

**Covenant House Georgia, Inc.**

Financial Statements and  
Uniform Guidance Schedules  
Together With Independent Auditors' Report

June 30, 2016 and 2015

**Covenant House Georgia, Inc.**

**Financial Statements and  
Uniform Guidance Schedules  
Together With Independent Auditors' Report**

June 30, 2016

**TABLE OF CONTENTS**

|   | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report  |             |
| <b>FINANCIAL STATEMENTS</b>   |             |
| Statements of Financial Position  | 3           |
| Statements of Activities  | 4           |
| Statements of Functional Expenses   | 5-6         |
| Statements of Cash Flows  | 7           |
| Notes to Financial Statements   | 8-15        |
| <b>SUPPLEMENTARY INFORMATION</b>  |             |
| Schedule of Expenditures of State Awards  | 16          |
| Schedule of Expenditures of Federal Awards  | 17          |
| Notes to Schedule of Expenditures of Federal Awards   | 18          |
| Report on Internal Control Over Financial Reporting and on Compliance<br>and Other Matters Based on an Audit of Financial Statements Performed<br>in Accordance With <i>Government Auditing Standards</i> |             |
| Report on Compliance for Each Major Federal Program and Report on Internal<br>Control Over Compliance Required by the Uniform Guidance  |             |
| Schedule of Findings and Questioned Costs   | 23          |

## **Independent Auditors' Report**

**Board of Directors**  
**Covenant House Georgia, Inc.**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Covenant House Georgia, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, 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 and the standards applicable to financial audits contained in *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 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 auditors' 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 Covenant House Georgia, Inc. as of June 30, 2016 and 2015, 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.

***Other Matters***

*Report on Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards is required by the State of Georgia and is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2017 on our consideration of Covenant House Georgia, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covenant House Georgia, Inc.'s internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
January 12, 2017

**Covenant House Georgia, Inc.**

Statements of Financial Position

|   | June 30,            |                     |
|---|---------------------|---------------------|
|   | <u>2016</u>         | <u>2015</u>         |
| <b>ASSETS</b>   |                     |                     |
| Cash and cash equivalents                                     | \$ 497,617          | \$ 635,270          |
| Unrestricted pledges receivable                               | 92,335              | 125,516             |
| Government grants receivable                                  | 196,083             | 121,320             |
| Other receivables   | 5,255               | -                   |
| Due from Parent   | 66,180              | 152,964             |
| Prepaid expenses and other assets                             | 28,746              | 39,139              |
| Assets held for sale  | 240,000             | 340,000             |
| Property and equipment, net                                   | <u>2,733,398</u>    | <u>2,788,730</u>    |
|   | <u>\$ 3,859,614</u> | <u>\$ 4,202,939</u> |
| <br><b>LIABILITIES AND NET ASSETS</b>                         |                     |                     |
| Liabilities   |                     |                     |
| Accounts payable, accrued expenses<br>and refundable advances | \$ 103,510          | \$ 83,775           |
| Notes payable to Parent                                       | 250,000             | 250,000             |
| Mortgage debt payable   | -                   | 278,960             |
| Unearned revenue  | 57,890              | 15,300              |
| Total Liabilities   | <u>411,400</u>      | <u>628,035</u>      |
| Net Assets  |                     |                     |
| Unrestricted  |                     |                     |
| Undesignated  | 650,599             | 1,060,684           |
| Investment in property and equipment                          | 2,733,398           | 2,509,770           |
| Temporarily restricted  | 64,217              | 4,450               |
| Total Net Assets  | <u>3,448,214</u>    | <u>3,574,904</u>    |
|   | <u>\$ 3,859,614</u> | <u>\$ 4,202,939</u> |

