

Covenant House Georgia, Inc.

Financial Statements

June 30, 2020 and 2019

Covenant House Georgia, Inc.

Financial Statements

June 30, 2020 and 2019

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-19

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, 2020 and 2019, 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, 2020 and 2019, 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

April 19, 2021

PKF O'CONNOR DAVIES, LLP
500 Mamaroneck Avenue, Harrison, NY 10528 | Tel: 914.381.8900 | Fax: 914.381.8910 | www.pkfod.com

PKF O'Connor Davies, LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Covenant House Georgia, Inc.

Statements of Financial Position

	June 30,	
	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 5,799,169	\$ 2,177,613
Contributions receivable, net	4,090,026	112,437
Government grants receivable	256,882	154,437
Other receivables	41,286	4,150
Due from Parent	47,467	-
Prepaid expenses and other assets	55,423	47,621
Property and equipment, net	<u>3,054,391</u>	<u>2,793,535</u>
	<u>\$ 13,344,644</u>	<u>\$ 5,289,793</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 403,113	\$ 205,630
Due to Parent	-	573
Unearned revenue	-	25,580
Paycheck Protection Program loan	<u>600,000</u>	<u>-</u>
Total Liabilities	<u>1,003,113</u>	<u>231,783</u>
Net Assets		
Without Donor Restrictions		
Undesignated	4,067,513	2,100,286
Investment in property and equipment	<u>3,054,391</u>	<u>2,793,535</u>
Total Without Donor Restrictions	7,121,904	4,893,821
With donor restrictions	<u>5,219,627</u>	<u>164,189</u>
Total Net Assets	<u>12,341,531</u>	<u>5,058,010</u>
	<u>\$ 13,344,644</u>	<u>\$ 5,289,793</u>

See notes to financial statements

Covenant House Georgia, Inc.

Statements of Activities

	Year Ended June 30, 2020			Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions	\$ 2,896,085	\$ 5,695,500	\$ 8,591,585	\$ 1,330,342	\$ 245,427	\$ 1,575,769
Contributed services and merchandise	350,360	-	350,360	368,590	-	368,590
Government grants	803,994	-	803,994	737,301	-	737,301
Branding dollars from Parent	707,016	-	707,016	718,000	-	718,000
Special Event Revenue Raised Locally						
Grants from Parent related to Sleep Out Events proceeds	702,199	-	702,199	704,454	-	704,454
Other special events, net of direct benefits to donors of \$47,533 and \$238,483	1,043,342	-	1,043,342	1,362,931	-	1,362,931
Net assets released from restrictions	640,062	(640,062)	-	131,105	(131,105)	-
Total Support and Revenue	<u>7,143,058</u>	<u>5,055,438</u>	<u>12,198,496</u>	<u>5,352,723</u>	<u>114,322</u>	<u>5,467,045</u>
INVESTMENT AND OTHER INCOME						
Interest and dividends	27,865	-	27,865	12,775	-	12,775
Other income	9,926	-	9,926	57,111	-	57,111
Total Investment and Other Income	<u>37,791</u>	<u>-</u>	<u>37,791</u>	<u>69,886</u>	<u>-</u>	<u>69,886</u>
Total Support and Revenue and Investment and Other Income	<u>7,180,849</u>	<u>5,055,438</u>	<u>12,236,287</u>	<u>5,422,609</u>	<u>114,322</u>	<u>5,536,931</u>
EXPENSES						
Program services	4,069,222	-	4,069,222	3,988,141	-	3,988,141
Supporting Services						
Management and general	449,853	-	449,853	410,702	-	410,702
Fundraising	433,691	-	433,691	361,054	-	361,054
Total Expenses	<u>4,952,766</u>	<u>-</u>	<u>4,952,766</u>	<u>4,759,897</u>	<u>-</u>	<u>4,759,897</u>
Change in Net Assets	2,228,083	5,055,438	7,283,521	662,712	114,322	777,034
NET ASSETS						
Beginning 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>
End of year	<u>\$ 7,121,904</u>	<u>\$ 5,219,627</u>	<u>\$ 12,341,531</u>	<u>\$ 4,893,821</u>	<u>\$ 164,189</u>	<u>\$ 5,058,010</u>

