy to make a 5% annual endowment and board designated fund investment allocation for the support of operations. The process for determining the amount of funds that could be drawn from the endowment is as follows: 1) measure the combined total market value of endowment and board designated funds for the current fiscal year-end and the prior four years; 2) eliminate the highest and lowest valuation of the past five-year-ends; and, 3) calculate 5% of the three-year average determined above and transfer the amount to a general account during the year. Unused funds will be carried forward to the next fiscal year and accumulated to a maximum of three years. Any unspent funds after three years will go back to the Board designated endowment account.

Fair value measurements are based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 5.

- G. ***Property and equipment*** – Property and equipment are stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. Good Shepherd capitalizes property and equipment with a cost of \$2,500 or more (except when a specific funding source requires a lower capitalization limit) and a useful life of greater than one year. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.
- H. ***Revenue and Fee Income*** – Good Shepherd records care and maintenance revenue based on per diem and per capita rates set on a preliminary basis and paid by the City of New York. The final rates of payment are determined upon audit by the respective funding government agencies.

Government grants and support are recognized as revenue as services are provided and costs incurred. Unreimbursed qualified expenditures for preventive programs are included in the statement of financial position as client service receivables due under governmental contracts.

The estimated liabilities for amounts potentially recoverable by grantors or contracting agencies are included in deferred revenue and due to funder as of June 30, 2014 and 2013 in the accompanying statements of financial position. Actual recoveries are applied against the estimated liabilities when known.

- I. ***Functional Allocation of Expenses*** – Because Good Shepherd is a multi-program/multi-funded organization, the costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services. Such allocations conform to those made in seeking funds from third party sources.
- J. ***Bond Issuance Costs*** – The costs incurred in connection with the issuance of the bonds (see Note 7) and refinancing of the mortgage payable are deferred and amortized using the straight-line method over the terms of the bonds and loans. This method does not materially differ from the effective interest method. Amortization of deferred financing costs amounted to \$46,099 for the years ended June 30, 2014 and 2013.
- K. ***Allowance for Uncollectible Receivables*** – As of June 30, 2014 and 2013, Good Shepherd determined that an allowance for doubtful accounts and uncollectible pledges of \$153,523 and \$92,439, respectively, should be provided for client service receivables and pledges. Such estimates are based on management’s judgment of the creditworthiness of its donors and grantors, the aged basis of the receivables from its government funding sources, as well as current economic conditions and historical information.

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- L. **Rent Expense and Deferred Rent** – Good Shepherd leases real property under operating leases expiring at various future dates. There are escalation clauses that increase rent payments over time. Unless material, Good Shepherd does not record an adjustment to rent expense each year to reflect a straight-lining policy.
- M. **Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.
- N. **New Accounting Pronouncements**: – Effective for the fiscal year ended June 30, 2014, Good Shepherd adopted the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2012-05, “Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (“ASU 2012-05).” In accordance with ASU 2012-05, Good Shepherd has classified proceeds from the sales of donated financial assets as operating activities in the statements of cash flows, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts are classified as cash flows from financing activities. The statement of cash flows for the year ended June 30, 2013 has been reclassified to conform to the provisions of ASU 2012-05. Accordingly, \$165,221 was reclassified from investing to operating activities for the year ended June 30, 2013.

NOTE 3 – CLIENT SERVICE RECEIVABLES

Client service receivables due under governmental contracts, grants and entitlements consisted of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
New York State agencies	\$ 961,695	\$ 873,929
New York City agencies	8,890,569	9,007,711
Federal agencies	373,819	170,714
Medicaid	<u>971,009</u>	<u>2,461,878</u>
	11,197,092	12,514,232
Less: allowance for doubtful accounts	<u>(46,671)</u>	<u>(46,671)</u>
	<u>\$ 11,150,421</u>	<u>\$ 12,467,561</u>

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Amounts due in less than one year	\$ 3,829,478	\$ 1,154,159
Amounts due in one to five years	<u>650,000</u>	<u>2,073,086</u>
	<u>4,479,478</u>	<u>3,227,245</u>
Less: allowance for uncollectible pledges	(106,852)	(45,768)
Less: unamortized discount to present value	<u>(4,138)</u>	<u>(36,162)</u>
	<u>\$ 4,368,488</u>	<u>\$ 3,145,315</u>

The pledges to be received after one year are discounted to present value at interest rates ranging from 0.25% to 0.48%. The amortization of the discount is reflected as additional contribution revenue in the accompanying financial statements.