**Covenant House Georgia, Inc.**

**Statements of Activities**

|   | Year Ended June 30, 2016 |                        |                     | Year Ended June 30, 2015 |                        |                     |
|---|--------------------------|------------------------|---------------------|--------------------------|------------------------|---------------------|
|   | Unrestricted             | Temporarily Restricted | Total               | Unrestricted             | Temporarily Restricted | Total               |
| <b>SUPPORT AND REVENUE</b>  |                          |                        |                     |                          |                        |                     |
| Contributions   | \$ 383,543               | \$ 194,433             | \$ 577,976          | \$ 401,200               | \$ 50,000              | \$ 451,200          |
| Contributed services and merchandise  | 180,549                  | -                      | 180,549             | 505,944                  | -                      | 505,944             |
| Government grants   | 884,010                  | -                      | 884,010             | 741,218                  | -                      | 741,218             |
| Branding dollars from Parent  | 963,000                  | -                      | 963,000             | 1,198,000                | -                      | 1,198,000           |
| Special Event Revenue Raised Locally  |                          |                        |                     |                          |                        |                     |
| Grants from Parent related to National Sleep Out Event                            | 256,902                  | -                      | 256,902             | 152,704                  | -                      | 152,704             |
| Other special events, net of direct benefits to donors of \$181,877 and \$183,866 | 566,830                  | -                      | 566,830             | 690,323                  | -                      | 690,323             |
| Net assets released from restrictions   | 134,666                  | (134,666)              | -                   | 65,775                   | (65,775)               | -                   |
| Total Support and Revenue   | <u>3,369,500</u>         | <u>59,767</u>          | <u>3,429,267</u>    | <u>3,755,164</u>         | <u>(15,775)</u>        | <u>3,739,389</u>    |
| <b>INVESTMENT AND OTHER INCOME</b>  |                          |                        |                     |                          |                        |                     |
| Interest and dividends  | 591                      | -                      | 591                 | 892                      | -                      | 892                 |
| Other income  | 81,294                   | -                      | 81,294              | 97,127                   | -                      | 97,127              |
| Total Investment and Other Income   | <u>81,885</u>            | <u>-</u>               | <u>81,885</u>       | <u>98,019</u>            | <u>-</u>               | <u>98,019</u>       |
| Total Support and Revenue and Investment and Other Income                         | <u>3,451,385</u>         | <u>59,767</u>          | <u>3,511,152</u>    | <u>3,853,183</u>         | <u>(15,775)</u>        | <u>3,837,408</u>    |
| <b>EXPENSES</b>   |                          |                        |                     |                          |                        |                     |
| Program services  | 2,954,826                | -                      | 2,954,826           | 3,108,848                | -                      | 3,108,848           |
| Supporting Services   |                          |                        |                     |                          |                        |                     |
| Management and general  | 285,882                  | -                      | 285,882             | 356,394                  | -                      | 356,394             |
| Fundraising   | 297,134                  | -                      | 297,134             | 257,960                  | -                      | 257,960             |
| Total Expenses  | <u>3,537,842</u>         | <u>-</u>               | <u>3,537,842</u>    | <u>3,723,202</u>         | <u>-</u>               | <u>3,723,202</u>    |
| Impairment loss on asset held for sale  | 100,000                  | -                      | 100,000             | -                        | -                      | -                   |
| Change in Net Assets  | (186,457)                | 59,767                 | (126,690)           | 129,981                  | (15,775)               | 114,206             |
| <b>NET ASSETS</b>   |                          |                        |                     |                          |                        |                     |
| Beginning of year   | <u>3,570,454</u>         | <u>4,450</u>           | <u>3,574,904</u>    | <u>3,440,473</u>         | <u>20,225</u>          | <u>3,460,698</u>    |
| End of year   | <u>\$3,383,997</u>       | <u>\$ 64,217</u>       | <u>\$ 3,448,214</u> | <u>\$ 3,570,454</u>      | <u>\$ 4,450</u>        | <u>\$ 3,574,904</u> |

See notes to financial statements

Covenant House Georgia, Inc.

