

Covenant House Georgia, Inc.

Financial Statements

June 30, 2018 and 2017

Covenant House Georgia, Inc.

Financial Statements

June 30, 2018 and 2017

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Independent Auditors' Report

Board of Directors
Covenant House Georgia, Inc.

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, 2018 and 2017, 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. 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, 2018 and 2017, 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.

PKF O'Connor Davies, LLP
New York, New York
January 15, 2019

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Covenant House Georgia, Inc.

Statements of Financial Position

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,246,151	\$ 884,060
Pledges receivable	283,580	123,388
Government grants receivable	127,044	154,385
Other receivables	5,166	31,625
Due from Parent	2,371	71,555
Prepaid expenses and other assets	28,803	28,554
Assets held for sale	-	240,000
Property and equipment, net	<u>2,824,811</u>	<u>2,748,059</u>
	<u>\$ 4,517,926</u>	<u>\$ 4,281,626</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 120,950	\$ 179,755
Notes payable to Parent	-	150,000
Unearned revenue	<u>116,000</u>	<u>154,100</u>
Total Liabilities	<u>236,950</u>	<u>483,855</u>
Net Assets		
Unrestricted		
Undesignated	1,406,298	905,813
Investment in property and equipment	<u>2,824,811</u>	<u>2,748,059</u>
Total Unrestricted	4,231,109	3,653,872
Temporarily restricted	<u>49,867</u>	<u>143,899</u>
Total Net Assets	<u>4,280,976</u>	<u>3,797,771</u>
	<u>\$ 4,517,926</u>	<u>\$ 4,281,626</u>

See notes to financial statements

Covenant House Georgia, Inc.

Statements of Activities

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 908,250	\$ 60,000	\$ 968,250	\$ 601,558	\$ 386,700	\$ 988,258
Contributed services and merchandise	308,550	-	308,550	235,221	-	235,221
Government grants	758,602	-	758,602	816,121	-	816,121
Branding dollars from Parent	813,000	-	813,000	933,000	-	933,000
Special Event Revenue Raised Locally						
Grants from Parent related to Sleep Out Events proceeds	580,976	-	580,976	459,072	-	459,072
Other special events, net of direct benefits to donors of \$207,382 and \$203,808	1,311,389	-	1,311,389	738,393	-	738,393
Net assets released from restrictions	154,032	(154,032)	-	307,018	(307,018)	-
Total Support and Revenue	<u>4,834,799</u>	<u>(94,032)</u>	<u>4,740,767</u>	<u>4,090,383</u>	<u>79,682</u>	<u>4,170,065</u>
INVESTMENT AND OTHER INCOME						
Interest and dividends	2,114	-	2,114	769	-	769
Other income	83,424	-	83,424	32,036	-	32,036
Total Investment and Other Income	<u>85,538</u>	<u>-</u>	<u>85,538</u>	<u>32,805</u>	<u>-</u>	<u>32,805</u>
Total Support and Revenue and Investment and Other Income	<u>4,920,337</u>	<u>(94,032)</u>	<u>4,826,305</u>	<u>4,123,188</u>	<u>79,682</u>	<u>4,202,870</u>
EXPENSES						
Program services	3,419,287	-	3,419,287	3,151,308	-	3,151,308
Supporting Services						
Management and general	496,510	-	496,510	352,329	-	352,329
Fundraising	427,303	-	427,303	349,676	-	349,676
Total Expenses	<u>4,343,100</u>	<u>-</u>	<u>4,343,100</u>	<u>3,853,313</u>	<u>-</u>	<u>3,853,313</u>
Change in Net Assets	577,237	(94,032)	483,205	269,875	79,682	349,557
NET ASSETS						
Beginning of year	<u>3,653,872</u>	<u>143,899</u>	<u>3,797,771</u>	<u>3,383,997</u>	<u>64,217</u>	<u>3,448,214</u>
End of year	<u>\$ 4,231,109</u>	<u>\$ 49,867</u>	<u>\$ 4,280,976</u>	<u>\$ 3,653,872</u>	<u>\$ 143,899</u>	<u>\$ 3,797,771</u>

Covenant House Georgia, Inc.

