

THE COVERING HOUSE
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016

THE COVERING HOUSE

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Fick, Eggemeyer & Williamson

Certified Public Accountants, PC


MEMBERS OF THE
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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, 2016, 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
March 31, 2017

THE COVERING HOUSE
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
December 31, 2016

ASSETS	
Current assets	
Cash and cash equivalents	\$ 255,225
Cash - staff therapy support	1,700
Investments - note 6	20,548
Total current assets	277,473
Non-current assets	
Cash - education building	6,300
Property and equipment net of accumulated depreciation - note 4	34,505
Total non-current assets	40,805
Total assets	\$ 318,278
LIABILITIES AND NET ASSETS	
Current liabilities	
Credit card liabilities	\$ 6,995
Payroll liabilities	21,254
Total current liabilities	28,249
Total liabilities	28,249
Net assets	
Unrestricted	282,029
Temporarily restricted	8,000
Permanently restricted	-
Total net assets	290,029
Total liabilities and net assets	\$ 318,278

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
SUPPORT AND REVENUE				
Contributed support	\$ 512,844	\$ -	\$ -	\$ 512,844
Grant income	27,654	8,000	-	35,654
Program revenue	119,484	-	-	119,484
Events revenue	74,578	-	-	74,578
Money market interest income	168	-	-	168
Non-cash contributions - supplies	8,539	-	-	8,539
Other revenue	3,992	-	-	3,992
Total support and revenue	747,259	8,000	-	755,259
Net assets released from restrictions	2,068	(2,068)	-	-
	749,327	5,932	-	755,259
EXPENSES				
Program services				
Program expenses	493,474	-	-	493,474
Total program services	493,474	-	-	493,474
Supporting services				
Administrative expenses	181,215	-	-	181,215
Fundraising	33,230	-	-	33,230
Total supporting services	214,445	-	-	214,445
Total expenses	707,919	-	-	707,919
Excess of support and revenue over expenses	41,408	5,932	-	47,340
Net assets, beginning of year	240,621	2,068	-	242,689
Net assets, end of year	\$ 282,029	\$ 8,000	\$ -	\$ 290,029

See accompanying notes and independent auditors' report

THE COVERING HOUSE
STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Excess of support and revenue over expenses	\$ 47,340
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation	3,278
Donated stock held at year-end	(20,548)
Changes in assets and liabilities:	
Increase (decrease) in credit card liabilities	4,873
Increase (decrease) in payroll liabilities	3,612
Net cash provided by (used in) operating activities	<u>38,555</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
None	-
Net cash provided by (used in) investing activities	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
None	-
Net cash provided by (used in) financing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>38,555</u>
Cash and cash equivalents - beginning of year	<u>224,670</u>
Cash and cash equivalents - end of year	<u>\$ 263,225</u>

See accompanying notes and independent auditors' report

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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 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, 2016, no amounts have been recognized for uncertain tax positions. The Organization's tax returns filed prior to 2014 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, residential housing, outpatient services, and preventative programs.

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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. There are no permanently restricted net assets.

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 2016 financial statements. The organization believes that total omitted assets are immaterial.

Investments

The Organization has adopted "Accounting for Certain Investments Held by Non-Profit Organizations." Under the standard, investments in marketable securities with readily determinable fair values are reported at their fair values in the Statement of Assets, Liabilities, and Net Assets.

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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.

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 - FIXED ASSETS AND DEPRECIATION

A summary of fixed assets follows:

<u>December 31,</u>	<u>2016</u>
Leasehold improvements	\$ 32,762
Vehicles	2,835
Equipment	<u>8,095</u>
Total	43,692
Less: accumulated depreciation	<u>(9,187)</u>
Total, net of accumulated depreciation	<u>\$ 34,505</u>

Depreciation policies are disclosed in Note 1. Depreciation expense for the year ended December 31, 2016 was \$3,278.

NOTE 5 - NON-CASH CONTRIBUTIONS

The Organization receives donations of services, products, and securities. The amounts of these donations are recorded in the financial statements at the fair market values at the time of donation. Totals received for the year ended December 31, 2016 were are follows:

	<u>2016</u>
Stock	\$ 20,548
Supplies consumed during the year	<u>8,539</u>
Total non-cash contributions	<u>\$ 29,087</u>

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

NOTE 6 - FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board established 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 are described below:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organizations have 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 during 2016.

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

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stock	\$ 20,458	\$ -	\$ -	\$ 20,458
Total at fair value	<u>\$ 20,458</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,458</u>

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

NOTE 7 - OPERATING LEASES

In September 2015, the Organization entered into a 60 month lease with Daniels Realty for office space. Monthly lease payments are \$2,556. The lease expense is included in Facilities and Equipment on page 9 of the Schedule of Functional Expenses.

Future minimum lease payments are as follows:

	<u>Amount</u>
For the year ending December 31, 2017	\$ 31,737
2018	33,132
2019	33,132
2020	<u>24,849</u>
Total future minimum lease payments	<u>\$122,850</u>

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.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016, the following restricted activity balances comprised Temporarily Restricted Net Assets:

Mission and Ministry - staff therapy support	\$ 1,700
Roblee Foundation - education building	<u>6,300</u>
Total	<u>\$ 8,000</u>

During 2016 \$2,068 was released from restrictions. Roblee Foundation funds are restricted for the purchase of a future education building. Mission and Ministry funds are restricted for the provision of staff therapy support.

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2017, the date which the financial statements were available for issue, and noted no reportable events.

THE COVERING HOUSE
SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended December 31, 2016

	Program Expenses	Administrative Expenses	Fundraising	Total
Office expenses	\$ -	\$ 8,089	\$ -	\$ 8,089
Professional fees	707	3,507	-	4,214
Contributed Supplies	8,539	-	-	8,539
Depreciation	3,278	-	-	3,278
Facilities and equipment	14,605	17,145	-	31,750
Phone and internet	-	2,099	-	2,099
Insurance	15,183	4,312	-	19,495
Payroll and payroll taxes	390,520	144,439	-	534,959
Travel and meetings	2,442	-	-	2,442
Awareness and education	4,653	-	-	4,653
Clinical expenses	11,453	-	-	11,453
Life skills programs	9,219	-	-	9,219
Program training and materials	5,481	-	-	5,481
Fundraising and events	-	-	33,230	33,230
Residential home expenses	27,394	-	-	27,394
Miscellaneous expenses	-	1,624	-	1,624
	<u>\$ 493,474</u>	<u>\$ 181,215</u>	<u>\$ 33,230</u>	<u>\$ 707,919</u>

See accompanying notes and independent auditors' report