GOOD SHEPHERD SERVICES

Financial Statements
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2018 AND 2017

MARKS PANETH

ACCOUNTANTS & ADVISORS

GOOD SHEPHERD SERVICES

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2018 AND 2017

CONTENTS

	Page
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-15

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MARKS PANETH
ACCOUNTANTS & ADVISORS

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, 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.

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, 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.

Marks Paneth LLP

New York, NY
December 19, 2018

Morison KSi
Independent member

GOOD SHEPHERD SERVICES
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents (Notes 2E and 13)	$ 817,938	$ 2,387,462
Investments (Notes 2F, 6 and 10)	31,459,049	29,199,550
Client service receivables, net (Notes 2H, 2K and 3)	24,467,130	21,085,306
Pledges receivable, net (Notes 2C, 2K and 4)	5,573,843	7,319,181
Loan receivables	1,753,992	1,753,992
Prepaid expenses and other assets	1,459,924	1,074,458
Property and equipment, net (Notes 2G and 6)	21,181,294	20,254,255
TOTAL ASSETS	$ 86,713,170	$ 83,074,204
LIABILITIES		
Accounts payable and accrued expenses (Notes 6, 11 and 12A)	$ 6,991,243	$ 5,148,500
Accrued salaries and payroll taxes	1,516,702	997,915
Accrued vacation	3,125,732	2,913,740
Deferred revenue and due to funder (Note 2H)	387,880	348,597
Line of credit (Note 8)	3,000,000	2,500,000
Long-term obligations, net (Notes 2J and 7)	3,734,396	4,138,727
TOTAL LIABILITIES	18,755,953	16,047,479
COMMITMENTS AND CONTINGENCIES (Notes 11 and 12)		
NET ASSETS (Note 2B)		
Unrestricted:		
Board designated reserves for endowment (Note 10)	32,732,343	30,354,173
Net investment in property and equipment	17,446,898	16,115,528
Total Unrestricted	50,179,241	46,469,701
Temporarily restricted (Note 9)	10,891,247	14,720,295
Permanently restricted (Note 10)	6,886,729	5,836,729
TOTAL NET ASSETS	67,957,217	67,026,725
TOTAL LIABILITIES AND NET ASSETS	$ 86,713,170	$ 83,074,204

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

GOOD SHEPHERD SERVICES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Year Ended June 30, 2018				Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
OPERATING SUPPORT AND REVENUE								
Care and maintenance contracts (Note 2H)	$ 22,967,463	$ -	$ -	$ 22,967,463	$ 22,220,545	$ -	$ -	$ 22,220,545
Grants from government agencies (Note 2H)	48,603,877	-	-	48,603,877	46,062,997	-	-	46,062,997
Medicaid	7,409,629	-	-	7,409,629	6,033,057	-	-	6,033,057
Private grants	7,895,366	3,068,890	1,050,000	12,014,256	992,981	11,157,967	-	12,150,948
Special events (net of direct expenses of $864,507 and $514,010 in 2018 and 2017, respectively)	1,620,018	-	-	1,620,018	1,604,490	-	-	1,604,490
Interest and dividends (Notes 2F and 5)	722,556	-	-	722,556	735,452	-	-	735,452
Miscellaneous revenue and other fees (Note 12C)	1,892,989	-	-	1,892,989	1,411,722	-	-	1,411,722
Net assets released from restrictions (Note 9)	6,897,938	(6,897,938)	-	-	8,953,820	(8,953,820)	-	-
TOTAL OPERATING SUPPORT AND REVENUE	98,009,836	(3,829,048)	1,050,000	95,230,788	88,015,064	2,204,147	-	90,219,211
EXPENSES								
Program Services:								
Foster care and residential services	36,350,323	-	-	36,350,323	32,991,758	-	-	32,991,758
Community-based programs	45,120,505	-	-	45,120,505	43,427,149	-	-	43,427,149
Training services	569,199	-	-	569,199	424,877	-	-	424,877
	82,040,027	-	-	82,040,027	76,843,784	-	-	76,843,784
Supporting Services:								
Management and general	12,408,049	-	-	12,408,049	12,343,056	-	-	12,343,056
Fundraising	1,413,145	-	-	1,413,145	1,336,358	-	-	1,336,358
	13,821,194	-	-	13,821,194	13,679,414	-	-	13,679,414
TOTAL OPERATING EXPENSES	95,861,221	-	-	95,861,221	90,523,198	-	-	90,523,198
Change In Net Assets From Operations	2,148,615	(3,829,048)	1,050,000	(630,433)	(2,508,134)	2,204,147	-	(303,987)
NONOPERATING ACTIVITIES								
Realized / unrealized gain on investments (Notes 2F and 5)	1,560,925	-	-	1,560,925	2,444,128	-	-	2,444,128
TOTAL NONOPERATING ACTIVITIES	1,560,925	-	-	1,560,925	2,444,128	-	-	2,444,128
CHANGE IN NET ASSETS	3,709,540	(3,829,048)	1,050,000	930,492	(64,006)	2,204,147	-	2,140,141
Net assets - beginning of year	46,469,701	14,720,295	5,836,729	67,026,725	46,533,707	12,516,148	5,836,729	64,886,584
NET ASSETS - END OF YEAR	$ 50,179,241	$ 10,891,247	$ 6,886,729	$ 67,957,217	$ 46,469,701	$ 14,720,295	$ 5,836,729	$ 67,026,725

