

**SHEPHERD'S GATE**

**INDEPENDENT CERTIFIED AUDITOR'S REPORT**

**JUNE 30, 2022**

## **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

1022 E. 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, 2022, 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

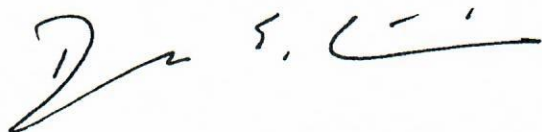
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether 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, 2022, 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 17, 2022

**SHEPHERD'S GATE**  
**Statement of Financial Position**  
**June 30, 2022**

**Assets**

Cash and cash equivalents (Note 2)	\$ 3,408,953
Cash and cash equivalents - with donor restrictions (Notes 2 and 11)	161,531
Prepaid expenses	46,719
Inventory (Note 6)	75,000
Property and equipment (Notes 2 and 3)	<u>7,282,603</u>
Total assets	<u><u>\$ 10,974,806</u></u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 48,281
Accrued expenses	154,542
Loan payable (Note 8)	749,718
Line of credit (Note 9)	<u>-</u>
Total liabilities	<u>952,541</u>

**Net Assets**

Net Assets without donor restrictions	9,860,734
Net Assets with donor restrictions (Note 11)	<u>161,531</u>
Total net assets	<u>10,022,265</u>
Total liabilities and net assets	<u><u>\$ 10,974,806</u></u>

The accompanying notes are an integral part of these statements.



**SHEPHERD'S GATE**  
**Statement of Activities**  
**For the year ended June 30, 2022**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total All Funds</b>
Public support:			
Grants and donations (Note 2)	\$ 3,377,850	\$ 355,957	\$ 3,733,807
Gifts in kind (Note 6)	2,251,141	-	2,251,141
Total public support	<u>5,628,991</u>	<u>355,957</u>	<u>5,984,948</u>
Revenue:			
Thrift store (Note 10)	937,667	-	937,667
Investment income	6,322	-	6,322
Total revenue	<u>943,989</u>	<u>-</u>	<u>943,989</u>
Total support and revenue	6,572,980	355,957	6,928,937
Thrift store cost of sales	<u>937,667</u>	<u>-</u>	<u>937,667</u>
Total support and net revenue before releases	5,635,313	355,957	5,991,270
Net assets released from restrictions	<u>344,014</u>	<u>(344,014)</u>	<u>-</u>
Total support and net revenue	<u>5,979,327</u>	<u>11,943</u>	<u>5,991,270</u>
Expenses			
Program services:			
Shelter and support	<u>3,672,814</u>	<u>-</u>	<u>3,672,814</u>
Program support:			
Thrift store expenses (Note 10)	655,265	-	655,265
General and administrative	403,560	-	403,560
Development	484,736	-	484,736
Total program support	<u>1,543,561</u>	<u>-</u>	<u>1,543,561</u>
Total expenses	<u>5,216,375</u>	<u>-</u>	<u>5,216,375</u>
<b>Net surplus (deficit)</b>	762,952	11,943	774,895
Capitalized donor restricted assets	163,174	(163,174)	-
Net Assets, July 1, 2021	<u>8,934,608</u>	<u>312,762</u>	<u>9,247,370</u>
Net Assets, June 30, 2022	<u>\$ 9,860,734</u>	<u>\$ 161,531</u>	<u>\$ 10,022,265</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, 2022****CASH FLOWS FROM OPERATING ACTIVITIES**

Net surplus	\$ 774,895
Adjustments to reconcile excess of support and revenue over expenses to cash flow from operating activities:	
Depreciation and amortization	269,020
Loss on donation of vehicles	
Increase in:	
Prepaid expenses	(1,024)
Accounts payable	29,542
Decrease in:	
Accrued expenses	<u>(99,742)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	972,691

**CASH FLOWS FROM INVESTING ACTIVITIES**

Acquisition of vehicles	\$ (5,500)
Increase in equipment	(68,037)
Increase in building improvements	<u>(95,138)</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES (168,675)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal payments on loans payable	<u>(229,511)</u>
Increase in cash	574,505
CASH AND CASH EQUIVALENTS - July 1, 2021	<u>2,995,979</u>
CASH AND CASH EQUIVALENTS - June 30, 2022	<u>\$ 3,570,484</u>

The accompanying notes are an integral part of these statements.

