Shepherds, Inc.
Financial Statements
(Together with Independent Auditors' Report)

For the Years Ended June 30, 2018 and 2017

MARKS PANETH

ACCOUNTANTS & ADVISORS

SHEPHERDS, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

CONTENTS

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MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Shepherds, Inc.

We have audited the accompanying financial statements of Shepherds, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and change in net assets, functional expenses, and cash flows 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shepherds, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The financial statements as of June 30, 2017 were audited by Dylewsky, Goldberg and Brenner, LLC, who merged with Marks Paneth LLP as of November 1, 2017 and whose report dated August 14, 2017 expressed an unmodified opinion on those statements.

Marks Paneth LLP

Purchase, NY
December 18, 2018

SHEPHERDS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
ASSETS		
Cash and cash equivalents	$ 105,101	$ 47,527
Investments	81,120	157,890
Contributions receivable	5,188	6,450
Prepaid expense	21,663	-
	213,072	211,867
Property and equipment, net	-	-
TOTAL ASSETS	$ 213,072	$ 211,867
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 9,072	$ 8,800
Net Assets		
Unrestricted:		
General	106,317	117,384
Temporarily restricted	97,683	85,683
TOTAL NET ASSETS	204,000	203,067
TOTAL LIABILITIES AND NET ASSETS	$ 213,072	$ 211,867

SHEPHERDS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions – sponsors	$ 221,652	$ 194,883
Contributions – foundations	114,295	110,319
Contributions – corporate	31,875	5,000
Contributions – other	170,685	230,948
Service revenue	15,206	17,321
Investment return (loss)	1,848	(1,736)
Special event revenue	325	-
Net direct benefits to donors	(176)	-
Net assets released from restrictions	26,000	63,000
TOTAL SUPPORT AND REVENUE	581,710	619,735
FUNCTIONAL EXPENSES		
Program expenses	502,878	498,164
Management and general	40,422	45,303
Fundraising	49,477	38,415
TOTAL EXPENSES	592,777	581,882
CHANGE IN UNRESTRICTED NET ASSETS	(11,067)	37,853
TEMPORARILY RESTRICTED NET ASSETS		
Contributions – sponsors	13,000	10,000
Contributions – other	25,000	-
Net assets released from restrictions	(26,000)	(63,000)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	12,000	(53,000)
CHANGE IN NET ASSETS	933	(15,147)
Net assets - beginning of year	203,067	218,214
NET ASSETS - END OF YEAR	$ 204,000	$ 203,067

See accompanying notes to financial statements.

SHEPHERDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	TOTAL FUNCTIONAL EXPENSES
Salaries	$ 120,375	$ 8,025	$ 32,100	$ 160,500
Employee benefits and taxes	15,665	1,044	4,177	20,886
Payroll and Related Expenditures	136,040	9,069	36,277	181,386
Tuition	293,622	-	-	293,622
College preparation and organizational workshop services	29,905	-	-	29,905
Professional fees	-	21,751	7,329	29,080
Program development	15,824	505	505	16,834
Student services	11,425	-	-	11,425
Insurance	2,532	7,595	-	10,127
Occupancy	2,555	547	547	3,649
Office expense and other	10,975	955	4,819	16,749
TOTAL FUNCTIONAL EXPENSES	$ 502,878	$ 40,422	$ 49,477	$ 592,777

SHEPHERDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fundraising	TOTAL FUNCTIONAL EXPENSES
Salaries	$ 121,436	$ 9,462	$ 26,810	$ 157,708
Employee benefits and taxes	15,100	1,169	3,218	19,487
Payroll and Related Expenditures	136,536	10,631	30,028	177,195
Tuition	299,202	-	-	299,202
College preparation and organizational workshop services	22,934	-	-	22,934
Professional fees	1,252	22,541	1,252	25,045
Program development	15,446	493	493	16,432
Student services	9,731	-	-	9,731
Insurance	-	9,723	-	9,723
Occupancy	3,191	684	684	4,559
Office expense and other	9,872	1,231	5,958	17,061
TOTAL FUNCTIONAL EXPENSES	$ 498,164	$ 45,303	$ 38,415	$ 581,882

SHEPHERDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 933	$ (15,147)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Unrealized loss (gain) on investments	(1,534)	1,950
Loss on disposal of assets	-	-
Changes in Operating Assets and Liabilities:		
Contributions receivable	1,262	11,300
Prepaid expense	(21,663)	-
Accounts payable and accrued liabilities	272	300
Total Adjustments	(21,663)	13,550
Net Cash Used by Operating Activities	(20,730)	(1,597)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	78,304	31,757
Net Cash Provided by Investing Activities	78,304	31,757
NET INCREASE IN CASH AND CASH EQUIVALENTS	57,574	30,160
Cash and cash equivalents - beginning of year	47,527	17,367
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 105,101	$ 47,527

See accompanying notes to financial statements.

