Covenant House Georgia, Inc.

Financial Statements and
OMB Circular A-133 Financial Report
Together With Independent Auditors' Report

June 30, 2015 and 2014

Covenant House Georgia, Inc.

Financial Statements
June 30, 2015

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O'CONNOR DAVIES

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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 statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Organization as of June 30, 2014, were audited by other auditors whose report dated March 17, 2015, expressed an unmodified opinion on those statements.

Other Matters

Supplementary Information

Our 2015 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of expenditures of state award is presented on page 17 and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, on page 18 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 October XX, 2015 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.

O'Connor Davies, LLP

Harrison, New York
October 23, 2015

Covenant House Georgia, Inc.
Statements of Financial Position

	June 30, 2015	June 30, 2014
ASSETS		
Cash and cash equivalents	$ 635,270	$ 891,185
Unrestricted pledges receivable, net of allowance for doubtful accounts of $0 in 2015 and $1,500 in 2014	125,516	266,002
Government grants receivable	121,320	379,609
Other receivables	-	48,558
Due from Parent	152,964	13,433
Prepaid expenses and other assets	39,139	30,245
Assets held for sale	340,000	340,000
Property and equipment, net	2,788,730	2,817,300
	$ 4,202,939	$ 4,786,332
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	$ 83,775	$ 129,265
Notes payable to Parent	250,000	250,000
Mortgage debt payable	278,960	946,369
Unearned revenue	15,300	-
Total Liabilities	628,035	1,325,634
Net Assets		
Unrestricted		
Undesignated	1,060,684	1,569,542
Investment in property and equipment	2,509,770	1,870,931
Temporarily restricted	4,450	20,225
Total Net Assets	3,574,904	3,460,698
	$ 4,202,939	$ 4,786,332

See notes to financial statements

Covenant House Georgia, Inc.

Statements of Activities

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	$ 401,200	$ 50,000	$ 451,200	$ 477,426	$ 1,115,586	$ 1,593,012
Contributed services and merchandise	505,944	-	505,944	144,296	-	144,296
Government grants	741,218	-	741,218	659,866	-	659,866
Branding dollars from Parent	1,198,000	-	1,198,000	1,048,000	-	1,048,000
Special event revenue, net of direct benefits to donors of $183,866 and $164,077	843,027	-	843,027	497,407	-	497,407
	3,689,389	50,000	3,739,389	2,826,995	1,115,586	3,942,581
INVESTMENT AND OTHER INCOME						
Interest and dividends	892	-	892	886	-	886
Other income	97,127	-	97,127	79,029	-	79,029
Net assets released from restrictions	65,775	(65,775)	-	2,359,017	(2,359,017)	-
	163,794	(65,775)	98,019	2,438,932	(2,359,017)	79,915
Total Support, Revenue, Investment and Other Income	3,853,183	(15,775)	3,837,408	5,265,927	(1,243,431)	4,022,496
EXPENSES						
Program services	3,108,848	-	3,108,848	2,453,398	-	2,453,398
Supporting services						
Management and general	356,394	-	356,394	386,672	-	386,672
Fundraising	257,960	-	257,960	285,698	-	285,698
Total Expenses	3,723,202	-	3,723,202	3,125,768	-	3,125,768
Change in Net Assets	129,981	(15,775)	114,206	2,140,159	(1,243,431)	896,728
NET ASSETS						
Beginning of year	3,440,473	20,225	3,460,698	1,300,314	1,263,656	2,563,970
End of year	$ 3,570,454	$ 4,450	$ 3,574,904	$ 3,440,473	$ 20,225	$ 3,460,698

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	
	Shelter and Crisis Care	Outreach	Rights of Passage	Support Services	Total	Management and General	Fundraising	Supporting Services	Benefits to Donors	Total 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 and amortization	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.

Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services					Supporting Services		Total	Cost of Direct	
	Shelter and Crisis Care	Outreach	Rights of Passage	Support Services	Total	Management and General	Fundraising	Supporting Services	Benefits to Donors	Total Expenses
Salaries and wages	$ 564,483	$ 25,561	$ 507,187	$ 212,095	$ 1,309,326	$ 100,336	$ 152,913	$ 253,249	$ -	$ 1,562,575
Payroll taxes	62,960	2,920	56,000	22,772	144,652	11,433	17,420	28,853	-	173,505
Employee benefits	47,167	2,123	35,247	26,959	111,496	13,193	20,254	33,447	-	144,943
Total Salaries and Related Expenses	674,610	30,604	598,434	261,826	1,565,474	124,962	190,587	315,549	-	1,881,023
Professional fees	-	-	-	-	-	115,010	36,345	151,355	-	151,355
Supplies	8,379	-	6,986	12,017	27,382	10,063	6,991	17,054	-	44,436
Telephone and fax charges	7,545	151	8,217	713	16,626	5,064	324	5,388	-	22,014
Printing, postage and mailing	20	41	-	170	231	3,810	6,805	10,615	-	10,846
Occupancy:										
Fuel and utilities	67,670	347	53,629	3,624	125,270	9,207	3,168	12,375	-	137,645
Repairs and maintenance	70,438	249	36,785	3,384	110,856	47,915	2,280	50,195	-	161,051
Rent and other	-	-	134,082	-	134,082	900	-	900	-	134,982
Equipment, maintenance and rental	10,400	10	1,644	4,100	16,154	9,813	1,271	11,084	-	27,238
Travel and transportation	15,000	558	7,818	18,911	42,287	7,202	1,344	8,546	-	50,833
Conferences, conventions and meetings	900	-	1,299	10,535	12,734	5,768	1,932	7,700	-	20,434
Specific assistance to individuals	87,777	113	37,080	26,595	151,565	-	-	-	-	151,565
Other purchased services	31,500	-	1,752	3,103	36,355	23,895	9,710	33,605	164,077	234,037
Dues, licenses and permits	448	-	-	-	448	695	441	1,136	-	1,584
Subscriptions and publications	-	-	-	461	461	170	-	170	-	631
Insurance	25,949	133	15,332	1,390	42,804	797	1,215	2,012	-	44,816
In-kind services	830	-	-	-	830	-	-	-	-	830
Other expenses	1,044	-	177	23,600	24,821	14,760	467	15,227	-	40,048
Bank charges and fees	-	-	-	-	-	798	-	798	-	798
Interest expense	47,333	242	27,966	2,535	78,076	4,574	2,216	6,790	-	84,866
Credit card fees	-	-	-	-	-	61	15,900	15,961	-	15,961
Depreciation and amortization	36,535	224	28,083	2,100	66,942	1,208	4,702	5,910	-	72,852
Total Functional Expenses	1,086,378	32,672	959,284	375,064	2,453,398	386,672	285,698	672,370	164,077	3,289,845
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(164,077)	(164,077)
Total Expenses Reported by Function on the Statement of Activities	$ 1,086,378	$ 32,672	$ 959,284	$ 375,064	$ 2,453,398	$ 386,672	$ 285,698	$ 672,370	$ -	$ 3,125,768

See notes to financial statements

Covenant House Georgia, Inc.
Statements of Cash Flows

	Year Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 114,206	$ 896,728
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	76,939	72,852
Contributions of non-cash assets	-	(29,470)
Net change in operating assets and liabilities		
Unrestricted pledge receivables	140,486	(257,582)
Other receivables	48,558	(48,558)
Government grants receivable	258,289	(84,504)
Due from Parent	(139,531)	(14,329)
Prepaid expenses and other assets	(8,894)	2,704
Accounts payable and accrued liabilities	(45,490)	(8,635)
Unearned revenue	15,300	-
Net Cash from Operating Activities	459,863	529,206
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(48,369)	(17,695)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on mortgage payable	(667,409)	(1,051,131)
Collection of pledges receivable restricted for capital campaign	-	835,394
Net Cash from Financing Activities	(667,409)	(215,737)
Change in Cash and Cash Equivalents	(255,915)	295,774
CASH AND CASH EQUIVALENTS		
Beginning of year	891,185	595,411
End of year	$ 635,270	$ 891,185
SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS		
Contributed non-cash assets	$ -	$ 29,470
Cash paid for interest	34,526	81,747

See notes to financial statements

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 51,173 (unaudited) and 57,364 (unaudited) runaway and homeless youths during the fiscal years ended June 30, 2015 and 2014.

