

**Good Shepherd Ministries
of Wilmington, Inc.**

Combining and Combined Financial Statements
For the Year Ended June 30, 2017
(with Comparative Totals for 2016)



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Good Shepherd Ministries of Wilmington, Inc.

We have audited the accompanying combining and combined financial statements of Good Shepherd Ministries of Wilmington, Inc. (a nonprofit organization) and affiliate, which comprise the combining and combined statement of financial position as of June 30, 2017, and the related combining and combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combining and combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combining and combined 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 combining and combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combining and combined 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 combining and combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining and combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining and combined 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 combining and combined 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 combining and combined 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 combining and combined financial statements referred to above present fairly, in all material respects, the financial position of Good Shepherd Ministries of Wilmington, Inc. and affiliate as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Good Shepherd Ministries of Wilmington, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eany & Company, L.L.P.

Wilmington, North Carolina
September 18, 2017

Good Shepherd Ministries of Wilmington, Inc.
Combining and Combined Statement of Financial Position
As of June 30, 2017

	2017				Total	Lakeside Partners	Combined Total	2016 Comparative Total
	Unrestricted Operations	Unrestricted Property	Temporarily Restricted	Permanently Restricted				
ASSETS								
Current Assets								
Cash & cash equivalents (Note 3)	\$ 475,122	\$ -	\$ -	\$ -	\$ 475,122	\$ 996,798	\$ 1,471,920	\$ 1,244,846
Investments	352,229	-	-	-	352,229	-	352,229	155,889
Pledges receivable, net (Note 4)	-	-	-	-	-	416,685	416,685	929,716
Grants & other receivables	76,151	-	-	-	76,151	2,658	78,809	286,052
Total Current Assets	<u>903,502</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>903,502</u>	<u>1,416,141</u>	<u>2,319,643</u>	<u>2,616,503</u>
Rising Tide Fund (Note 7)	-	-	33,977	53,602	87,579	-	87,579	82,820
Pledges receivable long-term, net of \$10,514 allowance (Note 4)	-	-	-	-	-	98,486	98,486	813,362
Property & Equipment								
Land	-	322,685	-	-	322,685	-	322,685	322,685
Buildings & improvements	-	3,907,435	-	-	3,907,435	2,167,145	6,074,580	3,843,152
Furniture & equipment	-	326,383	-	-	326,383	24,644	351,027	316,480
Vehicles	-	174,155	-	-	174,155	-	174,155	174,155
Technology	-	83,881	-	-	83,881	-	83,881	83,881
Work in process - construction	-	-	-	-	-	248,464	248,464	92,509
	-	4,814,539	-	-	4,814,539	2,440,253	7,254,792	4,832,862
Less: Accumulated depreciation	-	(1,973,574)	-	-	(1,973,574)	-	(1,973,574)	(1,836,809)
Property & Equipment, Net	<u>-</u>	<u>2,840,965</u>	<u>-</u>	<u>-</u>	<u>2,840,965</u>	<u>2,440,253</u>	<u>5,281,218</u>	<u>2,996,053</u>
Due to/due from	(3,000)	-	-	-	(3,000)	3,000	-	-
Total Assets	<u>\$ 900,502</u>	<u>\$ 2,840,965</u>	<u>\$ 33,977</u>	<u>\$ 53,602</u>	<u>\$ 3,829,046</u>	<u>\$ 3,957,880</u>	<u>\$ 7,786,926</u>	<u>\$ 6,508,738</u>
LIABILITIES & NET ASSETS								
Current Liabilities								
Accounts payable	\$ 4,678	\$ -	\$ -	\$ -	\$ 4,678	\$ -	\$ 4,678	\$ 9,031
Accrued salaries & payroll taxes	29,831	-	-	-	29,831	-	29,831	30,057
Current maturities of long-term debt (Note 6)	-	10,865	-	-	10,865	300,000	310,865	10,133
Total Current Liabilities	<u>34,509</u>	<u>10,865</u>	<u>-</u>	<u>-</u>	<u>45,374</u>	<u>300,000</u>	<u>345,374</u>	<u>49,221</u>
Long-Term Liabilities								
Refundable advances (Note 5)	-	875,000	-	-	875,000	-	875,000	875,000
Long-term debt (Note 6)	-	50,250	-	-	50,250	-	50,250	61,115
Total Long-Term Liabilities	<u>-</u>	<u>925,250</u>	<u>-</u>	<u>-</u>	<u>925,250</u>	<u>-</u>	<u>925,250</u>	<u>936,115</u>
Total Liabilities	<u>34,509</u>	<u>936,115</u>	<u>-</u>	<u>-</u>	<u>970,624</u>	<u>300,000</u>	<u>1,270,624</u>	<u>985,336</u>
Net Assets								
Unrestricted	865,993	1,904,850	-	-	2,770,843	-	2,770,843	4,440,582
Temporarily restricted	-	-	33,977	-	33,977	3,657,880	3,691,857	1,029,218
Permanently restricted	-	-	-	53,602	53,602	-	53,602	53,602
Total Net Assets	<u>865,993</u>	<u>1,904,850</u>	<u>33,977</u>	<u>53,602</u>	<u>2,858,422</u>	<u>3,657,880</u>	<u>6,516,302</u>	<u>5,523,402</u>
Total Liabilities & Net Assets	<u>\$ 900,502</u>	<u>\$ 2,840,965</u>	<u>\$ 33,977</u>	<u>\$ 53,602</u>	<u>\$ 3,829,046</u>	<u>\$ 3,957,880</u>	<u>\$ 7,786,926</u>	<u>\$ 6,508,738</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Good Shepherd Ministries of Wilmington, Inc.
Combining and Combined Statement of Activities
For the Year Ended June 30, 2017