NOTE 1 − OPERATIONS

Shepherds, Inc. ("Shepherds" or the "Organization") is a Connecticut corporation that was founded in September 1998 and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Shepherds affords at-risk, inner-city Connecticut youth the opportunity to receive a quality college preparatory education at a non-public high school. Shepherds recruits sponsors who make a four-year commitment to pay part or all of a student's tuition and mentors who work one-on-one with a student providing direction and support.

During 2018, Shepherds, Inc. provided financial support for sixty-two students enrolled in the program across two partnership high schools: Kolbe Cathedral in Bridgeport and Notre Dame of West Haven. Eighteen students graduated from their respective high schools during the year ended June 30, 2018.

Shepherds management's intent is to administer its programs in a prudent and fiscally responsible manner. To this end, management has negotiated tuition commitments with the partnership schools and will strive to meet those commitments while being mindful of the fiscal needs of the Organization.

NOTE 2 − SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis

Shepherds, Inc.'s financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") guidance on reporting information regarding its financial position and activities for not-for-profit organizations. Under that guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Further, contributions are recognized as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Revenue Recognition

Promises to Give: Unconditional promises to give are recognized as revenue in the period received as assets or as decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions: Contributions are recognized as unrestricted support unless their use is specifically restricted by the donor. When a donor restriction expires, the stipulated time restriction ends, or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Change in Net Assets as net assets released from restrictions. Contributions that are permanently restricted (endowed) by the donor, from which the Organization may utilize only the income, are recognized as permanently restricted net assets. There were no permanently restricted net assets at June 30, 2018 and 2017.

NOTE 2 − SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Non-cash Contributions: A significant number of volunteers have donated their time in the furtherance of the Organization's programs and activities. However, the value of these services is not recognized in the financial statements unless the donated service received creates or enhances non-financial assets or requires specialized skills that would typically need to be purchased if not provided by contribution. In addition, the Organization receives in-kind contributions and recognizes the fair value thereof to the extent it would have purchased the merchandise.

Net Assets

The Organization maintains its net assets under the three classes:

Unrestricted – represents resources available for support of the Club’s operations over which the Board of Directors has discretionary control.

Temporarily Restricted – represents contributions and other inflows of assets that are subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Club pursuant to those stipulations. When such stipulations are fulfilled, such temporarily restricted net assets are reported in the statements of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted – represents those resources subject to donor-imposed stipulations that they be maintained intact in perpetuity. The donor permits the use of all the income on related investments and the net capital appreciation thereon, for restricted purpose.

Pledges Receivable

The Organization carries pledges receivable at net realizable value and uses the specific write-off method for doubtful accounts. Experience and management's estimation indicate an allowance for such accounts is immaterial. On a periodic basis, the Organization evaluates its pledges receivable and whether the balances are collectible.

Property and Equipment

Expenditures for property and equipment over $500 are capitalized at cost or at estimated fair value on the date of gift, if donated. Property and equipment are depreciated using the straight-line method based on their respective estimated useful lives. Repairs and maintenance are expensed as incurred.

Contributions Receivable

The Organization carries contributions receivable at cost and uses the specific write-off method for doubtful accounts. Experience and management's estimation indicate an allowance for such accounts is immaterial. On a periodic basis, the Organization evaluates its accounts receivable and whether the balances are collectible.

Fair Value Measurement

Shepherds, Inc. follows FASB guidance on fair value, which, among other things, defines fair value, establishes a hierarchal framework for measuring fair value, and expands disclosure about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy is organized into three levels based upon the assumptions (referred to as “inputs”) used in pricing the asset or liability, as follows:

NOTE 2 − SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)
Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, with fair value being determined through the use of models or other valuation methodologies.

Level 3: Inputs are unobservable inputs for the asset or liability and are used to the extent that observable inputs do not exist. Level 3 inputs require significant management judgment and estimation. Factors considered include the purchase cost, prices of recent private placements of the same issuer, liquidity of the investment, changes in financial condition of the issuer, and valuations of similar companies.

Investments
Shepherds, Inc. values its investments in using Level 1 and 3 inputs. The Organization reports investment income and gains and losses as increases or decreases in unrestricted net assets in the Statements of Activities and Change in Net Assets unless a donor or law temporarily or permanently restricts their use. Investments are managed in accordance with a board-approved investment and spending policy.

Uncertainty in Income Taxes
The Organization evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of June 30, 2018, the Organization does not believe that it has taken any positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Functional Expenses
The costs of providing various programs and other activities have been summarized in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash and Cash Equivalents
For purposes of the Statements of Cash Flows, the Organization considers all dollar-denominated, highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Recent Accounting Pronouncements
In May 2014, the FASB issued accounting standards update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. According to the new revenue recognition standards promulgated by the FASB, revenue recognition will follow a five-step process, which may or may not apply to the Organization. The five steps for revenue recognition are as follows: 1) Identify a contract, 2) Identify the performance obligation(s) in the contract, 3) determine the

NOTE 2 − SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

sales price, 4) Allocate the transaction price to the performance obligations in the contract, and 5) Recognize revenue when, or as, the Organization satisfies a performance obligation. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Organization the year ended December 31, 2019. Management has determined that ASU 2014-09 will not have a significant effect on the financial statements.

