

**THE COVERING HOUSE**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

THE COVERING HOUSE

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
The Covering House

We have audited the accompanying financial statements of The Covering House (a non-profit corporation), which comprise the statements of assets, liabilities, and net assets—modified cash basis as of December 31, 2014, and the related statement of revenues, expenses, and changes in net assets—modified cash basis for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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.

### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of The Covering House as of December 31, 2014, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

***Other-Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fick, Eggemeyer, & Williamson, CPAs  
St. Louis, Missouri  
February 19, 2015

THE COVERING HOUSE  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -  
MODIFIED CASH BASIS  
December 31, 2014

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ASSETS

Current assets		
Cash and cash equivalents	\$	218,128
Investments - note 4		<u>12,929</u>
Total current assets		231,057
Non-current assets		
Property and equipment net of accumulated depreciation - note 5		<u>38,385</u>
Total non-current assets		38,385
Total assets	\$	<u><u>269,442</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Credit card liabilities	\$	2,177
Payroll liabilities		<u>16,253</u>
Total current liabilities		18,430
Total liabilities		<u>18,430</u>
Net assets		
Unrestricted		251,012
Temporarily restricted		-
Permanently restricted		<u>-</u>
Total net assets		<u>251,012</u>
Total liabilities and net assets	\$	<u><u>269,442</u></u>

See accompanying notes and independent auditors' report

THE COVERING HOUSE  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
MODIFIED CASH BASIS  
For the year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
<b>SUPPORT AND REVENUE</b>				
Contributed support	\$ 333,290	\$ -	\$ -	\$ 333,290
Grant income	71,225	10,000	-	81,225
Program revenue	10,372	-	-	10,372
Events revenue	49,013	-	-	49,013
Investment income	292	-	-	292
Other revenue	1,217	-	-	1,217
<b>Total support and revenue</b>	<b>465,409</b>	<b>10,000</b>	<b>-</b>	<b>475,409</b>
Net assets released from restrictions	1,781	(1,781)	-	-
	467,190	8,219	-	475,409
<b>EXPENSES</b>				
Program services				
Program expenses	324,410	-	-	324,410
<b>Total program services</b>	<b>324,410</b>	<b>-</b>	<b>-</b>	<b>324,410</b>
Supporting services				
Administrative expenses	179,245	-	-	179,245
Fundraising	15,595	-	-	15,595
<b>Total supporting services</b>	<b>194,840</b>	<b>-</b>	<b>-</b>	<b>194,840</b>
<b>Total expenses</b>	<b>519,250</b>	<b>-</b>	<b>-</b>	<b>519,250</b>
Excess of support and revenue over expenses	(52,060)	8,219	-	(43,841)
Net assets, beginning of year	294,853	-	-	294,853
Net assets, end of year	\$ 242,793	\$ 8,219	\$ -	\$ 251,012

See accompanying notes and independent auditors' report

THE COVERING HOUSE  
STATEMENT OF CASH FLOWS

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For the year ended December 31, 2014

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CASH FLOWS FROM OPERATING ACTIVITIES	
Excess of support and revenue over expenses	\$ (43,841)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation	2,771
Changes in assets and liabilities:	
Increase (decrease) in credit card liabilities	943
Increase (decrease) in payroll liabilities	8,925
Net cash provided by (used in) operating activities	<u>(31,202)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	(41,156)
Net (increase) decrease in value of investments	<u>(12,929)</u>
Net cash provided by (used in) investing activities	<u>(54,085)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
None	<u>-</u>
Net cash provided by (used in) financing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>(85,287)</u>
Cash and cash equivalents - beginning of year	<u>303,415</u>
Cash and cash equivalents - end of year	<u><u>\$ 218,128</u></u>

See accompanying notes and independent auditors' report

**THE COVERING HOUSE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

The Covering House was established as a place of refuge and restoration for girls under the age of 18 who have been victims of sexual exploitation or sexual trafficking.

Basis of Accounting

The financial statements of The Covering House (the Organization) have been prepared on the modified cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when cash is disbursed rather than when the obligation is incurred. Modifications to the cash basis include investments, fixed assets, credit cards payable and payroll liabilities. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Income Taxes

The Organization is exempt from income taxes pursuant to section 501(c)(3) of the Internal Revenue Service Code. Therefore, no provision is made for taxes on income.

The Organization adopted the provisions of Accounting for Uncertainty in Income Taxes on January 1, 2013. The adoption of that guidance resulted in no change to the financial statements for prior periods. As of December 31, 2014, no amounts have been recognized for uncertain tax positions. The Organization's tax returns filed prior to 2012 are closed.

Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Program Services

The Covering House's primary purpose is to provide refuge and restoration for girls who have experienced sexual exploitation or sexual trafficking. It provides various services including life skills, therapeutic services, supportive adults programs, and preventative programs.