Pledges receivable from Board members as of June 30, 2014 and 2013 amounted to approximately \$129,000 and \$134,000, respectively.

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments in Level 1 include listed equities and U.S. government debt.
- Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Investments in this category generally include corporate debt and less liquid securities such as securities traded on certain foreign exchanges. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.
- Level 3: Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments in this category generally include equity and debt positions in private companies.

In determining fair value, Good Shepherd utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

The following methods and assumptions were used in estimating the fair values of significant financial instruments at June 30, 2014 and 2013:

Mutual Funds:

Mutual funds are valued at the net asset value (NAV) of shares held by Good Shepherd at year end and based upon quoted market prices determined in an active market. There are no restrictions on redemptions of these funds.

Money market funds:

Money market funds are valued at a constant \$1.00 per share, of which, only the yield goes up and down.

Financial assets are all classified as Level 1 and carried at fair value June 30, 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Investments:		
Mutual Funds:		
Domestic Stock	\$ 15,087,401	\$ 12,086,271
Bonds	6,797,010	6,434,085
International Stock	6,914,125	5,926,706
Money markets	<u>1,050,189</u>	<u>50,067</u>
Total Assets Carried at Fair Value	<u>\$ 29,848,725</u>	<u>\$ 24,497,130</u>

Good Shepherd's policy is to recognize transfers in and transfers out as of the beginning of the reporting period of the event or change in circumstance that caused the transfer. For the years ended June 30, 2014 and 2013, there were no transfers between levels.

Investment return consisted of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 775,877	\$ 746,474
Realized gain on investments	42,091	-
Unrealized gain on investments	<u>3,658,051</u>	<u>1,771,404</u>
	<u>\$ 4,476,019</u>	<u>\$ 2,517,878</u>

GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	Estimated Useful Lives
Land	\$ 578,761	\$ 578,761	
Buildings and improvements	36,623,095	33,836,890	10-30 Years
Furniture and fixtures	3,920,918	3,415,814	5 Years
Computer systems	5,853,115	5,025,323	3 Years
Vehicles	1,034,679	954,460	3 Years
Construction in progress	<u>316,942</u>	<u>677,195</u>	
Total cost	48,327,510	44,488,443	
Accumulated depreciation and amortization	<u>(23,824,627)</u>	<u>(20,709,088)</u>	
Net book value	<u>\$ 24,502,883</u>	<u>\$ 23,779,355</u>	

Depreciation expense for property and equipment amounted to \$2,717,569 and \$2,157,137 for the years ended June 30, 2014 and 2013, respectively.

Construction in progress consists of costs related to the renovation of the interior and/or exterior parts of the 17th Street group residential building. The total estimated renovation cost for these projects was approximately \$400,000 and the project completion date November 30, 2014.

In September 2013, Good Shepherd finalized a merger with Groundwork, Inc. As part of the merger Good Shepherd assumed property and equipment with an original cost of \$440,411 and accumulated depreciation and amortization of \$397,770.

NOTE 7 – LONG-TERM OBLIGATIONS

As of June 30, 2014 and 2013, long term obligations consisted of the following items:

	<u>2014</u>	<u>2013</u>
Industrial Development Agency financing. See below.	\$ -	\$ 545,000
Mortgage payable to a bank, in monthly installments of \$1,515 plus interest at a fixed rate of 3.30%, secured by Good Shepherd's real property. The note matures on May 29, 2022	234,851	253,033
Mortgage payable to a bank, in monthly installments of \$17,857 plus interest at a fixed rate of 3.00%, secured by Good Shepherd's real property. The mortgage matures on October 25, 2019.	2,642,857	2,857,143
Loan payable to a non-profit organization bearing interest at 4.27% per annum, with the principal and accrued interest due in full in September 2028.	250,000	-
Mortgage payable to a bank, in monthly installments of \$2,062 plus interest at the rate of 6.42%, secured by Good Shepherd's real property. The note matures in December 2017.	334,125	358,875
Mortgage payable to a bank, in monthly installments of \$2,633, plus interest at a fixed rate of 3.50%, secured by Good Shepherd's real property. The note matures on June 28, 2022.	252,800	284,400
Mortgage payable to a bank, in monthly installments of \$14,392, plus interest at a fixed rate of 3.25%, secured by Good Shepherd's real property. The note matures in May 2022.	<u>2,230,730</u>	<u>2,403,431</u>
	<u>\$ 5,945,363</u>	<u>\$ 6,701,882</u>

