

GOOD SHEPHERD SERVICES



Financial Statements
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2016 AND 2015

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, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Good Shepherd Services

We have audited the accompanying financial statements of Good Shepherd Services ("Good Shepherd") which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015 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
January 24, 2017

**GOOD SHEPHERD SERVICES
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
Cash and cash equivalents (Notes 2E and 13)	\$ 3,275,588	\$ 4,237,365
Investments (Notes 2F, 2N, 5 and 10)	27,397,218	27,174,034
Client service receivables, net (Notes 2H, 2K and 3)	20,701,775	16,200,326
Pledges receivable, net (Notes 2C, 2K and 4)	7,840,781	8,517,512
Prepaid expenses and other assets	2,714,041	2,535,453
Property and equipment, net (Notes 2G and 6)	20,491,207	22,839,323
Deferred financing costs, net (Note 2J)	194,643	227,083
TOTAL ASSETS	\$ 82,615,253	\$ 81,731,096
LIABILITIES		
Accounts payable and accrued expenses (Notes 2H, 11 and 12A)	\$ 3,723,498	\$ 3,884,329
Accrued salaries and payroll taxes	2,682,625	2,336,774
Accrued vacation	2,786,052	2,789,065
Deferred revenue and due to funder (Note 2H)	1,298,795	2,096,913
Line of credit (Note 8)	2,500,000	1,500,000
Long-term obligations (Note 7)	4,737,699	5,483,844
TOTAL LIABILITIES	17,728,669	18,090,925
COMMITMENTS AND CONTINGENCIES (Notes 11 and 12)		
NET ASSETS (Note 2B)		
Unrestricted:		
Board designated reserves for endowment (Note 10)	30,585,556	28,581,984
Net investment in property and equipment	15,948,151	17,582,562
Total Unrestricted	46,533,707	46,164,546
Temporarily restricted (Note 9)	12,516,148	11,638,896
Permanently restricted (Note 10)	5,836,729	5,836,729
TOTAL NET ASSETS	64,886,584	63,640,171
TOTAL LIABILITIES AND NET ASSETS	\$ 82,615,253	\$ 81,731,096

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

**GOOD SHEPHERD SERVICES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	Year Ended June 30, 2016				Year Ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
OPERATING SUPPORT AND REVENUE								
Care and maintenance contracts (Note 2H)	\$ 20,567,307	\$ -	\$ -	\$ 20,567,307	\$ 20,174,088	\$ -	\$ -	\$ 20,174,088
Grants from government agencies (Notes 2H and 2I)	46,207,718	-	-	46,207,718	44,382,611	-	-	44,382,611
Medicaid	5,716,904	-	-	5,716,904	5,576,919	-	-	5,576,919
Private grants	2,923,848	9,052,953	-	11,976,801	5,510,056	13,157,663	-	18,667,719
Special events (net of direct expenses of \$932,522 and \$1,027,222 in 2016 and 2015, respectively)	2,261,465	-	-	2,261,465	3,527,793	-	-	3,527,793
Interest and dividends (Notes 2F and 5)	749,771	-	-	749,771	854,247	-	-	854,247
Miscellaneous revenue and other fees (Note 12C)	3,262,655	-	-	3,262,655	1,032,841	-	-	1,032,841
Net assets released from restrictions (Note 9)	8,175,701	(8,175,701)	-	-	9,901,162	(9,901,162)	-	-
TOTAL OPERATING SUPPORT AND REVENUE	89,865,369	877,252	-	90,742,621	90,959,717	3,256,501	-	94,216,218
EXPENSES (Note 2J)								
Program Services:								
Foster care and residential services	31,806,953	-	-	31,806,953	32,103,715	-	-	32,103,715
Community-based programs	43,609,891	-	-	43,609,891	42,543,103	-	-	42,543,103
Training services	522,549	-	-	522,549	584,120	-	-	584,120
	<u>75,939,393</u>	<u>-</u>	<u>-</u>	<u>75,939,393</u>	<u>75,230,938</u>	<u>-</u>	<u>-</u>	<u>75,230,938</u>
Supporting Services:								
Management and general	11,832,505	-	-	11,832,505	13,265,230	-	-	13,265,230
Fund raising	1,252,619	-	-	1,252,619	1,188,225	-	-	1,188,225
	<u>13,085,124</u>	<u>-</u>	<u>-</u>	<u>13,085,124</u>	<u>14,453,455</u>	<u>-</u>	<u>-</u>	<u>14,453,455</u>
TOTAL OPERATING EXPENSES	89,024,517	-	-	89,024,517	89,684,393	-	-	89,684,393
Change In Net Assets From Operations	840,852	877,252	-	1,718,104	1,275,324	3,256,501	-	4,531,825
NONOPERATING ACTIVITIES								
Realized and unrealized (loss) gain on investments (Notes 2F and 5)	(471,691)	-	-	(471,691)	50,765	-	-	50,765
TOTAL NONOPERATING ACTIVITIES	(471,691)	-	-	(471,691)	50,765	-	-	50,765
CHANGE IN NET ASSETS	369,161	877,252	-	1,246,413	1,326,089	3,256,501	-	4,582,590
Net assets - beginning of year	46,164,546	11,638,896	5,836,729	63,640,171	44,838,457	8,382,395	5,836,729	59,057,581
NET ASSETS - END OF YEAR	\$ 46,533,707	\$ 12,516,148	\$ 5,836,729	\$ 64,886,584	\$ 46,164,546	\$ 11,638,896	\$ 5,836,729	\$ 63,640,171