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

GOOD SHEPHERD SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	Foster Care and Residential Services	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2018	Total 2017
Salaries	$ 15,078,580	$ 28,758,388	$ 310,463	$ 44,147,431	$ 6,085,754	$ 961,476	$ 7,047,230	$ 51,194,661	$ 49,516,637
Payroll taxes and employee benefits	4,178,550	7,185,496	112,085	11,476,131	1,697,500	235,428	1,932,928	13,409,059	12,716,949
Total Salaries and Related Costs	19,257,130	35,943,884	422,548	55,623,562	7,783,254	1,196,904	8,980,158	64,603,720	62,233,586
Foster boarding home payments	4,689,984	-	-	4,689,984	-	-	-	4,689,984	4,847,489
Children:									
Allowance	28,590	-	-	28,590	-	-	-	28,590	19,971
Activities and program supplies	83,306	656,478	1,166	740,950	6,068	1,675	7,743	748,693	819,693
Tuition	-	1,000	-	1,000	-	-	-	1,000	24,322
Bedding, linens and uniforms	6,759	3,758	-	10,517	-	-	-	10,517	6,554
Clothing	103,973	105,057	-	209,030	-	-	-	209,030	73,358
Purchase of health services	886,185	-	-	886,185	-	-	-	886,185	840,686
Food	961,888	515,206	1,361	1,478,455	54,207	1,345	55,552	1,534,007	1,429,449
Supplies	407,564	616,245	2,367	1,026,176	185,708	4,930	190,638	1,216,814	1,062,556
Medical supplies and equipment	370,001	7	-	370,008	176	2	178	370,186	327,441
Rent	1,317,407	983,480	44,805	2,345,692	184,455	2,436	186,891	2,532,583	2,381,349
Utilities	378,159	308,984	-	687,143	86,391	1,141	87,532	774,675	706,229
Rental vehicles and equipment	7,475	16,507	-	23,982	4,469	59	4,528	28,510	-
Transportation	365,331	273,701	161	639,193	112,070	1,600	113,670	752,863	701,635
Telephone	325,853	382,597	3,263	711,713	235,599	6,246	241,845	953,558	731,992
Postage	9,712	11,844	250	21,806	24,538	2,598	27,136	48,942	56,633
Dues, license and permits	125,155	139,270	2,930	267,355	308,523	16,917	325,440	592,795	635,214
Legal, auditing and advisory fees	112,252	269,511	800	382,563	332,035	4,384	336,419	718,982	645,090
Insurance	169,877	1,231,612	1,282	1,402,771	73,972	977	74,949	1,477,720	1,524,752
Purchased services	3,251,498	370,258	76,911	3,698,667	1,346,813	110,243	1,457,056	5,155,723	3,519,667
Related school expenses	31,457	17	-	31,474	-	-	-	31,474	47,075
Stipend	327,131	281,710	227	609,068	48,000	654	48,654	657,722	570,672
Repairs and maintenance	1,649,290	1,625,360	3,803	3,278,453	488,043	6,444	494,487	3,772,940	3,252,468
Office printing supplies	91,916	165,870	5,502	263,288	67,045	1,432	68,477	331,765	320,088
Subscription/publication	559	4,348	-	4,907	15,242	35,181	50,423	55,330	19,870
Staff training/tuition	37,961	53,285	1,780	93,026	51,905	685	52,590	145,616	144,176
Conference expense	10,172	9,552	-	19,724	9,573	126	9,699	29,423	36,901
Public/recruitment	48,857	68,205	-	117,062	24,486	406	24,892	141,954	223,809
Miscellaneous expenses	195,255	152,319	43	347,617	132,103	5,757	137,860	485,477	543,043
Other than Personnel Costs	15,993,567	8,246,181	146,651	24,386,399	3,791,421	205,238	3,996,659	28,383,058	25,512,182
TOTAL EXPENSES BEFORE INTEREST, FEES AND DEPRECIATION	35,250,697	44,190,065	569,199	80,009,961	11,574,675	1,402,142	12,976,817	92,986,778	87,745,768
Depreciation expense	1,040,025	912,329	-	1,952,354	691,800	9,134	700,934	2,653,288	2,524,615
Interest expense and fees	59,601	18,111	-	77,712	141,574	1,869	143,443	221,155	252,815
	1,099,626	930,440	-	2,030,066	833,374	11,003	844,377	2,874,443	2,777,430
TOTAL EXPENSES	$ 36,350,323	$ 45,120,505	$ 569,199	$ 82,040,027	$ 12,408,049	$ 1,413,145	$ 13,821,194	$ 95,861,221	$ 90,523,198