Statement of Functional Expenses  
Year Ended June 30, 2016

|   | Program Services        |                  |                     |                   | Supporting Services |                        | Total Supporting Services | Cost of Direct Benefits to Donors | Total Expenses |                     |
|---|-------------------------|------------------|---------------------|-------------------|---------------------|------------------------|---------------------------|-----------------------------------|----------------|---------------------|
|   | Shelter and Crisis Care | Outreach         | Rights of Passage   | Support Services  | Total               | Management and General |                           |                                   |                | Fundraising         |
| Salaries and wages  | \$ 526,507              | \$ 34,423        | \$ 568,453          | \$ 451,638        | \$ 1,581,021        | \$ 128,127             | \$ 154,204                | \$ 282,331                        | \$ -           | \$ 1,863,352        |
| Payroll taxes   | 54,014                  | 3,580            | 58,054              | 46,070            | 161,718             | 13,313                 | 16,034                    | 29,347                            | -              | 191,065             |
| Employee benefits   | 50,491                  | 3,963            | 57,439              | 62,108            | 174,001             | 19,122                 | 23,528                    | 42,650                            | -              | 216,651             |
| <b>Total Salaries and Related Expenses</b>                                | <b>631,012</b>          | <b>41,966</b>    | <b>683,946</b>      | <b>559,816</b>    | <b>1,916,740</b>    | <b>160,562</b>         | <b>193,766</b>            | <b>354,328</b>                    | <b>-</b>       | <b>2,271,068</b>    |
| Professional fees   | -                       | -                | -                   | 15,100            | 15,100              | 47,770                 | 46,013                    | 93,783                            | -              | 108,883             |
| Supplies  | 14,934                  | 22               | 5,944               | 12,004            | 32,904              | 17,574                 | 1,176                     | 18,750                            | -              | 51,654              |
| Telephone and fax charges   | 5,152                   | 3,063            | 6,987               | 4,157             | 19,359              | 1,096                  | 1,381                     | 2,477                             | -              | 21,836              |
| Printing, postage and mailing   | 453                     | 196              | 162                 | 1,448             | 2,259               | 2,044                  | 12,707                    | 14,751                            | -              | 17,010              |
| Occupancy   |                         |                  |                     |                   |                     |                        |                           |                                   |                |                     |
| Fuel and utilities  | 80,835                  | 445              | 61,707              | 6,830             | 149,817             | 4,350                  | 4,843                     | 9,193                             | -              | 159,010             |
| Repairs and maintenance   | 62,718                  | 220              | 40,324              | 3,484             | 106,746             | 1,061                  | 1,306                     | 2,367                             | -              | 109,113             |
| Rent and other  | -                       | -                | 138,316             | 881               | 139,197             | -                      | -                         | -                                 | -              | 139,197             |
| Equipment, maintenance and rental   | 18,437                  | 822              | 17,035              | 4,478             | 40,772              | 7,551                  | 929                       | 8,480                             | -              | 49,252              |
| Infor/Lawson user fees  | -                       | -                | -                   | -                 | -                   | 6,000                  | -                         | 6,000                             | -              | 6,000               |
| Travel and transportation   | 8,410                   | 4,446            | 10,988              | 32,460            | 56,304              | 5,266                  | 5,120                     | 10,386                            | -              | 66,690              |
| Conferences, conventions and meetings                                     | 377                     | -                | 736                 | 455               | 1,568               | 4,143                  | 455                       | 4,598                             | -              | 6,166               |
| Specific assistance to individuals  | 157,218                 | 1,330            | 38,450              | 12,568            | 209,566             | -                      | -                         | -                                 | -              | 209,566             |
| Other purchased services  | 22,458                  | 583              | 29,285              | 21,868            | 74,194              | 3,482                  | 8,011                     | 11,493                            | 181,877        | 267,564             |
| Dues, licenses and permits  | 25                      | -                | -                   | -                 | 25                  | 5,150                  | 5                         | 5,155                             | -              | 5,180               |
| Subscriptions and publications  | -                       | -                | -                   | -                 | -                   | 86                     | 1,223                     | 1,309                             | -              | 1,309               |
| Insurance   | 38,665                  | 239              | 23,606              | 3,667             | 66,177              | 1,151                  | 1,416                     | 2,567                             | -              | 68,744              |
| In-kind services  | 26,485                  | -                | -                   | -                 | 26,485              | 12,314                 | -                         | 12,314                            | -              | 38,799              |
| Other expenses  | 1,540                   | 579              | 3,348               | 1,065             | 6,532               | 3,977                  | 3,232                     | 7,209                             | -              | 13,741              |
| Bank charges and fees   | -                       | -                | -                   | -                 | -                   | 674                    | -                         | 674                               | -              | 674                 |
| Interest  | 6,448                   | 40               | 3,936               | 612               | 11,036              | 192                    | 236                       | 428                               | -              | 11,464              |
| Credit card fees  | -                       | -                | -                   | -                 | -                   | -                      | 13,561                    | 13,561                            | -              | 13,561              |
| Depreciation  | 39,090                  | 4,524            | 31,804              | 4,627             | 80,045              | 1,439                  | 1,754                     | 3,193                             | -              | 83,238              |
| <b>Total Functional Expenses</b>  | <b>1,114,257</b>        | <b>58,475</b>    | <b>1,096,574</b>    | <b>685,520</b>    | <b>2,954,826</b>    | <b>285,882</b>         | <b>297,134</b>            | <b>583,016</b>                    | <b>181,877</b> | <b>3,719,719</b>    |
| Less: cost of direct benefits to donors                                   | -                       | -                | -                   | -                 | -                   | -                      | -                         | -                                 | (181,877)      | (181,877)           |
| <b>Total Expenses Reported by Function on the Statement of Activities</b> | <b>\$ 1,114,257</b>     | <b>\$ 58,475</b> | <b>\$ 1,096,574</b> | <b>\$ 685,520</b> | <b>\$ 2,954,826</b> | <b>\$ 285,882</b>      | <b>\$ 297,134</b>         | <b>\$ 583,016</b>                 | <b>\$ -</b>    | <b>\$ 3,537,842</b> |