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

GOOD SHEPHERD SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	Foster Care	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2016	Total 2015
Salaries	\$ 13,665,589	\$ 27,696,382	\$ 260,581	\$ 41,622,552	\$ 5,837,729	\$ 818,075	\$ 6,655,804	\$ 48,278,356	\$ 47,143,345
Payroll taxes and employee benefits	4,264,724	7,748,059	69,796	12,082,579	1,611,461	214,386	1,825,847	13,908,426	14,220,752
Total Salaries and Related Costs	17,930,313	35,444,441	330,377	53,705,131	7,449,190	1,032,461	8,481,651	62,186,782	61,364,097
Foster boarding home payments	4,379,234	-	-	4,379,234	-	-	-	4,379,234	4,040,298
Children:									
Allowance	15,339	-	-	15,339	-	-	-	15,339	16,472
Activities and program supplies	54,439	822,011	204	876,654	11,718	622	12,340	888,994	1,094,848
Tuition	12,265	-	-	12,265	246	3	249	12,514	5,426
Bedding, linens and uniforms	7,719	733	-	8,452	157	2	159	8,611	6,784
Clothing	40,172	10,107	-	50,279	-	-	-	50,279	48,223
Purchase of health services	873,188	52	-	873,240	204	3	207	873,447	920,307
Food	829,938	348,303	3,126	1,181,367	58,728	1,012	59,740	1,241,107	1,196,053
Supplies, equipment purchased and rental	299,476	372,885	4,932	677,293	114,634	1,968	116,602	793,895	809,740
Medical supplies and equipment	431,364	11	-	431,375	1,355	17	1,372	432,747	330,857
Rent	1,028,918	1,060,182	37,880	2,126,980	150,392	1,889	152,281	2,279,261	2,311,936
Utilities	350,853	226,452	137	577,442	98,982	1,243	100,225	677,667	731,439
Transportation	252,291	279,562	3	531,856	59,809	1,179	60,988	592,844	580,181
Telephone	238,910	310,926	3,605	553,441	127,690	4,801	132,491	685,932	672,372
Postage	21,291	11,825	-	33,116	23,237	402	23,639	56,755	64,571
Dues, licenses, permits	121,227	66,820	7,896	195,943	169,947	25,067	195,014	390,957	318,372
Legal, auditing and advisory fees	122,596	138,713	23,690	284,999	147,828	103,072	250,900	535,899	435,743
Insurance	194,518	1,360,428	-	1,554,946	61,452	772	62,224	1,617,170	1,833,534
Purchased services	1,457,755	389,152	51,796	1,898,703	1,417,943	30,622	1,448,565	3,347,268	5,002,869
Related school expense	59,204	-	-	59,204	-	-	-	59,204	44,394
Stipends	231,993	248,022	500	480,515	83,389	847	84,236	564,751	548,624
Repairs and maintenance	1,232,409	1,158,925	3,412	2,394,746	499,420	6,271	505,691	2,900,437	3,000,972
Office supplies/printing	65,844	163,837	7,420	237,101	69,291	7,031	76,322	313,423	314,331
Subscription/publication	1,642	7,098	-	8,740	9,416	1,651	11,067	19,807	25,326
Staff training/tuition	67,524	75,899	46,712	190,135	12,834	161	12,995	203,130	188,456
Conference expense	10,730	2,174	179	13,083	15,356	193	15,549	28,632	28,894
Public/recruitment	33,560	53,814	82	87,456	82,748	2,360	85,108	172,564	213,519
Miscellaneous expenses	201,156	182,709	598	384,463	151,937	16,229	168,166	552,629	423,266
Other than Personnel Costs	12,635,555	7,290,640	192,172	20,118,367	3,368,713	207,417	3,576,130	23,694,497	25,207,807
TOTAL EXPENSES BEFORE INTEREST, AND DEPRECIATION AND AMORTIZATION	30,565,868	42,735,081	522,549	73,823,498	10,817,903	1,239,878	12,057,781	85,881,279	86,571,904
Depreciation and amortization	1,175,512	860,707	-	2,036,219	866,830	10,885	877,715	2,913,934	2,860,377
Interest expense and fees	65,573	14,103	-	79,676	147,772	1,856	149,628	229,304	252,112
	1,241,085	874,810	-	2,115,895	1,014,602	12,741	1,027,343	3,143,238	3,112,489
TOTAL EXPENSES	\$ 31,806,953	\$ 43,609,891	\$ 522,549	\$ 75,939,393	\$ 11,832,505	\$ 1,252,619	\$ 13,085,124	\$ 89,024,517	\$ 89,684,393

