

GOOD SHEPHERD SERVICES



**Financial Statements
(Together with Independent Auditors' Report)**

YEARS ENDED JUNE 30, 2019 AND 2018

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, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018 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.

Emphasis of Matter

As discussed in Note 2N to the financial statements, during the year ended June 30, 2019, Good Shepherd adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.


New York, NY

January 17, 2020

GOOD SHEPHERD SERVICES
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents (Notes 2E and 14)	\$ 96,127	\$ 817,938
Investments (Notes 2F, 6 and 10)	53,412,415	31,459,049
Client service receivables, net (Notes 2H, 2K and 4)	27,517,010	24,467,130
Pledges receivable, net (Notes 2C, 2K and 5)	15,689,099	5,573,843
Loan receivables	1,881,777	1,753,992
Prepaid expenses and other assets	1,388,557	1,459,924
Property and equipment, net (Notes 2G and 7)	21,134,644	21,181,294
TOTAL ASSETS	\$ 121,119,629	\$ 86,713,170
LIABILITIES		
Accounts payable and accrued expenses (Notes 7, 12 and 13A)	\$ 6,035,063	\$ 6,991,243
Accrued salaries and payroll taxes	1,348,100	1,516,702
Accrued vacation	3,034,008	3,125,732
Deferred revenue and due to funder (Note 2H)	267,468	387,880
Line of credit (Note 9)	2,000,000	3,000,000
Long-term obligations, net (Notes 2J and 8)	3,330,070	3,734,396
TOTAL LIABILITIES	16,014,709	18,755,953
COMMITMENTS AND CONTINGENCIES (Notes 12 and 13)		
NET ASSETS (Note 2B)		
Without donor restrictions:		
Board designated reserves for endowment (Note 11)	50,829,051	32,732,343
Net investment in property and equipment	17,804,574	17,446,898
Total Without Donor Restrictions	68,633,625	50,179,241
With donor restrictions (Notes 10 and 11)	36,471,295	17,777,976
TOTAL NET ASSETS	105,104,920	67,957,217
TOTAL LIABILITIES AND NET ASSETS	\$ 121,119,629	\$ 86,713,170

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

**GOOD SHEPHERD SERVICES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	Year Ended June 30, 2019			Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total 2019	Without Donor Restrictions	With Donor Restrictions	Total 2018
OPERATING SUPPORT AND REVENUE						
Care and maintenance contracts (Note 2H)	\$ 23,635,925	\$ -	\$ 23,635,925	\$ 22,967,463	\$ -	\$ 22,967,463
Grants from government agencies (Note 2H)	53,659,208	-	53,659,208	48,603,877	-	48,603,877
Medicaid	9,926,022	-	9,926,022	7,409,629	-	7,409,629
Private grants	4,694,138	13,129,695	17,823,833	7,895,366	4,118,890	12,014,256
Special events (net of direct expenses of \$404,385 and \$864,507 in 2019 and 2018, respectively)	1,274,534	-	1,274,534	1,620,018	-	1,620,018
Interest and dividends (Notes 2F and 6)	1,132,521	-	1,132,521	722,556	-	722,556
Miscellaneous revenue and other fees (Note 13C)	2,689,044	-	2,689,044	1,892,989	-	1,892,989
Gain on sale of property (Note 7)	15,486,411	-	15,486,411	-	-	-
Loss on disposal of property (Note 7)	(209,114)	-	(209,114)	-	-	-
Net assets released from restrictions (Note 10)	8,503,972	(8,503,972)	-	6,897,938	(6,897,938)	-
TOTAL OPERATING SUPPORT AND REVENUE	120,792,661	4,625,723	125,418,384	98,009,836	(2,779,048)	95,230,788
EXPENSES						
Program Services:						
Foster care and residential services	40,731,992	-	40,731,992	36,350,323	-	36,350,323
Community-based programs	46,859,956	-	46,859,956	45,120,505	-	45,120,505
Training services	770,453	-	770,453	569,199	-	569,199
	<u>88,362,401</u>	<u>-</u>	<u>88,362,401</u>	<u>82,040,027</u>	<u>-</u>	<u>82,040,027</u>
Supporting Services:						
Management and general	14,834,159	-	14,834,159	12,382,040	-	12,382,040
Fundraising	1,343,296	-	1,343,296	1,412,806	-	1,412,806
	<u>16,177,455</u>	<u>-</u>	<u>16,177,455</u>	<u>13,794,846</u>	<u>-</u>	<u>13,794,846</u>
TOTAL OPERATING EXPENSES	104,539,856	-	104,539,856	95,834,873	-	95,834,873
Change In Net Assets From Operations	16,252,805	4,625,723	20,878,528	2,174,963	(2,779,048)	(604,085)
NONOPERATING ACTIVITIES						
Endowment contributions (Note 11)	-	14,067,596	14,067,596	-	-	-
Realized / unrealized gain on investments, net (Notes 2F and 6)	2,201,579	-	2,201,579	1,534,577	-	1,534,577
TOTAL NONOPERATING ACTIVITIES	2,201,579	14,067,596	16,269,175	1,534,577	-	1,534,577
CHANGE IN NET ASSETS	18,454,384	18,693,319	37,147,703	3,709,540	(2,779,048)	930,492
Net assets - beginning of year	50,179,241	17,777,976	67,957,217	46,469,701	20,557,024	67,026,725
NET ASSETS - END OF YEAR	\$ 68,633,625	\$ 36,471,295	\$ 105,104,920	\$ 50,179,241	\$ 17,777,976	\$ 67,957,217