	2017					Lakeside Partners	Combined Total	2016 Comparative Total
	Unrestricted		Temporarily Restricted	Permanently Restricted	Total			
	Operations	Property						
SUPPORT & REVENUE								
Department of Veterans Affairs - Per Diem	\$ -	\$ -	\$ 185,617	\$ -	\$ 185,617	\$ -	\$ 185,617	\$ 198,744
US Dept. of HUD	-	-	11,730	-	11,730	-	11,730	102,698
City of Wilmington	-	-	104,281	-	104,281	211,918	316,199	114,107
FEMA	-	-	14,604	-	14,604	-	14,604	249
New Hanover County	-	-	25,000	-	25,000	-	25,000	14,000
NC DHHS - ESGP	-	-	27,894	-	27,894	-	27,894	67,701
United Way	-	-	54,000	-	54,000	-	54,000	80,000
Federal Home Loan Bank	-	-	-	-	-	300,000	300,000	-
Cape Fear Memorial Foundation	-	-	75,000	-	75,000	-	75,000	75,000
Lehto Foundation	50,000	-	-	-	50,000	-	50,000	50,000
Contributions	789,706	-	33,613	-	823,319	-	823,319	779,568
Contributions - Lakeside Partners	-	-	-	-	-	561,407	561,407	2,292,687
In-kind contributions	1,735,348	-	-	-	1,735,348	-	1,735,348	1,771,524
Special events, net	332,526	-	-	-	332,526	-	332,526	288,611
Investment income	18,896	-	5,259	-	24,155	3,807	27,962	9,593
Program service fees	45,388	-	-	-	45,388	-	45,388	51,169
Other income	473	-	-	-	473	-	473	1,055
Net assets released from restrictions	532,239	-	(532,239)	-	-	-	-	-
Total Support & Revenue	3,504,576	-	4,759	-	3,509,335	1,077,132	4,586,467	5,896,706
EXPENSES								
Program	2,982,487	116,250	-	-	3,098,737	-	3,098,737	3,162,680
Administration	206,988	20,515	-	-	227,503	22,355	249,858	213,866
Fundraising	242,652	-	-	-	242,652	2,320	244,972	312,482
Total Expenses	3,432,127	136,765	-	-	3,568,892	24,675	3,593,567	3,689,028
Change in Net Assets	72,449	(136,765)	4,759	-	(59,557)	1,052,457	992,900	2,207,678
Net Assets, Beginning	877,863	1,957,296	29,218	53,602	2,917,979	2,605,423	5,523,402	3,315,724
Transfers	(84,319)	84,319	-	-	-	-	-	-
Net Assets, Ending	\$ 865,993	\$ 1,904,850	\$ 33,977	\$ 53,602	\$ 2,858,422	\$ 3,657,880	\$ 6,516,302	\$ 5,523,402