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

The future annual principal payments are as follows for the years ended after June 30, 2014:

	<u>Mortgages and Notes Payments</u>
2015	\$ 459,033
2016	460,677
2017	462,379
2018	701,326
2019	441,211
Thereafter	3,420,737
	\$ 5,945,363

Interest expense incurred for these long-term obligations amounted to \$243,840 and \$248,177 for the years ended June 30, 2014 and 2013, respectively.

NOTE 8 – BANK LINE OF CREDIT

Good Shepherd has a revolving bank line of credit with a maximum borrowing limit of \$5,000,000 with floating interest rate set by the Bank on the day of borrowing. The line expires on March 29, 2015 and is secured by Good Shepherd's receivables. Interest expense incurred for the line of credit amounted to \$0 and \$119 for the years ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and December 22, 2014, Good Shepherd had no outstanding borrowings on this line of credit.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Purpose restricted:		
Community-Based services	\$ 1,430,179	\$ 1,446,581
Residential services	2,697,888	1,985,030
Foster care	558,876	773,071
Time restrictions (periods ending after June 30, 2014)	3,806,442	2,203,086
	8,493,385	6,407,768
Less: estimated allowance for uncollectible pledges	(106,852)	(45,768)
Less: unamortized discount to present value	(4,138)	(36,162)
	\$ 8,382,395	\$ 6,325,838

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by the occurrence of other events specified by the donors or the passage of time as follows for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Purpose restrictions accomplished:		
Preventive services	\$ 1,126,718	\$ 1,218,104
Residential services	150,000	303,750
Expiration of time and purpose restrictions accomplished	8,463,622	5,507,749
	\$ 9,740,340	\$ 7,029,603

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 – ENDOWMENT NET ASSETS

The Board of Good Shepherd recognizes that New York State adopted as law the New York Prudent Management of Institutional Funds Act ("NYPMIFA") on September 17, 2010. NYPMIFA created a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund's fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected as temporarily restricted until appropriated.

The Board explicitly appropriated all earnings as of and prior to September 17, 2010, whether deemed spent or not, as unrestricted. All unappropriated earnings on donor-restricted endowment funds after September 17, 2010, that would otherwise be considered unrestricted by the donor, will be reflected as temporarily restricted until appropriated.

The Board of Directors has interpreted NYPMIFA as allowing Good Shepherd to appropriate for expenditure or accumulate so much of an endowment fund as Good Shepherd determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. As of June 30, 2014, all earnings on endowment funds are considered appropriated by the Board through its budgetary approval process.

Good Shepherd's endowment investment policy is to invest primarily in a mix of equities and fixed income securities based on an asset allocation to satisfy its overall endowment financial and investment objectives, such as to preserve the principal, protect against inflation, receive stable returns and achieve long-term growth. Good Shepherd 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).

Changes in endowment net assets for the year ended June 30, 2014, are as follows:

	Unrestricted: Board Designated Reserves For Endowment	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 22,106,859	\$ 5,836,729	\$ 27,943,588
Investment activity:			
Interest and dividends	775,877	-	775,877
Realized / Unrealized gains	3,700,142	-	3,700,142
Investment fees	(2,419)	-	(2,419)
Transfers for operating activity	(559,120)	-	(559,120)
	<u>3,914,480</u>	<u>-</u>	<u>3,914,480</u>
Endowment net assets, end of year	\$ <u>26,021,339</u>	\$ <u>5,836,729</u>	\$ <u>31,858,068</u>

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 – ENDOWMENT NET ASSETS (Continued)

Changes in endowment net assets for the year ended June 30, 2013, are as follows:

	Unrestricted: Board Designated Reserves For Endowment	Permanently Restricted	Total
Endowment net assets, beginning of	\$ 22,140,106	\$ 5,986,504	\$ 28,126,710
Contributions to endowments	-	125	125
Investment activity:			
Interest and dividends	746,474	-	746,474
Unrealized gains	1,771,404	-	1,771,404
Investment fees	(8,497)	-	(8,497)
Transfers for operating activity	<u>(2,542,628)</u>	<u>(150,000)</u>	<u>(2,692,628)</u>
	<u>(33,247)</u>	<u>(149,875)</u>	<u>(183,122)</u>
Endowment net assets, end of year	<u>\$ 22,106,859</u>	<u>\$ 5,836,729</u>	<u>\$ 27,943,588</u>

Endowment net assets of \$31,858,068 and \$27,943,588 as of June 30, 2014 and 2013, respectively, are included in pledges receivable and investments in the accompanying statements of financial position.

NOTE 11 – RETIREMENT PLAN AND DEFERRED COMPENSATION

Good Shepherd sponsors a noncontributory defined contribution plan under section 403(b) of the Internal Revenue Code through two insurance companies for eligible salaried employees based on annual compensation. Good Shepherd's Board of Directors determines the amount of contribution to be made into the plan on an annual basis. Retirement plan contributions for the years ended June 30, 2014 and 2013 amounted to approximately \$870,000 and \$826,000, respectively.

Good Shepherd provides regular employees a deferred compensation benefit for longevity. Each regular employee is entitled to one week base salary after 10 full years of service and will add additional weeks for each year thereafter based on a schedule up to a maximum of 12 weeks. As of June 30, 2014 and 2013, Good Shepherd has accrued approximately \$1,145,000 and \$1,148,000, respectively, for such benefit.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

- A. Pursuant to Good Shepherd's contractual relationships with certain governmental funding sources, governmental agencies have the right to examine the books and records of Good Shepherd involving transactions relating to these contracts. Good Shepherd has made provisions for possible disallowances which have been included in accounts payable and accrued expenses in the accompanying financial statements.
- B. Good Shepherd is obligated under operating leases for the rental of premises for various program locations through 2026. The leases have escalation clauses related to increases in rent and taxes. Future minimum lease payments in each of the five years subsequent to June 30, 2014, and thereafter are as follows:

	<u>Office</u>
2015	\$ 2,055,000
2016	2,041,000
2017	1,573,000
2018	1,408,000
2019	1,127,000
Thereafter	<u>3,161,000</u>
	<u>\$ 11,365,000</u>

GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

The rental commitment presented above does not include certain operating leases, which are currently on a month-to-month basis. Rent expense under all operating leases amounted to approximately \$2,137,000 and \$2,030,000 for the years ended June 30, 2014 and 2013, respectively.

- C. In the fiscal year 2001, Good Shepherd entered into a license agreement for the use of space by the New York City Department of Education. During the fiscal year 2006, the agreement was extended to continue until 2016. Under the license agreement, Good Shepherd will receive annual license payments commencing from the date of occupancy by the Board of Education to the end of the term of the agreement. License fee income amounted to approximately \$580,600 for the years ended June 30, 2014 and 2013, respectively, and is included as part of miscellaneous revenue and other fees in the accompanying statements of activities. Expected future minimum license fee payments are approximated as follows to be received subsequent to June 30, 2014:

2015	\$ 580,600
2016	<u>435,000</u>
	<u>\$ 1,015,600</u>

- D. Good Shepherd had no uncertain tax positions as of June 30, 2014 in accordance with Accounting Standards Codification (“ASC”) Topic 740 (“Income Taxes”), which provides standards for establishing and classifying any tax provisions for uncertain tax positions. Good Shepherd is no longer subject to federal or state and local tax examinations by tax authorities for fiscal years before 2011.

NOTE 13 – CONCENTRATIONS

Cash and cash equivalents that potentially subject Good Shepherd to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Bank accounts are insured up to \$250,000 per depositor. As of June 30, 2014 and 2013, there was approximately \$3,600,000 and \$4,415,000 of cash and cash equivalents held by banks that exceeded FDIC limits. Such excess includes outstanding checks.

NOTE 14 – SUBSEQUENT EVENTS

Good Shepherd has evaluated events subsequent to the date of the statements of financial position through December 22, 2014, the date the financial statements were issued.