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

GOOD SHEPHERD SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Foster Care and Residential Services	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2017
Salaries	$ 14,304,433	$ 27,977,435	$ 243,094	$ 42,524,962	$ 6,052,062	$ 939,613	$ 6,991,675	$ 49,516,637
Payroll taxes and employee benefits	3,889,191	6,986,593	51,570	10,927,354	1,573,865	215,730	1,789,595	12,716,949
Total Salaries and Related Costs	18,193,624	34,964,028	294,664	53,452,316	7,625,927	1,155,343	8,781,270	62,233,586
Foster boarding home payments	4,846,806	683	-	4,847,489	-	-	-	4,847,489
Children:								
Allowance	19,946	25	-	19,971	-	-	-	19,971
Activities and program supplies	58,084	753,833	982	812,899	6,706	88	6,794	819,693
Tuition	22,262	2,060	-	24,322	-	-	-	24,322
Bedding, linens and uniforms	5,446	836	-	6,282	268	4	272	6,554
Clothing	69,880	2,669	-	72,549	799	10	809	73,358
Purchase of health services	839,098	-	-	839,098	1,567	21	1,588	840,686
Food	924,945	439,492	1,229	1,365,666	57,996	5,787	63,783	1,429,449
Supplies	356,421	499,626	3,952	859,999	196,537	6,020	202,557	1,062,556
Medical supplies and equipment	327,391	50	-	327,441	-	-	-	327,441
Rent	1,106,031	1,076,994	33,111	2,216,136	163,070	2,143	165,213	2,381,349
Utilities	372,541	237,942	58	610,541	94,447	1,241	95,688	706,229
Transportation	343,557	289,831	99	633,487	66,564	1,584	68,148	701,635
Telephone	263,235	330,453	3,351	597,039	130,097	4,856	134,953	731,992
Postage	16,587	9,083	11	25,681	29,746	1,206	30,952	56,633
Dues, license and permits	186,554	87,751	2,238	276,543	339,759	18,912	358,671	635,214
Legal, auditing and advisory fees	222,512	219,980	1,241	443,733	172,295	29,062	201,357	645,090
Insurance	228,542	1,224,214	-	1,452,756	71,062	934	71,996	1,524,752
Purchased services	1,346,974	437,411	71,600	1,855,985	1,594,528	69,154	1,663,682	3,519,667
Related school expenses	47,055	20	-	47,075	-	-	-	47,075
Stipend	253,092	305,672	-	558,764	11,754	154	11,908	570,672
Repairs and maintenance	1,510,601	1,271,062	4,310	2,785,973	460,444	6,051	466,495	3,252,468
Office printing supplies	60,117	173,127	4,291	237,535	73,419	9,134	82,553	320,088
Subscription/publication	2,178	6,590	44	8,812	10,915	143	11,058	19,870
Staff training/tuition	18,488	73,022	3,533	95,043	48,496	637	49,133	144,176
Conference expense	7,901	3,961	-	11,862	24,467	572	25,039	36,901
Public/recruitment	119,299	54,707	125	174,131	48,827	851	49,678	223,809
Miscellaneous expenses	135,875	116,024	38	251,937	279,612	11,494	291,106	543,043
Other than Personnel Costs	13,711,418	7,617,118	130,213	21,458,749	3,883,375	170,058	4,053,433	25,512,182
TOTAL EXPENSES BEFORE INTEREST, FEES AND DEPRECIATION	31,905,042	42,581,146	424,877	74,911,065	11,509,302	1,325,401	12,834,703	87,745,768
Depreciation expense	1,020,681	823,944	-	1,844,625	670,749	9,241	679,990	2,524,615
Interest expense and fees	66,035	22,059	-	88,094	163,005	1,716	164,721	252,815
	1,086,716	846,003	-	1,932,719	833,754	10,957	844,711	2,777,430
TOTAL EXPENSES	$ 32,991,758	$ 43,427,149	$ 424,877	$ 76,843,784	$ 12,343,056	$ 1,336,358	$ 13,679,414	$ 90,523,198