The Accompanying Notes are an Integral Part of these Financial Statements

Good Shepherd Ministries of Wilmington, Inc.
Combining and Combined Statement of Functional Expenses
For the Year Ended June 30, 2017

	2017			Total	2016 Comparative Total
	Program	Administration	Fundraising		
Salaries	\$ 722,210	\$ 136,069	\$ 188,403	\$ 1,046,682	\$ 972,918
Employee benefits	67,964	12,805	17,729	98,498	131,443
Payroll taxes	<u>54,262</u>	<u>10,223</u>	<u>14,155</u>	<u>78,640</u>	<u>74,712</u>
Total Salary & Related Expenses	844,436	159,097	220,287	1,223,820	1,179,073
Contract labor	-	-	-	-	12,893
Professional fees	11,175	7,591	2,319	21,085	13,800
Other program expenses	70,656	-	-	70,656	67,710
Office expense	48,553	5,921	4,737	59,211	48,020
Printing & postage	1,571	1,571	12,565	15,707	15,498
Rent	5,394	348	58	5,800	5,400
Utilities	104,102	6,716	1,119	111,937	121,981
Repairs & maintenance	41,427	2,673	445	44,545	67,452
Transportation	16,789	-	169	16,958	18,997
Interest	3,844	248	41	4,133	3,230
Insurance	84,789	5,470	912	91,171	86,535
In-kind expenses	1,717,995	17,353	-	1,735,348	1,771,524
Subrecipient payments	29,381	-	-	29,381	44,089
Miscellaneous expense	<u>2,375</u>	<u>-</u>	<u>-</u>	<u>2,375</u>	<u>90</u>
Total Expenses	<u>2,982,487</u>	<u>206,988</u>	<u>242,652</u>	<u>3,432,127</u>	<u>3,456,292</u>
Depreciation	116,250	20,515	-	136,765	135,538
Lakeside Partners	<u>-</u>	<u>22,355</u>	<u>2,320</u>	<u>24,675</u>	<u>97,198</u>
Total Combined Expenses	<u>\$ 3,098,737</u>	<u>\$ 249,858</u>	<u>\$ 244,972</u>	<u>\$ 3,593,567</u>	<u>\$ 3,689,028</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Good Shepherd Ministries of Wilmington, Inc.
Combining and Combined Statement of Cash Flows
For the Year Ended June 30, 2017