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

GOOD SHEPHERD SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	Foster Care and Residential Services	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2019	Total 2018
Salaries	\$ 16,993,044	\$ 29,709,405	\$ 287,816	\$ 46,990,265	\$ 6,946,992	\$ 836,284	\$ 7,783,276	\$ 54,773,541	\$ 51,194,661
Payroll taxes and employee benefits	4,369,826	6,983,531	117,735	11,471,092	1,766,933	199,968	1,966,901	13,437,993	13,409,059
Total Salaries and Related Costs	21,362,870	36,692,936	405,551	58,461,357	8,713,925	1,036,252	9,750,177	68,211,534	64,603,720
Foster boarding home payments	4,612,380	-	-	4,612,380	-	-	-	4,612,380	4,689,984
Children:									
Allowance	22,129	-	-	22,129	-	-	-	22,129	28,590
Activities and program supplies	146,999	695,993	3,788	846,780	7,825	114	7,939	854,719	748,715
Tuition	787	-	-	787	2,594	27	2,621	3,408	1,000
Bedding, linens and uniforms	4,678	1,414	-	6,092	-	-	-	6,092	10,517
Clothing	92,198	234,293	683	327,174	1,484	86	1,570	328,744	209,327
Purchase of health services	803,544	-	-	803,544	-	-	-	803,544	886,185
Food	985,675	627,162	5,973	1,618,810	68,700	29,248	97,948	1,716,758	1,536,152
Supplies	734,791	608,879	1,921	1,345,591	142,422	81,086	223,508	1,569,099	1,364,286
Medical supplies and equipment	181,810	234	-	182,044	-	-	-	182,044	370,186
Rent	1,591,312	1,005,454	38,013	2,634,779	167,601	1,770	169,371	2,804,150	2,532,583
Utilities	375,998	274,835	-	650,833	82,358	870	83,228	734,061	774,675
Rental vehicles and equipment	-	-	-	-	-	-	-	-	28,510
Transportation	369,176	323,483	6,222	698,881	108,399	2,253	110,652	809,533	753,665
Telephone	482,636	454,539	2,808	939,983	155,239	5,279	160,518	1,100,501	953,558
Postage	5,937	7,530	-	13,467	18,429	4,863	23,292	36,759	49,756
Dues, license and permits	153,349	54,604	3,251	211,204	365,424	235,944	601,368	812,572	1,010,245
Legal, auditing and advisory fees	173,563	158,530	112,700	444,793	666,504	10,812	677,316	1,122,109	718,982
Insurance	233,833	1,310,385	1,317	1,545,535	79,964	845	80,809	1,626,344	1,477,720
Purchased services	4,120,137	448,809	175,864	4,744,810	2,009,622	244,123	2,253,745	6,998,555	5,281,257
Related school expenses	20,110	-	-	20,110	-	-	-	20,110	31,474
Stipend	276,731	413,545	-	690,276	100,460	8,041	108,501	798,777	664,526
Repairs and maintenance	2,229,879	1,885,782	7,296	4,122,957	735,335	7,775	743,110	4,866,067	3,772,940
Office printing supplies	61,961	117,263	951	180,175	56,889	29,696	86,585	266,760	348,090
Subscription/publication	1,871	4,101	-	5,972	37,880	12,665	50,545	56,517	55,830
Staff training/tuition	20,374	54,341	3,621	78,336	33,763	864	34,627	112,963	145,616
Conference expense	26,860	8,654	-	35,514	14,101	458	14,559	50,073	29,423
Public/recruitment	87,304	98,720	-	186,024	27,824	709	28,533	214,557	141,954
Miscellaneous expenses	258,497	242,947	494	501,938	381,170	24,858	406,028	907,966	605,471
Other than Personnel Costs	18,074,519	9,031,497	364,902	27,470,918	5,263,987	702,386	5,966,373	33,437,291	29,221,217
TOTAL EXPENSES BEFORE INTEREST, FEES AND DEPRECIATION	39,437,389	45,724,433	770,453	85,932,275	13,977,912	1,738,638	15,716,550	101,648,825	93,824,937
Depreciation expense	1,241,036	1,115,199	-	2,356,235	685,530	7,240	692,770	3,049,005	2,653,288
Interest expense and fees	53,567	20,324	-	73,891	170,717	1,803	172,520	246,411	221,155
	1,294,603	1,135,523	-	2,430,126	856,247	9,043	865,290	3,295,416	2,874,443
Less: Cost of direct benefit to donors	-	-	-	-	-	404,385	404,385	404,385	864,507
TOTAL EXPENSES	\$ 40,731,992	\$ 46,859,956	\$ 770,453	\$ 88,362,401	\$ 14,834,159	\$ 1,343,296	\$ 16,177,455	\$ 104,539,856	\$ 95,834,873

