

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

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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,	
	2016	2015
ASSETS		
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>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses 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>

See notes to financial statements

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
SUPPORT AND REVENUE						
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>
INVESTMENT AND OTHER INCOME						
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>
EXPENSES						
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
NET ASSETS						
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
Total Salaries and Related Expenses	631,012	41,966	683,946	559,816	1,916,740	160,562	193,766	354,328	-	2,271,068
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
Total Functional Expenses	1,114,257	58,475	1,096,574	685,520	2,954,826	285,882	297,134	583,016	181,877	3,719,719
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(181,877)	(181,877)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,114,257	\$ 58,475	\$ 1,096,574	\$ 685,520	\$ 2,954,826	\$ 285,882	\$ 297,134	\$ 583,016	\$ -	\$ 3,537,842

See notes to financial statements

Covenant House Georgia, Inc.

Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services					Supporting Services		Total	Cost of Direct	Total
	Shelter and Crisis Care	Outreach	Rights of Passage	Support Services	Total	Management and General	Fundraising	Supporting Services	Benefits to Donors	Expenses
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
Total Salaries and Related Expenses	664,911	39,624	704,729	437,812	1,847,076	145,687	207,221	352,908	-	2,199,984
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
Total Functional Expenses	1,253,232	43,535	1,155,359	656,722	3,108,848	356,394	257,960	617,047	183,866	3,907,068
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(183,866)	(183,866)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,253,232	\$ 43,535	\$ 1,155,359	\$ 656,722	\$ 3,108,848	\$ 356,394	\$ 257,960	\$ 617,047	\$ -	\$ 3,723,202

See notes to financial statements

Covenant House Georgia, Inc.

Statements of Cash Flows

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (126,690)	\$ 114,206
Adjustments to reconcile change in net assets to 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	<u>42,590</u>	<u>15,300</u>
Net Cash from Operating Activities	172,002	459,863
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(30,695)	(48,369)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on mortgage payable	<u>(278,960)</u>	<u>(667,409)</u>
Change in Cash and Cash Equivalents	(137,653)	(255,915)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>635,270</u>	<u>891,185</u>
End of year	<u>\$ 497,617</u>	<u>\$ 635,270</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
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 44th 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.

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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 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

<u>Federal Grantor/Pass-Through Grantor/Cluster or Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
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/ Entitlement Grants	14.218	220132254	-	38,923
Housing Opportunities For Persons With AIDS	14.241	250132266	-	11,124
Pass - Through the Georgia Department of 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 and Immigrants				
Unaccompanied Alien Children Program	93.676	90ZU0081-02/90ZU0081-03	-	295,146
Corporation for National and Community Service				
Pass - Through the Georgia 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:
Internal control over financial reporting:

Unmodified

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

___ yes X no
___ yes X none reported
___ yes X no

Noncompliance material to financial statements noted?

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 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