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

GOOD SHEPHERD SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 930,492	$ 2,140,141
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,653,288	2,524,615
Amortization of deferred financing costs	32,440	32,440
Decrease in unamortized discount	24,196	-
Unrealized loss (gain) on investments	2,016,933	(2,618,814)
Loss on sale of property	-	9,336
Realized (gain) loss on investments	(3,577,858)	174,686
Sub-total	2,079,491	2,262,404
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Client service receivables	(3,381,824)	(383,531)
Pledges receivable	1,721,142	521,600
Loan receivable	-	(1,378,803)
Prepaid expenses and other assets	(385,466)	1,264,394
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	1,842,743	1,425,002
Deferred revenue and due to funder	39,283	(950,198)
Accrued salaries and payroll taxes	518,787	(1,684,710)
Accrued vacation	211,992	127,688
Net Cash Provided by Operating Activities	2,646,148	1,203,846
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,580,327)	(2,296,999)
Purchases of investments	(32,441,268)	(28,929,532)
Proceeds from sales of investments	31,742,694	29,571,328
Net Cash Used in Investing Activities	(4,278,901)	(1,655,203)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	3,000,000	2,500,000
Repayment of line of credit	(2,500,000)	(2,500,000)
Repayments of long-term obligations	(436,771)	(436,769)
Net Cash Provided by (Used in) Financing Activities	63,229	(436,769)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,569,524)	(888,126)
Cash and cash equivalents - beginning of the year	2,387,462	3,275,588
CASH AND CASH EQUIVALENTS- END OF YEAR	$ 817,938	$ 2,387,462
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 132,732	$ 155,950

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

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 is a leading youth and family development agency with over 80 programs serving 30,000 children, youth and family members in New York City's most under-resourced communities. All of Good Shepherd's 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 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; two anti-gun violence programs; a non-secure detention facility; two non-secure placement facilities; family foster care; a youth reception center; over 25 afterschool programs; 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.

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 ("U.S. GAAP").

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 statements 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 net assets include 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. Unless material Good Shepherd does not discount multi-year pledges. Amortization of the discounts is included in contribution revenue.

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, 2018 and 2017, Good Shepherd recorded $16,919 and $24,896, respectively, (representing the estimated fair value of the donations on the dates received), as revenue and expenses in the accompanying financial statements because they meet the criteria as prescribed by U.S. GAAP.

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 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 statements 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, 2018 and 2017, 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*** – Deferred financing costs are amortized over the life of the related bond or loan using the straight-line method. For each of the years ended December 31, 2018 and 2017 amortization of financing costs amounted to $32,440 and are reported as interest expense in the accompanying statements of functional expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. ***Allowance for Uncollectible Receivables*** – As of June 30, 2018 and 2017, Good Shepherd determined that an allowance for doubtful accounts and uncollectible pledges of $184,010 and $256,791, 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 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:

	2018	2017
New York State agencies	$ 550,508	$ 689,980
New York City agencies	21,708,300	18,595,791
Federal agencies	172,527	153,394
Medicaid	2,135,795	1,746,141
	24,567,130	21,185,306
Less: allowance for doubtful accounts	(100,000)	(100,000)
	$ 24,467,130	$ 21,085,306

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	2018	2017
Amounts due in less than one year	$ 3,890,110	$ 5,164,033
Amounts due in one to five years	1,830,000	2,350,000
	5,720,110	7,514,033
Less: allowance for uncollectible pledges	(84,010)	(156,791)
Less: unamortized discount to present value	(62,257)	(38,061)
	$ 5,573,843	$ 7,319,181

The pledges to be received after one year are discounted to present value at interest rates ranging from 0.72% to 2.56%. 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, 2018 and 2017 amounted to $251,004 and $261,224, respectively.

