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SHEPHERD MINISTRIES, INC.
Annual Financial Report
For the Year Ended December 31, 1998

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date AUG 11 1999

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May 24, 1999

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Shepherd Ministries, Inc.

We have audited the accompanying statement of financial position of Shepherd Ministries, Inc. (a non-profit organization) as of December 31, 1998, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, Shepherd Ministries receives support in the form of donated materials and supplies. These donated items are distributed to needy individuals as part of the Ministries' regular program activities; however, the value of donated items received and distributed are excluded from the accompanying financial statements. Furthermore, the value of donated materials and supplies held in inventory at December 31, 1998 is excluded from the accompanying statement of financial position. The effect of excluding donated materials and supplies from the accompanying financial statements is not reasonably determinable.

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Shepherd Ministries, Inc. as of December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated May 24, 1999, on our consideration of Shepherd Ministries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information referred to in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rozer, Harrington & McKay
ROZIER, HARRINGTON & MCKAY
Certified Public Accountants

SHEPHERD MINISTRIES, INC.

Statement of Financial Position ***December 31, 1998***

Assets

Current assets:

Cash and cash equivalents	\$ 347,281
Grants and pledges receivable	472,381
Inventories	<u>39,505</u>
Total current assets	<u>859,167</u>

Land, buildings, and equipment (net of accumulated depreciation)	<u>918,414</u>
--	----------------

Endowment assets:

Cash and cash equivalents	62,528
Investments	<u>608,624</u>
Total endowment assets	<u>671,152</u>

Total assets	<u>\$ 2,448,733</u>
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Liabilities and Net Assets

Current liabilities:

Bank overdraft	\$ 3,509
Accounts payable	7,006
Client trust funds	14,046
Other current liabilities	<u>19,460</u>
Total current liabilities	<u>44,021</u>

Net assets:

Unrestricted	166,858
Temporarily restricted	1,737,854
Permanently restricted	<u>500,000</u>
Total net assets	<u>2,404,712</u>

Total liabilities and net assets	<u>\$ 2,448,733</u>
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The accompanying notes are an integral part of the financial statements.

SHEPHERD MINISTRIES, INC.

Statement of Activities

For the Year Ended December 31, 1998

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Revenue and Support:</u>				
Contributions	\$ -	\$ 549,626	\$ -	\$ 549,626
Federal grants	-	414,994	-	414,994
Program fees	-	113,693	-	113,693
Investment income	105,219	7,179	-	112,398
Net assets released from restrictions	809,729	(809,729)	-	-
	<u>914,948</u>	<u>275,763</u>	<u>-</u>	<u>1,190,711</u>
<u>Functional expenses:</u>				
<u>Program services:</u>				
Shepherd Center	236,521	-	-	236,521
Hope House	260,785	-	-	260,785
Budget Management Services:	141,804	-	-	141,804
Maison de Coeur	166,350	-	-	166,350
Phoenix Point	2,000	-	-	2,000
	<u>807,460</u>	<u>-</u>	<u>-</u>	<u>807,460</u>
<u>Supporting services:</u>				
Management and General	24,900	-	-	24,900
Fund raising	19,769	-	-	19,769
	<u>44,669</u>	<u>-</u>	<u>-</u>	<u>44,669</u>
	<u>852,129</u>	<u>-</u>	<u>-</u>	<u>852,129</u>
Increase (decrease) in net assets	62,819	275,763	-	338,582
Net assets - beginning of year:	<u>104,039</u>	<u>1,462,091</u>	<u>500,000</u>	<u>2,066,130</u>
Net assets - end of year	<u>\$ 166,858</u>	<u>\$ 1,737,854</u>	<u>\$ 500,000</u>	<u>\$ 2,404,712</u>

The accompanying notes are an integral part of the financial statements.

SHEPHERD MINISTRIES, INC.