See notes to financial statements

**Covenant House Georgia, Inc.**

Statement of Functional Expenses  
Year Ended June 30, 2015

|   | Program Services        |                  |                     |                   | Supporting Services |                        | Total Supporting Services | Cost of Direct Benefits to Donors | Total Expenses |                     |
|---|-------------------------|------------------|---------------------|-------------------|---------------------|------------------------|---------------------------|-----------------------------------|----------------|---------------------|
|   | Shelter and Crisis Care | Outreach         | Rights of Passage   | Support Services  | Total               | Management and General |                           |                                   |                | Fundraising         |
| Salaries and wages  | \$ 561,858              | \$ 32,880        | \$ 598,221          | \$ 361,087        | \$ 1,554,046        | \$ 118,760             | \$ 168,181                | \$ 286,941                        | \$ -           | \$ 1,840,987        |
| Payroll taxes   | 56,351                  | 3,345            | 59,805              | 35,932            | 155,433             | 12,068                 | 17,092                    | 29,160                            | -              | 184,593             |
| Employee benefits   | 46,702                  | 3,399            | 46,703              | 40,793            | 137,597             | 14,859                 | 21,948                    | 36,807                            | -              | 174,404             |
| <b>Total Salaries and Related Expenses</b>                                | <b>664,911</b>          | <b>39,624</b>    | <b>704,729</b>      | <b>437,812</b>    | <b>1,847,076</b>    | <b>145,687</b>         | <b>207,221</b>            | <b>352,908</b>                    | <b>-</b>       | <b>2,199,984</b>    |
| Professional fees   | -                       | -                | -                   | 25,623            | 25,623              | 147,480                | 3,150                     | 150,630                           | -              | 176,253             |
| Supplies  | 20,008                  | -                | 9,272               | 7,805             | 37,085              | 10,433                 | 3,636                     | 14,069                            | -              | 51,154              |
| Telephone and fax charges   | 4,899                   | 411              | 7,769               | 2,862             | 15,941              | 1,223                  | 864                       | 2,087                             | -              | 18,028              |
| Printing, postage and mailing   | 219                     | -                | 363                 | 447               | 1,029               | 2,250                  | 12,132                    | 14,382                            | -              | 15,411              |
| Occupancy   |                         |                  |                     |                   |                     |                        |                           |                                   |                |                     |
| Fuel and utilities  | 85,483                  | 477              | 57,969              | 5,638             | 149,567             | 2,077                  | 3,071                     | 5,148                             | -              | 154,715             |
| Repairs and maintenance   | 44,996                  | 152              | 19,765              | 1,794             | 66,707              | 661                    | 978                       | 1,639                             | -              | 68,346              |
| Rent and other  | -                       | -                | 135,195             | -                 | 135,195             | -                      | -                         | -                                 | -              | 135,195             |
| Equipment, maintenance and rental   | 5,322                   | 165              | 2,863               | 1,663             | 10,013              | 597                    | 845                       | 1,442                             | -              | 11,455              |
| Infor/Lawson user fees  | -                       | -                | -                   | -                 | -                   | 6,000                  | -                         | 6,000                             | -              | 6,000               |
| Travel and transportation   | 11,814                  | 1,067            | 14,951              | 28,995            | 56,827              | 7,409                  | 3,665                     | 11,074                            | -              | 67,901              |
| Conferences, conventions and meetings                                     | 719                     | -                | 1,418               | 556               | 2,693               | 14,356                 | 492                       | 17,541                            | -              | 17,541              |
| Specific assistance to individuals  | 116,720                 | 434              | 52,569              | 12,929            | 182,652             | -                      | -                         | -                                 | -              | 182,652             |
| Other purchased services  | 23,343                  | 560              | 11,399              | 9,376             | 44,678              | 3,501                  | 5,034                     | 8,535                             | 183,866        | 237,079             |
| Dues, licenses and permits  | 84                      | -                | 166                 | -                 | 250                 | 1,568                  | 963                       | 2,531                             | -              | 2,781               |
| Subscriptions and publications  | -                       | -                | -                   | -                 | -                   | 75                     | 1,495                     | 1,570                             | -              | 1,570               |
| Insurance   | 27,997                  | 177              | 17,022              | 2,095             | 47,291              | 772                    | 1,141                     | 1,913                             | -              | 49,204              |
| In-kind services  | 186,304                 | -                | 74,522              | 111,783           | 372,609             | -                      | -                         | -                                 | -              | 372,609             |
| Other expenses  | 795                     | -                | 706                 | 2,041             | 3,542               | 9,667                  | 870                       | 10,537                            | -              | 14,079              |
| Bank charges and fees   | -                       | -                | -                   | -                 | -                   | 696                    | -                         | 696                               | -              | 696                 |
| Interest  | 21,571                  | 136              | 13,115              | 1,614             | 36,436              | 595                    | 879                       | 1,474                             | -              | 37,910              |
| Credit card fees  | -                       | -                | -                   | -                 | -                   | -                      | 9,566                     | 9,566                             | -              | 9,566               |
| Depreciation  | 38,047                  | 332              | 31,566              | 3,689             | 73,634              | 1,347                  | 1,958                     | 3,305                             | -              | 76,939              |
| <b>Total Functional Expenses</b>  | <b>1,253,232</b>        | <b>43,535</b>    | <b>1,155,359</b>    | <b>656,722</b>    | <b>3,108,848</b>    | <b>356,394</b>         | <b>257,960</b>            | <b>617,047</b>                    | <b>183,866</b> | <b>3,907,068</b>    |
| Less: cost of direct benefits to donors                                   | -                       | -                | -                   | -                 | -                   | -                      | -                         | -                                 | (183,866)      | (183,866)           |
| <b>Total Expenses Reported by Function on the Statement of Activities</b> | <b>\$ 1,253,232</b>     | <b>\$ 43,535</b> | <b>\$ 1,155,359</b> | <b>\$ 656,722</b> | <b>\$ 3,108,848</b> | <b>\$ 356,394</b>      | <b>\$ 257,960</b>         | <b>\$ 617,047</b>                 | <b>\$ -</b>    | <b>\$ 3,723,202</b> |