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**

	Foster Care and Residential Services	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2018
Salaries	\$ 15,078,580	\$ 28,758,388	\$ 310,463	\$ 44,147,431	\$ 6,085,754	\$ 961,476	\$ 7,047,230	\$ 51,194,661
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
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
Foster boarding home payments	4,689,984	-	-	4,689,984	-	-	-	4,689,984
Children:								
Allowance	28,590	-	-	28,590	-	-	-	28,590
Activities and program supplies	83,306	656,478	1,166	740,950	6,068	1,697	7,765	748,715
Tuition	-	1,000	-	1,000	-	-	-	1,000
Bedding, linens and uniforms	6,759	3,758	-	10,517	-	-	-	10,517
Clothing	103,973	105,057	-	209,030	-	297	297	209,327
Purchase of health services	886,185	-	-	886,185	-	-	-	886,185
Food	961,888	515,206	1,361	1,478,455	54,207	3,490	57,697	1,536,152
Supplies	407,564	616,245	2,367	1,026,176	185,708	152,402	338,110	1,364,286
Medical supplies and equipment	370,001	7	-	370,008	176	2	178	370,186
Rent	1,317,407	983,480	44,805	2,345,692	184,455	2,436	186,891	2,532,583
Utilities	378,159	308,984	-	687,143	86,391	1,141	87,532	774,675
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	2,402	114,472	753,665
Telephone	325,853	382,597	3,263	711,713	235,599	6,246	241,845	953,558
Postage	9,712	11,844	250	21,806	24,538	3,412	27,950	49,756
Dues, license and permits	125,155	139,270	2,930	267,355	308,523	434,367	742,890	1,010,245
Legal, auditing and advisory fees	112,252	269,511	800	382,563	332,035	4,384	336,419	718,982
Insurance	169,877	1,231,612	1,282	1,402,771	73,972	977	74,949	1,477,720
Purchased services	3,251,498	370,258	76,911	3,698,667	1,320,804	261,786	1,582,590	5,281,257
Related school expenses	31,457	17	-	31,474	-	-	-	31,474
Stipend	327,131	281,710	227	609,068	48,000	7,458	55,458	664,526
Repairs and maintenance	1,649,290	1,625,360	3,803	3,278,453	488,043	6,444	494,487	3,772,940
Office printing supplies	91,916	165,870	5,502	263,288	67,045	17,757	84,802	348,090
Subscription/publication	559	4,348	-	4,907	15,242	35,681	50,923	55,830
Staff training/tuition	37,961	53,285	1,780	93,026	51,905	685	52,590	145,616
Conference expense	10,172	9,552	-	19,724	9,573	126	9,699	29,423
Public/recruitment	48,857	68,205	-	117,062	24,486	406	24,892	141,954
Miscellaneous expenses	195,255	152,319	43	347,617	132,103	125,751	257,854	605,471
Other than Personnel Costs	15,993,567	8,246,181	146,651	24,386,399	3,765,412	1,069,406	4,834,818	29,221,217
TOTAL EXPENSES BEFORE INTEREST, FEES AND DEPRECIATION	35,250,697	44,190,065	569,199	80,009,961	11,548,666	2,266,310	13,814,976	93,824,937
Depreciation expense	1,040,025	912,329	-	1,952,354	691,800	9,134	700,934	2,653,288
Interest expense and fees	59,601	18,111	-	77,712	141,574	1,869	143,443	221,155
	1,099,626	930,440	-	2,030,066	833,374	11,003	844,377	2,874,443
Less: Cost of direct benefit to donors	-	-	-	-	-	864,507	864,507	864,507
TOTAL EXPENSES	\$ 36,350,323	\$ 45,120,505	\$ 569,199	\$ 82,040,027	\$ 12,382,040	\$ 1,412,806	\$ 13,794,846	\$ 95,834,873