Statement of Functional Expenses For the Year Ended December 31, 1998

	<u>Program Services</u>						<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Shepherd Center</u>	<u>Hope House</u>	<u>Budget Management</u>	<u>Maison de Coeur</u>	<u>Phoenix Point</u>	<u>Total</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	
Salaries, wages and benefits	\$ 91,963	\$ 184,626	\$ 103,744	\$ 109,748	\$ 2,000	\$ 492,081	\$ -	\$ -	\$ -	\$ 492,081
Occupancy	15,193	31,317	11,069	16,276	-	73,855	-	-	-	73,855
Depreciation	6,569	16,867	3,095	17,156	-	43,687	-	-	-	43,687
Travel and seminars	3,744	2,598	6,788	-	-	13,130	-	-	-	13,130
Professional services	5,009	5,024	5,383	8,241	-	23,657	14,552	-	14,552	38,209
Supplies	7,606	14,240	6,408	8,262	-	36,516	-	-	-	36,516
Other	2,865	6,113	5,317	6,667	-	20,962	10,348	19,769	30,117	51,079
Distributions for needy individuals:										
Utilities	60,752	-	-	-	-	60,752	-	-	-	60,752
Rent and Lodging	6,743	-	-	-	-	6,743	-	-	-	6,743
Medical	15,217	-	-	-	-	15,217	-	-	-	15,217
Transportation	3,831	-	-	-	-	3,831	-	-	-	3,831
Christmas Cheer:										
Food	4,210	-	-	-	-	4,210	-	-	-	4,210
Toys	9,159	-	-	-	-	9,159	-	-	-	9,159
Miscellaneous	3,660	-	-	-	-	3,660	-	-	-	3,660
Total expenses	<u>\$ 236,521</u>	<u>\$ 260,785</u>	<u>\$ 141,804</u>	<u>\$ 166,350</u>	<u>\$ 2,000</u>	<u>\$ 807,460</u>	<u>\$ 24,900</u>	<u>\$ 19,769</u>	<u>\$ 44,669</u>	<u>\$ 852,129</u>

The accompanying notes are an integral part of the financial statements.

SHEPHERD MINISTRIES, INC.

Statement of Cash Flows For the Year Ended December 31, 1998

Cash flows from operating activities:

Change in net assets	\$ 338,582
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Depreciation	43,687
Unrealized (gain) loss on investments	(46,593)
Change in operating assets and liabilities:	
(Increase) decrease in accounts and grants receivable	(160,290)
(Increase) decrease in inventories	(28,453)
Increase (decrease) in accounts payable	1,703
Increase (decrease) in client trust funds	1,422
Increase (decrease) in other current liabilities	(1,790)
Net cash provided (used) by operating activities	<u>148,268</u>

Cash flows from investing activities:

Purchase of land, buildings and equipment	(20,769)
Proceeds from maturity of investment securities	164,000
Purchase of investments	<u>(252,424)</u>
Net cash provided (used) by investing activities	<u>(109,193)</u>

Cash flows from financing activities:

Increase in cash overdraft	<u>2,499</u>
Net cash provided (used) by financing activities	<u>2,499</u>

Net increase (decrease) in cash and cash equivalents	41,574
Cash and cash equivalents - beginning of year	<u>368,235</u>
Cash and cash equivalents - end of year	409,809
Current cash and cash equivalents	<u>347,281</u>
Endowment cash and cash equivalents	<u>\$ 62,528</u>

Supplemental Data:

For the year ended December 31, 1998, there were no cash payments for interest or income taxes. Furthermore, there were no significant noncash investing or financing activities during the year.

The accompanying notes are an integral part of the financial statements.

SHEPHERD MINISTRIES, INC.

Notes to Financial Statements ***December 31, 1998***

Note 1 – Summary of Significant Accounting Policies:

Organization:

Shepherd Ministries, Inc. is a non profit organization with operations in Alexandria, Louisiana. The operations of the Ministries consist of several components which are consolidated for financial reporting purposes. The components of the Ministry are described as follows:

Shepherd Center - The principle activity of the Shepherd Center is furnishing emergency assistance to individuals in need. The Shepherd Center offers emergency assistance with utility, lodging, medical and transportation needs. In addition, the Shepherd Center operates an annual Christmas Cheer program that provides needy families with toys, food and other assistance associated with the Christmas season.

Hope House - Provides transitional housing for homeless women and their children. Participants are required to establish goals and engage in activities that will allow them to become independent. Progress is monitored and assistance is provided by case workers. Hope House also sponsors the Phoenix Point Project, which provides transitional housing for homeless men, women and families. Phoenix Point activities have been presented separately from the remaining Hope House activities in the accompanying financial statements.

