

**THE COVERING HOUSE**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

# 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 nonprofit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2017, and the related statement of support, revenue, and expense—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.

### **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, 2017, 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.

**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.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 8 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 28, 2018

THE COVERING HOUSE  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
MODIFIED CASH BASIS  
December 31, 2017

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ASSETS

Current assets	
Cash and cash equivalents	\$ 300,728
Cash - salary support - note 8	<u>59,108</u>
Total current assets	<u>359,836</u>
Non-current assets	
Cash - education building - note 8	6,300
Property and equipment, net - note 4	<u>48,825</u>
Total non-current assets	<u>55,125</u>
Total assets	<u><u>\$ 414,961</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Credit card liabilities	\$ 6,713
Payroll liabilities	<u>26,826</u>
Total current liabilities	<u>33,539</u>
Total liabilities	<u>33,539</u>
Net assets	
Unrestricted	316,014
Temporarily restricted	65,408
Permanently restricted	<u>-</u>
Total net assets	<u>381,422</u>
Total liabilities and net assets	<u><u>\$ 414,961</u></u>

See accompanying notes and independent auditors' report

THE COVERING HOUSE  
STATEMENT OF SUPPORT, REVENUE AND EXPENSES  
MODIFIED CASH BASIS  
For the year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total All Funds
<b>SUPPORT AND REVENUE</b>				
Contributed support	\$ 387,477	\$ -	\$ -	\$ 387,477
Grant income	43,630	80,900	-	124,530
Program revenue	122,208	-	-	122,208
Events revenue	191,765	-	-	191,765
Interest income	373	-	-	373
Non-cash contributions - stock	38,389	-	-	38,389
In-kind contributions	27,474	-	-	27,474
Other revenue	4,582	-	-	4,582
<b>Total support and revenue</b>	<b>815,898</b>	<b>80,900</b>	<b>-</b>	<b>896,798</b>
Net assets released from restrictions	23,492	(23,492)	-	-
<b>Total</b>	<b>839,390</b>	<b>57,408</b>	<b>-</b>	<b>896,798</b>
<b>EXPENSES</b>				
Program services				
Program expenses	576,829	-	-	576,829
<b>Total program services</b>	<b>576,829</b>	<b>-</b>	<b>-</b>	<b>576,829</b>
Supporting services				
Administrative expenses	153,353	-	-	153,353
Fundraising	73,787	-	-	73,787
<b>Total supporting services</b>	<b>227,140</b>	<b>-</b>	<b>-</b>	<b>227,140</b>
<b>Total expenses</b>	<b>803,969</b>	<b>-</b>	<b>-</b>	<b>803,969</b>
Changes in net assets from operations	35,421	57,408	-	92,829
Other expense				
Loss on disposal of fixed assets	(1,436)	-	-	(1,436)
<b>Total other expense</b>	<b>(1,436)</b>	<b>-</b>	<b>-</b>	<b>(1,436)</b>
Change in net assets	33,985	57,408	-	91,393
Net assets, beginning of year	282,029	8,000	-	290,029
Net assets, end of year	\$ 316,014	\$ 65,408	\$ -	\$ 381,422

See accompanying notes and independent auditors' report

THE COVERING HOUSE  
STATEMENT OF CASH FLOWS

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For the year ended December 31, 2017

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CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	91,393
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation		4,272
Loss on disposal of property and equipment		1,436
Changes in assets and liabilities:		
Increase (decrease) in credit card liabilities		(282)
Increase (decrease) in payroll liabilities		5,572
Net cash provided by (used in) operating activities		<u>102,391</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investment		20,548
Purchase of property and equipment		(20,028)
Net cash provided by (used in) investing activities		<u>520</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>102,911</u>
Cash and cash equivalents - beginning of year		<u>263,225</u>
Cash and cash equivalents - end of year	\$	<u><u>366,136</u></u>

See accompanying notes and independent auditors' report

**THE COVERING HOUSE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2017**

**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. The modified cash basis differs from generally accepted accounting principles because certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid 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, 2017, 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. Actual results could differ from those estimates.

Program Services

The Organization'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, 2017**

**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

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. Currently, assets are depreciated over useful lives ranging from 5 to 30 years. 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 2017 financial statements. The organization believes that total omitted assets are immaterial.

**NOTE 2 - DONATED SERVICES**

A number of volunteers contribute services to the Organization. No amounts have been recognized in the accompanying statement of support, revenue, and expenses - 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, 2017**

**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 support, revenue, and expenses - modified cash basis. Costs are allocated between administration, fundraising, 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 as of December 31, 2017, are as follows:

Leasehold improvements	\$ 32,762
Vehicle	18,399
Equipment	<u>9,324</u>
Total property and equipment	60,485
Less: accumulated depreciation	<u>(11,660)</u>
Property and equipment, net	<u>\$ 48,825</u>

Depreciation policies are disclosed in Note 1. Depreciation expense for the year ended December 31, 2017, was \$4,272.

**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, 2017, were as follows:

Stock	\$ 38,389
In-kind contributions	<u>27,474</u>
Total non-cash contributions	<u>\$ 65,863</u>

**NOTE 6 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 28, 2018, the date which the financial statements were available for issue, and noted no reportable events.

**THE COVERING HOUSE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2017**

**NOTE 7 - OPERATING LEASES**

In September 2015, the Organization entered into a 60 month lease with Daniels Realty for office space. Rent expense totaled \$32,733 for the year ended December 31, 2017.

Future minimum lease payments are as follows:

For the year ending December 31:	
2018	\$ 33,442
2019	33,062
2020	<u>22,708</u>
Total future minimum lease payments	<u>\$ 89,212</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, 2017, the following restricted activity balances comprised Temporarily Restricted Net Assets:

Roblee Foundation - education building	\$ 6,300
Wayne C. Kaufmann Foundation - therapist director	30,952
Daughters of Charity Foundation - case manager	<u>28,156</u>
Total	<u>\$ 65,408</u>

THE COVERING HOUSE  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended December 31, 2017

	Program Expenses	Administrative Expenses	Fundraising	Total
Office expenses	\$ -	\$ 9,195	\$ -	\$ 9,195
Professional fees	1,259	3,016	-	4,275
Contributed Supplies	27,474	-	-	27,474
Depreciation	4,272	-	-	4,272
Facilities and equipment	16,678	19,579	-	36,257
Phone and internet	1,539	659	-	2,198
Insurance	16,132	4,550	-	20,682
Payroll and payroll taxes	437,713	116,354	-	554,067
Travel and meetings	5,399	-	-	5,399
Awareness and education	2,518	-	-	2,518
Clinical expenses	10,199	-	-	10,199
Education/life skills programs	16,911	-	-	16,911
Program training and materials	4,875	-	-	4,875
Fundraising and events	-	-	73,787	73,787
Residential home expenses	29,493	-	-	29,493
Miscellaneous expenses	2,367	-	-	2,367
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Total expense	<u>\$ 576,829</u>	<u>\$ 153,353</u>	<u>\$ 73,787</u>	<u>\$ 803,969</u>

See accompanying notes and independent auditors' report