In February 2016, the FASB issued a new ASU 2016-02, *Leases (ASC 842)*, which requires an entity to recognize all leases on the balance sheet. The guidance significantly changes lessee accounting for leases, and impacts financial statement presentation and financial metrics, including many that relate directly to debt covenants, key performance indicators, and perhaps compensation arrangements. The ASU will replace most existing lease accounting guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Organization for the year ended December 31, 2019. Management has determined that ASU 2016-02 will not have a significant effect on the financial statements.

In August 2016, the FASB issued a new ASU 2016-14, *Not-for-Profit Entities (ASC 958)*. The accounting standards update addresses the areas which affect both key qualitative and quantitative measurements such as: net asset class presentation, investment return, liquidity and availability of resources, presentation of operating cash flow, and presentation of “underwater” endowments. The new accounting standard becomes effective for fiscal years beginning after December 15, 2017. Not-for-profit entities are required to adopt the standard using a modified retrospective transition approach which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. Early application is permitted. The Organization is evaluating the effect that ASU 2016-14 will have on the financial statements and related disclosures. The Organization has not yet determined the impact of the new standard on its ongoing financial reporting.

NOTE 3 − INVESTMENTS

At June 30, 2018, Level 3 assets comprised approximately 73% of the Organization’s total investment portfolio fair value.

	Fair Value	Level 1	Level 3
Financial assets:			
Community Foundation of Greater New Haven	$ 59,519	$ -	$ 59,519
Money market fund	21,601	21,601	-
Total Investments	$ 81,120	$ 21,601	$ 59,519

NOTE 3 − INVESTMENTS (Continued)

At June 30, 2017, Level 3 assets comprised approximately 41% of the Organization's total investment portfolio fair value.

	Fair Value	Level 1	Level 3
Financial assets:			
Community Foundation of Greater New Haven	$ 64,180	$ -	$ 64,180
Money market fund	93,710	93,710	-
Total Investments	$ 157,890	$ 93,710	$ 64,180

The following table presents a reconciliation of all Level 3 assets measured at fair value for the years ended June 30, 2018 and 2017.

	2018	2017
Financial assets:		
Beginning balance, July 1	$ 64,180	$ 69,344
Investment earnings	597	113
Payouts	(5,000)	(5,000)
Management fees and other	(258)	(277)
Ending Balance, June 30	$ 59,519	$ 64,180

The components of investment return for the years ended June 30 are summarized as follows:

	2018	2017
Interest and dividend income	$ 314	$ 214
Net realized and unrealized gains (losses)	1,534	(1,950)
Total Investment Return	$ 1,848	$ (1,736)

The Shepherds, Inc. Fund was established in honor of Shepherds' tenth anniversary. The original $100,000 donation is designated for future Kolbe Cathedral High School student support. The funds are held at a local community foundation. Under the agreement with the community foundation, Shepherds can withdraw the fund with thirty to sixty days notice.

NOTE 3 − INVESTMENTS (Continued)

The Organization's Board of Directors has interpreted Connecticut's Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations, if any, to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in the permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the CUPMIFA.

NOTE 4 − NET ASSETS

Temporarily Restricted: Amounts temporarily restricted at June 30, 2018 were restricted for various program costs and subsequent year's tuition. Temporarily restricted net assets were released for scholarships.

In accordance with the CUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund,
2) The purposes of the Organization and the donor-restricted fund,
3) General economic conditions,
4) The possible effect of inflation and deflation,
5) The expected total return from income and the appreciation of investments,
6) Other resources of the Organization, and
7) The investment policies of the Organization.

NOTE 4 - NET ASSETS (Continued)

Changes in endowment net assets for the years ended June 30, 2018 and 2017:

	Temporarily Restricted
Endowment net assets, beginning of year July 1, 2016	**$ 69,344**
Investment return	113
Investment fees	(277)
Appropriation of endowment assets for expenditure	(5,000)
Endowment net assets, year ended June 30, 2017	**$ 64,180**
Investment return	597
Investment fees	(258)
Appropriation of endowment assets for expenditure	(5,000)
Endowment net assets, at June 30, 2018	**$ 59,519**

NOTE 5 − INCOME TAXES

The Organization is exempt from federal income taxes under Internal Revenue Code section 501(c)(3). Contributions made to the Organization are qualified for the maximum tax deductions allowable under the United States Internal Revenue Code.

NOTE 6 − CONCENTRATIONS AND CONTINGENCIES

The Organization maintains its cash and cash equivalents in bank deposit accounts at a high-credit, quality financial institution. The balances in cash accounts may at times exceed federally insured limits.

Shepherds, Inc. currently rents office space on a month-to-month basis for $300 a month.

NOTE 7 − SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 18, 2018, the date that the financial statements were available to be issued.