**Covenant House Georgia, Inc.**

Statements of Cash Flows

|  | Year Ended<br>June 30, |            |
|--|------------------------|------------|
|  | 2016                   | 2015       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                        |            |
| Change in net assets   | \$ (126,690)           | \$ 114,206 |
| Adjustments to reconcile change in net assets to<br>net cash from operating activities |                        |            |
| Depreciation   | 83,238                 | 76,939     |
| Impairment loss on asset held for sale   | 100,000                | -          |
| Loss on disposal of property and equipment   | 2,789                  | -          |
| Net change in operating assets and liabilities   |                        |            |
| Unrestricted pledges receivable  | 33,181                 | 140,486    |
| Other receivables  | (5,255)                | 48,558     |
| Government grants receivable   | (74,763)               | 258,289    |
| Due from Parent  | 86,784                 | (139,531)  |
| Prepaid expenses and other assets  | 10,393                 | (8,894)    |
| Accounts payable, accrued expenses and refundable advances                             | 19,735                 | (45,490)   |
| Unearned revenue   | 42,590                 | 15,300     |
| Net Cash from Operating Activities   | 172,002                | 459,863    |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                        |            |
| Purchase of property and equipment   | (30,695)               | (48,369)   |
| <br><b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                        |            |
| Payment on mortgage payable  | (278,960)              | (667,409)  |
| Change in Cash and Cash Equivalents  | (137,653)              | (255,915)  |
| <br><b>CASH AND CASH EQUIVALENTS</b>   |                        |            |
| Beginning of year  | 635,270                | 891,185    |
| End of year  | \$ 497,617             | \$ 635,270 |
| <br><b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                            |                        |            |
| Cash paid for interest   | \$ 7,676               | \$ 34,526  |
| Contributed non-cash assets  | \$ 12,300              | \$ -       |

## Covenant House Georgia, Inc.

### Notes to Financial Statements June 30, 2016 and 2015

#### 1. Organization and Nature of Activities

Covenant House Georgia, Inc. (the "Organization"), a not-for-profit organization, is an operating affiliate of Covenant House (the "Parent"), a New York-based organization. The Organization provides shelter, residential services, community services, and outreach services to youth in the Atlanta metropolitan area. The Parent is the sole member of the Organization and is itself a private not-for-profit organization which, through its affiliates, provided shelter, food, clothing, counseling, medical attention, crisis intervention, public education, and other services to more than 46,991 (unaudited) and 51,173 (unaudited) runaway and homeless youths during the fiscal years ended June 30, 2016 and 2015.

The Organization is affiliated with the following not-for-profit organizations through common control.

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington D.C.
- Under 21 Boston, Inc.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House New York/Under 21
- Covenant International Foundation
- Covenant House Holdings, LLC
- Covenant House Toronto
- Covenant House Vancouver
- Asociacion La Alianza (Guatemala)
- Casa Alianza de Honduras
- Casa Alianza Nicaragua
- Casa Alianza Internacional
- Rights of Passage, Inc.
- 268 West 44<sup>th</sup> Corporation
- Fundacion Casa Alianza Mexico, I.A.P.

The Organization has been determined to be a not-for-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

#### ***Components of Program and Supporting Services***

##### ***Program Services***

###### Shelter and Crisis Care Program

The Shelter and Crisis Care Program (the "Shelter"), a residential program staffed 7 days a week 24 hours a day and 365 days a year, provides services to homeless youth ages 18-21. The Shelter is designed to assist youth in immediate need of housing and crisis intervention. The Shelter provides necessities to youth for up to 30 days. The Shelter is designed to especially care for the physical well-being, including medical care, hot showers, clean cloths, nourishing meals and a safe bed.

**Covenant House Georgia, Inc.**

Notes to Financial Statements  
June 30, 2016 and 2015

**1. Organization and Nature of Activities (continued)**

***Components of Program and Supporting Services (continued)***

***Program Services (continued)***

Outreach

The Street Outreach Program teams are comprised of staff and the Organization's resident youth who are familiar with the areas homeless youth tend to hide. They go out onto the streets on a weekly basis to engage homeless teens and provide information about the Organization's services. Food and other supplies are provided as needed.

The School Outreach Program works with the area schools. Each school system is required to have a homeless liaison that works with youth who are homeless and the Organization partners with the homeless liaisons in metro-Atlanta to identify youth who are in need of the Organization's services.

Rights of Passage

Rights of Passage ("ROP") is a long-term housing (up to 24 months) program designed to build upon the existing case plan developed at the Shelter. The program features a 20 bed apartment-based program and a 16 bed program on site. During the first 30 days at ROP, residents undergo an orientation to living independently. They will be using public transportation, meet domestic requirements and maintain a safe and productive living environment.

Support Services

*Educational*

The Organization provides educational services to address the grade level proficiency of each youth. The Organization offers GED test preparation, tutoring, basic literacy educational courses and assistance with financial aid and admissions for post-secondary institutions.

*Job Services*

The Vocational Program prepares youth for entering the job market. Topics include how to find a job, resume building, interview skills, professional behavior, and general office etiquette.

