

GOOD SHEPHERD SERVICES



Financial Statements (Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2020 AND 2019

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ACCOUNTANTS & ADVISORS

GOOD SHEPHERD SERVICES
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019 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.



New York, NY

February 19, 2021

**GOOD SHEPHERD SERVICES
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
Cash and cash equivalents (Notes 2E and 14)	\$ 8,683,447	\$ 96,127
Investments (Notes 2F, 6 and 11)	59,720,811	53,412,415
Client service receivables (Notes 2H, 2K and 4)	26,654,592	27,517,010
Pledges receivable, net (Notes 2C, 2K and 5)	15,034,672	15,689,099
Loan receivables	1,774,171	1,881,777
Prepaid expenses and other assets	1,514,525	1,388,557
Property and equipment, net (Notes 2G and 7)	18,132,064	21,134,644
TOTAL ASSETS	\$ 131,514,282	\$ 121,119,629
LIABILITIES		
Accounts payable and accrued expenses (Notes 12 and 13A)	\$ 5,593,753	\$ 6,035,063
Accrued salaries and payroll taxes	2,480,208	1,348,100
Accrued vacation	3,013,770	3,034,008
Deferred revenue and due to funder (Note 2H)	1,403,634	267,468
Line of credit (Note 9)	-	2,000,000
Long-term obligations, net (Notes 2J and 8)	3,674,466	3,330,070
TOTAL LIABILITIES	16,165,831	16,014,709
COMMITMENTS AND CONTINGENCIES (Notes 12 and 13)		
NET ASSETS (Note 2B)		
Without donor restrictions:		
Board designated reserves for endowment (Notes 3 and 11)	64,002,587	50,829,051
Net investment in property and equipment	14,457,598	17,804,574
Total Without Donor Restrictions	78,460,185	68,633,625
With donor restrictions (Notes 10 and 11)	36,888,266	36,471,295
TOTAL NET ASSETS	115,348,451	105,104,920
TOTAL LIABILITIES AND NET ASSETS	\$ 131,514,282	\$ 121,119,629

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

**GOOD SHEPHERD SERVICES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	Year Ended June 30, 2020			Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total 2020	Without Donor Restrictions	With Donor Restrictions	Total 2019
OPERATING SUPPORT AND REVENUE						
Care and maintenance contracts (Note 2H)	\$ 27,043,025	\$ -	\$ 27,043,025	\$ 23,635,925	\$ -	\$ 23,635,925
Grants from government agencies (Note 2H)	49,287,115	-	49,287,115	53,659,208	-	53,659,208
Medicaid	9,709,422	-	9,709,422	9,926,022	-	9,926,022
Private grants	15,670,444	6,606,822	22,277,266	4,694,138	13,129,695	17,823,833
Special events (net of direct expenses of \$451,962 and \$404,385 in 2020 and 2019, respectively)	2,029,732	-	2,029,732	1,274,534	-	1,274,534
Interest and dividends (Notes 2F and 6)	946,980	390,394	1,337,374	935,737	196,784	1,132,521
Miscellaneous revenue and other fees (Note 13C)	1,165,384	-	1,165,384	2,689,044	-	2,689,044
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)	7,929,970	(7,929,970)	-	9,090,453	(9,090,453)	-
TOTAL OPERATING SUPPORT AND REVENUE	113,782,072	(932,754)	112,849,318	121,182,358	4,236,026	125,418,384
EXPENSES						
Program Services:						
Foster care and residential services	42,894,525	-	42,894,525	40,731,992	-	40,731,992
Community-based programs	43,625,206	-	43,625,206	46,859,956	-	46,859,956
Training services	670,907	-	670,907	770,453	-	770,453
Total Program Services	87,190,638	-	87,190,638	88,362,401	-	88,362,401
Supporting Services:						
Management and general	15,831,405	-	15,831,405	14,834,159	-	14,834,159
Fundraising	1,427,325	-	1,427,325	1,343,296	-	1,343,296
Total Supporting Services	17,258,730	-	17,258,730	16,177,455	-	16,177,455
TOTAL OPERATING EXPENSES	104,449,368	-	104,449,368	104,539,856	-	104,539,856
Change In Net Assets From Operations	9,332,704	(932,754)	8,399,950	16,642,502	4,236,026	20,878,528
NONOPERATING ACTIVITIES						
Endowment contributions (Note 11)	-	1,125,221	1,125,221	-	14,067,596	14,067,596
Realized / unrealized gain on investments, net (Notes 2F and 6)	493,856	224,504	718,360	1,811,882	389,697	2,201,579
TOTAL NONOPERATING ACTIVITIES	493,856	1,349,725	1,843,581	1,811,882	14,457,293	16,269,175
CHANGES IN NET ASSETS	9,826,560	416,971	10,243,531	18,454,384	18,693,319	37,147,703
Net assets - beginning of year	68,633,625	36,471,295	105,104,920	50,179,241	17,777,976	67,957,217
NET ASSETS - END OF YEAR	\$ 78,460,185	\$ 36,888,266	\$ 115,348,451	\$ 68,633,625	\$ 36,471,295	\$ 105,104,920

