

SHEPHERD'S GATE

INDEPENDENT CERTIFIED AUDITOR'S REPORT

JUNE 30, 2020

SHEPHERD'S GATE

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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, 2020, 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

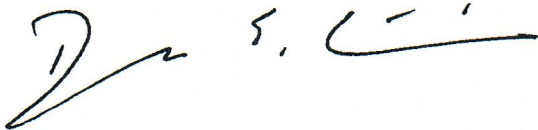
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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, 2020, and the changes in its net assets and its cash flows, and schedule of functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Covina, California

October 7, 2020

SHEPHERD'S GATE
Statement of Financial Position
June 30, 2020

Assets

Cash and cash equivalents (Note 2)	\$ 1,954,283
Prepaid expenses	51,673
Inventory (Note 6)	50,000
Property and equipment (Notes 2 and 3)	<u>7,410,504</u>
Total assets	<u><u>\$ 9,466,460</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 8,525
Accrued expenses	143,543
Loan payable (Note 8)	1,254,857
Line of credit (Note 9)	<u>-</u>
Total liabilities	<u>1,406,925</u>

Net Assets

Net Assets without donor restrictions	7,594,483
Net Assets with donor restrictions (Note 11)	<u>465,052</u>
Total net assets	<u>8,059,535</u>
Total liabilities and net assets	<u><u>\$ 9,466,460</u></u>

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE
Statement of Activities
For the year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total All Funds
Public support:			
Grants and donations (Note 2)	\$ 3,282,749	\$ 455,903	\$ 3,738,652
Gifts in kind (Note 6)	2,452,617		2,452,617
Total public support	<u>5,735,366</u>	<u>455,903</u>	<u>6,191,269</u>
Revenue:			
Thrift store (Note 10)	531,964	-	531,964
Investment income	11,523	-	11,523
Total revenue	<u>543,487</u>	<u>-</u>	<u>543,487</u>
Total support and revenue	6,278,853	455,903	6,734,756
Thrift store cost of sales	<u>534,750</u>	<u>-</u>	<u>534,750</u>
Total support and net revenue before releases	5,744,103	455,903	6,200,006
Net assets released from restrictions	<u>29,811</u>	<u>(29,811)</u>	<u>-</u>
Total support and net revenue	<u>5,773,914</u>	<u>426,092</u>	<u>6,200,006</u>
Expenses			
Program services:			
Shelter and support	<u>3,871,027</u>	<u>-</u>	<u>3,871,027</u>
Program support:			
Thrift store expenses (Note 10)	540,333	-	540,333
General and administrative	379,144	-	379,144
Development	494,242	-	494,242
Total program support	<u>1,413,719</u>	<u>-</u>	<u>1,413,719</u>
Total expenses	<u>5,284,746</u>	<u>-</u>	<u>5,284,746</u>
Net surplus (deficit)	489,168	426,092	915,260
Net Assets, July 1, 2019	<u>7,105,315</u>	<u>38,960</u>	<u>7,144,275</u>
Net Assets, June 30, 2020	<u>\$ 7,594,483</u>	<u>\$ 465,052</u>	<u>\$ 8,059,535</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, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of support and revenue over expenses	\$ 915,260
Adjustments to reconcile excess of support and revenue over expenses to cash flow from operating activities:	
Depreciation and amortization	264,121
Write-off of loan fees	12,574
Increase in:	
Prepaid expenses	(15,122)
Accrued expenses	4,592
Decrease in:	
Other assets	37,360
Accounts payable	<u>(13,012)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,205,773

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of vehicles	\$ (5,500)
Construction in process expenditures	<u>(8,153)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	(13,653)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds on new loan (Note 8)	1,270,000
Principal payments on loans payable, net	<u>(1,277,834)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(7,834)</u>

Increase in cash	1,184,286
CASH AND CASH EQUIVALENTS - July 1, 2019	<u>769,997</u>
CASH AND CASH EQUIVALENTS - June 30, 2020	<u>\$ 1,954,283</u>

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE
Schedule of Functional Expenses
For the year ended June 30, 2020