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, 2018 and 2017:

Mutual Funds – Mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value 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, as follows:

	2018	2017
Investments:		
Mutual Funds:		
Domestic Stock	$ 13,146,962	$ 11,450,213
Bonds	10,152,039	10,128,866
International Stock	8,108,861	7,569,920
Money markets	51,187	50,551
Total Assets Carried at Fair Value	$ 31,459,049	$ 29,199,550

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, 2018 and 2017, there were no transfers between levels.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investment return consisted of the following for the years ended June 30:

	2018	2017
Interest and dividends	$ 722,556	$ 735,452
Realized gain (loss) on investments	3,577,858	(174,686)
Unrealized (loss) gain on investments	(2,016,933)	2,618,814
	$ 2,283,481	$ 3,179,580

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2018	2017	Estimated Useful Lives
Land	$ 578,761	$ 578,761	
Buildings and improvements	35,515,036	33,006,005	10-30 Years
Furniture and fixtures	2,212,143	1,838,866	5 Years
Computer systems	3,476,668	2,600,892	3 Years
Vehicles	541,838	535,702	3 Years
Construction - in - progress	381,151	617,717	
Total cost	42,705,597	39,177,943	
Accumulated depreciation and amortization	(21,524,303)	(18,923,688)	
Net book value	$ 21,181,294	$ 20,254,255	

Depreciation expense for property and equipment amounted to $2,653,288 and $2,524,615 for the years ended June 30, 2018 and 2017, respectively.

Construction - in - progress for the year ended June 30, 2018 consisted of various construction projects at Good Shepherd's sites. The construction is expected to be completed by the end of 2018 and no significant additional costs are expected to be incurred.

In addition, during the year ended June 30, 2018, Good Shepherd wrote off fully depreciated items amounting to $52,673. During the year ended June 30, 2017 Good Shepherd wrote off $12,261,845 and recognized loss a on disposal of $9,336.

During the year ended June 30, 2018, Good Shepherd received a deposit of $1,500,000 related to the possible sale of one of its properties. This amount is included in accounts payable and accrued expenses on the statement of financial position.

NOTE 7 – LONG-TERM OBLIGATIONS

As of June 30, 2018 and 2017, long term obligations consisted of the following items:

	2018	2017
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 mortgage matures on May 29, 2022.	$ 162,123	$ 180,305
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.	1,785,714	2,000,000
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

NOTE 7 − LONG-TERM OBLIGATIONS (Continued)

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 mortgage matures on June 28, 2022.	126,400	158,000
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 mortgage matures in May 2022.	1,539,922	1,712,625
	3,864,159	4,300,930
Less: Unamortized debt issuance costs	(129,763)	(162,203)
	$ 3,749,376	$ 4,138,727

The future annual principal payments for each of the five years subsequent to June 30, 2018 and thereafter are as follows:

	Mortgages and Notes Payments
2019	$ 436,779
2020	436,779
2021	436,779
2022	436,779
2023	405,187
Thereafter	1,711,856
	$ 3,864,159

Interest expense incurred for these long-term obligations amounted to $148,564 and $171,782 for the years ended June 30, 2018 and 2017, respectively.

NOTE 8 − BANK LINE OF CREDIT

Good Shepherd has a revolving bank line of credit with a maximum borrowing limit of $6,500,000 with an interest rate set by the bank on the day of borrowing. The line is secured by Good Shepherd's receivables. On April 2, 2018, the line of credit was renewed and matures on March 31, 2019. Interest expense incurred for the line of credit amounted to $13,173 and $19,664 for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, Good Shepherd had outstanding borrowings on the bank line of credit amounting to $3,000,000 and $2,500,000 respectively. There was no outstanding balance as of December 18, 2018.

NOTE 9 − TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2018 and 2017 are available for the following purposes:

	2018	2017
Purpose restricted:		
Community-based services	$ 2,529,334	$ 1,846,132
Residential services	2,324,324	3,134,009
Foster care	1,700,524	1,597,103
Time restrictions	4,483,332	8,337,903
	11,037,514	14,915,147
Less: estimated allowance for uncollectible pledges	(84,010)	(156,791)
Less: unamortized discount to present value	(62,257)	(38,061)
	$ 10,891,247	$ 14,720,295

NOTE 9 − TEMPORARILY RESTRICTED NET ASSETS (Continued)

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, 2018 and 2017:

	2018	2017
Purpose restrictions accomplished:		
Preventive services	$ 1,193,198	$ 1,269,399
Residential services	1,131,930	1,015,000
Expiration of time	4,572,810	6,669,421
	$ 6,897,938	$ 8,953,820

NOTE 10 − ENDOWMENT NET ASSETS

The Board of Directors 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.