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

**GOOD SHEPHERD SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015**

	Foster Care	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2015
Salaries	\$ 13,378,471	\$ 27,487,621	\$ 271,902	41,137,994	\$ 5,141,419	\$ 863,932	\$ 6,005,351	\$ 47,143,345
Payroll taxes and employee benefits	4,541,995	7,858,520	91,946	12,492,461	1,481,432	246,859	1,728,291	14,220,752
Total Salaries and Related Costs	<u>17,920,466</u>	<u>35,346,141</u>	<u>363,848</u>	<u>53,630,455</u>	<u>6,622,851</u>	<u>1,110,791</u>	<u>7,733,642</u>	<u>61,364,097</u>
Foster boarding home payments	4,038,558	1,357	-	4,039,915	378	5	383	4,040,298
Children:								
Allowance	16,472	-	-	16,472	-	-	-	16,472
Activities and program supplies	108,205	980,241	3,257	1,091,703	3,109	36	3,145	1,094,848
Tuition	3,365	1,614	-	4,979	440	7	447	5,426
Bedding, linens and uniforms	6,382	402	-	6,784	-	-	-	6,784
Clothing	38,444	9,512	-	47,956	262	5	267	48,223
Purchase of health services	920,307	-	-	920,307	-	-	-	920,307
Food	843,137	290,709	5,046	1,138,892	56,502	659	57,161	1,196,053
Supplies, equipment purchased and rental	272,610	407,974	9,634	690,218	118,145	1,377	119,522	809,740
Medical supplies and equipment	329,814	165	-	329,979	873	5	878	330,857
Rent	1,097,417	1,026,945	37,965	2,162,327	147,885	1,724	149,609	2,311,936
Utilities	334,367	288,688	-	623,055	107,145	1,239	108,384	731,439
Transportation	267,596	251,969	69	519,634	59,849	698	60,547	580,181
Telephone	237,020	292,210	5,377	534,607	136,177	1,588	137,765	672,372
Postage	21,476	14,858	-	36,334	27,912	325	28,237	64,571
Dues, licenses, permits	73,626	78,433	2,243	154,302	162,179	1,891	164,070	318,372
Legal, auditing and advisory fees	93,920	33,162	23,800	150,882	281,578	3,283	284,861	435,743
Insurance	72,242	39,735	-	111,977	1,701,717	19,840	1,721,557	1,833,534
Purchased services	2,260,429	718,207	113,432	3,092,068	1,888,780	22,021	1,910,801	5,002,869
Related school expense	44,093	-	-	44,093	297	4	301	44,394
Stipends	213,399	320,269	516	534,184	14,268	172	14,440	548,624
Repairs and maintenance	1,358,645	1,066,366	3,991	2,429,002	565,378	6,592	571,970	3,000,972
Office supplies/printing	68,586	152,367	9,967	230,920	82,450	961	83,411	314,331
Subscription/publication	3,084	1,420	400	4,904	20,187	235	20,422	25,326
Staff training/tuition	80,292	90,305	1,500	172,097	16,170	189	16,359	188,456
Conference expense	6,852	14,966	-	21,818	6,995	81	7,076	28,894
Public/recruitment	43,405	107,807	959	152,171	60,641	707	61,348	213,519
Miscellaneous expenses	122,240	143,563	2,116	267,919	153,557	1,790	155,347	423,266
Other than Personnel Costs	<u>12,975,983</u>	<u>6,333,244</u>	<u>220,272</u>	<u>19,529,499</u>	<u>5,612,874</u>	<u>65,434</u>	<u>5,678,308</u>	<u>25,207,807</u>
