

SHEPHERD'S GATE

INDEPENDENT CERTIFIED AUDITOR'S REPORT

JUNE 30, 2017

SHEPHERD'S GATE

Table of Contents

Independent Auditor's Report.....	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows.....	4
Schedule of Functional Expenses	5
Notes to Financial Statements	6

DOUGLAS E. WILLIAMS, CPA

1022 DEEVIEW DRIVE
COVINA, CALIFORNIA 91724

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Shepherd's Gate

I have audited the accompanying financial statements of Shepherd's Gate (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows, and schedule of functional expenses for the year 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.

Auditor's Responsibility

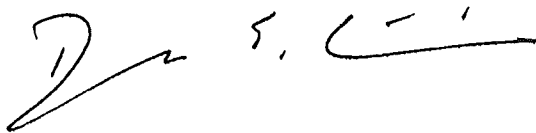
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shepherd's Gate as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Covina, California

August 16, 2017

SHEPHERD'S GATE
Statement of Financial Position
June 30, 2017

Assets

Cash and cash equivalents (Note 2)	\$	108,784
Prepaid expenses		41,805
Inventory (Note 6)		50,000
Property and equipment (Notes 2 and 3)		8,192,532
Other assets		<u>32,376</u>
Total assets	\$	<u><u>8,425,497</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$	21,235
Accrued expenses		104,495
Loan payable (Note 8)		1,323,707
Line of credit (Note 9)		<u>200,000</u>
Total liabilities		<u>1,649,437</u>

Net Assets

Unrestricted		6,762,001
Temporarily restricted		<u>14,059</u>
Total net assets		<u>6,776,060</u>
Total liabilities and net assets	\$	<u><u>8,425,497</u></u>

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE
Statement of Activities
For the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total All Funds
Public support:			
Grants and donations (Note 2)	\$ 2,460,600	\$ 26,631	\$ 2,487,231
Gifts in kind (Note 6)	2,587,704		2,587,704
Total public support	<u>5,048,304</u>	<u>26,631</u>	<u>5,074,935</u>
Revenue:			
Thrift store (Note 10)	334,341	-	334,341
Investment income	2,700	-	2,700
Total revenue	<u>337,041</u>	<u>-</u>	<u>337,041</u>
Total support and revenue	5,385,345	26,631	5,411,976
Thrift store cost of sales	<u>339,403</u>	<u>-</u>	<u>339,403</u>
Total support and net revenue	<u>5,045,942</u>	<u>26,631</u>	<u>5,072,573</u>
Expenses			
Program services:			
Shelter and support	<u>4,146,428</u>	<u>-</u>	<u>4,146,428</u>
Program support:			
Thrift store expenses (Note 10)	414,900	-	414,900
General and administrative	372,085	-	372,085
Development	568,583	-	568,583
Total program support	<u>1,355,568</u>	<u>-</u>	<u>1,355,568</u>
Total expenses	<u>5,501,996</u>	<u>0</u>	<u>5,501,996</u>
Net surplus (deficit)	(456,054)	26,631	(429,423)
Transfers in (out)	68,059	(68,059)	0
Net Assets, July 1, 2016	<u>7,149,996</u>	<u>55,487</u>	<u>7,205,483</u>
Net Assets, June 30, 2017	<u>\$ 6,762,001</u>	<u>\$ 14,059</u>	<u>\$ 6,776,060</u>

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE
Statement of Cash Flows (Note 7)
For the year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of expenses over support and revenue	\$ (429,423)
Adjustments to reconcile excess of expenses over support and revenue to cash flow from operating activities	
Depreciation and amortization	261,577
Increase in:	
Other assets	(2,566)
Accrued expenses	2,596
Decrease in:	
Prepaid expenses	7,935
Accounts payable	<u>(12,713)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	(172,594)

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in leasehold improvements	\$ <u>(5,751)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	(5,751)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from loan of credit	200,000
Principal payments on loans payable	<u>(28,259)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>171,741</u>

Increase in cash	(6,604)
CASH AND CASH EQUIVALENTS - July 1, 2016	<u>115,388</u>
CASH AND CASH EQUIVALENTS - June 30, 2017	<u><u>\$ 108,784</u></u>

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE
Schedule of Functional Expenses
For the year ended June 30, 2017