Statement of Functional Expenses
Year Ended June 30, 2018

	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	\$ 801,114	\$ 66,396	\$ 473,955	\$ 598,181	\$ 1,939,646	\$ 130,134	\$ 219,191	\$ 349,325	\$ -	\$ 2,288,971
Payroll taxes	74,663	6,158	44,305	55,524	180,650	12,239	20,617	32,856	-	213,506
Employee benefits	79,410	7,719	58,171	78,637	223,937	19,867	33,636	53,503	-	277,440
Total Salaries and Related Expenses	955,187	80,273	576,431	732,342	2,344,233	162,240	273,444	435,684	-	2,779,917
Professional fees	-	-	-	7,000	7,000	159,209	21,150	180,359	-	187,359
Supplies	24,415	1,001	6,342	5,998	37,756	18,328	3,427	21,755	-	59,511
Telephone and fax charges	8,694	1,153	5,818	8,043	23,708	1,243	2,093	3,336	-	27,044
Printing, postage and mailing	35	714	318	1,273	2,340	3,164	14,034	17,198	-	19,538
Occupancy										
Fuel and utilities	81,766	447	49,946	19,505	151,664	1,898	2,719	4,617	-	156,281
Repairs and maintenance	48,279	157	27,133	6,875	82,444	4,005	958	4,963	-	87,407
Rent and other	-	-	51,740	-	51,740	14,738	-	14,738	-	66,478
Equipment, maintenance and rental	8,081	376	5,316	20,842	34,615	3,969	2,834	6,803	-	41,418
Infor/Lawson user fees	-	-	-	-	-	6,000	-	6,000	-	6,000
Travel and transportation	14,334	6,227	3,285	52,195	76,041	6,418	2,604	9,022	-	85,063
Conferences, conventions and meetings	735	491	585	2,364	4,175	1,842	1,466	3,308	-	7,483
Specific assistance to individuals	225,937	6,326	48,649	55,177	336,089	665	494	1,159	-	337,248
Other purchased services	22,920	1,979	13,103	19,719	57,721	6,111	13,425	19,536	207,382	284,639
Dues, licenses and permits	-	-	-	85	85	2,816	1,200	4,016	-	4,101
Subscriptions and publications	-	-	-	-	-	1,250	5,524	6,774	-	6,774
Insurance	38,243	209	17,437	9,123	65,012	752	1,272	2,024	-	67,036
In-kind services	23,405	1,500	25,603	5,000	55,508	71,801	-	71,801	-	127,309
Other expenses	1,967	-	3,315	441	5,723	27,934	8,520	36,454	-	42,177
Bank charges and fees	-	-	-	-	-	1,198	-	1,198	-	1,198
Interest	402	2	183	96	683	8	14	22	-	705
Credit card fees	-	-	-	-	-	-	67,135	67,135	-	67,135
Depreciation	44,372	7,533	20,466	10,379	82,750	921	4,990	5,911	-	88,661
Total Functional Expenses	1,498,772	108,388	855,670	956,457	3,419,287	496,510	427,303	923,813	207,382	4,550,482
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(207,382)	(207,382)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,498,772	\$ 108,388	\$ 855,670	\$ 956,457	\$ 3,419,287	\$ 496,510	\$ 427,303	\$ 923,813	\$ -	\$ 4,343,100

See notes to financial statements

Covenant House Georgia, Inc.