TOTAL EXPENSES BEFORE INTEREST, AND DEPRECIATION AND AMORTIZATION	<u>30,896,449</u>	<u>41,679,385</u>	<u>584,120</u>	<u>73,159,954</u>	<u>12,235,725</u>	<u>1,176,225</u>	<u>13,411,950</u>	<u>86,571,904</u>
Depreciation and amortization	1,136,560	851,105	-	1,987,665	862,657	10,055	872,712	2,860,377
Interest expense and fees	70,706	12,613	-	83,319	166,848	1,945	168,793	252,112
	<u>1,207,266</u>	<u>863,718</u>	<u>-</u>	<u>2,070,984</u>	<u>1,029,505</u>	<u>12,000</u>	<u>1,041,505</u>	<u>3,112,489</u>
TOTAL EXPENSES	<u>\$ 32,103,715</u>	<u>\$ 42,543,103</u>	<u>\$ 584,120</u>	<u>\$ 75,230,938</u>	<u>\$ 13,265,230</u>	<u>\$ 1,188,225</u>	<u>\$ 14,453,455</u>	<u>\$ 89,684,393</u>

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

GOOD SHEPHERD SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,246,413	\$ 4,582,590
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	2,881,494	2,827,862
Amortization of deferred financing costs	32,440	32,515
(Decrease) increase in unamortized discount	(11,886)	45,809
Unrealized loss (gain) on investments	464,572	(106,057)
Gain on sale of property	(206,627)	-
Realized loss on investments	7,119	55,292
Bad debt expense	53,329	-
Sub-total	4,466,854	7,438,011
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Client service receivables	(4,554,778)	(5,049,905)
Pledges receivable	688,617	(4,194,833)
Prepaid expenses and other assets	(178,588)	(915,014)
(Decrease) or increase in liabilities:		
Accounts payable and accrued expenses	(160,831)	(452,843)
Deferred revenue and due to funder	(798,118)	429,426
Accrued salaries and payroll taxes	345,851	311,361
Accrued vacation	(3,013)	86,839
Net Cash Used in Operating Activities	(194,006)	(2,346,958)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(806,750)	(1,164,302)
Proceeds from sale of property and equipment	479,999	-
Purchases of investments	(1,050,171)	(1,092,805)
Proceeds from sale of investments	355,297	3,818,261
Net Cash (Used in) Provided by Investing Activities	(1,021,626)	1,561,154
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit - net	1,000,000	1,500,000
Repayments of long-term obligations	(746,145)	(461,519)
Net Cash Provided by Financing Activities	253,855	1,038,481
NET CHANGE IN CASH AND CASH EQUIVALENTS	(961,777)	252,677
Cash and cash equivalents - beginning of the year	4,237,365	3,984,688
CASH AND CASH EQUIVALENTS- END OF YEAR	\$ 3,275,588	\$ 4,237,365
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 166,605	\$ 187,752
Supplemental Disclosure of Noncash Investing Activity:		
Construction in progress transferred to building and improvements	\$ -	\$ 316,942