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

**GOOD SHEPHERD SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 37,147,703	\$ 930,492
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	3,049,005	2,653,288
Endowment contributions	(14,067,596)	-
Amortization of deferred financing costs	32,440	32,440
Decrease in unamortized discount	490,910	24,196
Unrealized loss on investments	7,274,643	2,016,933
Realized gain on investments	(9,517,399)	(3,577,858)
Change in allowance for uncollectible receivables	(100,000)	-
Change in allowance for uncollectible pledges	309,222	-
Loss on disposal on property	209,114	-
Realized gain on sale of property	(15,486,411)	-
Sub-total	9,341,631	2,079,491
Changes in operating assets and liabilities:		
(Increase) Decrease in assets:		
Client service receivables	(2,949,880)	(3,381,824)
Pledges receivable	(10,915,388)	1,721,142
Loan receivable	(127,785)	-
Prepaid expenses and other assets	71,367	(385,466)
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	543,820	1,842,743
Deferred revenue and due to funder	(120,412)	39,283
Accrued salaries and payroll taxes	(168,602)	518,787
Accrued vacation	(91,724)	211,992
Net Cash Provided by Operating Activities	(4,416,973)	2,646,148
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,225,058)	(3,580,327)
Proceeds from sale of property	14,000,000	-
Purchases of investments	(20,156,185)	(32,441,268)
Proceeds from sales of investments	445,575	31,742,694
Net Cash Used in Investing Activities	(8,935,668)	(4,278,901)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Endowment contributions	14,067,596	-
Proceeds from line of credit	2,000,000	3,000,000
Repayments of line of credit	(3,000,000)	(2,500,000)
Repayments of long-term obligations	(436,766)	(436,771)
Net Cash (Used in) Provided by Financing Activities	12,630,830	63,229
NET CHANGE IN CASH AND CASH EQUIVALENTS	(721,811)	(1,569,524)
Cash and cash equivalents - beginning of the year	817,938	2,387,462
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 96,127	\$ 817,938
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 164,806	\$ 132,732
Deposit on property sale included in accounts payable and accrued expenses at June 30, 2018	\$ 1,500,000	\$ -

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

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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 the (“IRC”).

Good Shepherd is a leading youth and family development agency with over 90 programs serving 31,771 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; ten 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; three anti-gun violence programs; a non-secure detention facility; a non-secure placement facility; 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 McLaughlin East Harlem Residence. 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. ***Net Assets*** – Good Shepherd’s net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Good Shepherd and changes therein are classified and reported as follows.
- Net assets without donor restrictions – 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 net assets without donor restrictions in excess of net investment in property and equipment be reserved for endowment purposes.
 - Net assets with donor restrictions – consist of 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. In addition, net assets with donor restrictions include unappropriated earnings on donor-restricted endowment funds. These also include 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 year ended June 30, 2018, Good Shepherd recorded \$16,919, (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. There were no noncash contributions for the year ended June 30, 2019.