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

**GOOD SHEPHERD SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR 2019)**

	Foster Care and Residential Services	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2020	Total 2019
Salaries	\$ 19,361,632	\$ 28,032,001	\$ 262,180	\$ 47,655,813	\$ 7,808,567	\$ 901,133	\$ 8,709,700	\$ 56,365,513	\$ 54,773,541
Payroll taxes and employee benefits	4,936,902	6,459,207	95,457	11,491,566	1,970,851	216,345	2,187,196	13,678,762	13,437,993
Total Salaries and Related Costs	24,298,534	34,491,208	357,637	59,147,379	9,779,418	1,117,478	10,896,896	70,044,275	68,211,534
Foster boarding home payments	4,862,589	-	-	4,862,589	-	-	-	4,862,589	4,612,380
Children:									
Allowance	21,020	-	10,200	31,220	-	-	-	31,220	22,129
Activities and program supplies	111,487	340,871	449	452,807	9,220	145	9,365	462,172	854,719
Tuition	2,686	-	-	2,686	-	-	-	2,686	3,408
Bedding, linens and uniforms	8,844	713	-	9,557	-	-	-	9,557	6,092
Clothing	64,754	104,984	-	169,738	1,280	1,001	2,281	172,019	328,744
Purchase of health services	684,186	-	-	684,186	-	-	-	684,186	803,544
Food	998,810	379,878	3,892	1,382,580	49,573	5,574	55,147	1,437,727	1,716,758
Supplies	450,765	393,787	3,655	848,207	183,052	23,187	206,239	1,054,446	1,569,099
Medical supplies and equipment	126,867	60	-	126,927	-	-	-	126,927	182,044
Rent	1,376,878	984,332	28,000	2,389,210	174,440	2,750	177,190	2,566,400	2,804,150
Utilities	301,170	211,504	-	512,674	63,563	1,002	64,565	577,239	734,061
Transportation	324,511	231,516	290	556,317	97,194	4,174	101,368	657,685	809,533
Telephone	472,177	420,028	2,882	895,087	109,075	5,736	114,811	1,009,898	1,100,501
Postage	13,336	21,442	-	34,778	11,200	3,383	14,583	49,361	36,759
Dues, license and permits	142,044	48,393	8,155	198,592	558,407	278,311	836,718	1,035,310	812,572
Legal, auditing and advisory fees	376,840	60,894	45,975	483,709	667,150	98,203	765,353	1,249,062	1,122,109
Insurance	239,056	1,154,202	1,184	1,394,442	48,522	765	49,287	1,443,729	1,626,344
Purchased services	3,030,300	330,478	183,604	3,544,382	1,551,154	245,756	1,796,910	5,341,292	6,998,555
Related school expenses	37,983	-	-	37,983	-	-	-	37,983	20,110
Stipend	367,598	211,893	10,200	589,691	96,685	1,945	98,630	688,321	798,777
Repairs and maintenance	2,042,935	1,603,074	8,248	3,654,257	550,828	8,684	559,512	4,213,769	4,866,067
Office printing supplies	58,598	89,500	5,040	153,138	50,111	37,157	87,268	240,406	266,760
Subscription/publication	1,104	6,445	-	7,549	87,082	13,958	101,040	108,589	56,517
Staff training/tuition	19,211	24,050	-	43,261	16,463	260	16,723	59,984	112,963
Conference expense	5,935	6,606	-	12,541	10,748	169	10,917	23,458	50,073
Public/recruitment	107,258	99,562	900	207,720	34,348	2,487	36,835	244,555	214,557
Miscellaneous expenses	798,142	1,049,800	596	1,848,538	722,571	12,038	734,609	2,583,147	907,966
Other than Personnel Costs	17,047,084	7,774,012	313,270	25,134,366	5,092,666	746,685	5,839,351	30,973,717	33,437,291
TOTAL EXPENSES BEFORE INTEREST, FEES AND DEPRECIATION	41,345,618	42,265,220	670,907	84,281,745	14,872,084	1,864,163	16,736,247	101,017,992	101,648,825
Depreciation expense	1,502,062	1,340,064	-	2,842,126	788,786	12,435	801,221	3,643,347	3,049,005
Interest expense and fees	46,845	19,922	-	66,767	170,535	2,689	173,224	239,991	246,411
	1,548,907	1,359,986	-	2,908,893	959,321	15,124	974,445	3,883,338	3,295,416
Less: Cost of direct benefit to donors	-	-	-	-	-	451,962	451,962	451,962	404,385
TOTAL EXPENSES	\$ 42,894,525	\$ 43,625,206	\$ 670,907	\$ 87,190,638	\$ 15,831,405	\$ 1,427,325	\$ 17,258,730	\$ 104,449,368	\$ 104,539,856