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

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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 Services is a leading youth and family development agency with over 85 programs serving more than 30,000 children, youth, and family members in New York City's most under-resourced communities. All of our programs are united by a common goal: to create opportunities that help participants realize their fullest potential at home, at school, and in their community. Good Shepherd Services operates a 46-bed residential treatment and diagnostic center; eight Administration for Children Services-funded family counseling preventive programs; six justice initiatives aimed at helping court-involved youth reintegrate into their communities deterring re-entry into detention; a non-secure detention facility; two non-secure placement facilities; family foster care; and supportive housing for young people who have aged out of care, including the Chelsea Foyer and Edwin Gould Academy. In addition, Good Shepherd Services is one of the largest providers of academic support programming in NYC.

In July 2013, Good Shepherd began to oversee operations of Edwin Gould Academy ("EGA"), a not-for-profit organization with a similar mission located in New York City. In addition, effective October 2013, Good Shepherd began to provide all operating services for EGA, accordingly for the years ended June 30, 2016 and 2015 all grant income and expenses are captured on Good Shepherd's books.

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. When restricted contributions were received and donor imposed stipulations were satisfied in the year, such contributions are classified as unrestricted. 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.

GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- D. ***Contributed Services, Rent and Other In-Kind*** – Good Shepherd receives noncash contributions consisting primarily of goods and services. For the years ended June 30, 2016 and 2015, Good Shepherd recorded \$65,907 and \$118,188, respectively, (representing the estimated fair 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.
- 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 value. 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.

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, 2016 and 2015, 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. ***Deferred Financing Costs*** – The costs incurred in connection with the issuance of the long-term debt (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 \$32,440 and \$32,515 for the years ended June 30, 2016 and 2015, respectively.

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- K. **Allowance for Uncollectible Receivables** – As of June 30, 2016 and 2015, Good Shepherd determined that an allowance for doubtful accounts and uncollectible pledges of \$247,988 and \$191,244, 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.
- 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.

NOTE 3 – CLIENT SERVICE RECEIVABLES

Client service receivables due under governmental contracts, grants and entitlements consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
New York State agencies	\$ 748,106	\$ 996,810
New York City agencies	18,939,644	13,491,019
Federal agencies	-	148,977
Medicaid	<u>1,114,025</u>	<u>1,610,191</u>
	20,801,775	16,246,997
Less: allowance for doubtful accounts	<u>(100,000)</u>	<u>(46,671)</u>
	<u>\$ 20,701,775</u>	<u>\$ 16,200,326</u>

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Amounts due in less than one year	\$ 5,676,830	\$ 4,378,698
Amounts due in one to five years	<u>2,350,000</u>	<u>4,333,334</u>
	<u>8,026,830</u>	<u>8,712,032</u>
Less: allowance for uncollectible pledges	(147,988)	(144,573)
Less: unamortized discount to present value	<u>(38,061)</u>	<u>(49,947)</u>
	<u>\$ 7,840,781</u>	<u>\$ 8,517,512</u>

The pledges to be received after one year are discounted to present value at interest rates ranging from 0.25% to 0.72%. 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, 2016 and 2015 amounted to approximately \$168,504 and \$143,000, respectively.

GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

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, 2016 and 2015:

Mutual Funds – Mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by Good Shepherd are deemed to be actively traded.

Common stock, bonds and money market funds – Valued at the closing price reported on the active market on which the individual securities are traded.