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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 without donor restriction 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 6.

- 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, 2019 and 2018, in the accompanying statements of financial position. Actual recoveries are applied against the estimated liabilities when known.

- I. ***Functional Allocation of Expenses*** – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain categories of expenses are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and occupancy costs, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated based on estimates of time and effort.
- 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 June 30, 2019 and 2018, amortization of financing costs amounted to \$32,440 and are reported as interest expense in the accompanying statements of functional expenses.

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- K. **Allowance for Uncollectible Receivables** – As of June 30, 2019 and 2018, Good Shepherd determined that an allowance for doubtful accounts and uncollectible pledges of \$393,232 and \$184,010, 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.
- N. **Change in Accounting Principle** – Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities* was adopted for the year ended June 30, 2019. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquidity of resources and functional expense allocation. These changes had no impact on the change in net assets for the year ended June 30, 2018. As a result of implementing ASU 2016-14, Good Shepherd provides additional information about liquidity (see Note 3) and the methodologies used to allocate expenses by function (see Note 2I). Net assets as of June 30, 2018 were reclassified to conform to the current year presentation.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

Cash and cash equivalents	\$ 96,127
Client services receivable	27,517,010
Pledges receivable, net of donor restrictions	5,705,613
Short-term investments	3,088,755
Endowment spending-rate distributions and appropriations	<u>1,467,597</u>
	<u>\$ 37,875,102</u>

Good Shepherd’s endowment funds consist of donor-restricted endowments and a board-designated fund functioning as an endowment. Donor-restricted endowment funds are not available for general expenditure and the income generated is restricted for specific purposes, primarily for the preservation of capital, long-term growth and a relatively high degree of liquidity. This should be reflected in its asset allocation and selection of dividend and interest paying securities that have relatively stable market values. The portfolio should maintain sufficient liquidity to meet Good Shepherd’s obligations as they come due.

Good Shepherd’s board-designated endowment of \$50,829,051 is subject to an annual spending rate of up to five percent as described in Note 2F. Although Good Shepherd does not intend to spend from the board-designated endowment (other than amounts appropriated for general expenditure as part of our Board’s annual budget approval and appropriation), the funds could be made available if necessary, by action of the Board of Directors.

As part of Good Shepherd’s liquidity management plan, Good Shepherd invests cash in excess of daily requirements in short-term investments consisting of mutual funds. Good Shepherd has a \$6,500,000 revolving line of credit with a financial institution (Note 9).

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 4 – CLIENT SERVICE RECEIVABLES

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

	<u>2019</u>	<u>2018</u>
New York State agencies	\$ 477,783	\$ 550,508
New York City agencies	25,317,601	21,708,300
Federal agencies	90,889	172,527
Medicaid	<u>1,630,737</u>	<u>2,135,795</u>
	27,517,010	24,567,130
Less: allowance for doubtful accounts	<u>-</u>	<u>(100,000)</u>
	<u>\$ 27,517,010</u>	<u>\$ 24,467,130</u>

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Amounts due in less than one year	\$ 10,650,498	\$ 3,890,110
Amounts due in one to five years	<u>5,985,000</u>	<u>1,830,000</u>
	16,635,498	5,720,110
Less: allowance for uncollectible pledges	(393,232)	(84,010)
Less: unamortized discount to present value	<u>(553,167)</u>	<u>(62,257)</u>
	<u>\$ 15,689,099</u>	<u>\$ 5,573,843</u>

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, 2019 and 2018 amounted to \$8,629,885 and \$251,004, respectively.

NOTE 6 – 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, 2019 and 2018:

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.

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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

	<u>2019</u>	<u>2018</u>
Investments:		
Mutual Funds:		
Domestic Stock	\$ 19,931,690	\$ 13,146,962
Bonds	12,503,139	10,152,039
International Stock	12,611,467	8,108,861
International Bonds	5,277,364	-
Money markets	<u>3,088,755</u>	<u>51,187</u>
Total Assets Carried at Fair Value	<u>\$ 53,412,415</u>	<u>\$ 31,459,049</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, 2019 and 2018, there were no transfers between levels.