Budget Management - Provides debt counseling and money management services. Money management services requires participants to make payments in accordance with a detailed financial plan. Budget Management collects the required payments and distributes the funds to various creditors. Budget Management also provides training for prospective home buyers. In addition, it provides affordable housing by acquiring and rehabilitating qualified properties.

Maison de Coeur - Provides service for homeless, terminally ill individuals. Services provided include transitional shelter, permanent shelter and compassionate care.

Basis of Presentation:

The financial statements have been prepared on the accrual basis in conformity with generally accepted accounting principles. Preparation of financial statements in conformity with generally accepted accounting principles requires certain estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

As required by Statement of Financial Accounting Standards (SFAS) No. 117, net assets and activities are classified in the following manner:

Unrestricted – Net assets that are not subject to donor imposed restrictions.

SHEPHERD MINISTRIES, INC.

Notes to Financial Statements ***December 31, 1998***

Temporarily Restricted – Net assets subject to certain donor imposed restrictions and restrictions imposed by grant agreements. Temporary restrictions apply when the restriction can be fulfilled by actions of the Ministry or by the passage of time.

Permanently Restricted – Net assets subject to donor imposed restrictions that require these assets to be maintained in a perpetual manner.

Revenues that are not subject to donor imposed restrictions are presented as increases in unrestricted net assets. Typical revenues are designated for a particular component of the Ministry; therefore, these amounts are presented as increases in temporarily restricted net assets. Satisfaction of these restrictions is presented as net assets released from restrictions. Expenses are presented as decreases in unrestricted net assets.

Income Taxes:

The Ministry is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Furthermore, the Ministry is not classified as a “private foundation” by the Internal Revenue Service.

Promises to Give:

As required by generally accepted accounting principles, unconditional promises to give are reported as revenue when the promise is made. Conditional promises to give are recognized as revenue when the necessary conditions are fulfilled.

Cash and Cash Equivalents:

Cash and cash equivalents represent bank deposits and highly liquid investments with original maturities of three months or less.

Investments:

Marketable securities are reported at quoted market values. Unrealized gains and losses are reported on the statement of activities as a component of the change in net assets.

Land, Buildings and Equipment:

Land, buildings and equipment are recorded at cost on the date of acquisition. Donated property is recorded at the estimated fair value upon receipt. Depreciation on buildings and equipment is computed using the straight-line basis over estimated useful lives ranging from 5 to 40 years.

Assets donated with explicit restrictions regarding their use and contributions of cash earmarked to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Ministry reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Ministry reclassifies temporarily restricted net assets to unrestricted net assets at that time.

SHEPHERD MINISTRIES, INC.

Notes to Financial Statements ***December 31, 1998***

Inventories:

Inventories consist of residential real estate acquired by Budget Management Services for use in the Community Housing Development program. These properties will be renovated and sold to eligible home buyers. Amounts reported on the Statement of Financial Position are based on appraised values.

Donated Materials and Supplies:

The Shepherd Center receives various materials and supplies which are distributed to needy individuals. Most of the items distributed by the Shepherd Center have little or no fair market value; however, large quantities of food are collected, stored and distributed. The distribution of food is an important component of the Shepherd Center's program activities, but no effort is made to measure the value of food received, distributed or held in inventory at year end.

Donated Services:

Volunteers are utilized extensively for both program and supporting services. Contributed services are recognized if the services require specialized skills and the Ministries would be required to purchase these services if donated services were not available.

Note 2 – Grants and Pledges Receivable:

At December 31, 1998, grants and pledges receivable consisted entirely of unconditional promises to give. Details regarding the amount reported on the Statement of Financial Position are provided as follows:

	<u>Hope House</u>	<u>Budget Management Services</u>	<u>Maison de Coeur</u>	<u>Phoenix Point</u>	<u>Total</u>
Emergency Shelter Grant	\$ ----	\$ ----	\$ ----	\$ 40,000	\$ 40,000
Supportive Housing Program	307,105	----	----	----	307,105
Community Housing Development	----	79,843	----	----	79,843
Home Buyer Training	----	29,538	----	----	29,538
Housing Opportunities for People with Aids	----	----	9,400	----	9,400
Miscellaneous	45	----	6,450	----	6,495
Total	\$ 307,150	\$ 109,381	\$ 15,850	\$ 40,000	\$ 472,381

Grants and pledges are considered entirely collectible and there is no allowance for doubtful accounts. The portion attributable to Hope House will be collected with five years and the remaining balance is considered collectible with one year.