*Health, Wellness and Mental Health Services*

Youth receive a complete physical upon entry into the Organization's program. Any health care needs that are identified through the physical are then met through partnerships with area health providers. The Organization also works to ensure the long term health of youth by teaching them good nutrition, health and hygiene habits. The mental health team is experienced in trauma-informed care and provides both individual and group treatment for youth.

*Life Skills Development*

The Readiness Program provides vital trainings such as personal budgeting, financial planning, pursuing a career-track job, community building, strengthening family relations, and many other areas that benefit each youth throughout her/his lifetime.

**Covenant House Georgia, Inc.**

Notes to Financial Statements  
June 30, 2016 and 2015

**1. Organization and Nature of Activities (continued)**

***Components of Program and Supporting Services (continued)***

***Supporting Services***

**Management and General**

Management and general services include administration, finance and general support activities. Certain administrative costs that relate to specific programs have been allocated to those programs.

**Fundraising**

Fundraising services relate to the activities of the Development Program in raising general and specific contributions.

**Direct Benefit to Donor Costs**

Direct benefit to donor costs are incurred in conjunction with items such as meals and entertainment benefiting attendees of special events.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

***Net Asset Presentation***

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as assets released from restrictions. There were no permanently restricted assets as of June 30, 2016 and 2015.

## Covenant House Georgia, Inc.

Notes to Financial Statements  
June 30, 2016 and 2015

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Revenue Recognition***

Revenue is recognized as services are performed or expenditures are incurred under the Organization's contracts with its clients and funders.

#### ***Functional Allocation of Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

#### ***Cash and Cash Equivalents***

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

#### ***Property and Equipment***

Property and equipment is recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which ranges from 3 to 40 years. The Organization's policy is to capitalize all property and equipment purchases of \$1,000 or greater. Assets held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statements of financial position.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, as follows:

|                        |                |
|------------------------|----------------|
| Buildings              | 39 to 40 years |
| Building improvements  | 39 to 40 years |
| Equipment and Software | 3 to 5 years   |

#### ***Asset Recoverability***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was an impairment of \$100,000 and \$0 for the years ended June 30, 2016 and 2015.

**Covenant House Georgia, Inc.**

Notes to Financial Statements  
June 30, 2016 and 2015

**2. Summary of Significant Accounting Policies (continued)**

***Contributions and Pledges Receivable***

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge or of cash or other assets. Contributions are considered available for unrestricted use, unless the donors restrict their use. Contributions to be received after one year are discounted at an interest rate commensurate with the risk involved. An allowance for uncollectible pledges receivable is provided, using management's judgment of potential defaults, which considers factors such as prior collection history, type of contribution and the nature of fundraising activity. Contribution revenue is recognized based on the present value of the estimated future payments to be made to the Organization. All contributions are due within one year and are fully collectible.

***Unearned Revenue***

Deposits received for program services not yet provided are recorded as unearned revenue and recognized as program service revenue in the period to which they pertain.

***Special Events***

Revenues and expenses incurred relative to special events are recognized upon occurrence of the respective event. Revenues are shown net of cost of direct benefits to donors.

***Donated Goods and Services***

Donated goods consist of donated goods for youth and items received by the Organization awarded as prizes during the auctions held in relation to special events. These amounts are recorded as both revenue and expense at their estimated fair values at the date of receipt.

The Organization recognizes the fair value of donated services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Contributed services which do not meet these criteria are not recognized as revenue and are not reported in the accompanying financial statements.

***Advertising Costs***

Advertising costs are expensed as incurred.

***Accounting for Uncertainty in Income Taxes***

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2013.

## Covenant House Georgia, Inc.

Notes to Financial Statements  
June 30, 2016 and 2015

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and recognition in the financial statements through the date that the financial statements were available to be issued, which date is January 12, 2017.

### 3. Government Grants Receivable

Government grants receivable of \$196,083 and \$121,320 at June 30, 2016 and 2015, represent the amounts due from various governmental agencies for the Organization's programs. All grants receivables as of June 30, 2016 are expected to be collected within one year.

### 4. Assets Held for Sale

On April 6, 2013, the Organization entered into an option agreement to sell certain properties with a cost of \$460,000 previously valued at \$970,165 for the realizable value of \$340,000. In 2013, the full value of \$970,165 was removed from property and equipment and the realizable value of \$340,000 was recorded as assets held for sale as of June 30, 2013. Subsequently, an independent appraisal report dated December 7, 2016 decreased the property to \$240,000 due to theft of copper water pipes. Presently, the property remains for sale.