	2017				2016	
	Unrestricted	Temporarily Restricted	Total	Lakeside Partners	Combined Total	Comparative Total
Cash Flows From Operating Activities						
Cash Collections for:						
Contributions & other	\$ 3,695,581	\$ -	\$ 3,695,581	\$ 2,298,574	\$ 5,994,155	\$ 2,222,243
Investment income, net	6,406	2,174	8,580	3,807	12,387	5,591
Less: Cash payments for expenses	<u>(3,426,573)</u>	<u>-</u>	<u>(3,426,573)</u>	<u>(24,675)</u>	<u>(3,451,248)</u>	<u>(1,691,285)</u>
Net Cash Provided (Used) By Operating Activities	<u>275,414</u>	<u>2,174</u>	<u>277,588</u>	<u>2,277,706</u>	<u>2,555,294</u>	<u>536,549</u>
Cash Flows From Investing Activities						
Purchase of property & equipment	(74,186)	-	(74,186)	(2,347,744)	(2,421,930)	(65,483)
Transfers to investments	(195,116)	-	(195,116)	-	(195,116)	-
Purchases & proceeds of investments, net	<u>-</u>	<u>(2,174)</u>	<u>(2,174)</u>	<u>-</u>	<u>(2,174)</u>	<u>(4,943)</u>
Net Cash Provided (Used) By Investing Activities	<u>(269,302)</u>	<u>(2,174)</u>	<u>(271,476)</u>	<u>(2,347,744)</u>	<u>(2,619,220)</u>	<u>(70,426)</u>
Cash Flows From Financing Activities						
Proceeds from loans	-	-	-	300,000	300,000	-
Payments of principal	<u>(9,000)</u>	<u>-</u>	<u>(9,000)</u>	<u>-</u>	<u>(9,000)</u>	<u>(9,000)</u>
Net Cash Provided (Used) By Financing Activities	<u>(9,000)</u>	<u>-</u>	<u>(9,000)</u>	<u>300,000</u>	<u>291,000</u>	<u>(9,000)</u>
Net Increase (Decrease) in Cash	(2,888)	-	(2,888)	229,962	227,074	457,123
Cash & Cash Equivalents, Beginning	478,010	-	478,010	766,836	1,244,846	787,723
Cash & Cash Equivalents, Ending	\$ 475,122	\$ -	\$ 475,122	\$ 996,798	\$ 1,471,920	\$ 1,244,846
Reconciliation of Change in Net Assets to Cash Provided (Used) By Operating Activities:						
Change in net assets	\$ (64,316)	\$ 4,759	\$ (59,557)	\$ 1,052,457	\$ 992,900	\$ 2,207,678
Unrealized investment (gain) loss	(12,490)	(2,585)	(15,075)	-	(15,075)	(3,962)
Amortization of NCHFA note discounts	10,133	-	10,133	-	10,133	-
Depreciation	136,765	-	136,765	-	136,765	135,538
Bad debt expense	-	-	-	-	-	90,654
(Increase) Decrease in:						
Receivables	209,901	-	209,901	1,225,249	1,435,150	(1,893,346)
Increase (Decrease) in:						
Accounts payable	<u>(4,579)</u>	<u>-</u>	<u>(4,579)</u>	<u>-</u>	<u>(4,579)</u>	<u>(13)</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 275,414</u>	<u>\$ 2,174</u>	<u>\$ 277,588</u>	<u>\$ 2,277,706</u>	<u>\$ 2,555,294</u>	<u>\$ 536,549</u>
Supplemental Disclosure						
Interest paid					\$ 4,133	\$ 3,374
Income taxes paid					\$ -	\$ -

The Accompanying Notes are an Integral Part of these Financial Statements

Good Shepherd Ministries of Wilmington, Inc.
Notes to Combining and Combined Financial Statements
June 30, 2017

1. ORGANIZATION

Good Shepherd Ministries of Wilmington, Inc. ("Good Shepherd") is a nonprofit organization incorporated on March 17, 1987. Good Shepherd is exempt from federal income tax under Section 501(a) of the U.S. Internal Revenue Code as an organization described in Section 501(c)(3). Accordingly, contributions to Good Shepherd may be deductible by donors and related purpose income is exempt from income tax. Good Shepherd files a Form 990, Return of Organization Exempt from Income Tax, with the IRS and North Carolina Department of Revenue.