See notes to financial statements

Covenant House Georgia, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services					Supporting Services			Cost of Direct Benefits to Donors	Total Expenses
	Shelter and Crisis Care	Outreach	Rights of Passage	Other Services	Total	Management and General	Fundraising	Total		
Salaries and wages	\$ 825,979	\$ 45,030	\$ 646,861	\$ 664,393	\$ 2,182,263	\$ 125,953	\$ 250,272	\$ 376,225	\$ -	\$ 2,558,488
Payroll taxes	76,033	4,110	49,319	56,621	186,083	10,275	14,384	24,659	-	210,742
Employee benefits	125,861	11,442	91,535	103,122	331,960	19,070	30,512	49,582	-	381,542
Total Salaries and Related Expenses	1,027,873	60,582	787,715	824,136	2,700,306	155,298	295,168	450,466	-	3,150,772
Professional fees	-	-	-	-	-	163,343	675	164,018	-	164,018
Supplies	31,596	-	13,832	7,965	53,393	19,087	10,712	29,799	-	83,192
Telephone and fax charges	12,070	1,791	8,519	12,117	34,497	1,258	2,887	4,145	-	38,642
Printing, postage and mailing	44	-	215	1,062	1,321	1,731	11,307	13,038	-	14,359
Occupancy										
Fuel and utilities	91,803	481	43,100	21,202	156,586	1,498	2,982	4,480	-	161,066
Repairs and maintenance	62,693	211	26,424	9,305	98,633	657	1,308	1,965	-	100,598
Rent and other	-	-	22,230	-	22,230	-	-	-	-	22,230
Equipment, maintenance and rental	29,540	840	21,215	26,966	78,561	2,215	1,226	3,441	-	82,002
Infor/Lawson user fees	-	-	-	-	-	6,000	-	6,000	-	6,000
Travel and transportation	6,845	3,581	6,175	18,114	34,715	4,525	3,205	7,730	-	42,445
Conferences, conventions and meetings	264	266	1,328	2,294	4,152	5,180	558	5,738	-	9,890
Specific assistance to individuals	363,409	3,458	66,210	76,731	509,808	9,372	1,290	10,662	-	520,470
Other purchased services	106,132	2,324	56,050	41,745	206,251	7,510	18,049	25,559	47,533	279,343
Dues, licenses and permits	-	-	-	-	-	4,777	1,330	6,107	-	6,107
Subscriptions and publications	-	-	-	108	108	187	3,721	3,908	-	4,016
Insurance	46,713	245	21,625	10,789	79,372	762	1,517	2,279	-	81,651
In-kind services	-	-	-	-	-	60,560	-	60,560	-	60,560
Other expenses	2,431	-	5,264	450	8,145	4,224	3,431	7,655	-	15,800
Bank charges and fees	-	-	-	-	-	1,104	-	1,104	-	1,104
Credit card fees	-	-	-	-	-	-	73,202	73,202	-	73,202
Depreciation	41,030	6,549	21,389	12,176	81,144	565	1,123	1,688	-	82,832
Total Functional Expenses	1,822,443	80,328	1,101,291	1,065,160	4,069,222	449,853	433,691	883,544	47,533	5,000,299
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(47,533)	(47,533)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,822,443	\$ 80,328	\$ 1,101,291	\$ 1,065,160	\$ 4,069,222	\$ 449,853	\$ 433,691	\$ 883,544	\$ -	\$ 4,952,766

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	Other 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.

Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,283,521	\$ 777,034
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	82,832	86,396
Discount to present value	73,800	-
Cash contributions received for capital campaign	(1,388,871)	(80,750)
Net change in operating assets and liabilities		
Contributions receivable	(4,051,389)	171,143
Government grants receivable	(102,445)	(27,393)
Other receivables	(37,136)	1,016
Due from/to Parent	(48,040)	2,944
Prepaid expenses and other assets	(7,802)	(18,818)
Accounts payable, accrued expenses and refundable advances	197,483	84,680
Unearned revenue	(25,580)	(90,420)
Net Cash from Operating Activities	1,976,373	905,832
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(343,688)	(55,120)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	600,000	-
Cash contributions restricted for capital campaign	1,388,871	80,750
Net Cash from Financing Activities	1,988,871	80,750
Change in Cash and Cash Equivalents	3,621,556	931,462
CASH AND CASH EQUIVALENTS		
Beginning of year	2,177,613	1,246,151
End of year	\$ 5,799,169	\$ 2,177,613

See notes to financial statements

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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 50,000 young people during fiscal 2020 and 74,000 young people during fiscal 2019.