	Shelter and Support	Thrift Store	Administrative	Development	Total
Advertising	\$ 1,310	\$ 7,192		\$ 589	\$ 9,091
Auto	8,666	3,171	\$ 208	838	12,883
Bank charges	-	6,473	32,603	-	39,076
Computer	6,557	1,559	5,723	44,951	58,790
First Fruits - GIK (Notes 1 and 6)	1,894,959	-	-	-	1,894,959
First Fruits - cash (Note 6)	13,266	-	-	-	13,266
Depreciation and amortization	259,106	959	1,512	-	261,577
Direct mail	30,484	-	-	118,153	148,637
Donated items used (Note 6)	358,405	-	-	-	358,405
Donor acquisition/appreciation	-	-	-	72,086	72,086
Dues and subscriptions	615	-	1,424	1,322	3,361
Events	20,189	-	-	27,878	48,067
Health and safety	3,682	-	-	-	3,682
Insurance - medical	79,964	4,433	3,600	10,694	98,691
Insurance - other	77,782	12,857	8,593	1,683	100,915
Interest (Note 7)	-	-	73,032	-	73,032
Lease	20,668	129,333	4,266	-	154,267
Meetings	2,148	-	-	585	2,733
Miscellaneous expense	14,819	1,241	368	6,977	23,405
Postage	3,427	-	66	30,916	34,409
Professional fees	28,680	-	45,475	52,498	126,653
Repairs and maintenance	48,877	1,161	13,070	-	63,108
Resident services	7,682	-	-	-	7,682
Salaries and benefits	1,052,264	191,914	153,680	165,084	1,562,942
Staff development	15,881	720	555	3,303	20,459
Supplies	16,179	7,178	1,585	3,144	28,086
Taxes - payroll	85,898	21,570	15,227	15,554	138,249
Taxes - other	7,865	-	-	-	7,865
Telephone	20,284	3,742	2,845	1,637	28,508
Thank you letters	-	-	-	10,046	10,046
Trash	13,133	13,350	-	-	26,483
Utilities - gas & electric	32,392	7,514	3,514	-	43,420
Utilities - water	21,208	433	4,739	-	26,380
Volunteer appreciation	38	100	-	645	783
Totals	\$ 4,146,428	\$ 414,900	\$ 372,085	\$ 568,583	\$ 5,501,996

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2017

NOTE 1 – Nature of Organization

Non-profit activity

Shepherd's Gate, Inc. is a non-profit religious California corporation founded in 1984. Shepherd's Gate exists to meet the practical, spiritual, and emotional needs of battered and homeless women and children through the love of Jesus Christ, equipping them to lead a life of faith, hope, and love and to reach out to others in His name.

Program services of Shepherd's Gate consist of the following:

Services and support - Shepherd's Gate provides housing, food, clothing and a complete continuum of support services for battered and homeless women and children for up to 18 months. Shepherd's Gate offers an individual program plan in which services may include immediate assessment of needs such as drug/alcohol recovery, counseling for domestic violence, reunification with children, structured childcare program, support with legal and medical issues, life training skills such as parenting classes and financial management, career training and job placement, and permanent housing placement. Current facilities allow for up to 95 women and children at one time.

First Fruits – The First Fruits program provides both monetary and gifts-in-kind resources to other eligible recipients who are committed to the spreading of the gospel of Jesus Christ. Shepherd's Gate policy is to contribute all available gifts-in-kind and a minimum of 1% up to a maximum of 5% of total unrestricted monetary contributions (including net profits from the thrift store) to eligible recipients.

Income taxes and exempt status

Shepherd's Gate is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Shepherd's Gate is also exempt from state franchise or income tax under Section 23701d. Accordingly, the accompanying financial statements of Shepherd's Gate do not reflect any liability for income taxes. Contributions to Shepherd's Gate are tax deductible within the limits of prescribed law.

NOTE 2 – Summary of significant accounting policies

The financial statements of Shepherd's Gate have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

NOTE 2 – Summary of significant accounting policies (continued)

Financial Statement Presentation

Shepherd's Gate is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of June 30, 2017, Shepherd's Gate had no assets which would be classified as permanently restricted. Temporarily restricted net assets consist primarily of assets restricted for building and furnishings. In addition, Shepherd's Gate is required to present a statement of cash flows.

Cash and Cash Equivalents

For purposes of these statements, Shepherd's Gate considers all short-term investments with original maturities of three months or less to be cash equivalents.

Support, Revenue and Expenses

Contribution income is recorded when cash is received or when ownership of donated assets is transferred. Bequests are recorded as income at the time Shepherd's Gate has an established right to the bequest and the proceeds are measurable. Shepherd's Gate policy is that bequests are measurable when actual proceeds are received. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Donated Services

Donated services are recorded at fair value at the date of contribution only if the services (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. During the year ended June 30, 2017, there were no contributed services meeting the requirements for recognition in the financial statements. However, a substantial number of volunteers have donated significant amounts of their time in Shepherd's Gate program services and its fundraising efforts which have not been included in these financial statements.

Allocation of Expenses

The costs of providing the various and supporting activities of Shepherd's Gate have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting activities.

NOTE 2 – Summary of significant accounting policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property, Equipment, Depreciation, and Amortization

Shepherd's Gate capitalizes all property and equipment in excess of \$2,500. Expenditures for property and equipment are capitalized at cost. Donated assets to be used in the ministry are capitalized at their fair market value on the date of the gift. Depreciation of all property and equipment is computed using the straight-line and accelerated methods over the following estimated useful lives of the assets:

Building and improvements	5 – 40 years
Furniture and fixtures	5 – 10 years
Machinery and equipment	5 – 10 years
Vehicles	5 years

Loan fees are amortized on a straight-line basis over the term of the loan which is 10 years (See Note 8). Leasehold improvements are amortized over the life of the lease which is 5 years not including options.