The mission of Good Shepherd is to feed the hungry, shelter the homeless, and foster transition to housing. Established as a soup kitchen in 1983, Good Shepherd has evolved over the years to provide a Day Shelter, Night Shelter, and, in 2001, the Sgt. Eugene Ashley Transitional Living Center for homeless veterans in early recovery from substance abuse. The Day Shelter provides the chronically homeless with a low-demand safe haven where they may receive mail and clean clothing and have access to telephones, restrooms, and showers. Guests also benefit from an on-site medical clinic, operated in partnership with the New Hanover County Health Department, which provides free, non-threatening access to health screenings, prescriptions, wound care, and more.

Annually, the Second Helpings Program redistributes as much as 500 tons of salvaged food, which would have otherwise been thrown away, to area programs for the low-income, children, and the elderly, in addition to enabling the soup kitchen to serve as many as 500 meals daily to the hungry.

Already the largest provider of homeless services in the tri-county area, Good Shepherd opened its Night Shelter in 2005 to better respond to an unmet need for emergency overnight beds. Open every night, year-round, the shelter can accommodate up to 118 homeless men, women, and families with children each night, providing them not only a bed, but access to food, clothing, restrooms, showers, individual case management, and housing placement. Trained staff works with guests in developing and working toward a plan for becoming housed again.

Annually, Good Shepherd transitions approximately 150 men, women, and children from homelessness to stable housing.

Administration activities include the functions necessary to provide support to Good Shepherd's program activities. Administration activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Good Shepherd Ministries of Wilmington, Inc.
Notes to Combining and Combined Financial Statements
June 30, 2017

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

The accompanying financial statements include Lakeside Partners of Wilmington, Inc. ("Lakeside Partners"), a non-profit corporation that received its 501(c)(3) designation in 2015 and is related through common control. Good Shepherd, through Lakeside Partners, is developing affordable housing and supportive services to those in need. Lakeside Partners is to develop a community called SECU Lakeside Reserve which will consist of 40 units of permanent supportive housing built for persons with disabilities, to include homeless seniors and veterans. The community will also provide common areas for group activities and on-site case management and supportive services to be provided by Good Shepherd's staff. On November 12, 2015, the City of Wilmington conveyed a 4.26 acre parcel of property to Lakeside Partners for \$1.00 in fee simple via a non-warranty deed. The deed includes certain restrictions. The property is to be developed and used as permanent supportive housing for the homeless, construction is to be completed within five years of the date of the deed, and Lakeside Partners must not discriminate in the use or occupancy of the property. If any of the restrictions are not met, the City of Wilmington has the right to repossess the property. Lakeside Partners is close to completion of a \$5,000,000 capital campaign to raise funds to develop and construct the community in two phases.

Construction of Phase I is complete and the Certificate of Occupancy was issued on June 28, 2017. Phase I consists of a congregate living facility with 16 one-bedroom housing units. The cost of Phase I, net of the land, was \$3,040,000, which included site planning and preparation, engineering, development, and construction. Lakeside Partners received the funds needed to complete Phase I through capital campaign contributions and grant or loan commitments from the North Carolina Housing Finance Agency, the Federal Home Loan Bank, and the City of Wilmington through the HOME Program. The remaining 24 housing units will be constructed in Phase II, which will begin when funding commitments have been obtained. See Note 4 for more detail on Lakeside Partners pledges receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Good Shepherd prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations using the accrual basis of accounting. Accordingly, income is recognized when earned and expenses are recorded when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Good Shepherd Ministries of Wilmington, Inc.
Notes to Combining and Combined Financial Statements
June 30, 2017

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, Good Shepherd's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Good Shepherd's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors as follows:

- a) **Unrestricted net assets** are resources available to support operations and include resources invested in property and equipment. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of Good Shepherd, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- b) **Temporarily restricted net assets** are resources that are restricted by a donor for a particular purpose or for use in a particular future period. Good Shepherd's unspent contributions are classified in this class if the donor limited their use, and will include unspent income of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by Good Shepherd, unless the donor provides more specific directions about the period of its use.

- c) **Permanently restricted net assets** are subject to donor imposed restrictions that the resources must be maintained in perpetuity by Good Shepherd. These resources are invested and the earnings of these investments can be used in Good Shepherd's program. See Note 7.