In addition to the unconditional promises to give presented above, the Rapides Foundation has promised \$26,391 to Phoenix Point; however, the funds are not available until Phoenix Point is successful in securing funding from the Department of Housing and Urban Development (HUD). HUD funding was awarded on January 11, 1999.

SHEPHERD MINISTRIES, INC.

Notes to Financial Statements ***December 31, 1998***

Note 3 – Investments:

Investments are limited to amounts held in the endowment fund. Investments at December 31, 1998 are presented as follows:

Preferred Stock	\$ 201,940
Mutual Funds	390,186
Common Stock	16,498
<hr/>	
Total	\$ 608,624

Investment income presented in the accompanying Statement of Activities includes net unrealized gains totaling \$46,593.

Note 4 – Land, Buildings and Equipment:

Land, buildings and equipment utilized by each component of Shepherd Ministries at December 31, 1998 are presented as follows:

	<u>The</u> <u>Shepherd</u> <u>Center</u>	<u>Hope</u> <u>House</u>	<u>Budget</u> <u>Management</u> <u>Services</u>	<u>Maison</u> <u>de Coeur</u>	<u>Total</u>
Land, Buildings and Improvements	\$ 175,684	\$ 382,139	\$ 44,000	\$ 392,122	\$ 993,945
Furniture, Fixtures and Equipment	43,450	61,093	16,749	50,069	171,361
Vehicles	17,565	17,975	----	----	35,540
<hr/>					
Total	236,699	461,207	60,749	442,191	1,200,846
Accumulated Depreciation	(85,281)	(132,987)	(21,743)	(42,421)	(282,432)
<hr/>					
Net	\$ 151,418	\$ 328,220	\$ 39,006	\$ 399,770	\$ 918,414

Donor stipulations require that the building donated to Maison de Coeur be used for the purpose of providing a home for terminally ill individuals. In the event that the property ceases to be used in the prescribed manner, the building and any improvements will revert to the donor.

Note 5 – Temporarily Restricted Net Assets:

Net assets that are attributable to a specific component of Shepherd Ministries, Inc. are classified as temporarily restricted. Net assets that are restricted for the general operations of a particular component of Shepherd Ministries and net assets that are restricted for specific purposes are summarized as follows:

SHEPHERD MINISTRIES, INC.

Notes to Financial Statements ***December 31, 1998***

	<u>General</u> <u>Operations</u>	<u>Specific</u> <u>Purposes</u>	<u>Total</u>
Shepherd Ministries, Inc.	\$ ----	\$ 12,500	\$ 12,500
The Shepherd Center	320,156	----	320,156
Hope House	753,161	45,642	798,803
Budget Management Services	63,741	105,046	168,787
Maison de Coeur	399,608	----	399,608
Phoenix Point	38,000	---	38,000
Total	\$ 1,574,666	\$ 163,188	\$ 1,737,854

Net assets restricted for specific purposes are described as follows:

<u>Nature of Restriction:</u>	<u>Shepherd</u> <u>Ministries</u> <u>Incorporated</u>	<u>Hope</u> <u>House</u>	<u>Budget</u> <u>Management</u> <u>Services</u>	<u>Total</u>
Strategic Planning	\$ 12,500	\$ ----	\$ ----	\$ 12,500
Building Renovations	----	27,642	----	27,642
Work Training Coordinator	----	18,000	----	18,000
Home Buyer Training	----	----	25,553	25,553
Community Housing Development	----	----	79,493	79,493
Total	\$ 12,500	\$ 45,642	\$ 105,046	\$ 163,188

Note 6 – Endowment Fund:

The endowment was established to provide a permanent fund that will produce income for the operation of the various Ministries. Operation of the endowment fund is governed by a committee appointed by the board of Shepherd Ministries. Established policies require all contributions to the fund to be maintained in perpetuity. Furthermore, no income may be distributed unless the fair market value of the endowment fund's assets is at least \$500,000. The fair market value of the endowment fund's assets at December 31, 1998 is presented as follows:

Cash and cash equivalents	\$ 62,528
Investments	608,624
Net assets – Endowment Fund	671,152
Permanently restricted net assets	500,000
Unrestricted net assets – Endowment Fund	\$ 171,152

SHEPHERD MINISTRIES, INC.