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

	Foster Care and Residential Services	Community Based Programs	Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2019
Salaries	\$ 16,993,044	\$ 29,709,405	\$ 287,816	\$ 46,990,265	\$ 6,946,992	\$ 836,284	\$ 7,783,276	\$ 54,773,541
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
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
Foster boarding home payments	4,612,380	-	-	4,612,380	-	-	-	4,612,380
Children:								
Allowance	22,129	-	-	22,129	-	-	-	22,129
Activities and program supplies	146,999	695,993	3,788	846,780	7,825	114	7,939	854,719
Tuition	787	-	-	787	2,594	27	2,621	3,408
Bedding, linens and uniforms	4,678	1,414	-	6,092	-	-	-	6,092
Clothing	92,198	234,293	683	327,174	1,484	86	1,570	328,744
Purchase of health services	803,544	-	-	803,544	-	-	-	803,544
Food	985,675	627,162	5,973	1,618,810	68,700	29,248	97,948	1,716,758
Supplies	734,791	608,879	1,921	1,345,591	142,422	81,086	223,508	1,569,099
Medical supplies and equipment	181,810	234	-	182,044	-	-	-	182,044
Rent	1,591,312	1,005,454	38,013	2,634,779	167,601	1,770	169,371	2,804,150
Utilities	375,998	274,835	-	650,833	82,358	870	83,228	734,061
Transportation	369,176	323,483	6,222	698,881	108,399	2,253	110,652	809,533
Telephone	482,636	454,539	2,808	939,983	155,239	5,279	160,518	1,100,501
Postage	5,937	7,530	-	13,467	18,429	4,863	23,292	36,759
Dues, license and permits	153,349	54,604	3,251	211,204	365,424	235,944	601,368	812,572
Legal, auditing and advisory fees	173,563	158,530	112,700	444,793	666,504	10,812	677,316	1,122,109
Insurance	233,833	1,310,385	1,317	1,545,535	79,964	845	80,809	1,626,344
Purchased services	4,120,137	448,809	175,864	4,744,810	2,009,622	244,123	2,253,745	6,998,555
Related school expenses	20,110	-	-	20,110	-	-	-	20,110
Stipend	276,731	413,545	-	690,276	100,460	8,041	108,501	798,777
Repairs and maintenance	2,229,879	1,885,782	7,296	4,122,957	735,335	7,775	743,110	4,866,067
Office printing supplies	61,961	117,263	951	180,175	56,889	29,696	86,585	266,760
Subscription/publication	1,871	4,101	-	5,972	37,880	12,665	50,545	56,517
Staff training/tuition	20,374	54,341	3,621	78,336	33,763	864	34,627	112,963
Conference expense	26,860	8,654	-	35,514	14,101	458	14,559	50,073
Public/recruitment	87,304	98,720	-	186,024	27,824	709	28,533	214,557
Miscellaneous expenses	258,497	242,947	494	501,938	381,170	24,858	406,028	907,966
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
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
Depreciation expense	1,241,036	1,115,199	-	2,356,235	685,530	7,240	692,770	3,049,005
Interest expense and fees	53,567	20,324	-	73,891	170,717	1,803	172,520	246,411
	1,294,603	1,135,523	-	2,430,126	856,247	9,043	865,290	3,295,416
Less: Cost of direct benefit to donors	-	-	-	-	-	404,385	404,385	404,385
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