Good Shepherd Ministries of Wilmington, Inc.
Notes to Combining and Combined Financial Statements
June 30, 2017

Investments

Investments in marketable securities with readily determinable fair values and all debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

The Board of Directors of Good Shepherd adopted an Investment Policy on October 20, 2016 to provide for the creation of and guidelines for the management of an Operating Fund and a Short-Term Reserve Fund (the "Funds"). The Funds were created for the purpose of managing investment risk and optimizing investment returns within acceptable risk parameters. The Investment Policy provides guidelines for achieving the objectives of the Funds and assigns oversight of the Funds to the Finance Committee with quarterly reporting and semi-annual evaluation of Fund performance.

Accounts Receivable

Accounts receivable are primarily unsecured, non-interest bearing amounts due from grantors on cost reimbursement or performance grants. Management believes that all outstanding accounts receivable are collectible in full; therefore, no allowance for uncollectible receivables has been provided.

Pledges Receivable

Pledges receivable are unconditional promises to give to the Lakeside Partners capital campaign that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value, generally the amount of the pledge. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises and considers a present value discount where pledges are due in a year or more. Promises that remain uncollected more than one year after their due dates are written off, unless the donors indicate that payment is merely postponed.

Good Shepherd Ministries of Wilmington, Inc.
Notes to Combining and Combined Financial Statements
June 30, 2017

Land, Buildings, and Equipment

Land, buildings, and equipment are reported in the statement of financial position at cost if purchased and at fair value at the date of donation if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	30 - 39 years
Furniture and equipment	5 - 10 years
Vehicles	5 years
Technology	3 - 5 years

Land, buildings, and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Contributions

Unrestricted contributions are recognized when cash or ownership of donated assets is unconditionally promised to Good Shepherd.

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets, unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due and therefore, are reported as temporarily restricted until the payment is made, unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and Good Shepherd has an irrevocable right to the bequest.

Contributions In-Kind

Where contributed services and materials meet the criteria for recognition, they are recorded as in-kind contribution revenues. The fair market value of in-kind contributions (primarily food, clothing, and supplies) was \$1,735,348 in 2017 and \$1,771,524 in 2016. While many individuals volunteer their time and perform a variety of tasks for Good Shepherd, these services do not meet the criteria for recognition and therefore, are not reflected in the financial statements.

Good Shepherd Ministries of Wilmington, Inc.
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Allocation of Expenses

The costs of providing the various programs and supporting activities of Good Shepherd have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited. Accordingly, certain costs have been allocated using objective bases, such as time spent, salaries, square feet, and other bases. Total expenses for fiscal year 2017 are \$3,652,632, which includes expenses of \$59,065 directly related to fundraising events.

Administration expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of Good Shepherd.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. Good Shepherd generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and administration expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

Income Taxes

Accounting principles generally accepted in the United States of America require Good Shepherd's management to evaluate tax positions taken by Good Shepherd and recognize a tax liability (or asset) if Good Shepherd has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Good Shepherd has analyzed the tax positions taken and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. Good Shepherd is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Good Shepherd believes it is not subject to income tax examinations for years prior to 2014.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Good Shepherd's financial statements for the year then ended, from which the summarized information was derived. Certain reclassifications of prior year comparative amounts have been made in order to conform to the current year presentation.

