



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

For the Years Ended June 30, 2019 and 2018

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

SHEPHERDS, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, the Organization adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities". Our opinion is not modified with respect to this matter.

Markus Peneth CPA

Purchase, NY
December 18, 2019

SHEPHERDS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 161,030	\$ 105,101
Investments	311,794	81,120
Pledges receivable	98,750	5,188
Prepaid expense	-	21,663
	571,574	213,072
Other Asset		
Long-term Contributions Receivable	15,000	-
TOTAL ASSETS	\$ 586,574	\$ 213,072
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 12,194	\$ 9,072
Net Assets		
Without donor restrictions	443,355	106,317
With donor restrictions	131,025	97,683
TOTAL NET ASSETS	574,380	204,000
TOTAL LIABILITIES AND NET ASSETS	\$ 586,574	\$ 213,072

SHEPHERDS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
NET ASSETS WITHOUT RESTRICTIONS		
SUPPORT AND REVENUE		
Contributions – sponsors	\$ 204,589	\$ 221,652
Contributions – foundations	109,094	114,295
Contributions – corporate	20,574	31,875
Contributions – other	151,137	170,685
Program fees	14,398	15,206
Investment return	6,239	1,848
Special event revenue	501,609	325
Less: net direct benefits to donors	(54,140)	(176)
Net assets released from restrictions	38,000	26,000
TOTAL SUPPORT AND REVENUE	991,500	581,710
 FUNCTIONAL EXPENSES		
Program expenses	527,390	502,878
Management and general	42,606	40,422
Fundraising	84,466	49,477
TOTAL EXPENSES	654,462	592,777
 CHANGE IN NET ASSETS WITHOUT RESTRICTIONS	337,038	(11,067)
 NET ASSETS WITH RESTRICTIONS		
Contributions – sponsors	41,000	13,000
Contributions – foundations	30,000	-
Contributions – other	-	25,000
Investment return	342	-
Net assets released from restrictions	(38,000)	(26,000)
 CHANGE IN NET ASSETS WITH RESTRICTIONS	33,342	12,000
 CHANGE IN NET ASSETS	370,380	933
Net assets - beginning of year	204,000	203,067
 NET ASSETS - END OF YEAR	\$ 574,380	\$ 204,000

See accompanying notes to financial statements.

SHEPHERDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>TOTAL FUNCTIONAL EXPENSES</u>
Salaries	\$ 155,550	\$ 9,150	\$ 18,300	\$ 183,000
Employee benefits and taxes	<u>19,052</u>	<u>1,121</u>	<u>2,242</u>	<u>22,415</u>
Payroll and Related Expenditures	174,602	10,271	20,542	205,415
Tuition payments	276,732	-	-	276,732
College preparation and organizational workshop services	30,229	-	-	30,229
Professional fees	-	22,287	15,262	37,549
Program recruitment and training	17,186	548	548	18,282
Student services	9,531	-	-	9,531
Insurance	2,532	7,595	-	10,127
Meals and Entertainment	-	-	54,140	54,140
Advertising, Design, & Media	-	-	24,864	24,864
Occupancy	2,590	555	555	3,700
Office expense and other	<u>13,988</u>	<u>1,350</u>	<u>22,695</u>	<u>38,033</u>
TOTAL EXPENSES	527,390	42,606	138,606	708,602
Less: Net direct benefits to donors	<u>-</u>	<u>-</u>	<u>(54,140)</u>	<u>(54,140)</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 527,390</u>	<u>\$ 42,606</u>	<u>\$ 84,466</u>	<u>\$ 654,462</u>

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

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>TOTAL FUNCTIONAL EXPENSES</u>
Salaries	\$ 120,375	\$ 8,025	\$ 32,100	\$ 160,500
Employee benefits and taxes	<u>15,665</u>	<u>1,044</u>	<u>4,177</u>	<u>20,886</u>
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 recruitment and training	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	<u>10,975</u>	<u>955</u>	<u>4,819</u>	<u>16,749</u>
 TOTAL FUNCTIONAL EXPENSES	 <u>\$ 502,878</u>	 <u>\$ 40,422</u>	 <u>\$ 49,477</u>	 <u>\$ 592,777</u>

SHEPHERDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 370,380	\$ 933
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Unrealized loss (gain) on investments	(6,273)	(1,534)
Changes in Operating Assets and Liabilities:		
Pledges receivable	(108,562)	1,262
Prepaid expense	21,663	(21,663)
Accounts payable and accrued liabilities	3,122	272
Total Adjustments	(90,050)	(21,663)
Net Cash Provided (Used) by Operating Activities	280,330	(20,730)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(386,401)	(32,782)
Proceeds from sale of investments	162,000	111,086
Net Cash Provided (Used) by Investing Activities	(224,401)	78,304
 NET INCREASE IN CASH AND CASH EQUIVALENTS	55,929	57,574
Cash and cash equivalents - beginning of year	105,101	47,527
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 161,030	\$ 105,101

SHEPHERDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 2019, Shepherds, Inc. provided financial support for 57 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, 2019.

