

Covenant House Georgia, Inc.

Financial Statements

June 30, 2019 and 2018

Covenant House Georgia, Inc.

Financial Statements

June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in note 2 to the financial statements, during the year ended June 30, 2019, the Organization adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

February 10, 2020

Covenant House Georgia, Inc.

Statements of Financial Position

	June 30,	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 2,177,613	\$ 1,246,151
Pledges receivable	112,437	283,580
Government grants receivable	154,437	127,044
Other receivables	4,150	5,166
Due from Parent	-	2,371
Prepaid expenses and other assets	47,621	28,803
Property and equipment, net	<u>2,793,535</u>	<u>2,824,811</u>
	<u>\$ 5,289,793</u>	<u>\$ 4,517,926</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 205,630	\$ 120,950
Due to Parent	573	-
Unearned revenue	<u>25,580</u>	<u>116,000</u>
Total Liabilities	<u>231,783</u>	<u>236,950</u>
Net Assets		
Without donor restrictions		
Undesignated	2,100,286	1,406,298
Investment in property and equipment	<u>2,793,535</u>	<u>2,824,811</u>
Total Without Donor Restrictions	4,893,821	4,231,109
With donor restrictions	<u>164,189</u>	<u>49,867</u>
Total Net Assets	<u>5,058,010</u>	<u>4,280,976</u>
	<u>\$ 5,289,793</u>	<u>\$ 4,517,926</u>

See notes to financial statements

Covenant House Georgia, Inc.

Statements of Activities

	Year Ended June 30, 2019			Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions	\$ 1,330,342	\$ 245,427	\$ 1,575,769	\$ 908,250	\$ 60,000	\$ 968,250
Contributed services and merchandise	368,590	-	368,590	308,550	-	308,550
Government grants	737,301	-	737,301	758,602	-	758,602
Branding dollars from Parent	718,000	-	718,000	813,000	-	813,000
Special Event Revenue Raised Locally						
Grants from Parent related to Sleep Out Events proceeds	261,354	-	261,354	580,976	-	580,976
Other special events, net of direct benefits to donors of \$238,483 and \$207,382	1,806,031	-	1,806,031	1,311,389	-	1,311,389
Net assets released from restrictions	131,105	(131,105)	-	154,032	(154,032)	-
Total Support and Revenue	<u>5,352,723</u>	<u>114,322</u>	<u>5,467,045</u>	<u>4,834,799</u>	<u>(94,032)</u>	<u>4,740,767</u>
INVESTMENT AND OTHER INCOME						
Interest and dividends	12,775	-	12,775	2,114	-	2,114
Other income	57,111	-	57,111	83,424	-	83,424
Total Investment and Other Income	<u>69,886</u>	<u>-</u>	<u>69,886</u>	<u>85,538</u>	<u>-</u>	<u>85,538</u>
Total Support and Revenue and Investment and Other Income	<u>5,422,609</u>	<u>114,322</u>	<u>5,536,931</u>	<u>4,920,337</u>	<u>(94,032)</u>	<u>4,826,305</u>
EXPENSES						
Program services	3,988,141	-	3,988,141	3,419,287	-	3,419,287
Supporting Services						
Management and general	410,702	-	410,702	496,510	-	496,510
Fundraising	361,054	-	361,054	427,303	-	427,303
Total Expenses	<u>4,759,897</u>	<u>-</u>	<u>4,759,897</u>	<u>4,343,100</u>	<u>-</u>	<u>4,343,100</u>
Change in Net Assets	662,712	114,322	777,034	577,237	(94,032)	483,205
NET ASSETS						
Beginning 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>
End of year	<u>\$ 4,893,821</u>	<u>\$ 164,189</u>	<u>\$ 5,058,010</u>	<u>\$ 4,231,109</u>	<u>\$ 49,867</u>	<u>\$ 4,280,976</u>