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

- Covenant House Alaska
- Covenant House California
- 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.
- 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
- Associacion La Alianza (Guatemala)
- Alianza de Honduras
- Casa Alianza Nicaragua
- Casa Alianza Internacional
- 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.

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 Assets Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other 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 statement of activities as assets released from restrictions. There were no permanently restricted assets as of June 30, 2015 and 2014.

Revenue Recognition

Revenue is recognized as services are performed or expenditures are incurred under the Organization 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

Leasehold improvements are depreciated over the lesser of the life of the asset or the term of the lease. 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 policy is to capitalize all property and equipment purchases of $1,000 or greater at the time of purchase.

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

Property and Equipment (continued)

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
Furniture and equipment	3 to 5 years
Vehicles	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 is no such impairment for the years ended June 30, 2015 and 2014.

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.

Deferred Revenue

Deposits received for program services not yet provided are recorded as deferred 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.

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

Donated Goods and Services (continued)

The Organization recognizes the fair market 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, 2012.

Reclassifications

Certain accounts in the 2014 financial statements have been reclassified to conform to the current year financial statement presentation.

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 October 23, 2015.

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.

2. Summary of Significant Accounting Policies *(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. Housed within a mainstream apartment complex, the program features 12 apartments housing 20 beds. During the first 30 days at ROP, residents undergo an orientation to living independently in an apartment. 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.

2. Summary of Significant Accounting Policies *(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.

3. Government Grants Receivable

Grants receivable of $121,320 and $379,609 at June 30, 2015 and 2014, represent the amounts due from various governmental agencies for the Organization's programs. All grants receivables as of June 30, 2015 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. Presently, the property remains for sale.

5. Property and Equipment, Net

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

	2015	2014
Land	$ 700,000	$ 700,000
Building and building improvements	2,123,515	2,120,695
Equipment and software	237,322	206,364
	3,060,837	3,027,059
Accumulated depreciation	(272,107)	(209,759)
	$ 2,788,730	$ 2,817,300

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 is 5.625%. From July 20, 2015 through June 20, 2017, a monthly payment of principal and interest of $12,516 is due. In the year ended June 30, 2015, the Organization made two lump sum principal reduction payments totaling $551,747. The monthly payment of principal and interest was adjusted so that the payment will be equal to monthly installments of principal and interest computed on the revised outstanding principal balance. The note is collateralized by the property purchased. The full and prompt payment of this note is guaranteed by the Parent.

Interest expense for the years ended June 30, 2015 and 2014 was $34,526 and $81,747.

Future principal maturities relating to the mortgage payable for the years ending June 30 are as follows:

2016	$ 137,808
2017	141,152
	$ 278,960

7. Commitments and Contingencies

Leases

The Organization leases apartment facilities under thirteen non-cancellable operating leases which expire between October 7, 2015 and April 30, 2016. In addition, the Organization leases equipment under three operating leases which expire between January 30, 2016 and August 20, 2021. Rent expense is accounted for on a straight-line basis over the term of the lease. Rent expense amounted to $135,195 and $134,982 for the years ended June 30, 2015 and 2014. Equipment rental and maintenance expense amounted to $9,708 and $7,261 for the years ended June 30, 2015 and 2014.

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

	Facilities	Equipment	Total
2016	$ 97,298	$ 3,866	$ 101,164
2017	-	3,504	3,504
2018	-	3,504	3,504
2019	-	3,504	3,504
2020	-	2,257	2,257
Thereafter	-	85	85
	$ 97,298	$ 16,720	$ 114,018

7. Commitments and Contingencies *(continued)*

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 $741,218 and $659,866 for the years ended June 30, 2015 and 2014.

8. Temporarily Restricted Net Assets

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

	2015	2014
Purpose restricted - operations	$ 4,450	$ 20,225

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

	2015	2014
Purpose restricted - operations	$ 65,775	$ 2,359,017

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 $60.8 million and $57.8 million for the Parent in the years ended June 30, 2015 and 2014. 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 $31.3 million and $33.1 million for the years ended 2015 and 2014. In fiscal 2015 and 2014, the Organization received $1,198,000 and $1,048,000 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 June 30, 2015 with the entire amount and any accrued interest thereon to be payable upon demand, but no later than June 30, 2016. Interest accrues based on the rate charged by the Parent’s bank, which was 1.35% and 1.33% as of June 30, 2015 and 2014.