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. 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, 2020 and 2019

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 18-24. 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.

Other 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, 2020 and 2019

1. Organization and Nature of Activities (continued)

Components of Program and Supporting Services (continued)

Program Services (continued)

Other 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 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, 2020 and 2019

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

Change in Accounting Principles

Effective July 1, 2019, the Organization adopted ASU 2014-09 *Revenue from Contracts with Customers* which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, and supersedes most current revenue recognition guidance. During fiscal 2020, the Organization had no revenue sources to which ASU 2014-09 applies.

Effective July 1, 2019, the Organization adopted Accounting Standards Update No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes grants and contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Net Asset Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the entire restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as assets released from restrictions.

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.

Contributions 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.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019.

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, 2020 and 2019

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

The costs of providing the various programs and supporting services have been allocated on the statements of activities and functional expenses. While most expenses can be directly allocated to one of the programs or supporting functions, certain categories of expenses are attributed to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses in this category include occupancy, depreciation, office expenses, insurance, certain salary and personnel costs, including executives, and accounting. These expenses are allocated based on either estimates of time and effort, square footage or days of care depending of the nature of the expenditures.

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, 2017.

Reclassifications

Certain amounts in the June 30, 2019 financial statements have been reclassified to conform to the June 30, 2020 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 April 19, 2021.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

3. Contributions Receivables

Contributions promised to the Organization as of June 30 but not yet collected as of such date, have been recorded as contributions receivable. A present value discount rate of 2.18% has been calculated using discount factors that approximate the risk and expected timing of future payments. Contributions receivable are estimated to be collected as follows:

	<u>2020</u>	<u>2019</u>
Receivables due in less than one year	\$ 2,414,985	\$ 112,437
Receivables due in one to five years	<u>1,748,841</u>	<u>-</u>
	4,163,826	112,437
Discount to present value	<u>(73,800)</u>	<u>-</u>
	<u>\$ 4,090,026</u>	<u>\$ 112,437</u>

As of June 30, 2020 and 2019, no allowance for doubtful accounts was determined to be necessary.

4. Government Grants Receivables

Government grants receivable of \$256,882 and \$154,437 at June 30, 2020 and 2019 represent the amounts due from various governmental agencies for the Organization's programs. All grants receivables as of June 30, 2020 are expected to be collected within one year.

5. Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Land	\$ 700,000	\$ 700,000
Buildings and building improvements	2,454,345	2,379,967
Equipment and software	297,548	302,932
Construction-in-progress	<u>272,561</u>	<u>3,250</u>
	3,724,454	3,386,149
Accumulated depreciation	<u>(670,063)</u>	<u>(592,614)</u>
	<u>\$ 3,054,391</u>	<u>\$ 2,793,535</u>

Land and construction-in-progress are not depreciated.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

6. Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Capital Campaign	\$ 4,981,166	\$ 44,844
Operations	122,247	105,042
Other	<u>116,214</u>	<u>14,303</u>
	<u>\$ 5,219,627</u>	<u>\$ 164,189</u>

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

	<u>2020</u>	<u>2019</u>
Capital Campaign	\$ 477,628	\$ 35,906
Operations	148,295	66,512
Other	<u>14,139</u>	<u>28,687</u>
	<u>\$ 640,062</u>	<u>\$ 131,105</u>

7. Liquidity and Availability of Financial Assets

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, are comprised of the following:

	<u>2020</u>	<u>2019</u>
Cash and equivalents	\$ 5,799,169	\$ 2,177,613
Contributions receivable, net	4,090,026	112,437
Government grants receivable	256,882	154,437
Other receivables	41,286	4,150
Due from Parent	<u>47,467</u>	<u>-</u>
Financial assets available	10,234,830	2,448,637
Less donor restricted net assets	<u>(5,219,627)</u>	<u>(164,189)</u>
Financial assets at year end available to meet needs for general expenditures	<u>\$ 5,015,203</u>	<u>\$ 2,284,448</u>

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

7. Liquidity and Availability of Financial Assets (continued)

The Organization is conducting a capital campaign to raise \$9.7 million, of which \$5.5 million is for the construction of a new 30 unit facility for the Rights of Passage program, \$1.7 million to renovate and expand its existing facilities, \$1.5 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 \$500,000.