See notes to financial statements

Covenant House Georgia, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services					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	Total		
Salaries and wages	\$ 904,589	\$ 62,724	\$ 577,432	\$ 612,624	\$ 2,157,369	\$ 107,340	\$ 165,822	\$ 273,162	\$ -	\$ 2,430,531
Payroll taxes	74,974	4,284	47,738	51,717	178,713	9,690	13,567	23,257	-	201,970
Employee benefits	123,027	11,201	89,304	100,745	324,277	18,568	29,708	48,276	-	372,553
Total Salaries and Related Expenses	1,102,590	78,209	714,474	765,086	2,660,359	135,598	209,097	344,695	-	3,005,054
Professional fees	-	-	-	-	-	119,087	3,900	122,987	-	122,987
Supplies	25,537	783	8,326	4,502	39,148	21,828	3,792	25,620	-	64,768
Telephone and fax charges	9,820	1,773	6,871	14,802	33,266	1,119	1,636	2,755	-	36,021
Printing, postage and mailing	202	1,802	310	990	3,304	1,939	13,299	15,238	-	18,542
Occupancy										
Fuel and utilities	87,101	433	43,324	20,542	151,400	1,357	2,098	3,455	-	154,855
Repairs and maintenance	71,062	200	31,650	9,511	112,423	629	971	1,600	-	114,023
Rent and other	-	-	51,872	-	51,872	-	-	-	-	51,872
Equipment, maintenance and rental	30,598	211	8,212	20,316	59,337	13,447	9,174	22,621	-	81,958
Infor/Lawson user fees	-	-	-	-	-	6,000	-	6,000	-	6,000
Travel and transportation	18,696	7,012	9,710	29,001	64,419	8,488	5,980	14,468	-	78,887
Conferences, conventions and meetings	597	699	672	2,673	4,641	6,227	1,914	8,141	-	12,782
Specific assistance to individuals	348,089	13,294	65,974	105,023	532,380	6,500	155	6,655	-	539,035
Venue rental, catering and production costs	-	-	-	-	-	-	-	-	162,944	162,944
Other purchased services	41,064	2,248	26,803	28,891	99,006	7,308	24,966	32,274	75,539	206,819
Dues, licenses and permits	-	-	-	285	285	244	3,044	3,288	-	3,573
Subscriptions and publications	-	-	-	-	-	2,500	758	3,258	-	3,258
Insurance	48,688	242	22,339	11,483	82,752	759	1,173	1,932	-	84,684
In-kind services	4,071	-	-	-	4,071	54,490	-	54,490	-	58,561
Other expenses	1,681	-	2,941	98	4,720	21,022	3,967	24,989	-	29,709
Bank charges and fees	-	-	-	-	-	1,515	-	1,515	-	1,515
Credit card fees	-	-	-	-	-	-	74,137	74,137	-	74,137
Depreciation	43,073	18,900	9,226	13,559	84,758	645	993	1,638	-	86,396
Total Functional Expenses	1,832,869	125,806	1,002,704	1,026,762	3,988,141	410,702	361,054	771,756	238,483	4,998,380
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(238,483)	(238,483)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,832,869	\$ 125,806	\$ 1,002,704	\$ 1,026,762	\$ 3,988,141	\$ 410,702	\$ 361,054	\$ 771,756	\$ -	\$ 4,759,897

See notes to financial statements

Covenant House Georgia, Inc.

Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services					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	Total		
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
Venue rental, catering and production costs	-	-	-	-	-	-	-	-	130,710	130,710
Other purchased services	22,920	1,979	13,103	19,719	57,721	6,111	13,425	19,536	76,672	153,929
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.