Interest expense related to this promissory note was $3,384 and $3,120 for the years ended June 30, 2015 and 2014.

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 $24,775 and $26,589 for the years ended June 30, 2015 and 2014.

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 years ended June 30, 2015 and 2014, one contributor donated approximately 7% and 13% of total revenues.

* * * * *

Covenant House Georgia, Inc.

Supplemental Information
June 30, 2015

Covenant House Georgia, Inc.

Schedule of Expenditures of State Award
Year Ended June 30, 2015

State Program Name	Grant Number	Grant Award	Program Period	State Expenditures
Passed through the Georgia Department of Community Affairs				
Shelter Plus Care Services Matching Program	2014 HTF EMS 14C055	$ 20,000	07/01/14 - 06/30/15	$ 20,000

See independent auditors' report

Covenant House Georgia, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-Though Grantor/Cluster or Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Corporation for National and Community Service			
Pass Through the Georgia			
Department of Community Affairs			
AmeriCorps	94.006	13AC150994/14AC160727	$ 112,538
Department of Health and Human Services			
Pass Through the U.S. Committee for Refugees and Immigrants			
Unaccompanied Alien Children Program	93.676	90ZU0064/90ZU0081-02	270,753
Department of Homeland Security			
Direct Programs:			
Emergency Food and Shelter National Board Program	97.024	32-174000-180	6,000
Department of Housing and Urban Development			
Direct Programs:			
Continuum of Care Program	14.267	GA0152L4B001302/GA0152L4B001403	243,117
Other Department of Housing and Urban Development:			
Pass Through the City of Atlanta			
Community Development Block Grants/Entitlement Grants	14.218	220132175	22,960
Pass Through the City of Atlanta			
Housing Opportunities for Person with AIDS	14.241	250104208	2,250
Pass Through the Georgia Department of Community Affairs			
Shelter Plus Care: Atlanta COC	14.238	GA0251L4B001301/GA0251L4B001402	30,794
Shelter Plus Care: Fulton COC	14.238	GA0250L4B021301/GA0250L4B021402	19,716
Total Other Department of Housing and Urban Development			75,720
Total Department of Housing and Urban Development			318,837
Total Expenditures of Federal Awards			$ 708,128

See independent auditors' report and notes to Schedule of Expenditures of Federal Awards

Covenant House Georgia, Inc.

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Covenant House Georgia, Inc. under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* 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 OMB Circular A-133, *Cost Principles for Nonprofit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Agency or Pass-Through Entity Identifying Number

Agency or pass-through numbers are programs where the federal funds are received indirectly. Therefore, agency and pass-through numbers are not required when received directly from the federal government.

O'CONNOR DAVIES

PKF

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, 2015, 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 October 23, 2015.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor Davies, LLP

Harrison, New York
October 23, 2015

O'CONNOR DAVIES

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Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance Required by OMB Circular A-133

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

O'CONNOR DAVIES, LLP
500 Mamaroneck Avenue, Suite 301, Harrison, NY 10528 I Tel: 914.381.8900 I Fax: 914.381.8910 I www.odpkf.com

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

O'Connor Davies, LLP

Harrison, New York
October 23, 2015

Covenant House Georgia, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified?	___ 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?	___ yes	X no
• Significant deficiency(ies) identified?	___ 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 Section 510(a) of OMB Circular A-133?	____ yes	X no

Identification of major federal programs:

CFDA Number (s)	Name of Federal Program or Cluster
14.267	Continuum of Care (CoC) Program
94.006	AmeriCorps

Dollar threshold used to distinguish between Type A and Type B programs	$300,000	
Auditee qualified as low-risk auditee?	___ yes	X no

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2015.

Section III - Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Covenant House Georgia, Inc.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

Section IV - Financial Statement Findings

Finding 2014-001 Segregation of Duties

Condition

Journal entries prepared by the outsourced accountant do not require review and approval by senior financial reporting personnel, and were not subsequently reviewed on an individual basis. Certain write-offs and adjustments made by the outsourced accountant are not approved or reviewed at an appropriate level by Covenant House personnel.

Status

This condition has been corrected.