Financial assets are all classified as Level 1 and carried at fair value June 30, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Investments:		
Mutual Funds:		
Domestic Stock	\$ 13,142,982	\$ 12,813,194
Bonds	8,879,076	8,213,973
International Stock	5,324,826	6,096,657
Money markets	<u>50,334</u>	<u>50,210</u>
Total Assets Carried at Fair Value	<u>\$ 27,397,218</u>	<u>\$ 27,174,034</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, 2016 and 2015, there were no transfers between levels.

Investment return consisted of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 749,771	\$ 854,247
Realized loss on investments	(7,119)	(55,292)
Unrealized (loss) gain on investments	<u>(464,572)</u>	<u>106,057</u>
	<u>\$ 278,080</u>	<u>\$ 905,012</u>

GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	Estimated Useful Lives
Land	\$ 578,761	\$ 578,761	
Buildings and improvements	36,912,587	37,517,365	10-30 Years
Furniture and fixtures	4,270,995	4,139,680	5 Years
Computer systems	6,653,661	6,112,074	3 Years
Vehicles	657,062	1,122,142	3 Years
Construction in progress	<u>69,723</u>	<u>21,790</u>	
Total cost	49,142,789	49,491,812	
Accumulated depreciation and amortization	<u>(28,651,582)</u>	<u>(26,652,489)</u>	
Net book value	<u>\$ 20,491,207</u>	<u>\$ 22,839,323</u>	

Depreciation expense for property and equipment amounted to \$2,881,494 and \$2,827,862 for the years ended June 30, 2016 and 2015, respectively.

In October 2015, Good Shepherd closed on the sale of a building located in the Bronx, NY (“Plimpton Ave”) with a final sale price of \$479,999 and repaid the mortgage related to the property. In relation to the sale Good Shepherd wrote off accumulated depreciation amounting to \$286,089 and recognized a gain on sale amounting to \$206,627, which is included as part of miscellaneous revenue and other fees in the accompanying statements of activities.

In addition, during the year ended June 30, 2016, Good Shepherd wrote off fully depreciated items amounting to \$596,312.

NOTE 7 – LONG-TERM OBLIGATIONS

As of June 30, 2016 and 2015, long term obligations consisted of the following items:

	<u>2016</u>	<u>2015</u>
Mortgage payable to a bank, in monthly installments of \$1,515 plus interest at a fixed rate of 3.30%, secured by real property. The note matures on May 29, 2022	\$ 198,487	\$ 216,669
Mortgage payable to a bank, in monthly installments of \$17,857 plus interest at a fixed rate of 3.00%, secured by real property. The mortgage matures on October 25, 2019.	2,214,286	2,428,572
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	250,000
Mortgage payable to a bank, in monthly installments of \$2,062 plus interest at the rate of 6.42%, secured by real property. The note was repaid in 2016.	-	309,375
Mortgage payable to a bank, in monthly installments of \$2,633, plus interest at a fixed rate of 3.50%, secured by real property. The note matures on June 28, 2022.	189,600	221,200
Mortgage payable to a bank, in monthly installments of \$14,392, plus interest at a fixed rate of 3.25%, secured by real property. The note matures in May 2022.	<u>1,885,326</u>	<u>2,058,028</u>
	<u>\$ 4,737,699</u>	<u>\$ 5,483,844</u>

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

The future annual principal payments are as follows for the years ended after June 30, 2016:

	<u>Mortgages and Notes Payments</u>
2017	\$ 461,525
2018	696,651
2019	436,778
2020	293,922
2021	222,493
Thereafter	<u>2,626,330</u>
	<u>\$ 4,737,699</u>

Interest expense incurred for these long-term obligations amounted to \$180,708 and \$200,365 for the years ended June 30, 2016 and 2015, 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 an interest rate set by the Bank on the day of borrowing. The line is set to expire monthly and is secured by Good Shepherd's receivables. Interest expense incurred for the line of credit amounted to \$8,119 and \$2,628 for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, Good Shepherd had outstanding borrowings on this line of credit amounting to \$2,500,000 and \$1,500,000, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Purpose restricted:		
Community-Based services	\$ 1,363,407	\$ 1,286,404
Residential services	3,521,340	2,386,200
Foster care	793,664	205,251
Time restrictions (periods ending after June 30, 2016)	<u>7,023,786</u>	<u>7,955,561</u>
	<u>12,702,197</u>	<u>11,833,416</u>
Less: estimated allowance for uncollectible pledges	(147,988)	(144,573)
Less: unamortized discount to present value	<u>(38,061)</u>	<u>(49,947)</u>
	<u>\$ 12,516,148</u>	<u>\$ 11,638,896</u>