Statements of Cash Flows

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 777,034	\$ 483,205
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	86,396	88,661
Gain on asset held for sale	-	(60,000)
Cash received for capital campaign	(80,750)	-
Net change in operating assets and liabilities		
Pledges receivable	171,143	(160,192)
Other receivables	1,016	26,459
Government grants receivable	(27,393)	27,341
Due from/to Parent	2,944	69,184
Prepaid expenses and other assets	(18,818)	(249)
Accounts payable, accrued expenses and refundable advances	84,680	(58,805)
Unearned revenue	(90,420)	(38,100)
Net Cash from Operating Activities	905,832	377,504
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property	-	300,000
Purchase of property and equipment	(55,120)	(165,413)
Net Cash from Investing Activities	(55,120)	134,587
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment to Parent	-	(150,000)
Cash contributions restricted for capital campaign	80,750	-
Net Cash from Financing Activities	80,750	(150,000)
Change in Cash and Cash Equivalents	931,462	362,091
CASH AND CASH EQUIVALENTS		
Beginning of year	1,246,151	884,060
End of year	\$ 2,177,613	\$ 1,246,151
SUPPLEMENTAL DISCLOSURE OF INFORMATION		
Cash paid for interest	\$ -	\$ 705

See notes to financial statements

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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 74,000 young people during fiscal 2019 and 89,000 young people during fiscal 2018.

The Organization is affiliated with the following not-for-profit organizations through common control by the Parent:

- 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
- CH Housing Development Fund Corp.
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44th Corporation
- 460 West 41st Street, LLC

The Parent is also the sole member of Covenant International Foundation ("CIF"), a not-for-profit corporation, and the 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.

The Parent is the founder of Fundación Casa Alianza México, I.A.P.

The Organization is a qualified tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, it is not subject to federal income taxes under Section 501(c)(3) of the Code. The Organization, as a not-for-profit organization, is also exempt from state and local income taxes and has been classified as a publicly supported charitable organization under Section 509(a)(1) of the code and qualifies for the maximum charitable contribution deduction for donors.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018

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 Department 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 Accounting

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP").

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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

Change in Accounting Principle

On July 1, 2018, the Organization adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities (ASU 2016-14). This guidance requires the Organization to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Organization to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for unrestricted net assets were reclassified to net assets without donor restrictions and temporarily restricted net assets were reclassified to net assets with donor restrictions.

Net Asset Presentation

Net assets without donor restrictions may be expended for any purpose in performing the primary objectives of the Organization. Net assets with donor restrictions are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature or satisfied by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be held in perpetuity. At June 30, 2019 and 2018, the Organization has no net assets with donor restrictions that are perpetual in nature.

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.

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 general 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. As of June 30, 2019 and 2018, no allowance for doubtful accounts was determined to be necessary.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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

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

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, 2019 and 2018.

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.

Revenue Recognition

The Organization records earned revenues on an accrual basis. In addition, the Organization records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), certain contributed services and gifts of other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The Organization also raises funds through special events. Event revenues, net of related costs with a direct-benefit to donors, are recorded as contributions without donor restriction since such funds can be used for general operations unless there are donor-imposed restrictions. Costs to generate donations, with and without donor restriction, are expensed as incurred.

The Organization recognizes government and private grant revenue in the statements of activities to the extent that reimbursable expenses have been incurred for the purpose specified by the grantor during the period.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

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

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.

Functional Expense Allocation

Expenses are summarized and categorized based upon their functional classification as either program services, management and general, or fundraising. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Expenses related to more than one function have been allocated using reasonable ratios determined by management. Those expenses include certain salary and personnel costs which are allocated based on estimates of time and effort and maintenance, utilities, insurance and depreciation which are allocated based on square footage.

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, 2016.

Reclassifications

Certain amounts in the June 30, 2018 financial statements have been reclassified to conform to the June 30, 2019 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 February 10, 2020.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

3. Government Grants Receivable

Government grants receivable of \$154,437 and \$127,044 at June 30, 2019 and 2018 represent the amounts due from various governmental agencies for the Organization's programs. All grants receivables as of June 30, 2019 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 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:

	2019	2018
Land	\$ 700,000	\$ 700,000
Buildings and building improvements	2,379,967	2,354,967
Equipment and software	302,932	276,064
Construction-in-progress	3,252	-
	<u>3,386,151</u>	<u>3,331,031</u>
Accumulated depreciation	<u>(592,616)</u>	<u>(506,220)</u>
	<u>\$ 2,793,535</u>	<u>\$ 2,824,811</u>

Land and construction-in-progress are not depreciated.