NOTE 3 – Property and Equipment

Property and Equipment consists of the following at June 30, 2017:

Land	\$ 820,000
Buildings and improvements	9,999,713
Furniture and fixtures	296,295
Machinery and equipment	175,647
Vehicles	94,033
Loan fees	15,117
Leasehold improvements	<u>5,751</u>
Sub-total	\$ 11,406,556
Accumulated depreciation and amortization	<u>3,214,024</u>
Total	<u><u>\$ 8,192,532</u></u>

Depreciation and amortization expense for the year ended June 30, 2017 was \$261,577.

SHEPHERD'S GATE
Notes to Financial Statements
June 30, 2017

NOTE 4 – Operating Leases

Lease expense for the year ended June 30, 2017 was \$ 154,267.

In July, 2017 Shepherd's Gate entered into a five year lease for facilities beginning in September of 2017, used to operate a thrift store requiring monthly payments of \$8,830 plus common area maintenance costs. This lease provides for the base rent plus common area maintenance costs increases will not exceed 3% per year. The lease also allows for two five-year renewal periods.

Shepherd's Gate also leases various office equipment requiring payments of \$100 per month ending February, 2019 and \$1,520 per month ending July, 2018.

Shepherd's Gate leases laundry equipment requiring payments of \$308 per month ending August, 2024, and \$84 per month ending April, 2019.

The future minimum lease payments for these leases at June 30, 2017 are as follows:

June 30, 2018	\$ 132,451
June 30, 2019	118,730
June 30, 2020	118,926
June 30, 2021	122,383
June 30, 2022	23,574
Thereafter	<u>7,700</u>
Total	<u>\$ 523,764</u>

NOTE 5 – Retirement Plan

Shepherd's Gate has established a retirement program available to all employees. The program provides for Shepherd's Gate to match employees' contributions up to 2.5% of salaries. Amounts contributed to the program immediately become the property of the employees. Contributions to the program were \$ 23,687 for the year ended June 30, 2017.

SHEPHERD'S GATE
Notes to Financial Statements
June 30, 2017

NOTE 6 – Gifts in Kind, First Fruits and Inventory

Gifts in Kind

During the fiscal year ended June 30, 2017, Shepherd's Gate received gifts-in-kind from many different donors in the form of food, clothing, furniture, vehicles and other items valued at \$2,587,704. The gifts were valued based on the prices for similar types of new and used goods at June 30, 2017. All of the gifts were used in the ministry, capitalized for use in the ministry, distributed to individuals in need, or sold or held in inventory in the Shepherd's Gate New Life Store.

First Fruits

First Fruits consisted of contributions of gifts-in-kind consisting of \$1,894,959 in goods donated to Shepherd's Gate and subsequently distributed to individuals in need, and \$13,266 in cash donations to other eligible recipients.

Inventory

Inventory at June 30, 2017 consists solely of donated goods held for sale and valued as described above.

NOTE 7 – Statement of Cash Flows

Interest expense for the year ended June 30, 2017 was \$73,032. Accrued interest at June 30, 2017 was \$6,481.

NOTE 8 – Note Payable

On March 8, 2017 Shepherd's Gate refinanced their existing loan into a new commercial mortgage in the amount of \$1,360,000. The loan payment is amortized over 25 years, all due and payable on March 1, 2026. The note calls for fixed monthly payments of \$8,013 with interest at a fixed rate 5.0% per year. The future principle payments for this loan as of June 30, 2017 are as follows:

June 30, 2018	\$ 132,451
June 30, 2019	118,730
June 30, 2020	118,926
June 30, 2021	122,383
June 30, 2022	23,574
Thereafter	<u>7,700</u>
Total	<u>\$ 523,764</u>

SHEPHERD'S GATE
Notes to Financial Statements
June 30, 2017

NOTE 9 – Line of Credit

As of June 30, 2017 Shepherd's Gate had a \$250,000 revolving line of credit with an interest rate equal to the U.S. Prime Rate as published in the Wall Street Journal plus one-half percent with a floor of 4.0%. As of June 30, 2017, the interest rate on this line of credit was 4.75. As of June 30, 2017 there was \$200,000 outstanding on this line of credit.

In addition to the above, Shepherd's Gate also had an additional line of credit in the amount of \$100,000 with an interest rate equal to the U.S. Prime Rate as published in the Wall Street Journal plus one-half percent with a floor of 4%. As of June 30, 2017 this rate was 4.75%. This \$100,000 line of credit expires on October 1, 2017. As of June 30, 2017 there was no money outstanding on this line.

NOTE 10 – Thrift Store

Cash flow from Thrift Store operations for the year ended June 30, 2017 were as follows:

Cash inflow	\$ 334,341
Cash expenditures	<u>414,900</u>
Net cash flow	<u>\$ (80,559)</u>

NOTE 11 – Subsequent Events

In preparing financial statements, the organization has evaluated events and transactions for potential recognition or disclosure thru August 16, 2017.

See the operating lease footnote 4 for the terms of a lease signed in July of 2017.