

**SHEPHERD'S GATE**

**INDEPENDENT CERTIFIED AUDITOR'S REPORT**

**JUNE 30, 2023**

## **SHEPHERD'S GATE**

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### **Independent Auditor's Report**

To the Board of Directors of Shepherd's Gate

#### **Opinion**

I have audited the financial statements of Shepherd's Gate (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2023, 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.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Shepherd's Gate as of June 30, 2023, and the changes in its net assets, its cash flows, and its functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Shepherd's Gate and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Shepherd's Gate's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and



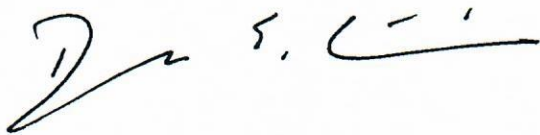
therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Shepherd's Gate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Shepherd's Gate's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Sincerely,

A handwritten signature in dark ink, appearing to read 'D. E. Williams', with a stylized flourish at the end.

Douglas E. Williams, CPA

Covina, California

August 22, 2023

**SHEPHERD'S GATE**  
**Statement of Financial Position**  
**June 30, 2023**

**Assets**

Cash and cash equivalents (Note 2)	\$ 1,422,513
Cash and cash equivalents - with donor restrictions (Notes 2 and 11)	166,116
Prepaid expenses	53,465
Inventory (Note 6)	75,000
Investments (Note 14)	2,649,622
Construction in process (Note 3)	15,588
Property and equipment (Notes 2 and 3)	7,037,556
Right of use asset (Note 5)	<u>415,456</u>
Total assets	<u><u>\$ 11,835,316</u></u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 14,295
Accrued expenses	164,047
Loan payable (Note 8)	563,248
Lease liability (Note 5)	415,456
Line of credit (Note 9)	<u>-</u>
Total liabilities	<u>1,157,046</u>

**Net Assets**

Net Assets without donor restrictions	10,512,154
Net Assets with donor restrictions (Note 11)	<u>166,116</u>
Total net assets	<u>10,678,270</u>
Total liabilities and net assets	<u><u>\$ 11,835,316</u></u>

The accompanying notes are an integral part of these statements.

**SHEPHERD'S GATE**  
**Statement of Activities**  
**For the year ended June 30, 2023**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total All Funds</b>
Public support:			
Grants and donations (Note 2)	\$ 3,722,133	\$ 45,022	\$ 3,767,155
Gifts in kind (Note 6)	2,119,983	-	2,119,983
Total public support	<u>5,842,116</u>	<u>45,022</u>	<u>5,887,138</u>
Revenue:			
Thrift store (Note 10)	916,258	-	916,258
Investment income	89,225	-	89,225
Total revenue	<u>1,005,483</u>	<u>-</u>	<u>1,005,483</u>
Total support and revenue	6,847,599	45,022	6,892,621
Thrift store cost of sales	<u>916,258</u>	<u>-</u>	<u>916,258</u>
Total support and net revenue before releases	5,931,341	45,022	5,976,363
Net assets released from restrictions	<u>24,849</u>	<u>(24,849)</u>	<u>-</u>
Total support and net revenue	<u>5,956,190</u>	<u>20,173</u>	<u>5,976,363</u>
Expenses			
Program services:			
Shelter and support	<u>3,714,345</u>	<u>-</u>	<u>3,714,345</u>
Program support:			
Thrift store expenses (Note 10)	693,074	-	693,074
General and administrative	411,813	-	411,813
Development	501,126	-	501,126
Total program support	<u>1,606,013</u>	<u>-</u>	<u>1,606,013</u>
Total expenses	<u>5,320,358</u>	<u>-</u>	<u>5,320,358</u>
<b>Net surplus (deficit)</b>	635,832	20,173	656,005
Capitalized donor restricted assets	15,588	(15,588)	-
Net Assets, July 1, 2022	<u>9,860,734</u>	<u>161,531</u>	<u>10,022,265</u>
Net Assets, June 30, 2023	<u>\$ 10,512,154</u>	<u>\$ 166,116</u>	<u>\$ 10,678,270</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, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net surplus	\$	656,005
Adjustments to reconcile excess of support and revenue over expenses to cash flow from operating activities:		
Depreciation and amortization		285,501
Increase in:		
Prepaid expenses		(6,746)
Accrued expenses		9,505
Decrease in:		
Accounts payable		(33,986)
NET CASH PROVIDED BY OPERATING ACTIVITIES		910,279