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Subsequent Events

Subsequent events have been evaluated through September 18, 2017, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. From time to time during the periods presented, Good Shepherd has had cash balances in banks that have exceeded federal depository insurance limits. Cash and cash equivalents are as follows at June 30:

	<u>2017</u>	<u>2016</u>
Wells Fargo - Operating Checking	\$ 245,975	\$ 220,789
Wells Fargo - Lakeside Partners Checking	-	766,836
South State Bank - Lakeside Partners	3,322	-
Live Oak - Money Market	229,147	226,890
Live Oak - Lakeside Partners Money Market	993,476	-
Wells Fargo - Money Market	-	5,186
Wells Fargo - Money Market	-	25,145
Total Cash & Cash Equivalents	<u>\$ 1,471,920</u>	<u>\$ 1,244,846</u>

4. LAKESIDE PARTNERS PLEDGES RECEIVABLE

As of June 30, 2017, Lakeside Partners has raised approximately \$3,227,512 toward a \$5,000,000 campaign goal. Of the \$3,227,512 raised, \$525,685 remains outstanding.

Pledges receivable are stated at the full amount of outstanding pledges made by donors less a \$10,514 allowance for uncollectible pledges. Donor pledge balances may be paid in a lump-sum or received in periodic installments. No interest is charged against unpaid balances. The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the pledges that will not be collected and considered a discount when pledges are to be received in future years. Management evaluated historical write-offs as a percentage of the total pledges received for each campaign year to estimate a general allowance to apply to the current year campaign pledges total. This estimate may be adjusted for management's estimate of any changes in current economic conditions that might give rise to results that differ from past experience, and at times the amount of the adjustment can be material. Of the total pledge receivable, \$416,685 is due in the subsequent fiscal year and is shown in the statement of financial position as a current asset. The remaining \$109,000, net of the \$10,514 allowance for uncollectible pledges, is shown as a non-current asset.

Good Shepherd Ministries of Wilmington, Inc.
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5. REFUNDABLE ADVANCES

Refundable advances of \$875,000 at June 30, 2017 result from two transactions used to finance Good Shepherd facilities, which are shown as conditional gifts. Accordingly, repayment is not scheduled in the near term and the balance may be recognized as income if required conditions are met.

On June 27, 2001, the City of Wilmington provided \$475,000 for Good Shepherd to purchase a building on Colwell Avenue. Good Shepherd signed a non-interest bearing note for \$475,000 to be repaid if the building is not used for the approved purpose at any time during the next 30 years.

On January 11, 2006, North Carolina Housing Finance Agency (NCHFA) provided \$400,000 for Good Shepherd to finish construction of its overnight shelter in Wilmington, North Carolina. Good Shepherd signed a non-interest bearing note for \$400,000. As long as Good Shepherd uses the shelter for its intended purpose, no payments are due until January 11, 2036. Good Shepherd may then request a second 30 year extension on payment of principal.

Good Shepherd Ministries of Wilmington, Inc.
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6. LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
A non-interest bearing note payable, dated June 1, 2002, to North Carolina Housing Finance Agency due in monthly payments of \$750 which aggregate to \$180,000 over the 20 year term. The note is collateralized by the building on Colwell Avenue. The loan has been discounted to its present value using an estimated market interest rate of 7%.	\$ 36,664	\$ 42,850
A non-interest bearing note payable, dated June 1, 2002, to North Carolina Housing Finance Agency for \$120,000 collateralized by the building on Colwell Avenue. No stated payments are due. If Good Shepherd uses Colwell Avenue property for its intended charitable purposes, \$6,000 is to be forgiven annually for 20 years starting in April 2004. The loan has been discounted to its present value using an estimated market interest rate of 7%.	24,451	28,398
A commercial mortgage with South State Bank, dated October 13, 2016, with an original approved amount of up to \$1,000,000. Good Shepherd only drew \$300,000 to use as a bridge loan for construction until funds were received from the Federal Home Loan Bank in 2017. The full \$300,000 was paid off in 2017 and therefore classified as a current maturity.	<u>300,000</u>	<u>-</u>
	<u>\$ 361,115</u>	<u>\$ 71,248</u>

Maturities of long-term debt are summarized as follows:

Year ending June 30, 2018	\$ 310,865
Year ending June 30, 2019	11,651
Year ending June 30, 2020	12,493
Year ending June 30, 2021	13,396
Year ending June 30, 2022	12,710
Thereafter	-
Total Debt	<u>361,115</u>
Less: Current maturities	<u>(310,865)</u>
Total Long-Term Debt	<u>\$ 50,250</u>

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7. PERMANENTLY RESTRICTED RISING TIDE FUND

The Rising Tide Fund (the "Fund") includes the original value of a permanently restricted gift donated to Good Shepherd. Related income is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the Fund's objectives. The Board of Directors of Good Shepherd has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to manage this Fund.