### 5. Property and Equipment

Property and equipment consists of the following as of June 30:

|                                    | <u>2016</u>         | <u>2015</u>         |
|------------------------------------|---------------------|---------------------|
| Land                               | \$ 700,000          | \$ 700,000          |
| Building and building improvements | 2,134,733           | 2,123,515           |
| Equipment and software             | <u>233,383</u>      | <u>237,322</u>      |
|                                    | 3,068,116           | 3,060,837           |
| Accumulated depreciation           | <u>(334,718)</u>    | <u>(272,107)</u>    |
|                                    | <u>\$ 2,733,398</u> | <u>\$ 2,788,730</u> |

### 6. Mortgage Debt Payable

On July 18, 2012, the Organization purchased property that was formerly used as a residential treatment program for teenagers for \$2,258,980. This property includes seven acres of land and five buildings. The purchase was financed with a \$1,997,500 promissory note. The interest rate on this note was 5.625%. In the year ended June 30, 2016, the Organization made two lump sum principal reduction payments totaling \$199,026 to fully pay off the debt. The monthly payment of principal and interest was adjusted so that the payment would be equal to monthly installments of principal and interest computed on the revised outstanding principal balance. The note was collateralized by the property purchased. The full and prompt payment of this note was guaranteed by the Parent.

Interest expense for the years ended June 30, 2016 and 2015 was \$7,676 and \$34,526.

**Covenant House Georgia, Inc.**

Notes to Financial Statements  
June 30, 2016 and 2015

**7. Commitments and Contingencies**

**Leases**

The Organization leases apartment facilities under thirteen non-cancellable operating leases which expire between October 7, 2016 and January 31, 2017. In addition, the Organization leases equipment under three operating leases which expire between January 23, 2020 and November 23, 2020. Rent expense is accounted for on a straight-line basis over the term of the leases. Rent expense amounted to \$139,197 and \$135,195 for the years ended June 30, 2016 and 2015. Equipment rental and maintenance expense amounted to \$10,885 and \$9,708 for the years ended June 30, 2016 and 2015.

Future minimum annual lease and equipment rental payments for the years ending June 30 are as follows:

|      | <u>Facilities</u> | <u>Equipment</u> | <u>Total</u>     |
|------|-------------------|------------------|------------------|
| 2017 | \$ 73,727         | \$ 4,223         | \$ 77,950        |
| 2018 | -                 | 4,223            | 4,223            |
| 2019 | -                 | 4,223            | 4,223            |
| 2020 | -                 | 2,976            | 2,976            |
| 2021 | -                 | 385              | 385              |
|      | <u>\$ 73,727</u>  | <u>\$ 16,030</u> | <u>\$ 89,757</u> |

**Government Grants**

In accordance with the terms of certain government grants, the records of the Organization are subject to audit for varying periods after the date of final payment of the grants. The Organization is liable for any disallowed costs; however, management believes that the amount of disallowed costs, if any, would not be significant. Government grants totaled \$884,010 and \$741,218 for the years ended June 30, 2016 and 2015.

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30 are available for the following:

|                                 | <u>2016</u>      | <u>2015</u>     |
|---------------------------------|------------------|-----------------|
| Purpose restricted - operations | <u>\$ 64,217</u> | <u>\$ 4,450</u> |

Amounts released from restrictions for years ended June 30, are as follows:

|                                 | <u>2016</u>       | <u>2015</u>      |
|---------------------------------|-------------------|------------------|
| Purpose restricted - operations | <u>\$ 134,666</u> | <u>\$ 65,775</u> |

## Covenant House Georgia, Inc.

Notes to Financial Statements  
June 30, 2016 and 2015

### 9. Related Party Transactions *(not disclosed elsewhere)*

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of the affiliates. Contributions and promises to give totaled approximately \$64.3 million and \$60.8 million for the Parent in the years ended June 30, 2016 and 2015. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations plus a Parent subsidy and appropriates funds classified as "Branding Dollars" or "Contributions Received from Parent" to each Covenant House affiliate. Total funds allocated to affiliates, based on the Parent's policy, approximated \$33.6 million and \$31.3 million for the years ended 2016 and 2015. In fiscal 2016 and 2015, the Organization received \$963,000 and \$1,198,000 in Branding Dollars from the Parent.

On August 5, 2009, the Organization issued a promissory note to the Parent in the amount of \$250,000. The note was originally due on December 31, 2009. The note was renewed on August 31, 2016 with the entire amount and any accrued interest thereon to be payable upon demand, but no later than June 30, 2018. Interest accrues based on the rate charged by the Parent's bank, which was 1.47% and 1.35% as of June 30, 2016 and 2015.

Interest expense related to this promissory note was \$3,788 and \$3,384 for the years ended June 30, 2016 and 2015.

### 10. Employee Benefit Plan

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan. Employees are immediately eligible to participate in the plan. Employees who work at least 1,000 hours per year are eligible to receive an employer contribution. The Organization makes annual contributions into the plan on behalf of employees ranging from 1% to 9% of employee compensation determined using a formula based on points, which equal the sum of age and years of service. Employer contributions to the plan are 100% vested after employees have completed three years of service. Total expense related to the 403(b) plan was \$48,185 and \$24,775 for the years ended June 30, 2016 and 2015.

### 11. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash, cash equivalents and receivables from contracts. The Organization maintains its cash in bank deposit accounts which generally exceed federally insured limits. The Organization has not experienced any losses in such accounts. For the year ended June 30, 2016 three contributors donated approximately 5% of total revenues. For the year ended June 30, 2015, one contributor donated approximately 7% of total revenues.

