

SHEPHERD'S GATE

INDEPENDENT CERTIFIED AUDITOR'S REPORT

JUNE 30, 2019

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, 2019, 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

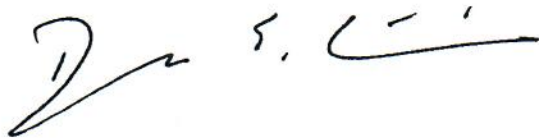
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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, 2019, 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

August 15, 2019

SHEPHERD'S GATE
Statement of Financial Position
June 30, 2019

Assets

Cash and cash equivalents (Note 2)	\$ 769,997
Prepaid expenses	36,551
Inventory (Note 6)	50,000
Property and equipment (Notes 2 and 3)	7,673,542
Other assets	<u>37,360</u>
Total assets	<u>\$ 8,567,450</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 21,537
Accrued expenses	138,947
Loan payable (Note 8)	1,262,691
Line of credit (Note 9)	<u>-</u>
Total liabilities	<u>1,423,175</u>

Net Assets

Net Assets without donor restrictions	7,105,315
Net Assets with donor restrictions (Note 11)	<u>38,960</u>
Total net assets	<u>7,144,275</u>
Total liabilities and net assets	<u>\$ 8,567,450</u>

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE
Statement of Activities
For the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total All Funds
Public support:			
Grants and donations (Note 2)	\$ 2,602,442	\$ 57,478	\$ 2,659,920
Gifts in kind (Note 6)	<u>2,936,967</u>	<u> </u>	<u>2,936,967</u>
Total public support	<u>5,539,409</u>	<u>57,478</u>	<u>5,596,887</u>
Revenue:			
Thrift store (Note 10)	652,899	-	652,899
Investment income	<u>12,092</u>	<u> </u>	<u>12,092</u>
Total revenue	<u>664,991</u>	<u> </u>	<u>664,991</u>
Total support and revenue	6,204,400	57,478	6,261,878
Thrift store cost of sales	<u>638,662</u>	<u> </u>	<u>638,662</u>
Total support and net revenue before releases	5,565,738	57,478	5,623,216
Net assets released from restrictions	<u>45,942</u>	<u>(45,942)</u>	<u> </u>
Total support and net revenue	<u>5,611,680</u>	<u>11,536</u>	<u>5,623,216</u>
Expenses			
Program services:			
Shelter and support	<u>4,213,992</u>	<u> </u>	<u>4,213,992</u>
Program support:			
Thrift store expenses (Note 10)	526,775	-	526,775
General and administrative	411,992	-	411,992
Development	<u>535,250</u>	<u> </u>	<u>535,250</u>
Total program support	<u>1,474,017</u>	<u> </u>	<u>1,474,017</u>
Total expenses	<u>5,688,009</u>	<u> </u>	<u>5,688,009</u>
Net surplus (deficit)	(76,329)	11,536	(64,793)
Net Assets, July 1, 2018	<u>7,181,644</u>	<u>27,424</u>	<u>7,209,068</u>
Net Assets, June 30, 2019	<u><u>\$ 7,105,315</u></u>	<u><u>\$ 38,960</u></u>	<u><u>\$ 7,144,275</u></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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of support and revenue over expenses	\$ (64,793)
Adjustments to reconcile excess of support and revenue over expenses to cash flow from operating activities:	
Depreciation and amortization	266,430
Increase in:	
Other assets	(2,502)
Accrued expenses	28,878
Decrease in:	
Prepaid expenses	19,782
Accounts payable	<u>(1,334)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	246,461

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of vehicles	\$ (3,400)
Acquisition of furniture and fixtures	<u>(11,594)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	(14,994)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on loan payable	<u>(31,280)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(31,280)</u>
Increase in cash	200,187
CASH AND CASH EQUIVALENTS - July 1, 2018	<u>569,810</u>
CASH AND CASH EQUIVALENTS - June 30, 2019	<u><u>\$ 769,997</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, 2019