The Fund's changes in net assets for the year are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Rising Tide Fund net assets, beginning	\$ -	\$ 29,218	\$ 53,602	\$ 82,820
Contributions	-	-	-	-
Investment income	-	2,674	-	2,674
Net appreciation (depreciation)	-	2,585	-	2,585
Advisory fees	(500)	-	-	(500)
Released from restriction	<u>500</u>	<u>(500)</u>	<u>-</u>	<u>-</u>
Rising Tide Fund net assets, ending	<u>\$ -</u>	<u>\$ 33,977</u>	<u>\$ 53,602</u>	<u>\$ 87,579</u>

Investment Return Objectives, Risk Parameters, and Strategies. The Fund has adopted investment policies, approved by the Board of Directors, that attempt to provide a predictable stream of funding for the Fund while also maintaining purchasing power of the assets in the Fund over the long-term. The target asset mix for the Fund is 32% cash investments and 68% equity investments. Good Shepherd expects the Fund's assets, over time, to produce a rate of return in excess of 3%. Actual returns in any year may differ from this amount. Investment decisions are managed by Good Shepherd to not expose the Fund to unacceptable risks.

Spending Policy. The Fund seeks to identify persons who use Good Shepherd's other programs and have demonstrated a strong commitment to achieving a productive and sustaining life. Management identifies candidates, then the Board approves candidates and expenditures from temporarily restricted funds that will help the beneficiary attain self-sufficiency. Spending occurs as temporarily restricted assets are available and as candidates have been identified and approved.

The Fund's net asset composition is as follows at June 30, 2017:

Cash & money market funds	<u>Fair Value</u> \$ 8,974
Investments	78,605
Total	<u>\$ 87,579</u>

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8. RELATED PARTY

The Clark James Foundation, Inc. (the "Foundation") was created as a 501(c)(3) organization to support Good Shepherd exclusively. Two board members of Good Shepherd also serve as board members of the Foundation. However, Good Shepherd does not control the Foundation through appointments or voting interest. Contributions of \$230,412 in fiscal year 2017 and \$233,768 in fiscal year 2016 from the Foundation are included in the accompanying financial statements.

9. RETIREMENT PLAN

Good Shepherd established a SEP/IRA retirement plan which covers all employees who have at least six months of work experience and compensation over \$450. The plan permits Good Shepherd to contribute up to 25% of salaries annually. Management is to determine that amount annually based on an analysis of operating performance and cash available at calendar year end. Retirement expense was \$30,000 for fiscal 2017 and 2016.

10. RISK MANAGEMENT

Good Shepherd is exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of liability, natural disasters, employee and officer errors and omissions, and employee workers' compensation and medical claims.

Good Shepherd purchases commercial insurance coverage against risk of loss due to errors and omissions, property damage and theft, and various other insurable risks. Good Shepherd carries blanket building and blanket content insurance in the amount of \$4,305,000 and \$3,561,400, respectively, for 2017 and 2016 with a deductible of \$1,000 for all covered perils, except named windstorm. For 2017 and 2016, the deductible for losses due to windstorm and/or hail is \$5,000 with a 1% named storm deductible per occurrence.

For 2017 and 2016, Good Shepherd was insured for workers' compensation and employers' liability. In both 2017 and 2016, general liability was written on an occurrence basis. Excess commercial liability insurance is purchased to provide coverage above the underlying limits for general liability, auto liability, employers' liability, and employee benefits liability.

No claim payment has exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above.