	Shelter and Support	Thrift Store	Administrative	Development	Total
Advertising	\$ 318	\$ 1,388		\$ 60	\$ 1,766
Auto	13,611	2,960		515	17,086
Bank charges	-	11,768	\$ 49,432	-	61,200
Computer	6,862	772	7,213	21,827	36,674
First Fruits - GIK (Notes 1 and 6)	1,635,211	-	-	-	1,635,211
First Fruits - cash (Note 6)	2,400	-	-	-	2,400
Depreciation and amortization	264,121	-	-	-	264,121
Direct mail	31,372	-	-	144,705	176,077
Donated items used (Note 6)	277,156	-	-	-	277,156
Donor acquisition/appreciation	-	-	-	65,618	65,618
Dues and subscriptions	53	-	1,624	1,809	3,486
Events	13,137	-	-	20,111	33,248
Health and safety	3,644	-	-	-	3,644
Insurance - medical	48,886	9,050	23,747	9,162	90,845
Insurance - other	53,357	12,663	8,095	1,385	75,500
Interest (Note 7)	-	-	56,730	-	56,730
Leases	15,532	122,919	3,302	-	141,753
Meetings	560	-	-	458	1,018
Miscellaneous expense	8,161	5,196	-	-	13,357
Postage	5,135	1,738	-	36,375	43,248
Professional fees	7,386	4,107	36,069	70,043	117,605
Repairs and maintenance	64,981	783	3,767	-	69,531
Resident services	10,597	-	-	-	10,597
Salaries and benefits	1,154,366	307,828	160,758	103,168	1,726,120
Staff development	7,855	637	1,755	461	10,708
Supplies	29,410	5,446	1,628	782	37,266
Taxes - payroll	99,813	27,840	14,100	9,064	150,817
Taxes - other	8,947	-	-	-	8,947
Telephone	19,462	2,726	2,783	644	25,615
Thank you letters	-	-	-	7,710	7,710
Trash	15,428	14,472	-	-	29,900
Utilities - gas & electric	47,019	7,150	4,669	-	58,838
Utilities - water	26,133	890	3,472	-	30,495
Volunteer appreciation	114	-	-	345	459
Totals	<u>\$ 3,871,027</u>	<u>\$ 540,333</u>	<u>\$ 379,144</u>	<u>\$ 494,242</u>	<u>\$ 5,284,746</u>

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2020

NOTE 1 – Nature of Organization

Not-for-profit activity

Shepherd's Gate, Inc. is a not-for-profit religious California corporation founded in 1984. Shepherd's Gate exists to meet the physical, spiritual and emotional needs of women and their children suffering from homelessness, addiction and domestic violence through the love of Jesus Christ, equipping them to lead lives 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 their 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 88 women and children at one time.

New Life Store – Shepherd's Gate operates a 5,000 square-foot thrift store and donation center called the New Life Store. Gift-in-kind donations of furniture, clothing and household goods are received for resale. Proceeds provide financial support for the programs and services provided by Shepherd's Gate, as well as volunteer opportunities for program participants.

First Fruits – The First Fruits program provides resources to assist other groups and individuals who are involved in ministry programs that are aligned with Shephard's Gate's mission. The ministry believes that it is called to follow Biblical stewardship principles to share their resources to serve the poor. Shepherd's Gate contributes a portion of gift-in-kind donations (food, clothing, hygiene products, baby items, blankets, household items, etc.) and unrestricted monetary contributions to eligible recipients that serve those in need.

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.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2020

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 those assets without any designations or restrictions, and those with designations or restrictions. See Note 11 for information regarding assets with donor restrictions as of June 30, 2020.

In addition, Shepherd's Gate is required to present a statement of cash flows.

New Accounting Standard Adopted in 2018

In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU), *Not-for Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. This guidance revises the not-for-profit reporting model, clarifies net asset reporting, and imposes certain new reporting requirements related to expenses. The ASU also requires additional disclosures about liquidity and availability of resources for general expenditures in the next fiscal year. The ASU is effective for fiscal years beginning after December 15, 2017, and early implementation is permitted. Shepherd's Gate has adopted this new ASU for its financial statements as of and for the year ended June 30, 2020.

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, 2020, 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.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2020

NOTE 2 – Summary of significant accounting policies (continued)

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.

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.

Reclassification

Certain amounts reported in the June 30, 2019 financial statements, have been reclassified to conform to the June 30, 2020 presentation.

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

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2020

NOTE 3 – Property and Equipment

Property and Equipment consists of the following at June 30, 2020:

Land	\$ 820,000
Buildings and improvements	9,999,663
Furniture and fixtures	266,287
Machinery and equipment	113,239
Vehicles	90,082
Construction in process	<u>8,153</u>
Sub-total	\$ 11,297,424
Accumulated depreciation and amortization	<u>3,886,920</u>
Total	<u>\$ 7,410,504</u>

Depreciation and amortization expense for the year ended June 30, 2020 was \$264,121.

Construction in process consists of a construction project started during the fiscal year ended June 30, 2020 of an expansion of the Brentwood location.

NOTE 4 – 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 \$ 31,969 for the year ended June 30, 2020.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2020

NOTE 5 – Operating Leases

Lease expense for the year ended June 30, 2020 was \$141,754.

In July, 2016 Shepherd's Gate entered into a five year lease for facilities beginning in September of 2016, used to operate their New Life Store. This lease provides for the base rent plus common area maintenance costs. These common area maintenance costs will not increase by more than 3% per year. The lease also allows for two five-year renewal periods. As of June 30, 2020, the base lease cost was \$9,477 per month. Subsequent to year-end, Shepherd's Gate will exercise the first of two five-year options. However, in response to the Covid-19 pandemic, the landlord has reduced the monthly base rent to \$3,679 per month through December 2020. This reduced rent is reflected in the future minimum lease payments below.