8. Line of Credit

In April 2019, the Organization renewed the \$300,000 line of credit agreement with CenterState Bank which had a maturity date of April 5, 2020 which was extended to June 30, 2020. There was no borrowing against the line as of June 30, 2020 and 2019. The line bore 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. On July 6, 2020, the Organization renewed the line of credit and increased the limit to \$500,000. The line bears interest at the bank's prime lending rate of 3.25%.

9. Paycheck Protection Program Loan

On April 24, 2020, the Organization received loan proceeds in the amount of \$600,000 under the Paycheck Protection Program ("PPP Loan"). The PPP Loan, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES ACT"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying entity. The PPP Loan bears an interest rate of 1% per annum. All or a portion of the PPP Loan principal and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries below a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP Loan, if any, is payable within two years from the date of the loan. Loan payments of principal and interest are deferred until the amount of the forgiveness is determined by the United States Small Business Administration ("SBA"). If the Organization does not apply for forgiveness, payments begin approximately 16 months after the loan date. The PPP Loan balance at June 30, 2020 consists of \$600,000 of principal.

The Organization intends to use all proceeds received in accordance with regulations established by the PPP. Management believes its use of the proceeds, including amounts expense through June 30, 2020, will be forgiven.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

10. 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 \$25,366 and \$27,149 for the years ended June 30, 2020 and 2019 and are expected to be \$16,325 for fiscal 2021.

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 \$42,819 and \$52,484 for the years ended June 30, 2020 and 2019.

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 affiliates, based on the Parent's policy, approximated \$38 million and \$34 million for the years ended June 30, 2020 and 2019. In fiscal 2020 and 2019, the Organization received \$707,016 and \$718,000 in Branding Dollars from the Parent. Additionally, in fiscal 2020 and 2019, the Organization received \$702,199 and \$704,454 from the Parent relating to national sleep out events.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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. 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. During the year ended June 30, 2020, one donor accounted for approximately 21% of total revenue and represents approximately 48% of contributions receivable at June 30, 2020. During the year ended June 30, 2019, no single donor accounted for more than 10% of total revenue.

13. Commitments and Contingencies

Leases

The Organization leases equipment under operating leases which expire by July 2023. Equipment rental and maintenance expense amounted to \$15,794 and \$16,522 for the years ended June 30, 2020 and 2019.

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

2021	\$ 28,862
2022	11,720
2023	10,808
2024	65
	<u>\$ 51,455</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 \$803,994 and \$737,301 for the years ended June 30, 2020 and 2019.

Building on a Promise Campaign

In June 2020, based upon management's diligence in soliciting vendors to execute the plans for construction of the new 30 unit facility for the Rights of Passage program and campus renovations (the "Project"), the Board approved the engagement of vendors with a budget of \$8.3 million. On June 18, 2020, management engaged a primary site contractor for approximately \$5.4 million. In March 2021, change orders to the Project resulted in an increase in the budget to \$6.6 million. The Project is expected to be completed by December 2021.

Covenant House Georgia, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

14. Subsequent Events

In October 2020, CHGA CHI Leverage Lender, LLC (“CHGA-CHI”) was formed for the purpose of participation in a New Markets Tax Credit (“NMTC”) financing transaction in the Project pursuant to Section 45D of the Internal Revenue Code. The NMTC program, administered by the Community Development Financial Institutions Fund (“CDFI Fund”), a division of the U.S. Treasury Department, attracts private investment by awarding federal income tax credits to investors in return for their equity investments in qualified projects. CHGA CHI is owned by the Organization (95%) and the Parent (5%).

15. Risks and Uncertainties

Coronavirus outbreak may have a potentially adverse effect on the results of operations. Given the uncertainty around the extent and timing of the potential future spread or mitigation of the coronavirus and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact to future results of operations, cash flows, or financial condition.

* * * * *