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

**GOOD SHEPHERD SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 10,243,531	\$ 37,147,703
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	3,643,347	3,049,005
Endowment contributions	(1,125,221)	(14,067,596)
Amortization of deferred financing costs	32,440	32,440
Decrease in unamortized discount	338,453	490,910
Unrealized (gain) loss on investments	(768,424)	7,274,643
Realized gain on investments	(662)	(9,517,399)
Change in allowance for uncollectible receivables	-	(100,000)
Change in allowance for uncollectible pledges	276,634	309,222
Loss on disposal on property	-	209,114
Realized gain on sale of property	-	(15,486,411)
	12,640,098	9,341,631
Sub-total		
Changes in operating assets and liabilities:		
(Increase) Decrease in assets:		
Client service receivables	862,418	(2,949,880)
Pledges receivable	39,340	(10,915,388)
Loan receivable	107,606	(127,785)
Prepaid expenses and other assets	(125,968)	71,367
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	(441,310)	543,820
Deferred revenue and due to funder	1,136,166	(120,412)
Accrued salaries and payroll taxes	1,132,108	(168,602)
Accrued vacation	(20,238)	(91,724)
	15,330,220	(4,416,973)
Net Cash Provided by (Used in) Operating Activities	15,330,220	(4,416,973)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(640,767)	(3,225,058)
Proceeds from sale of property	-	14,000,000
Purchases of investments	(5,896,085)	(20,156,185)
Proceeds from sales of investments	356,775	445,575
	(6,180,077)	(8,935,668)
Net Cash Used in Investing Activities	(6,180,077)	(8,935,668)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Endowment contributions	1,125,221	14,067,596
Proceeds from line of credit	-	2,000,000
Proceeds from long-term debt	723,003	-
Repayments of line of credit	(2,000,000)	(3,000,000)
Repayments of long-term obligations	(411,047)	(436,766)
	(562,823)	12,630,830
Net Cash (Used in) Provided by Financing Activities	(562,823)	12,630,830
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,587,320	(721,811)
Cash and cash equivalents - beginning of the year	96,127	817,938
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 8,683,447	\$ 96,127
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	\$ 138,279	\$ 164,806

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

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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 36,164 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 (the “Board”) has discretionary control. The Board 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. There were no noncash contributions for the years ended June 30, 2020 and 2019.

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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.

Grant and contributions are nonexchange transactions and accounted for under Accounting Standards Update (“ASU”) 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made” (Topic 958). Government grants and support are recognized as revenue when barriers within the contract are overcome, and there is no right of return. Unreimbursed qualified expenditures for preventive programs are included in the statements of financial position as client service receivables due under governmental contracts.

As of June 30, 2020, Good Shepherd received conditional grants and contracts accounted for under ASU 2018-08 from government agencies in the aggregate amount of approximately \$113 million. Such grants have not been recognized in the accompanying financial statements as they are for future periods and will be recognized when contract barriers are overcome. Such barriers include expending these funds in accordance with their budgets and agreements. If such services are not provided, the governmental entities are not obligated to disburse the funds allotted under the grants and contracts and Good Shepherd may be required to return the funds already remitted.

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, 2020 and 2019, 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.

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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, 2020 and 2019, amortization of financing costs amounted to \$32,440 and is reported as interest expense in the accompanying statements of functional expenses.
- K. **Allowance for Uncollectible Receivables** – As of June 30, 2020 and 2019, Good Shepherd determined that an allowance for doubtful accounts and uncollectible pledges of \$669,866 and \$393,232, 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. **Recent Accounting Pronouncements** – FASB ASU 2018-08, “Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made” (Topic 958) was adopted by Good Shepherd for the year ended June 30, 2020. The core guidance is to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and contributions or government grants is conditional as described in Note 2H.

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 as of June 30:

	2020	2019
Cash and cash equivalents	\$ 8,683,447	\$ 96,127
Client services receivables	26,654,592	27,517,010
Pledges receivable, net of donor restrictions	4,706,811	5,705,613
Short-term investments	3,131,984	3,088,755
Endowment spending-rate distributions and appropriations	1,901,184	1,467,597
	\$ 45,078,018	\$ 37,875,102

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 \$64,002,587 and \$50,829,051 as of June 30, 2020 and 2019, respectively 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 the Board’s annual budget approval and appropriation), the funds could be made available if necessary, by action of the Board.