**CASH FLOWS FROM INVESTING ACTIVITIES**

Increase in investments	\$	(2,649,622)
Acquisition of vehicles		(5,415)
Increase in equipment		(35,039)
Increase in construction in process		(15,588)
NET CASH PROVIDED BY INVESTING ACTIVITIES		(2,705,664)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal payments on loan payable		(186,470)
Decrease in cash		(1,981,855)
CASH AND CASH EQUIVALENTS - July 1, 2022		3,570,484
CASH AND CASH EQUIVALENTS - June 30, 2023	\$	1,588,629

The accompanying notes are an integral part of these statements.

**SHEPHERD'S GATE**  
**Schedule of Functional Expenses**  
**For the year ended June 30, 2023**

	Shelter and Support	Thrift Store	Administrative	Development	Total
Auto	\$ 12,107	\$ 3,493	\$ 75	\$ 337	16,012
Bank charges	-	23,698	41,197	-	64,895
Computer	21,527	2,889	21,470	21,245	67,130
First Fruits - GIK (Notes 1 and 6)	991,589	-	-	-	991,589
First Fruits - cash (Note 6)	4,600	-	-	-	4,600
Depreciation and amortization	285,501	-	-	-	285,501
Direct mail	54,751	-	-	125,727	180,478
Donated items used (Note 6)	206,721	-	-	-	206,721
Donor acquisition/appreciation	-	-	-	65,499	65,499
Dues and subscriptions	-	-	2,044	4,185	6,229
Events	21,613	-	-	30,048	51,661
Health and safety, net	477	-	-	-	477
Insurance - medical	72,066	10,377	20,285	8,556	111,284
Insurance - other	73,479	10,074	5,009	1,088	89,650
Interest (Note 7)	-	-	34,633	-	34,633
Leases (Note 5)	20,612	156,721	3,411	-	180,744
Miscellaneous expense	822	6,832	-	711	8,365
Postage	4,302	113	-	38,783	43,198
Professional fees	35,205	4,237	39,632	73,289	152,363
Repairs and maintenance	126,322	3,455	-	-	129,777
Resident services	41,097	-	-	-	41,097
Salaries and benefits	1,428,674	394,812	205,905	113,478	2,142,869
Staff development	6,026	892	2,125	500	9,543
Supplies	39,071	6,813	2,311	1,509	49,704
Taxes - payroll	114,228	30,976	19,163	5,964	170,331
Taxes - other	7,453	-	-	-	7,453
Telephone	37,102	12,737	5,010	1,130	55,979
Thank you letters	-	-	-	8,769	8,769
Trash	17,705	15,994	-	-	33,699
Utilities - gas & electric	66,353	7,888	6,059	-	80,300
Utilities - water	24,577	1,073	3,484	-	29,134
Volunteer appreciation	365	-	-	308	673
Totals	<u>\$ 3,714,345</u>	<u>\$ 693,074</u>	<u>\$ 411,813</u>	<u>\$ 501,126</u>	<u>\$ 5,320,358</u>

The accompanying notes are an integral part of these statements.



## **SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2023

### **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.



## **SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2023

### **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, 2023.

#### **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, 2023, 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.

#### **Leases**

Shepherd's Gate recognizes and measures its leases in accordance with FASB ASC 842, Leases. Shepherd's Gate is a lessee in a noncancellable operating lease used to operate its New Life Store. Shepherd's Gate determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. Shepherd's Gate recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise Shepherd's Gate uses its incremental borrowing rate. The implicit rates of their leases are not readily determinable and accordingly, they use their incremental borrowing rate based on the information available at the commencement date for all leases. Shepherd's Gate's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized

## **SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2023

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

basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments). Lease cost for lease payments is recognized on a straight-line basis over the lease term.