Notes to Financial Statements ***December 31, 1998***

The amount classified as unrestricted net assets represents accumulated investment income in excess of the minimum amount required for distribution of income.

Note 7 – Concentration of Credit Risk:

At December 31, 1998, funds on deposit with various financial institutions exceeded available Federal Deposit Insurance Coverage by approximately \$ 174,074.

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May 24, 1999

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Shepherd Ministries, Inc.

We have audited the financial statements of the Shepherd Ministries, Inc., as of and for the year ended December 31, 1998, and have issued our report thereon dated May 24, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shepherd Ministries' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shepherd Ministries' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Shepherd Ministries' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-1.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

Rozier, Harrington & McKay

ROZIER, HARRINGTON & MCKAY
Certified Public Accountants

SHEPHERD MINISTRIES, INC.

Departmentalized Statement of Financial Position **December 31, 1998**

	Shepherd Ministries	Shepherd Center	Hope House	Budget Management	Maison de Coeur	Phoenix Point	Total
<u>Assets</u>							
<u>Current assets:</u>							
Cash and cash equivalents	\$ 16,798	\$ 149,088	\$ 170,659	\$ 10,736	\$ -	\$ -	\$ 347,281
Grants and pledges receivable	-	-	307,150	109,381	15,850	40,000	472,381
Inventories	-	-	-	39,505	-	-	39,505
Interdepartmental receivable	-	19,650	2,000	-	-	-	21,650
Total current assets	16,798	168,738	479,809	159,622	15,850	40,000	880,817
<u>Endowment assets:</u>							
Cash and cash equivalents	62,528	-	-	-	-	-	62,528
Investments	608,624	-	-	-	-	-	608,624
Total endowment assets	671,152	-	-	-	-	-	671,152
Land buildings and equipment, (net)	-	151,418	328,220	39,006	399,770	-	918,414
Total assets	\$ 687,950	\$ 320,156	\$ 808,029	\$ 198,628	\$ 415,620	\$ 40,000	\$ 2,470,383

SHEPHERD MINISTRIES, INC.

Departmentalized Statement of Financial Position December 31, 1998

	Shepherd Ministries	Shepherd Center	Hope House	Budget Management	Maison de Coeur	Phoenix Point	Total
<u>Liabilities and Net Assets</u>							
<u>Current liabilities:</u>							
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ 3,509	\$ -	\$ 3,509
Accounts payable	-	-	1,615	-	5,391	-	7,006
Client trust funds	-	-	6,985	7,061	-	-	14,046
Interdepartmental payable	-	-	-	19,650	-	2,000	21,650
Other current liabilities	8,592	-	626	3,130	7,112	-	19,460
Total current liabilities	8,592	-	9,226	29,841	16,012	2,000	65,671
<u>Net assets:</u>							
Unrestricted	166,858	-	-	-	-	-	166,858
Temporarily restricted	12,500	320,156	798,803	168,787	399,608	38,000	1,737,854
Permanently restricted	500,000	-	-	-	-	-	500,000
Total net assets	679,358	320,156	798,803	168,787	399,608	38,000	2,404,712
Total liabilities and net assets	\$ 687,950	\$ 320,156	\$ 808,029	\$ 198,628	\$ 415,620	\$ 40,000	\$ 2,470,383

SHEPHERD MINISTRIES, INC.