	Shelter and Support	Thrift Store	Administrative	Development	Total
Advertising	\$ 396	\$ 1,729		\$ 609	\$ 2,734
Auto	9,966	3,735	\$ 186	1,818	15,705
Bank charges	-	11,623	24,730	-	36,353
Computer	6,172	570	12,657	19,543	38,942
First Fruits - GIK (Notes 1 and 6)	2,030,611	-	-	-	2,030,611
First Fruits - cash (Note 6)	5,200	-	-	-	5,200
Depreciation and amortization	262,034	2,662	1,734	-	266,430
Direct mail	32,500	-	-	132,128	164,628
Donated items used (Note 6)	257,076	-	-	-	257,076
Donor acquisition/appreciation	-	-	-	69,914	69,914
Dues and subscriptions	146	-	2,233	330	2,709
Events	19,771	-	-	30,794	50,565
Health and safety	3,258	-	-	-	3,258
Insurance - medical	45,938	6,143	13,454	8,255	73,790
Insurance - other	81,225	17,801	8,793	2,422	110,241
Interest (Note 7)	-	-	64,613	-	64,613
Lease	14,990	138,248	3,088	-	156,326
Meetings	764	-	-	834	1,598
Miscellaneous expense	52	3,739	202	-	3,993
Postage	5,043	289	-	35,208	40,540
Professional fees	6,124	-	42,817	68,151	117,092
Printing	-	-	-	6,000	6,000
Repairs and maintenance	61,656	2,491	4,098	-	68,245
Resident services	8,192	-	-	-	8,192
Salaries and benefits	1,122,351	277,771	203,844	134,552	1,738,518
Staff development	6,312	927	2,011	1,004	10,254
Supplies	30,596	6,872	1,833	1,998	41,299
Taxes - payroll	99,038	29,675	14,439	11,214	154,366
Taxes - other	9,568	-	-	-	9,568
Telephone	15,941	1,881	3,147	1,123	22,092
Thank you letters	-	-	-	8,888	8,888
Trash	15,215	14,539	-	-	29,754
Utilities - gas & electric	38,072	5,160	4,551	-	47,783
Utilities - water	25,411	870	3,562	-	29,843
Volunteer appreciation	374	50	-	465	889
Totals	<u>\$ 4,213,992</u>	<u>\$ 526,775</u>	<u>\$ 411,992</u>	<u>\$ 535,250</u>	<u>\$ 5,688,009</u>

The accompanying notes are an integral part of these statements.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2019

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 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.

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.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2019

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, 2018.

In addition, the 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, 2019.

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, 2019, 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, 2019

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.

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.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2019

NOTE 3 – Property and Equipment

Property and Equipment consists of the following at June 30, 2019:

Land	\$ 820,000
Buildings and improvements	9,999,663
Furniture and fixtures	266,287
Machinery and equipment	113,239
Vehicles	84,583
Loan fees	15,117
Leasehold improvements	<u>5,752</u>
Sub-total	\$ 11,304,641
Accumulated depreciation and amortization	<u>3,631,099</u>
Total	<u>\$ 7,673,542</u>

Depreciation and amortization expense for the year ended June 30, 2019 was \$266,430.

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 \$ 27,382 for the year ended June 30, 2019.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2019

NOTE 5 – Operating Leases

Lease expense for the year ended June 30, 2019 was \$ 156,326.

In July, 2016 Shepherd's Gate entered into a five year lease for facilities beginning in September of 2019, 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. As of June 30, 2019, the base lease cost was \$9,201 per month.

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, 2019 are as follows:

June 30, 2020	\$ 131,646
June 30, 2021	135,103
June 30, 2022	36,294
June 30, 2023	15,336
June 30, 2024	3,696
Thereafter	<u>308</u>
Total	<u>\$ 322,383</u>

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2019

NOTE 6 – Gifts in Kind, First Fruits and Inventory**Gifts in Kind**

During the fiscal year ended June 30, 2019, Shepherd's Gate received gifts-in-kind from many different donors in the form of food, clothing, furniture, vehicles and other items valued at \$2,936,967. The gifts were valued based on the prices for similar types of new and used goods at June 30, 2019. 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 \$1,550,749 in goods donated to Shepherd's Gate and subsequently distributed to individuals in need, and \$5,200 in cash donations to other eligible recipients.

Inventory

Inventory at June 30, 2019 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, 2019 was \$64,613. Accrued interest at June 30, 2019 was \$5,261.

NOTE 8 – Loan Payable

On March 8, 2016 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, 2019 are as follows:

June 30, 2020	\$ 33,945
June 30, 2021	35,681
June 30, 2022	37,507
June 30, 2023	39,426
June 30, 2024	41,443
Thereafter	<u>1,074,689</u>
Total	<u>\$ 1,262,691</u>

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2019

NOTE 9 – Line of Credit

As of June 30, 2019 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, 2019, the interest rate on this line of credit was 5.6%. As of June 30, 2019 there was nothing outstanding on this line of credit.

NOTE 10 – Thrift Store

Cash flow from Thrift Store operations for the year ended June 30, 2019 were as follows:

Cash inflow	\$ 652,899
Cash expenditures	<u>524,113</u>
Net cash flow	<u>\$ 128,786</u>

NOTE 11 – Restricted Cash

Shephard'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, 2018, the total of these unused donor restricted funds was \$38,960.

SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2019

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 \$38,960 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	\$ 731,037
Accounts payable	(21,537)
Accrued expenses	(138,947)
Loan payable (current portion)	<u>(33,945)</u>
Net financial assets available	<u>\$ 536,608</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, 2018 Shepherd's Gate has sufficient cash to meet its obligations for the next 79 days.

NOTE 13 – Subsequent Events

In preparing financial statements, Shepherd's Gate has evaluated events and transactions for potential recognition or disclosure thru August 15, 2019.