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

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 1,132,521	\$ 722,556
Realized gain on investments	9,517,399	3,577,858
Unrealized loss on investments	(7,274,643)	(2,016,933)
Investment fees	<u>(41,177)</u>	<u>(26,348)</u>
	<u>\$ 3,334,100</u>	<u>\$ 2,257,133</u>

NOTE 7 – PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Lives</u>
Land	\$ 565,172	\$ 578,761	
Buildings and improvements	34,201,745	35,515,036	10-30 Years
Furniture and fixtures	2,472,119	2,212,143	5 Years
Computer systems	3,325,128	3,476,668	3 Years
Vehicles	669,571	541,838	3 Years
Construction-in-progress	<u>674,685</u>	<u>381,151</u>	
Total cost	41,908,420	42,705,597	
Accumulated depreciation and amortization	<u>(20,773,776)</u>	<u>(21,524,303)</u>	
Net book value	<u>\$ 21,134,644</u>	<u>\$ 21,181,294</u>	

Depreciation expense for property and equipment amounted to \$3,049,005 and \$2,653,288 for the years ended June 30, 2019 and 2018, respectively.

Construction-in-progress as of June 30, 2019 consisted of various construction projects at Good Shepherd's sites. The construction is expected to be completed by the end of calendar 2019 and no significant additional costs are expected to be incurred.

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 – PROPERTY AND EQUIPMENT (Continued)

During the year ended June 30, 2019, Good Shepherd sold land and property located at 441 Fourth Avenue and 262 Ninth Street in Brooklyn, New York, with a cost of \$252,309 and accumulated depreciation of \$238,720 for \$15,500,000, resulting in a gain on the sale of \$15,486,411. In 2018, Good Shepherd received \$1,500,000 as a deposit related to this sale, which was included in accounts payable and accrued expenses in the June 30, 2018 statement of financial position. In addition, various building and leasehold improvements with a total cost of \$3,769,926 and accumulated depreciation of \$3,560,812 were written off during the year ended June 30, 2019, resulting in a loss on disposal of \$209,114. For the year ended June 30, 2018, fully depreciated items amounting to \$52,673 were written off.

NOTE 8 – LONG-TERM OBLIGATIONS

As of June 30, 2019 and 2018, long-term obligations consisted of the following items:

	2019	2018
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.	\$ 143,941	\$ 162,123
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 matured on October 25, 2019 and was refinanced on December 30, 2019 in the amount of \$2,267,857 payable in monthly installments of \$26,998 plus interest at a fixed rate of 3.22%. The mortgage matures December 30, 2026 and is secured by real property.	1,571,429	1,785,714
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 \$2,633, plus interest at a fixed rate of 3.50%, secured by real property. The mortgage matures on June 28, 2022.	94,800	126,400
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.	1,367,221	1,539,922
	3,427,391	3,864,159
Less: Unamortized debt issuance costs	(97,321)	(129,763)
	\$ 3,330,070	\$ 3,734,396

The future annual principal payments for each of the years subsequent to June 30, 2019 are as follows:

	<u>Mortgages and Notes Payments</u>
2020	\$ 1,793,922
2021	222,493
2022	1,410,976
	\$ 3,427,391

Interest expense incurred for these long-term obligations amounted to \$181,156 and \$148,564 for the years ended June 30, 2019 and 2018, respectively.

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 9 – 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 March 20, 2019, the line of credit was renewed and matures on March 31, 2020. Interest expense incurred for the line of credit amounted to \$55,922 and \$13,173 for the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, Good Shepherd had outstanding borrowings on the bank line of credit amounting to \$2,000,000 and \$3,000,000 respectively. There was no outstanding balance as of January 17, 2020.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2019 and 2018 are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Purpose restricted:		
Community-based services	\$ 3,255,855	\$ 2,529,334
Residential services	2,323,323	2,324,324
Foster care	1,703,191	1,700,524
Capital projects	5,575,000	2,000,000
Time restrictions	3,606,000	2,483,332
Perpetual in nature	<u>20,954,325</u>	<u>6,886,729</u>
	37,417,694	17,924,243
Less: estimated allowance for uncollectible pledges	(393,232)	(84,010)
Less: unamortized discount to present value	<u>(553,167)</u>	<u>(62,257)</u>
	<u>\$ 36,471,295</u>	<u>\$ 17,777,976</u>

Net assets with donor restrictions 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Preventive services	\$ 2,098,294	\$ 1,193,198
Residential services	1,131,630	1,131,930
Expiration of time	<u>5,274,048</u>	<u>4,572,810</u>
	<u>\$ 8,503,972</u>	<u>\$ 6,897,938</u>

NOTE 11 – 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 perpetual 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 without donor restriction by the donor will be reflected as purpose restricted until appropriated.