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.’ 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 net assets and revenues, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to explicit donor-imposed stipulations, including board designated funds functioning as endowment.

With donor restrictions – Net assets subject to donor-imposed stipulations, including stipulations that will be met either by actions of the Organization or the passage of time, stipulations that they be maintained permanently by the Organization, and earnings from endowments not yet appropriated for spending.

Revenue Recognition

Contributions: The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that indicate a donor preference for the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Change in Net Assets as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization recognizes the support as without restriction.

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

SHEPHERDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Non-cash Contributions: The Organization receives a substantial amount of volunteer services in carrying out its programs and activities. Volunteers serve as mentors to students in the program providing guidance and support through the students' four years of high school. However, no amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition. Contributed services are not recognized unless the donated services create or enhance non-financial assets or require specialized skills that would typically be purchased if not donated. In-kind contributions are measured at the fair value of the asset transferred to the Organization or the liability cancelled or settled. Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair value at the date of donation.

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 \$2,500 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.

Fair Value Measurement

Shepherds, Inc. follows Financial Accounting Standards Board ("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:

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.

SHEPHERDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net assets without donor restrictions in the Statements of Activities and Change in Net Assets unless a donor or law restricts their use. Investments are managed in accordance with a board-approved investment and spending policy.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

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, 2019, 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 program and supporting services activities have been summarized on a functional basis in the statements of activities and change in net assets.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that are consistently applied. The expenses that are allocated include occupancy, which are allocated on a square footage basis, as well as salaries and wages, employee benefits and payroll taxes, which are based on time and effort within each functional area. Professional fees, program development and insurance are based on expenses tracked by account across functions.

Reclassifications

Certain reclassifications were made to the presentation of the 2018 financial statements to conform to the 2019 financial statement presentation.

Recent Accounting Pronouncements

FASB Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities*. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation.

SHEPHERDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS FOR GENERAL EXPENDITURES

The Organization regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, and accounts receivable. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities as well as services undertaken to support those activities to be general expenditures. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The restricted resources on hand at year end will be used in the subsequent year for specific operating expenditures of the Organization. As of June 30, 2019, the Organization’s financial assets were as follows:

Cash and cash equivalents	\$ 161,030
Investments	311,794
Pledges receivable	<u>113,750</u>
	586,574
Less: Long-term Contributions	<u>(15,000)</u>
	<u>\$ 571,574</u>

NOTE 4 – INVESTMENTS

At June 30, 2019, Level 3 assets comprised approximately 19% of the Organization’s total investment portfolio fair value.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Financial assets:			
Community Foundation of Greater New Haven (pooled fund)	\$ 60,385	\$ -	\$ 60,385
Corporate and Government Bonds	<u>251,409</u>	<u>251,409</u>	<u>-</u>
Total Investments	<u>\$ 311,794</u>	<u>\$ 251,409</u>	<u>\$ 60,385</u>

SHEPHERDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 – INVESTMENTS (Continued)

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Financial assets:			
Community Foundation of Greater New Haven (pooled fund)	\$ 59,519	\$ -	\$ 59,519
Money market fund	<u>21,601</u>	<u>21,601</u>	<u>-</u>
Total Investments	<u>\$ 81,120</u>	<u>\$ 21,601</u>	<u>\$ 59,519</u>

The following table presents a reconciliation of all Level 3 assets measured at fair value for the years ended June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Financial assets:		
Beginning balance, July 1	\$ 59,519	\$ 64,180
Investment earnings	1,134	597
Payouts	-	(5,000)
Management fees and other	<u>(268)</u>	<u>(258)</u>
Ending Balance, June 30	<u>\$ 60,385</u>	<u>\$ 59,519</u>

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

	<u>2019</u>	<u>2018</u>
Interest and dividend income (loss)	\$ (34)	\$ 314
Net realized and unrealized gains	<u>6,273</u>	<u>1,534</u>
Total Investment Return	<u>\$ 6,239</u>	<u>\$ 1,848</u>

The Shepherds, Inc. Fund was established in honor of Shepherds’ tenth anniversary. The original \$100,000 donation is restricted for future Kolbe Cathedral High School student support. The funds are held at the Community Foundation of Greater New Haven. Under the agreement with the community foundation, Shepherds can withdraw the fund with 30 to 60 days’ notice.

SHEPHERDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 – PLEDGES RECEIVABLE

Unconditional pledges receivable at June 30 were as follows:

	<u>2019</u>	<u>2018</u>
Pledges receivable, due within one year	\$ 98,750	\$ 5,188
Pledges receivable, due between one and five years	15,000	-
Less: allowance for doubtful accounts	<u>-</u>	<u>-</u>
Pledges Receivable, net	<u>\$ 113,750</u>	<u>\$ 5,188</u>

Pledges receivable between one and five years were not discounted due to materiality.

NOTE 6 – NET ASSETS

Net Assets with Donor Restrictions: Amounts with donor restrictions at June 30, 2019 were restricted for various program costs and subsequent year's tuition. Net assets with donor restrictions were released for scholarships.

NOTE 7 – 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 8 – 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 9 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 18, 2019, the date that the financial statements were available to be issued.