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 as of June 30, 2020 and 2019, respectively (Note 9).

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 4 – CLIENT SERVICE RECEIVABLES

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

	<u>2020</u>	<u>2019</u>
New York State agencies	\$ 1,740,435	\$ 477,783
New York City agencies	23,391,672	25,317,601
Federal agencies	106,607	90,889
Medicaid	<u>1,415,878</u>	<u>1,630,737</u>
	26,654,592	27,517,010
Less: allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>\$ 26,654,592</u>	<u>\$ 27,517,010</u>

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Amounts due in less than one year	\$ 6,651,158	\$ 10,650,498
Amounts due in one to five years	<u>9,945,000</u>	<u>5,985,000</u>
	16,596,158	16,635,498
Less: allowance for uncollectible pledges	(669,866)	(393,232)
Less: unamortized discount to present value	<u>(891,620)</u>	<u>(553,167)</u>
	<u>\$ 15,034,672</u>	<u>\$ 15,689,099</u>

The pledges to be received after one year are discounted to present value at interest rates ranging from 0.16% to 2.84%. 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, 2020 and 2019 amounted to \$4,910,351 and \$8,629,885, 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.

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following methods and assumptions were used in estimating the fair values of significant financial instruments at June 30, 2020 and 2019:

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.

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

	<u>2020</u>	<u>2019</u>
Investments:		
Mutual Funds:		
Domestic Stock	\$ 22,218,330	\$ 19,931,690
Bonds	13,848,163	12,503,139
International Stock	14,634,090	12,611,467
International Bonds	5,888,244	5,277,364
Money markets	<u>3,131,984</u>	<u>3,088,755</u>
Total Assets Carried at Fair Value	<u>\$ 59,720,811</u>	<u>\$ 53,412,415</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, 2020 and 2019, there were no transfers between levels.

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 1,337,374	\$ 1,132,521
Realized gain on investments	662	9,517,399
Unrealized gain (loss) on investments	768,424	(7,274,643)
Investment fees	<u>(50,726)</u>	<u>(41,177)</u>
	<u>\$ 2,055,734</u>	<u>\$ 3,334,100</u>

NOTE 7 – PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>	Estimated Useful Lives
Land	\$ 565,172	\$ 565,172	
Buildings and improvements	35,168,855	34,201,745	10-30 Years
Furniture and fixtures	1,887,744	2,472,119	5 Years
Computer systems	3,440,982	3,325,128	3 Years
Vehicles	719,294	669,571	3 Years
Construction-in-progress	<u>-</u>	<u>674,686</u>	
Total cost	41,782,047	41,908,421	
Accumulated depreciation and amortization	<u>(23,649,983)</u>	<u>(20,773,777)</u>	
Net book value	<u>\$ 18,132,064</u>	<u>\$ 21,134,644</u>	

Depreciation expense for property and equipment amounted to \$3,643,347 and \$3,049,005 for the years ended June 30, 2020 and 2019, respectively.

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

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 7 – PROPERTY AND EQUIPMENT (Continued)

During the year ended June 30, 2020, Good Shepherd wrote off fully depreciated property and equipment in the amount of \$767,141. 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 addition, during the year ended June 30, 2019, various building and leasehold improvements with a total cost of \$3,769,926 and accumulated depreciation of \$3,560,812 were written off, resulting in a loss on disposal of \$209,114.

NOTE 8 – LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following items as of June 30:

	2020	2019
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.	\$ 125,759	\$ 143,941
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.	2,105,869	1,571,429
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.	63,200	94,800
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.	1,194,519	1,367,221
	3,739,347	3,427,391
Less: Unamortized debt issuance costs	(64,881)	(97,321)
	\$ 3,674,466	\$ 3,330,070

The future annual principal payments for each of the years subsequent to June 30, 2020 are as follows:

	<u>Mortgages and Notes Payments</u>
2021	\$ 546,463
2022	546,463
2023	514,863
2024	514,863
2025	514,863
Thereafter	1,101,832
	\$ 3,739,347

Interest expense incurred for these long-term obligations amounted to \$122,818 and \$125,234 for the years ended June 30, 2020 and 2019, respectively.