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, 2018 and 2017, 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, 2018, 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, 2018, are as follows:

	Unrestricted: Board Designated Reserves For Endowment	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 30,354,174	$ 5,836,729	$ 36,190,903
Investment activity:			
Interest and dividends	722,556	-	722,556
Realized / Unrealized gain	1,560,925	-	1,560,925
Contributions	-	1,050,000	1,050,000
Investment fees	(26,347)	-	(26,347)
Transfers from operating activity	136,015	-	136,015
	2,393,149	1,050,000	3,443,149
Endowment net assets, end of year	$ 32,747,323	$ 6,886,729	$ 39,634,052

NOTE 10 − ENDOWMENT NET ASSETS (Continued)

Changes in endowment net assets for the year ended June 30, 2017, are as follows:

	Unrestricted: Board Designated Reserves For Endowment	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 30,585,556	$ 5,836,729	$ 36,422,285
Investment activity:			
Interest and dividends	735,452	-	735,452
Realized / Unrealized gain	2,444,128	-	2,444,128
Investment fees	(20,456)	-	(20,456)
Transfers to operating activity	(3,390,506)	-	(3,390,506)
	(231,382)	-	(231,382)
Endowment net assets, end of year	$ 30,354,174	$ 5,836,729	$ 36,190,903

Endowment net assets of $39,634,052 and $36,190,503 as of June 30, 2018 and 2017, respectively, are included in pledges receivable, cash and investments in the accompanying statements of financial position.

NOTE 11 − RETIREMENT PLAN AND DEFERRED COMPENSATION

Good Shepherd sponsors a non-contributory 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, 2018 and 2017 amounted to approximately $1,000,000 and $950,000, respectively.

Good Shepherd provides regular employees a deferred compensation benefit for longevity. Each regular employee is entitled to one week base salary after ten 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, 2018 and 2017, Good Shepherd has accrued approximately $1,324,000 and $1,272,000, respectively, for such benefit, and the accrual is included as part of accounts payable and accrued expenses in the accompanying statements of financial position.

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, 2018 and thereafter are as follows:

	Office
2019	$ 2,622,000
2020	2,675,000
2021	2,625,000
2022	2,638,000
2023	2,595,000
Thereafter	9,854,000
	$ 23,009,000

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 $2,533,000 and $2,381,000 for the years ended June 30, 2018 and 2017, 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 2016, the agreement was extended to continue until 2026. 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 $993,800 and $903,500 for the years ended June 30, 2018 and 2017, respectively, and is included as part of miscellaneous revenue and other fees in the accompanying statements of activities.

D. In addition, Good Shepherd has entered into non-cancellable operating leases for several company motor vehicles. Minimum annual rentals related to the leases are as follows:

2019	$ 131,802
2020	81,063
2021	27,107
	$ 239,972

E. Good Shepherd is a defendant in various legal actions arising out of the normal course of its operations. The final outcome of such actions cannot be determined at this time. Eventual liability, if any, is likely to be covered by insurance except where the applicable insurance policies expressly exclude certain coverage which arguably relates to the claims.

F. Good Shepherd believes it has no uncertain income tax positions as of June 30, 2018 and 2017 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.

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, 2018 and 2017, there was approximately $1,374,000 and $2,163,000, respectively, of cash held by a bank that exceeded FDIC limits. Such excess includes outstanding checks.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent to June 30, 2018, Good Shepherd sold property located at 441 Fourth Avenue & 269th Street, Brooklyn, New York, for approximately $15.5 million.

In October 2018, Good Shepherd Services signed a five-year lease commitment for property located at 825-827 East 233rd Street, Bronx, New York. The lease expires in October 2023.

Good Shepherd has evaluated for potential recognition and disclosure events subsequent to the date of the statements of financial position through December 19, 2018, the date the financial statements were issued. Other than what is disclosed above, no other events have occurred through December 19, 2018, the date the financial statements were issued, which would require adjustment or disclosure in the financial statements.