#### **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, 2021 financial statements, have been reclassified to conform to the June 30, 2023 presentation.

#### **Property, Equipment, Depreciation, and Amortization**

Shepherd's Gate capitalizes all property and equipment in excess of \$5,000. 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



**SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2023

**NOTE 3 – Property and Equipment**

Property and Equipment consists of the following at June 30, 2023:

Land	\$ 820,000
Buildings and improvements	10,313,052
Furniture and fixtures	205,111
Machinery and equipment	216,314
Vehicles	<u>106,386</u>
Sub-total	\$ 11,660,863
Accumulated depreciation and amortization	<u>4,623,307</u>
Total	<u>\$ 7,037,556</u>

Depreciation and amortization expense for the year ended June 30, 2023 was \$285,501.

**Construction in process**

Construction in process consists of Phase III of a three-phase 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 one bathroom. This transitional housing will be used for alumni who have graduated from the Shepherd's Gate program that are working or going to school while they save money for permanent housing. The 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 2023.

**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, 2023.

## **SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2023

### **NOTE 5 – Operating Lease / Right of Use Asset / Lease Liability / Lease Expense**

#### **Building Lease:**

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, 2023, the base lease cost was \$10,237 per month. Shepherd's Gate has exercised the first of two five-year options.

Shepherd's Gate has obligations as a lessee for this commercial space with initial noncancelable terms in excess of one year. Shepherd's Gate classified this lease as an operating leases. This lease contains renewal options each with a period of five years. Because Shepherd's Gate is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments. Shepherd's Gate's lease does not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed. Shepherd's Gate's lease require it to make variable payments for Shepherd's Gate's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

Amounts reported in the balance sheet as of June 30, 2023 for these operating leases were as follows:

ROU asset	\$ 415,456
Lease liability	\$ 415,456

#### **Supplemental cash flow information:**

**Building lease:** Cash paid for the fiscal year ended June 30, 2023 for amounts included in the measurement of this lease liability and for the reduction in the ROU asset was \$122,248.

This lease has a remaining lease term as of June 30, 2023 of 38 months and has an imputed interest rate of 5%.

**Equipment lease:** In June of 2023 Shepherd's Gate signed a five year lease for office copiers for \$723 per month. The difference between the net value of the equipment at inception and the total lease payments in the financing cost.



**SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2023

**NOTE 5 – Operating Lease / Right of Use Asset / Lease Liability / Lease Expense (continued)**

**Summary of lease maturities:** Maturities of lease liabilities under these noncancellable operating leases using the imputed interest rate or financing cost as of June 30, 2023 are as follows:

June 30, 2024	134,590
June 30, 2025	138,364
June 30, 2026	142,256
June 30, 2027	31,048
June 30, 2028	<u>8,676</u>
Total undiscounted lease payments	\$ 454,934
Less imputed interest	<u>39,478</u>
Total lease liability	<u>\$ 415,456</u>

**Lease Expense:** Total lease expense for the year ended June 30, 2023 including leases expiring in less than 12 months consisted of the following:

Leases with terms less than 1 year	\$ 50,784
Right of use asset amortization	122,248
Imputed interest on lease liability	<u>7,712</u>
Total undiscounted lease payments	<u>\$ 180,744</u>



**SHEPHERD'S GATE**

## Notes to Financial Statements

June 30, 2023

**NOTE 6 – Gifts in Kind / First Fruits / Inventory****Gifts in Kind**

During the fiscal year ended June 30, 2023, Shepherd's Gate received gifts-in-kind from many different donors in the form of food, clothing, furniture, vehicles and other items valued at \$2,119,983. The gifts were valued based on the prices for similar types of new and used goods at June 30, 2023. 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	\$ 206,721
Vehicle used in the ministry	5,415
Items sold in the New Life Store	916,258
First Fruits – Gifts in Kind	<u>991,589</u>
Total	<u>\$ 2,119,983</u>

**First Fruits**

First Fruits consisted of contributions of gifts-in-kind of \$991,589 goods donated to Shepherd's Gate and subsequently distributed to individuals and organizations in need and \$4,600 in cash donations to other eligible recipients.