Departmentalized Statement of Activities December 31, 1998

	<u>Shepherd Ministries, Inc.</u>					<u>Total</u>	<u>Shepherd Center</u>				<u>Hope House</u>	<u>Budget Management</u>	<u>Maison de Coeur</u>	<u>Phoenix Point</u>	<u>Total</u>	
	<u>General</u>	<u>Endowment</u>	<u>Total</u>	<u>Center</u>	<u>House</u>		<u>Management</u>	<u>de Coeur</u>	<u>Point</u>							
<u>Revenue and Support:</u>																
Contributions	\$ 25,000	\$ -	\$ 25,000	\$ 256,699	\$ 158,209	\$ 10,350	\$ 99,368	\$ -	\$ 549,626							
Federal grants	-	-	-	14,394	307,150	44,050	9,400	40,000	414,994							
Program fees	-	-	-	-	20,023	78,019	15,651	-	113,693							
Endowment Distributions	-	(30,000)	(30,000)	3,533	19,401	3,533	-	-	-							
Investment income	-	105,219	105,219	3,015	4,164	-	-	-	112,398							
Total revenue and support	25,000	75,219	100,219	277,641	508,947	135,952	127,952	40,000	1,190,711							
<u>Expenses:</u>																
<u>Program services:</u>																
Salaries, wages and benefits	-	-	-	91,963	184,626	103,744	109,748	2,000	492,081							
Occupancy	-	-	-	15,193	31,317	11,069	16,276	-	73,855							
Depreciation	-	-	-	6,569	16,867	3,095	17,156	-	43,687							
Travel and seminars	-	-	-	3,744	2,598	6,788	-	-	13,130							
Professional services	-	-	-	5,009	5,024	5,383	8,241	-	23,657							
Supplies	-	-	-	7,606	14,240	6,408	8,262	-	36,516							
Other	-	-	-	2,865	6,113	5,317	6,667	-	20,962							
Distributions for needy individuals:																
Utilities	-	-	-	60,752	-	-	-	-	60,752							
Rent and Lodging	-	-	-	6,743	-	-	-	-	6,743							
Medical	-	-	-	15,217	-	-	-	-	15,217							
Transportation	-	-	-	3,831	-	-	-	-	3,831							
Christmas Cheer:																
Food	-	-	-	4,210	-	-	-	-	4,210							
Toys	-	-	-	9,159	-	-	-	-	9,159							
Miscellaneous	-	-	-	3,660	-	-	-	-	3,660							
Total program services	-	-	-	236,521	260,785	141,804	166,350	2,000	807,460							
Management and general	24,900	-	24,900	-	-	-	-	-	24,900							
Fund raising expenses	-	-	-	2,018	3,929	-	13,822	-	19,769							
Total expenses	24,900	-	24,900	238,539	264,714	141,804	180,172	2,000	852,129							
Increase (decrease) in net assets	100	75,219	75,319	39,102	244,233	(5,852)	(52,220)	38,000	338,582							
Net assets - beginning of year	8,106	595,933	604,039	281,054	554,570	174,639	451,828	-	2,066,130							
Net assets - end of year	\$ 8,206	\$ 671,152	\$ 679,358	\$ 320,156	\$ 798,803	\$ 168,787	\$ 399,608	\$ 38,000	\$ 2,404,712							

SHEPHERD MINISTRIES, INC.

Summary of Findings and Questioned Cost December 31, 1998

We were engaged to audit the financial statements of Shepherd Ministries, Inc. as of and for the year ended December 31, 1998, and have issued our report thereon dated May 24, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report expresses a qualified opinion on the financial statements for the year ended December 31, 1998.

Section I - Summary of Auditor's Results:

- a. The report on internal control and compliance material to the financial statements reported the following items:
 - Internal Control – A reportable condition was noted; however, it was not considered to be a material weakness.
 - Compliance – No noncompliance that is material to the financial statements was noted.
- b. Federal Awards:
 - N/A, Federal Awards received during the year ended December 31, 1998 were not sufficient in amount to require a single audit.
- c. Identification of Major Programs:
 - N/A

Section II - Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Governmental Auditing Standards:

98-1: Treasury Function:

Each component of Shepherd Ministries has custody of any funds that are the exclusive property of that particular component. In addition, Shepherd Ministries, Inc. maintains a bank account that is used to deposit and disburse any funds that are not directly attributable to a particular component of the Ministries. The Treasurer of Shepherd Ministries, Inc. is responsible for executing transactions and maintaining financial records related to this account; however, Shepherd Ministries has experienced problems retaining documentation to support transactions involving these funds. Some conditions that may have contributed to this situation are described as follows:

- Transactions executed by the Treasurer are not posted on the Ministries' general ledger on a monthly basis. Typically, these transactions are compiled annually and recorded as an audit adjustment.