Statement of Functional Expenses
Year Ended June 30, 2017

	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	\$ 631,012	\$40,175	\$ 521,960	\$515,461	\$ 1,708,608	\$ 126,766	\$ 198,387	\$ 325,153	\$ -	\$ 2,033,761
Payroll taxes	53,784	3,447	44,627	43,920	145,778	10,907	17,056	27,963	-	173,741
Employee benefits	58,843	4,805	54,586	63,625	181,859	18,265	28,968	47,233	-	229,092
Total Salaries and Related Expenses	743,639	48,427	621,173	623,006	2,036,245	155,938	244,411	400,349	-	2,436,594
Professional fees	-	-	360	49,285	49,645	46,670	28,125	74,795	-	124,440
Supplies	22,756	245	4,051	5,378	32,430	16,661	2,366	19,027	-	51,457
Telephone and fax charges	6,485	1,229	8,473	8,792	24,979	1,064	2,289	3,353	-	28,332
Printing, postage and mailing	198	172	547	854	1,771	5,457	15,381	20,838	-	22,609
Occupancy										
Fuel and utilities	81,105	533	64,700	7,009	153,347	2,572	3,218	5,790	-	159,137
Repairs and maintenance	35,874	150	21,843	2,072	59,939	2,272	907	3,179	-	63,118
Rent and other	-	-	118,067	-	118,067	38,126	-	38,126	-	156,193
Equipment, maintenance and rental	13,958	192	16,909	10,067	41,126	900	4,462	5,362	-	46,488
Infor/Lawson user fees	-	-	-	-	-	6,000	-	6,000	-	6,000
Travel and transportation	13,705	2,428	7,956	50,530	74,619	5,699	2,920	8,619	-	83,238
Conferences, conventions and meetings	1,058	-	2,124	829	4,011	1,194	983	2,177	-	6,188
Specific assistance to individuals	231,637	-	36,853	15,818	284,308	-	-	-	-	284,308
Other purchased services	28,368	613	40,529	28,166	97,676	4,065	16,607	20,672	203,808	322,156
Dues, licenses and permits	-	-	-	602	602	578	924	1,502	-	2,104
Subscriptions and publications	-	-	-	-	-	93	1,948	2,041	-	2,041
Insurance	40,145	264	24,450	3,469	68,328	1,005	1,594	2,599	-	70,927
In-kind services	14,818	-	-	-	14,818	44,692	-	44,692	-	59,510
Other expenses	1,388	16	2,943	1,306	5,653	15,469	4,349	19,818	-	25,471
Bank charges and fees	-	-	-	-	-	2,655	-	2,655	-	2,655
Interest	2,292	15	1,396	198	3,901	57	91	148	-	4,049
Credit card fees	-	-	-	-	-	-	17,267	17,267	-	17,267
Depreciation	39,395	4,215	32,103	4,130	79,843	1,162	1,834	2,996	-	82,839
Total Functional Expenses	1,276,821	58,499	1,004,477	811,511	3,151,308	352,329	349,676	702,005	203,808	4,057,121
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(203,808)	(203,808)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,276,821	\$58,499	\$ 1,004,477	\$811,511	\$ 3,151,308	\$ 352,329	\$ 349,676	\$ 702,005	\$ -	\$ 3,853,313

See notes to financial statements

Covenant House Georgia, Inc.

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 483,205	\$ 349,557
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	88,661	82,839
Gain on asset held for sale	(60,000)	-
Net change in operating assets and liabilities		
Pledges receivable	(160,192)	(31,053)
Other receivables	26,459	(26,370)
Government grants receivable	27,341	41,698
Due from Parent	69,184	(5,375)
Prepaid expenses and other assets	(249)	192
Accounts payable, accrued expenses and refundable advances	(58,805)	76,245
Unearned revenue	(38,100)	96,210
Net Cash from Operating Activities	377,504	583,943
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of property and equipment	300,000	-
Purchase of property and equipment	(165,413)	(97,500)
Net Cash from Operating Activities	134,587	(97,500)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payment to Parent	(150,000)	(100,000)
Change in Cash and Cash Equivalents	362,091	386,443
 CASH AND CASH EQUIVALENTS		
Beginning of year	884,060	497,617
End of year	\$ 1,246,151	\$ 884,060
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 705	\$ 4,049

See notes to financial statements

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Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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. Covenant House (Parent) is a not-for-profit organization founded in 1968 and incorporated in 1972. Covenant House (Parent) and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical attention, crisis intervention, public education and prevention, and other services that reached approximately 89,000 young people during fiscal 2018 and 80,000 young people during fiscal 2017.

Covenant House is the sole member of the following not-for-profit affiliates:

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Illinois
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House New York/Under 21
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington, D.C.
- Covent House Western Avenue
- Covenant House Testamentum
- Covenant House Holdings, LLC
- Covenant International Foundation
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44th Corporation

Covenant House (Parent) is also the sole member of Covenant International Foundation ("CIF"), a not-for-profit corporation, and Covenant House (Parent), together with CIF, represent the controlling interest of the following international not-for-profit affiliates:

- Asociación La Alianza (Guatemala)
- Casa Alianza de Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Covenant House Toronto
- Covenant House Vancouver
- Fundación Casa Alianza México, I.A.P.