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 30, 2020, the line of credit was renewed and matures on March 31, 2021. Interest expense incurred for the line of credit amounted to \$32,517 and \$55,922 for the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, Good Shepherd had outstanding borrowings on the bank line of credit amounting to \$0 and \$2,000,000 respectively. There was no outstanding balance as of February 19, 2021.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Purpose restricted:		
Community-based services	\$ 2,489,912	\$ 3,255,855
Residential services	632,915	2,323,323
Foster care	2,902,379	1,703,191
Capital projects	3,750,000	5,575,000
Time restrictions	6,595,000	3,606,000
Perpetual in nature	<u>22,079,546</u>	<u>20,954,325</u>
	38,449,752	37,417,694
Less: estimated allowance for uncollectible pledges	(669,866)	(393,232)
Less: unamortized discount to present value	<u>(891,620)</u>	<u>(553,167)</u>
	<u>\$ 36,888,266</u>	<u>\$ 36,471,295</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:

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished:		
Preventive services	\$ 1,857,682	\$ 2,098,294
Residential services	1,905,069	1,131,630
Expiration of time	<u>3,552,321</u>	<u>5,274,048</u>
	7,315,072	8,503,972
Appropriation of endowment earnings	<u>614,898</u>	<u>586,481</u>
	<u>\$ 7,929,970</u>	<u>\$ 9,090,453</u>

NOTE 11 – ENDOWMENT NET ASSETS

The Board 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, 2020 and 2019, there were no unappropriated earnings.

GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 – ENDOWMENT NET ASSETS (Continued)

The Board 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. As of June 30, 2020, 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 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, 2020, are as follows:

	Without Donor Restrictions: Board Designated Reserves For Endowment	With Donor Restrictions: Perpetual in Nature	Total
Endowment net assets, beginning of year	\$ 50,829,051	\$ 20,954,325	\$ 71,783,376
Investment activity:			
Interest and dividends	946,980	390,394	1,337,374
Realized / Unrealized gain	544,582	224,504	769,086
Contributions	-	1,125,221	1,125,221
Investment fees	(50,726)	-	(50,726)
Amount appropriated for expenditure	-	(614,898)	(614,898)
Transfers from operating activity	11,732,700	-	11,732,700
	<u>13,173,536</u>	<u>1,125,221</u>	<u>14,298,757</u>
Endowment net assets, end of year	<u>\$ 64,002,587</u>	<u>\$ 22,079,546</u>	<u>\$ 86,082,133</u>

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	935,737	196,784	1,132,521
Realized / Unrealized gain	1,853,059	389,697	2,242,756
Contributions	-	14,067,596	14,067,596
Investment fees	(41,177)	-	(41,177)
Amount appropriated for expenditure	-	(586,481)	(586,481)
Transfers from (to) operating activity	15,334,109	-	15,334,109
	<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>

Endowment net assets of \$86,082,133 and \$71,783,376 as of June 30, 2020 and 2019, respectively, are included in pledges receivable, cash and investments in the accompanying statements of financial position.

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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 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, 2020 and 2019 amounted to approximately \$1,000,000.

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, 2020 and 2019, Good Shepherd has accrued approximately \$1,197,000 and \$1,226,000, 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, 2020 and thereafter are as follows:

	<u>Office</u>
2021	\$ 2,918,000
2022	2,814,000
2023	2,942,000
2024	2,615,000
2025	2,544,000
Thereafter	5,309,000
	<u>\$ 19,142,000</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 \$2,566,000 and \$2,804,000 for the years ended June 30, 2020 and 2019, 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 for each of the years ended June 30, 2020 and 2019 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 rental related to the leases are as follows:

2021	<u>\$ 50,341</u>
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- 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.

**GOOD SHEPHERD SERVICES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

- F. Good Shepherd believes it has no uncertain income tax positions as of June 30, 2020 and 2019 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.
- G. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on Good Shepherd’s business and financial results will depend on future developments, including the duration and spread of the outbreak. Due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, Good Shepherd is currently unable to fully determine the extent of COVID-19’s impact on its business in future periods. Good Shepherd’s performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States. Good Shepherd continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position and results of operations.

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, 2020 and 2019, there was approximately \$12.1 million and \$885,000, 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 February 19, 2021, the date the financial statements were available to be issued.