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Purpose restrictions accomplished:		
Preventive services	\$ 1,257,195	\$ 764,250
Residential services	625,000	1,040,000
Expiration of time	<u>6,293,506</u>	<u>8,096,912</u>
	<u>\$ 8,175,701</u>	<u>\$ 9,901,162</u>

NOTE 10 – ENDOWMENT NET ASSETS

The Board of Good Shepherd recognizes that New York State adopted 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.

GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 10 – ENDOWMENT NET ASSETS (Continued)

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. As of June 30, 2016 and 2015, there were no unappropriated earnings.

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, 2016, 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, 2016, are as follows:

	Unrestricted: Board Designated Reserves For Endowment	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 28,581,984	\$ 5,836,729	\$ 34,418,713
Investment activity:			
Interest and dividends	749,771	-	749,771
Realized / Unrealized loss	(471,691)	-	(471,691)
Investment fees	(4,302)	-	(4,302)
Transfers from operating activity	1,729,794	-	1,729,794
	<u>2,003,572</u>	<u>-</u>	<u>2,003,572</u>
Endowment net assets, end of year	\$ 30,585,556	\$ 5,836,729	\$ 36,422,285

Changes in endowment net assets for the year ended June 30, 2015, are as follows:

	Unrestricted: Board Designated Reserves For Endowment	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 26,021,339	\$ 5,836,729	\$ 31,858,068
Investment activity:			
Interest and dividends	854,247	-	854,247
Realized / Unrealized gains	50,765	-	50,765
Investment fees	(3,756)	-	(3,756)
Transfers from operating activity	1,659,389	-	1,659,389
	<u>2,560,645</u>	<u>-</u>	<u>2,560,645</u>
Endowment net assets, end of year	\$ 28,581,984	\$ 5,836,729	\$ 34,418,713

Endowment net assets of \$36,422,285 and \$34,418,713 as of June 30, 2016 and 2015, respectively, are included in pledges receivable, cash and investments in the accompanying statements of financial position.

**GOOD SHEPHERD SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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, 2016 and 2015 amounted to approximately \$944,000 and \$919,000, 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, 2016 and 2015, Good Shepherd has accrued approximately \$1,227,000 and \$1,274,000, 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, 2016, and thereafter are as follows:

	<u>Office</u>
2017	\$ 2,299,000
2018	2,196,000
2019	1,956,000
2020	1,985,000
2021	1,469,000
Thereafter	<u>4,175,000</u>
	<u>\$ 14,080,000</u>

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 \$2,279,000 and \$2,312,000 for the years ended June 30, 2016 and 2015, 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 and \$591,000 for the years ended June 30, 2016 and 2015, respectively, and is included as part of miscellaneous revenue and other fees in the accompanying statements of activities. The original lease ended in March 2016 and is currently pending approval for extension.
- D. In addition Good Shepherd has entered into non- cancellable operating leases for several motor vehicles. Minimum annual rentals related to the leases are approximately as follows:

2017	\$ 90,854
2018	\$ 90,854
2019	\$ 90,854
2020	\$ 44,107

- E. Good Shepherd believes it has no uncertain income tax positions as of June 30, 2016 and 2015 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 SERVICES
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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, 2016 and 2015, there was approximately \$2,950,000 and \$1,900,000 of cash held by banks that exceeded FDIC limits. Such excess includes outstanding checks.

NOTE 14 – SUBSEQUENT EVENTS

Good Shepherd has evaluated for potential recognition and disclosure events subsequent to the date of the statements of financial position through January 24, 2017 the date the financial statements were issued.