\* \* \* \* \*

**Covenant House Georgia, Inc.**

Supplementary Information  
June 30, 2016

**Covenant House Georgia, Inc.**

Schedule of Expenditures of State Awards  
Year Ended June 30, 2016

| <u>Pass-Through Entity/State Program Name</u>                | <u>Grant Number</u> | <u>Grant Award</u> | <u>Program Period</u> | <u>State Expenditures</u> |
|--|---------------------|--------------------|-----------------------|---------------------------|
| Pass-Through from Georgia Department of<br>Community Affairs |                     |                    |                       |                           |
| S+C Services   | 2015 HTF EMS 15C049 | \$ 20,000          | 07/01/2015-06/30/2016 | \$ 20,000                 |
| Supportive Services  | 2015 HTF EMS 15C047 | 40,000             | 07/01/2015-06/30/2016 | <u>40,000</u>             |
| Total Expenditures of State Awards                           |                     |                    |                       | <u>\$ 60,000</u>          |

**Covenant House Georgia, Inc.**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

| Federal Grantor/Pass-Through<br>Grantor/Cluster or Program Title | Federal<br>CFDA<br>Number | Pass-through Entity<br>Identifying Number | Passed<br>Through to<br>Subrecipients | Federal<br>Expenditures |
|--|---------------------------|---|---------------------------------------|-------------------------|
| Department of Housing and Urban Development                      |                           |   |                                       |                         |
| Direct Programs:   |                           |   |                                       |                         |
| Continuum of Care Program  | 14.267                    |   | \$ -                                  | \$ 246,448              |
| Indirect Programs:   |                           |   |                                       |                         |
| Pass - Through the City of Atlanta                               |                           |   |                                       |                         |
| Community Development Block Grants/<br>Entitlement Grants        | 14.218                    | 220132254                                 | -                                     | 38,923                  |
| Housing Opportunities For Persons With AIDS                      | 14.241                    | 250132266                                 | -                                     | 11,124                  |
| Pass - Through the Georgia Department of<br>Community Affairs    |                           |   |                                       |                         |
| Shelter Plus Care  | 14.238                    | GA0251L4B001402/GA0205L4B021503           | -                                     | 38,583                  |
| Shelter Plus Care  | 14.238                    | GA0250L4B021402/GA0251L4B001503           | -                                     | 17,331                  |
| Emergency Solutions Grants Program                               | 14.231                    | 15C048                                    | -                                     | 36,999                  |
| Total Indirect Programs  |                           |   | -                                     | 142,960                 |
| Total Department of Housing and Urban Development                |                           |   | -                                     | 389,408                 |
| Department of Health and Human Services                          |                           |   |                                       |                         |
| Pass - Through the U.S. Committee for Refugees<br>and Immigrants |                           |   |                                       |                         |
| Unaccompanied Alien Children Program                             | 93.676                    | 90ZU0081-02/90ZU0081-03                   | -                                     | 295,146                 |
| Corporation for National and Community Service                   |                           |   |                                       |                         |
| Pass - Through the Georgia<br>Department of Community Affairs    |                           |   |                                       |                         |
| AmeriCorps   | 94.006                    | 13AC150994/14AC160727                     | -                                     | 121,955                 |
| Department of Homeland Security                                  |                           |   |                                       |                         |
| Direct Programs:   |                           |   |                                       |                         |
| Emergency Food and Shelter National Board Program                | 97.024                    |   | -                                     | 7,500                   |
| Total Expenditures of Federal Awards                             |                           |   | \$ -                                  | \$ 814,009              |

## **Covenant House Georgia, Inc.**

### **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2016**

#### **1. *Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Covenant House Georgia, Inc. (the "Organization") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Covenant House Georgia, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Covenant House Georgia, Inc.

#### **2. *Summary of Significant Accounting Policies***

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### **3. *Indirect Cost Rate***

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

**Independent Auditors' Report**

**Board of Directors  
Covenant House Georgia, Inc.**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Covenant House Georgia, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 12, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
January 12, 2017



## **Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

### **Independent Auditors' Report**

**Board of Directors  
Covenant House Georgia, Inc.**

#### **Report on Compliance for Each Major Federal Program**

We have audited Covenant House Georgia, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
January 12, 2017

**Covenant House Georgia, Inc.**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016

**Section I - Summary of Auditors' Results**

***Financial Statements***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

\_\_\_ yes     X no  
\_\_\_ yes     X none reported

Noncompliance material to financial statements noted?

\_\_\_ yes     X no

***Federal Awards***

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

\_\_\_ yes     X no  
\_\_\_ yes     X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_ yes     X no

Identification of major federal programs:

| <u>CFDA<br/>Number (s)</u> | <u>Name of Federal Program or Cluster</u> |
|----------------------------|---|
| 93.676                     | Unaccompanied Alien Children Program      |

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

X yes     \_\_\_ no

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

**Section IV - Prior Year Audit Findings**

There were no prior year audit findings