**SHEPHERD'S GATE**  
**Schedule of Functional Expenses**  
**For the year ended June 30, 2022**

	Shelter and Support	Thrift Store	Administrative	Development	Total
Auto	\$ 17,294	\$ 5,688	\$ 50	\$ 138	23,170
Bank charges	-	20,877	30,220	-	51,097
Computer	24,824	1,310	11,191	18,024	55,349
First Fruits - GIK (Notes 1 and 6)	1,110,606	-	-	-	1,110,606
First Fruits - cash (Note 6)	3,600	-	-	-	3,600
Depreciation and amortization	269,020	-	-	-	269,020
Direct mail	29,861	-	-	136,114	165,975
Donated items used (Note 6)	187,659	-	-	9,709	197,368
Donor acquisition/appreciation	-	-	-	65,578	65,578
Dues and subscriptions	252	-	2,063	2,081	4,396
Events	7,672	-	-	13,991	21,663
Health and safety	4,639	-	-	-	4,639
Insurance - medical	54,549	9,358	15,645	6,909	86,461
Insurance - other	55,401	13,652	5,845	1,018	75,916
Interest (Note 7)	-	-	39,497	-	39,497
Leases	18,530	128,313	3,287	-	150,130
Miscellaneous expense	491	5,937	-	-	6,428
Postage	5,824	1,391	-	31,010	38,225
Professional fees	19,931	2,467	38,746	73,656	134,800
Repairs and maintenance	140,691	709	2,917	-	144,317
Resident services	24,402	-	-	-	24,402
Salaries and benefits	1,390,315	400,255	219,504	109,525	2,119,599
Staff development	9,848	1,147	2,451	933	14,379
Supplies	52,461	7,938	451	1,592	62,442
Taxes - payroll	110,965	30,106	18,829	5,444	165,344
Taxes - other	7,573	-	-	-	7,573
Telephone	29,122	4,414	4,000	757	38,293
Thank you letters	-	-	-	7,769	7,769
Trash	15,979	14,488	-	-	30,467
Utilities - gas & electric	54,359	6,045	5,507	-	65,911
Utilities - water	26,659	1,170	3,357	-	31,186
Volunteer appreciation	287	-	-	488	775
Totals	<u>\$ 3,672,814</u>	<u>\$ 655,265</u>	<u>\$ 403,560</u>	<u>\$ 484,736</u>	<u>\$ 5,216,375</u>

The accompanying notes are an integral part of these statements.



## **SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2022

### **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 Shepherd'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. The Organization is not considered a private foundation.

### **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 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, 2022.

**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, 2022, 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.

**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.

**SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2022

**NOTE 2 – Summary of significant accounting policies (continued)****Reclassification**

Certain amounts reported in the June 30, 2021 financial statements, have been reclassified to conform to the June 30, 2022 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 by the organization 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

**NOTE 3 – Property and Equipment**

Property and Equipment consists of the following at June 30, 2022:

Land	\$ 820,000
Buildings and improvements	10,313,052
Furniture and fixtures	266,287
Machinery and equipment	181,275
Vehicles	<u>100,971</u>
Sub-total	\$ 11,681,585
Accumulated depreciation and amortization	<u>4,398,982</u>
Total	<u>\$ 7,282,603</u>

Depreciation and amortization expense for the year ended June 30, 2022 was \$269,020.