6. Net Assets with Donor Restrictions

Net assets with donor purpose restrictions consist of the following as of June 30:

	2019	2018
Operations	\$ 105,042	\$ 46,554
Capital Campaign	44,844	-
Other	14,303	3,313
	<u>\$ 164,189</u>	<u>\$ 49,867</u>

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

6. Net Assets with Donor Restrictions (*continued*)

Net assets were released from restrictions for the satisfaction of purpose restrictions as follows during the years ended June 30:

	<u>2019</u>	<u>2018</u>
Operations	\$ 66,512	\$ 92,351
Capital Campaign	35,906	50,000
Other	<u>28,687</u>	<u>11,681</u>
	<u>\$ 131,105</u>	<u>\$ 154,032</u>

7. Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, is comprised of the following:

Cash and equivalents	\$ 2,177,613
Pledges receivable	112,437
Government grants receivable	154,437
Other receivables	<u>4,150</u>
Financial assets available	2,448,637
Less donor restricted net assets	<u>(164,189)</u>
Financial assets at year end available to meet needs for general expenditures	<u>\$ 2,284,448</u>

The Organization is conducting a capital campaign to raise \$9.701 million, of which \$5.495 million is for the construction of a new 30 unit facility for the Rights of Passage program, \$1.733 million to renovate and expand the Crisis Shelter, \$1.473 million for capacity building and operating sustainability and \$1 million for a repairs and maintenance endowment fund. As part of its liquidity management, the Organization monitors its financial assets to be available as its general expenditures, liabilities, and obligations come due within one year. In addition, the Organization receives cash from contributions and grants through its fundraising efforts and from support received by the Parent through branding dollars. To help manage unanticipated liquidity needs, the Organization has an available line of credit in the amount of \$300,000.

Covenant House Georgia, Inc.

Notes to Financial Statements June 30, 2019 and 2018

8. Line of Credit

In April 2019, the Organization renewed the \$300,000 line of credit agreement with Center State Bank which has a maturity date of April 5, 2020. There was no borrowing against the line as of June 30, 2019 and 2018. The line bears interest at the bank's prime lending rate of 6%. The line is renewed annually and is due on demand. Under terms of the line of credit, the Organization is required to provide the lender with a copy of the audited financial statements without modification of the independent auditors' report within 120 days of the fiscal year end. The Organization has obtained a waiver for this requirement.

9. Employee Benefit Plans

The Organization participates in a Parent-sponsored noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, and covers substantially all employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Effective August 1, 2009, the Board of Directors of the Parent approved to freeze the future benefit accruals of all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent.

Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. The Organization's required contribution was \$27,149 and \$9,126 for the years ended June 30, 2019 and 2018 and are expected to be \$24,712 for fiscal 2020.

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 \$52,484 and \$52,040 for the years ended June 30, 2019 and 2018.

10. Commitments and Contingencies

Leases

The Organization leases equipment under operating leases which expire by May 2023. Equipment rental and maintenance expense amounted to \$16,522 and \$15,360 for the years ended June 30, 2019 and 2018.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2019 and 2018

10. Commitments and Contingencies (continued)

Leases (continued)

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

2020	\$ 11,720
2021	11,720
2022	11,720
2023	11,008
	<u>\$ 46,168</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 \$737,301 and \$758,602 for the years ended June 30, 2019 and 2018.

11. 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 received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations with a Parent subsidy and appropriates funds classified as “branding dollars” or “contributions received from Parent” to each Covenant House affiliate. Total funds allocated to affiliated organizations, based on the Parent’s policy, approximated \$29 million and \$35 million for the years ended June 30, 2019 and 2018. In fiscal 2019 and 2018, the Organization received \$718,000 and \$813,000 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 remaining balance on the note was paid on September 26, 2017. Interest expense related to this promissory note was \$705 for the year ended June 30, 2018.

12. 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. Concentrations of credit risk with respect to receivables are generally diversified due to the number of entities and individuals composing the Organization’s programs and donor base.

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