Covenant House (Parent) is the founder of Fundación Casa Alianza México, I.A.P.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Nature of Activities (continued)

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 youths in immediate need of housing and crisis intervention. The Shelter provides necessities to youths for up to 90 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.

Outreach

The Street Outreach Program teams are comprised of staff and the Organization's resident youths who are familiar with the areas homeless youths 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 youths who are homeless and the Organization partners with the homeless liaisons in metro-Atlanta to identify youths 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 4 bed apartment-based program and a 26 bed program on site. During the first 30 days at ROP, residents undergo an orientation to living independently. They will be using public transportation, meeting domestic requirements and maintaining 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 youths for entering the job market. Topics include how to find a job, resume building, interview skills, professional behavior, and general office etiquette.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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

Components of Program and Supporting Services (continued)

Program Services (continued)

Support Services (continued)

Health, Wellness and Mental Health Services

Youths 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 youths 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 youths.

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.

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.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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, 2018 and 2017.

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 range 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 or 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

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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

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. No impairment was recognized in the years ended June 30, 2018 and 2017.

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.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

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

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, 2015.

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 15, 2019.

3. Government Grants Receivable

Government grants receivable of \$127,044 and \$154,385 at June 30, 2018 and 2017 represent the amounts due from various governmental agencies for the Organization's programs. All grants receivables as of June 30, 2018 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 property 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. The option expired in October 2014. Based on an independent appraisal report, an impairment loss totaling \$100,000 was recognized in the year ended June 30, 2016 which decreased the property to \$240,000. On December 21, 2017, the Organization sold the property for \$300,000 resulting in a \$60,000 gain on the sale.

5. Property and Equipment

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

	2018	2017
Land	\$ 700,000	\$ 700,000
Buildings and building improvements	2,354,967	2,134,733
Equipment and software	276,064	233,385
Construction-in-progress	-	97,500
	<u>3,331,031</u>	<u>3,165,618</u>
Accumulated depreciation	(506,220)	(417,559)
	<u>\$ 2,824,811</u>	<u>\$ 2,748,059</u>

Land and construction-in-progress are not depreciated.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2018 and 2017

6. Commitments and Contingencies

Leases

The Organization leases apartment facilities under several non-cancellable operating leases. Rent expense amounted to \$51,740 and \$118,067 for the years ended June 30, 2018 and 2017. The Organization discontinued leasing apartment facilities during the year ended June 30, 2018.

The Organization leases equipment under operating leases which expire by May 2023. Equipment rental and maintenance expense amounted to \$15,360 and \$12,318 for the years ended June 30, 2018 and 2017.

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

2019	\$ 13,560
2020	11,720
2021	11,720
2022	11,720
2023	11,008
	<u>\$ 59,728</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 \$758,602 and \$816,121 for the years ended June 30, 2018 and 2017.

7. Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Purpose restricted - operations	<u>\$ 49,867</u>	<u>\$ 143,899</u>

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

	<u>2018</u>	<u>2017</u>
Purpose restricted - operations	<u>\$ 154,032</u>	<u>\$ 307,018</u>

Covenant House Georgia, Inc.

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8. 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 million and \$66 million for the Parent in the years ended June 30, 2018 and 2017. 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 \$35 million and \$36 million for the years ended June 30, 2018 and 2017. In fiscal 2018 and 2017, the Organization received \$813,000 and \$933,000 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, originally due on December 31, 2009. The note was renewed on June 30, 2017 in the amount of \$150,000 with the entire amount and any accrued interest thereon to be payable upon demand, but no later than June 30, 2018. The note was paid off on September 26, 2017. Interest expense related to this promissory note was \$705 and \$4,049 for the years ended June 30, 2018 and 2017.

9. Line of Credit

The Organization has a \$300,000 line of credit agreement with Private Bank of Buckhead which had a maturity date of December 15, 2018 and is expected to be renewed in January 2019. There was no borrowing against the line as of June 30, 2018 and 2017. The line bears interest at the bank's prime lending rate, not to exceed 18%. The line is renewed annually and is due on demand. Under terms of the line of credit, the Organization is required to maintain a specified debt service coverage ratio and debt to tangible net worth ratio, as those terms are defined.

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 \$61,166 and \$23,106 for the years ended June 30, 2018 and 2017.

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.

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