## **SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2022

### **NOTE 3 – Property and Equipment (continued)**

#### **Construction in process**

Construction in process consists of three Phases of a construction project started during the fiscal year ended June 30, 2020 of an expansion of the Brentwood location. Phase I of this project was completed in May of 2022 and included over 900 square feet dedicated to an onsite learning and career center, after school classroom, a therapy meeting room, and an additional case management office. Phase II is anticipated to be completed over the next two years and will include a large food pantry, and three transitional housing units each having two bedrooms and 2 bathrooms. This expansion will also free space in the main house building increasing the capacity for additional women and children. Phases III is an onsite playground and was completed in June of 2022.

### **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 \$ 31,822 for the year ended June 30, 2022.

### **NOTE 5 – Operating Leases**

Lease expense for the year ended June 30, 2022 was \$150,130.

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, 2022, the base lease cost was \$9,939 per month. Shepherd's Gate has exercised the first of two five-year options.

Beginning in January 2022, Shepherd's Gate leased laundry equipment requiring payments of \$146 per month ending December 2023.

Beginning in February 2022, Shepherd's Gate leased laundry equipment requiring payments of \$160 per month ending January 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.

Beginning in September of 2020, Shepherd's Gate started a three-year lease for office equipment for \$90 per month.



**SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2022

**NOTE 5 – Operating Leases (continued)**

The future minimum lease payments for these leases at June 30, 2022 are as follows:

June 30, 2023	138,824
June 30, 2024	128,218
June 30, 2025	129,688
June 30, 2026	133,580
June 30, 2027	<u>22,372</u>
Total	<u>\$ 552,682</u>

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

During the fiscal year ended June 30, 2022, Shepherd's Gate received gifts-in-kind from many different donors in the form of food, clothing, furniture, vehicles and other items valued at \$2,621,141. The gifts were valued based on the prices for similar types of new and used goods at June 30, 2022. 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.

Food and household items used in the ministry	\$ 197,368
Vehicle used in the ministry	5,500
Items sold in the New Life Store	937,667
First Fruits – Gifts in Kind	<u>1,110,606</u>
Total	<u>\$ 2,251,141</u>

**First Fruits**

First Fruits consisted of contributions of gifts-in-kind of \$1,110,606 in goods donated to Shepherd's Gate and subsequently distributed to individuals in need and \$3,600 in cash donations to other eligible recipients.

**Inventory**

Inventory at June 30, 2022 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, 2022 was \$39,497. Accrued interest at June 30, 2022 was \$2,690.

## **SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2022

### **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 principal payments for this loan as of June 30, 2022 are as follows:

June 30, 2023	\$ 52,027
June 30, 2024	54,201
June 30, 2025	56,466
June 30, 2026	58,824
June 30, 2027	61,282
Thereafter	<u>466,918</u>
Total	<u>\$ 749,718</u>

The principal payments made during the fiscal year ended June 30, 2022 were 229,511.

### **NOTE 9 – Line of Credit**

As of June 30, 2022 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, 2022, the interest rate on this line of credit was 6%. As of June 30, 2022 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, 2022 were as follows:

Cash inflow	\$ 937,667
Cash expenditures	<u>655,265</u>
Net cash flow	<u>\$ 282,402</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, 2022, the total of these unused donor restricted funds was \$161,531. This included \$106,375 for the expansion of the Brentwood facilities.

**SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2022

**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. As a result, Shepherd's Gate has \$161,531 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	\$ 3,408,953
Accounts payable and accrued expenses	(202,823)
Principal payments on loan payable	<u>(52,027)</u>
Net financial assets available	<u>\$ 3,154,103</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.

The board of Shepherd's Gate has designated \$1,340,000 of cash to be restricted, of which \$1,000,000 is for operating reserves, \$300,000 for facilities reserves and \$40,000 for the purchase of a delivery truck for the New Life Store. Because these amounts are board restricted and not donor restricted, this cash is included in net financial assets available.

**NOTE 13 – Subsequent Events**

In preparing financial statements, Shepherd's Gate has evaluated events and transactions for potential recognition or disclosure thru August 17, 2022.

**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.