**Inventory**

Inventory at June 30, 2023 consists solely of donated goods held for sale in the New Life Store and is based on thrift store value.

**NOTE 7 – Statement of Cash Flows**

Interest expense for the year ended June 30, 2023 was \$34,633. Accrued interest at June 30, 2023 was \$2,690.

**SHEPHERD'S GATE**

## Notes to Financial Statements

June 30, 2023

**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, 2023 are as follows:

June 30, 2024	\$ 59,817
June 30, 2025	62,317
June 30, 2026	64,921
June 30, 2027	67,633
June 30, 2028	70,459
Thereafter	<u>238,101</u>
Total	<u>\$ 563,248</u>

The principal payments made during the fiscal year ended June 30, 2023 were 186,470.

**NOTE 9 – Line of Credit**

As of June 30, 2023 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, 2023, the interest rate on this line of credit was 9%. As of June 30, 2023 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, 2023 were as follows:

Cash inflow	\$ 916,258
Cash expenditures	<u>693,074</u>
Net cash flow	<u>\$ 223,184</u>

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

**NOTE 11 – Donor 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, 2023, the total of these unused donor restricted funds was \$166,116. This included \$106,622 for the expansion of the Brentwood facilities.



**SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2023

**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 \$166,116 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	\$ 1,422,364
Accounts payable and accrued expenses	(178,342)
Principal payments due on lease liability	(123,144)
Principal payments due on loan liability	<u>(59,817)</u>
Net financial assets available	<u>\$ 1,061,061</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.

**NOTE 13 – Board Designated Funds**

In addition to the assets reported in Note 12, the board of Shepherd's Gate has designated \$1,596,729 of cash to be restricted composed of the following as of June 30, 2023:

Operating reserves	\$ 1,000,000
Facilities reserves	300,000
Brentwood expansion	250,000
New Life Store reserves	40,000
Staff salary increases	<u>6,729</u>
Total	<u>\$ 1,596,729</u>

These funds are primarily in treasuries which have terms of longer than 90 days and are therefore included in Investments on the Balance Sheet.

**NOTE 14 – Investments**

Investments consist solely of Certificates of Deposits and Treasuries with maturities longer than 90 days carried at fair value and are intended to provide income for the Shepherd's Gate's programs and building plans. The fair value of these investments have been measured on a recurring basis and are considered Level I inputs as explained in Note 15.



## SHEPHERD'S GATE

Notes to Financial Statements

June 30, 2023

### NOTE 15 – Fair Value Measurement

The FASB Fair Value Measurement standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. Shepherd's Gate has adopted this standard for its financial assets and liabilities measured on a recurring and nonrecurring basis.

Fair Value Measurement defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e., an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

Level 1: Quoted prices in active markets for identical assets. Cash, checking, savings accounts, treasuries and certificates of deposit are composed of funds invested in various institutions. Funds invested in checking, savings accounts, Treasuries and certificates of deposit are valued based on the value of the deposited funds.

Money market accounts consist primarily of domestic commercial paper and other cash management instruments, such as repurchase agreements and master notes, U.S. government and corporate obligations, and other securities. Money market accounts seek to maintain a stable net asset value (NAV) of \$1.

Shepherd's Gate did not hold any Level 2 or 3 assets on June 30, 2023.

The inputs and methodology used for valuing Shepherd's Gate's financial assets and liabilities are not indicators of the risks associated with those securities.

Shepherd's Gate recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the year ended June 30, 2023.

The following table provide fair value measurement information for financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2023:

Assets:	Level 1	Level 2	Level 3
Certificates of Deposit with maturity dates longer than 90 days	\$ 2,649,622	\$ 0	\$ 0
Cash and cash equivalents with maturity dates less than 90 days	\$ 1,588,629	\$ 0	\$ 0

**SHEPHERD'S GATE**

Notes to Financial Statements

June 30, 2023

**NOTE 15 – Fair Value Measurement (continued)**

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Shepherd's Gate believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

Investments

**NOTE 16 – Subsequent Events**

In preparing financial statements, Shepherd's Gate has evaluated events and transactions for potential recognition or disclosure thru August 22, 2023.

**NOTE 17 – 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.