SHEPHERD MINISTRIES, INC.

Summary of Findings and Questioned Cost December 31, 1998

- The position of Treasurer is occupied by a volunteer that serves without compensation; however, the duties associated with this office may exceed the level of responsibility ordinarily expected of volunteers.
- A new treasurer is typically appointed on an annual basis. Due to the rate of turnover associated with this position, the person serving in this capacity may not always be thoroughly familiar with the Treasurer's duties. Furthermore, frequent transitions to a new personnel can create opportunities for errors and omissions to occur.

The persistent nature of the problems described above could adversely affect Shepherd Ministries' ability to properly report financial data. In order to resolve this problem, we recommend establishing policies and procedures that will alleviate the problems described above. Suggestions that may contribute to resolving the problems are provided as follows:

- Consider having the Treasurer or other responsible party submit bank statements and check stubs to the Ministries' accountants on a monthly basis. Allowing the accountants to compile these financial records on a regular basis will allow issues to be addressed in a timely manner.
- Consider having the person responsible for writing checks attach supporting documentation to the check stub. This will provide a convenient mechanism for retaining the necessary supporting documentation.
- Some of the Treasurer's responsibilities revolve around the Ministries' payroll cycle. Difficulties are encountered because some of the components compensate employees biweekly and other utilize a semi-monthly payroll cycle. To some extent the Treasurer's duties could be simplified by adopting a single payroll cycle. Since the semi-monthly payroll cycle involves only two payday's in each month, it is generally considered to be a preferable alternative to biweekly compensation.
- Consider transferring a portion of the Treasurer's reoccurring duties to an employee of Shepherd Ministries. Assigning duties in this manner will alleviate some of the problems associated with frequent turnover in the voluntary Treasurer position. In addition, an assignment of this nature will allow Shepherd Ministries, Inc. to conduct affairs during ordinary business hours on a daily basis.
- Consider establishing a finance committee that will share some of the Treasurer's responsibilities. The committee approach will allow some of the burden previously associated with the Treasurer's position to be shared by a group. Furthermore, problems associated with annual turnover of the Treasurer's position can be reduced by assigning the committee members to terms that exceed one year. These terms should be staggered in a manner that permits the committee members to be replaced in a gradual manner rather than having all of the terms expire at once.

Section III - Findings and Questioned Costs for Federal Awards Which Shall Include Audit Findings as Defined by OMB Circular A-133:

- None

SHEPHERD MINISTRIES, INC.

Management's Corrective Action Plan December 31, 1998

<u>SECTION I</u> INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.	
<u>98-1: Treasury Function:</u> Each component of Shepherd Ministries has custody of any funds that are the exclusive property of that particular component. In addition, Shepherd Ministries, Inc. maintains a bank account that is used to deposit and disburse any funds that are not directly attributable to a particular component of the Ministries. The Treasurer of Shepherd Ministries, Inc. is responsible for executing transactions and maintaining financial records related to this account; however, Shepherd Ministries has experienced problems retaining documentation to support transactions involving these funds.	<u>98-1: Response</u> The management of Shepherd Ministries, Inc. concurs with the findings regarding the treasury function. We expect to implement policies and procedures that will correct any problems involving the treasury function.
<u>SECTION II</u> INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS	
N/A – No findings of this nature were reported.	Response – N/A
<u>SECTION III</u> MANAGEMENT LETTER	
N/A – No findings of this nature were reported.	Response – N/A

SHEPHERD MINISTRIES, INC.

Summary of Prior Year Findings and Questioned Cost December 31, 1998

<u>SECTION I</u> INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.	
No findings of this nature were reported as a result of the previous audit.	Response – N/A
<u>SECTION II</u> INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS	
No findings of this nature were reported as a result of the previous audit.	Response – N/A
<u>SECTION III</u> MANAGEMENT LETTER	
No findings of this nature were reported as a result of the previous audit.	Response – N/A