**THE COVERING HOUSE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Cash and Cash Equivalents

The Covering House considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Basis of Presentation

The financial statements are prepared in conformity with the standards promulgated by the Financial Accounting Standards Board in *Accounting for Contributions Received and Contributions Made* and *Financial Statements of Non-For-Profit Organizations*. As a result, the Organization reports information about its financial position and activities using three classes of net assets that recognize the existence and nature of restrictions on its net assets.

Unrestricted Net Assets represent resources over which the Board of Directors has unlimited discretionary control to carry out the activities of the Organization in accordance with the Articles of Incorporation and By-Laws.

Temporarily Restricted Net Assets represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the Organization or by the passage of time.

Permanently Restricted Net Assets are subject to donor-imposed stipulations that the net assets be retained and invested permanently.

Property and Equipment and Depreciation

Fixed assets are recorded at cost or, in the case of donated property, at their estimated fair market value at the date of the donation. Depreciation of fixed assets is provided over the estimated useful lives of the respective assets on a straight-line basis. Expenditures for repairs and maintenance are charged to operating expense as incurred. Prior to 2014, the Organization did not capitalize and depreciate fixed assets. As a result, any assets acquired prior to 2014 have been omitted from the 2014 financial statements. The organization believes that total omitted assets are immaterial.

**NOTE 2 - DONATED SERVICES**

A number of volunteers contribute services to The Covering House. No amounts have been recognized in the accompanying statement of revenues, expenses and changes in net assets - modified cash basis because the criteria for recognition of such volunteer effort under non-profit guidelines have not been satisfied.

**THE COVERING HOUSE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

**NOTE 3 - FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenues, expenses and changes in net assets - modified cash basis. Costs are allocated between administration, fund-raising, or the appropriate program based on evaluations of the related benefits. Administrative expenses include those expenses which were not directly identifiable with any other specific functions but provide for the overall support and direction of the Organization.

**Note 4 - INVESTMENTS**

Fair Value Measurements

Financial Accounting Standards Board Statement *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under *Fair Value Measurements* are described below:

*Level 1*- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

*Level 2*- Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3*- Inputs to the valuation methodology are unobservable and significant to the fair value measurement

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014.

Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

**THE COVERING HOUSE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

**NOTE 4 - INVESTMENTS** (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Stock	\$ 12,929	\$ -	\$ -	\$ 12,929
Total at fair value	\$ 12,929	\$ -	\$ -	\$ 12,929

**NOTE 5 - FIXED ASSETS AND DEPRECIATION**

A summary of fixed assets follows:

December 31,	2014
Leasehold improvements	\$ 32,762
Equipment	<u>8,394</u>
Total	41,156
Less: accumulated depreciation	<u>(2,771)</u>
Total, net of accumulated depreciation and amortization	<u>\$ 38,385</u>

Depreciation policies are disclosed in Note 1. Depreciation expense for the year ended December 31, 2014 was \$2,771.

**THE COVERING HOUSE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

**NOTE 6 - OPERATING LEASES**

In November 2012, the Organization entered into a month-to-month lease with C. Rallo for storage space. Monthly lease payments are \$175.

In October 2014, the Organization entered into a 12 month lease with the Mental Health Association for office space. Monthly lease payments are \$1,665.

The Organization also leases a house in Dittmer, Missouri, on a verbal month-to-month lease. The current rent is \$1 per year and the agreement stipulates that the Organization will reimburse the owner for insurance.

Future minimum lease payments are as follows:

	<u>Amount</u>
For the year ending December 31, 2015	<u>\$ 16,650</u>
Total future minimum lease payments	<u><u>\$ 16,650</u></u>

**NOTE 7 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 19, 2015, the date which the financial statements were available for issue.

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2014 the following restricted activity balances comprised Temporarily Restricted Net Assets:

Tabitha Grant	<u>\$ 8,219</u>
Total	<u><u>\$ 8,219</u></u>

THE COVERING HOUSE  
SCHEDULE OF FUNCTIONAL EXPENSES  
For the year ended December 31, 2014

	Program Expenses	Administrative Expenses	Fundraising	Total
Office expenses	\$ -	\$ 7,348	\$ -	\$ 7,348
Professional fees	1,629	3,295	-	4,924
Contributions in-kind	12,631	-	-	12,631
Depreciation	-	2,771	-	2,771
Facilities and equipment	2,682	24,140	-	26,822
Phone and internet	-	1,860	-	1,860
Insurance	-	17,182	-	17,182
Payroll and payroll taxes	274,158	117,496	-	391,654
Travel and meetings	988	-	-	988
Awareness and education	-	1,546	-	1,546
Clinical expenses	6,933	-	-	6,933
Life skills programs	4,483	-	-	4,483
Program training and materials	6,782	-	-	6,782
Fundraising and events	-	-	15,595	15,595
Residential home expenses	14,124	-	-	14,124
Miscellaneous expenses	-	3,607	-	3,607
	<u>\$ 324,410</u>	<u>\$ 179,245</u>	<u>\$ 15,595</u>	<u>\$ 519,250</u>

See accompanying notes and independent auditors' report