The Board explicitly appropriated all earnings as of and prior to September 17, 2010, whether deemed spent or not, as net assets without donor restriction. All unappropriated earnings on endowment funds with donor restrictions after September 17, 2010, that would otherwise be considered without donor restriction, will be reflected as net assets with donor restriction until appropriated. As of June 30, 2019 and 2018, 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, 2019, all earnings on endowment funds are considered appropriated by the Board through its budgetary approval process.

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11 – ENDOWMENT NET ASSETS (Continued)

Good Shepherd's endowment investment policy is to invest primarily in a mix of investments in mutual funds 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, 2019, are as follows:

	Without Donor Restrictions: Board Designated Reserves For Endowment	With Donor Restrictions: Perpetual in Nature	Total
Endowment net assets, beginning of year	\$ 32,747,323	\$ 6,886,729	\$ 39,634,052
Investment activity:			
Interest and dividends	1,132,521	-	1,132,521
Realized / Unrealized gain	2,242,756	-	2,242,756
Contributions	-	14,067,596	14,067,596
Investment fees	(41,177)	-	(41,177)
Transfers from operating activity	<u>14,747,628</u>	<u>-</u>	<u>14,747,628</u>
	<u>18,081,728</u>	<u>14,067,596</u>	<u>32,149,324</u>
Endowment net assets, end of year	<u>\$ 50,829,051</u>	<u>\$ 20,954,325</u>	<u>\$ 71,783,376</u>

Changes in endowment net assets for the year ended June 30, 2018, are as follows:

	Without Donor Restrictions: Board Designated Reserves For Endowment	With Donor Restrictions: Perpetual in Nature	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	<u>136,015</u>	<u>-</u>	<u>136,015</u>
	<u>2,393,149</u>	<u>1,050,000</u>	<u>3,443,149</u>
Endowment net assets, end of year	<u>\$ 32,747,323</u>	<u>\$ 6,886,729</u>	<u>\$ 39,634,052</u>

Endowment net assets of \$71,783,376 and \$39,634,052 as of June 30, 2019 and 2018, respectively, are included in pledges receivable, cash and investments in the accompanying statements of financial position.

NOTE 12 – RETIREMENT PLAN AND DEFERRED COMPENSATION

Good Shepherd sponsors a non-contributory defined contribution plan under section 403(b) of the IRC 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 each of the years ended June 30, 2019 and 2018 amounted to approximately \$1,000,000.

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 12 – RETIREMENT PLAN AND DEFERRED COMPENSATION (Continued)

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, 2019 and 2018, Good Shepherd has accrued approximately \$1,226,000 and \$1,324,000, respectively, for such benefit, and the accrual is included in accounts payable and accrued expenses in the accompanying statements of financial position.

NOTE 13 – 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, 2019 and thereafter are as follows:

	<u>Office</u>
2020	\$ 2,636,000
2021	2,601,000
2022	2,635,000
2023	2,714,000
2024	2,470,000
Thereafter	<u>7,437,000</u>
	<u>\$ 20,493,000</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 \$2,804,000 and \$2,533,000 for the years ended June 30, 2019 and 2018, 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 \$838,900 and \$993,800 for the years ended June 30, 2019 and 2018, 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:

2020	\$ 81,063
2021	<u>27,107</u>
	<u>\$ 108,170</u>

- 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, 2019 and 2018 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 FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 14 – 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, 2019 and 2018, there was approximately \$885,000 and \$1,374,000, respectively, of cash held by a bank that exceeded FDIC limits. Such excess includes outstanding checks.

NOTE 15 – SUBSEQUENT EVENTS

Good Shepherd has evaluated for potential recognition and disclosure events subsequent to the date of the statements of financial position through January 17, 2020, the date the financial statements were available to be issued.