Shepherd's Gate leases laundry equipment requiring payments of \$308 per month ending August 2024.

Beginning July 2018 Shepherd's Gate began leasing office equipment for \$90 per month for 48 months.

In July 2018 Shepherd's Gate entered into a five year lease for office equipment for \$970 per month.

The future minimum lease payments for these leases at June 30, 2020 are as follows:

June 30, 2021	\$ 95,316
June 30, 2022	130,140
June 30, 2023	129,060
June 30, 2024	117,420
June 30, 2025	114,032
Thereafter	<u>28,431</u>
Total	<u>\$ 614,399</u>

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2020

NOTE 6 – Gifts in Kind, First Fruits and Inventory

Gifts in Kind

During the fiscal year ended June 30, 2020, Shepherd's Gate received gifts-in-kind from many different donors in the form of food, clothing, furniture, vehicles and other items valued at \$2,452,617. The gifts were valued based on the prices for similar types of new and used goods at June 30, 2020. Of these donated items some were used in the ministry while some were sold in Shepherd's Gate New Life Store, with the balance of the goods distributed to individuals in need.

First Fruits

First Fruits consisted of contributions of gifts-in-kind consisting of \$1,635,211 in goods donated to Shepherd's Gate and subsequently distributed to individuals in need, and \$2,400 in cash donations to other eligible recipients.

Inventory

Inventory at June 30, 2020 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, 2020 was \$56,730. Accrued interest at June 30, 2020 was \$4,287.

NOTE 8 – Loan Payable

In December of 2019 Shepherd's Gate refinanced their existing loan into a new commercial mortgage in the amount of \$1,270,000. The loan payment is amortized over 25 years, all due and payable in December 2029. The note calls for fixed monthly payments of \$6,816 with interest at a fixed rate of 4.1% per year. The future principle payments for this loan as of June 30, 2020 are as follows:

June 30, 2021	\$ 30,957
June 30, 2022	32,251
June 30, 2023	33,598
June 30, 2024	35,002
June 30, 2025	36,464
Thereafter	<u>1,086,585</u>
Total	<u>\$ 1,254,857</u>

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2020

NOTE 9 – Line of Credit

As of June 30, 2020 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, 2020, the interest rate on this line of credit was 5.6%. As of June 30, 2020 there was nothing outstanding on this line of credit.

NOTE 10 – New Life Store

Cash flow from New Life Store operations for the year ended June 30, 2020 were as follows:

Cash inflow	\$ 531,964
Cash expenditures	<u>540,333</u>
Net cash flow	<u>\$ (8,369)</u>

See Note 1 for a description of the New Life Store's operations.

NOTE 11 – Restricted Cash

Shepherd's Gate has received several donations restricting the use to various projects related to the continuum of support services for battered and homeless women and their children. As of June 30, 2020, the total of these unused donor restricted funds was \$465,052. This included \$271,299 for the expansion of the Brentwood facilities.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2020

NOTE 12 - Liquidity and Availability of Resources

As explained in Note 11, Shepherd's Gate has received some donations that require they be used in a specific manner or for a specific purpose, Shepherd's Gate must maintain sufficient resources to meet those donor commitments. As a result, Shepherd's Gate has \$465,052 of cash and cash equivalents that are included in net assets with donor restrictions that must be held to meet these donor commitments. These funds are not available for general expenditures in future periods.

Shepherd's Gate has the following unrestricted financial assets available to meet cash needs for general expenditures, liabilities, and other obligations during the next fiscal year:

Cash and cash equivalents	\$ 1,954,283
Accounts payable	(8,525)
Accrued expenses	(143,543)
Loan payable (current portion)	<u>(30,957)</u>
Net financial assets available	<u>\$ 1,771,258</u>

Shepherd's Gate's liquidity management includes a policy to structure its financial assets to be available for general expenditures as they come due. Based on available unrestricted cash at June 30, 2020 Shepherd's Gate has sufficient cash to meet its obligations for the next 208 days.

NOTE 13 – Subsequent Events

In preparing financial statements, Shepherd's Gate has evaluated events and transactions for potential recognition or disclosure thru October 7, 2020.

In June of 2020, Shepherd's Gate received \$359,500 from the federal government through the Payroll Protection Program. The terms of this "loan" allow for forgiveness in its entirety if certain conditions are met. Subsequent to June 30, 2020 Shepherd's Gate has done everything necessary to receive forgiveness of this "loan". In spite of the fact that the formal process of forgiveness has not taken place, this Payroll Protection Program money is reported as a grant and therefore classified as contribution income on the Statement of Activities.

NOTE 14 – Concentration of Risk

The organization has cash deposits which exceed FDIC limits. However, management believes that the concentration of credit risk is low due to the quality of the financial institutions holding these funds.