

THE COVERING HOUSE
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, 2018, and the related statement of support, revenue, and expense—modified cash basis and functional expenses – 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 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 assets, liabilities, and net assets of The Covering House as of December 31, 2018, 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.

Fick, Eggemeyer & Williamson

Fick, Eggemeyer, & Williamson, CPAs

St. Louis, Missouri

February 12, 2019

THE COVERING HOUSE
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
MODIFIED CASH BASIS
DECEMBER 31, 2018

ASSETS

Current assets	
Cash and cash equivalents	\$ 247,592
Cash - salary support	18,913
Cash - continuing education	39,168
Cash - scholarship for graduates	20,000
Investments	<u>21,040</u>
Total current assets	<u>346,713</u>
Noncurrent assets	
Property and equipment, net of accumulated depreciation	<u>475,099</u>
Total noncurrent assets	<u>475,099</u>
Total assets	<u><u>\$ 821,812</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Credit card liabilities	\$ 6,020
Payroll liabilities	<u>35,663</u>
Total current liabilities	<u>41,683</u>
Noncurrent liabilities	
None	<u>-</u>
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>41,683</u>
Net assets	
Without donor restrictions	702,048
With donor restrictions	<u>78,081</u>
Total net assets	<u>780,129</u>
Total liabilities and net assets	<u><u>\$ 821,812</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, 2018

	Without Donor restrictions	With Donor restrictions	Total
SUPPORT AND REVENUE			
Contributed support	\$ 433,406	\$ -	\$ 433,406
Grant income	42,300	120,000	162,300
Program revenue	138,358	-	138,358
Events revenue	218,495	-	218,495
Non-cash contributions - stock	26,751	-	26,751
Non-cash contributions - building	400,000	-	400,000
In-kind contributions	43,263	-	43,263
Other revenue	15,386	-	15,386
	<u>1,317,959</u>	<u>120,000</u>	<u>1,437,959</u>
Total support and revenue			
Net assets released from restrictions			
Satisfaction of restrictions	<u>107,327</u>	<u>(107,327)</u>	<u>-</u>
	<u>1,425,286</u>	<u>12,673</u>	<u>1,437,959</u>
Total			
EXPENSES			
Program expenses	<u>761,853</u>	<u>-</u>	<u>761,853</u>
	<u>761,853</u>	<u>-</u>	<u>761,853</u>
Total program services			
Supporting services			
Administrative expenses	198,234	-	198,234
Fundraising	<u>80,047</u>	<u>-</u>	<u>80,047</u>
	<u>278,281</u>	<u>-</u>	<u>278,281</u>
Total supporting services			
Total expenses	<u>1,040,134</u>	<u>-</u>	<u>1,040,134</u>
Changes in net assets from operations	<u>385,152</u>	<u>12,673</u>	<u>397,825</u>
INVESTMENT ACTIVITIES			
Interest and dividends	593	-	593
Unrealized gain/(loss) on investment	<u>289</u>	<u>-</u>	<u>289</u>
	<u>882</u>	<u>-</u>	<u>882</u>
Total investment activities			
Changes in net assets	386,034	12,673	398,707
Net assets - beginning of year	<u>316,014</u>	<u>65,408</u>	<u>381,422</u>
Net assets - end of year	<u>\$ 702,048</u>	<u>\$ 78,081</u>	<u>\$ 780,129</u>

See accompanying notes and independent auditors' report

THE COVERING HOUSE
STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program Expenses</u>	<u>Administrative Expenses</u>	<u>Fundraising</u>	<u>Total</u>
Office expense	\$ 1,137	\$ 18,571	\$ -	\$ 19,708
Professional fees	3,657	3,016	-	6,673
Contributed supplies	43,263	-	-	43,263
Depreciation	7,404	-	-	7,404
Facilities and equipment	19,981	14,985	-	34,966
Phone and internet	1,623	695	-	2,318
Insurance	21,183	5,975	-	27,158
Payroll and payroll taxes	583,064	154,992	-	738,056
Travel and meetings	2,468	-	-	2,468
Awareness and education	3,001	-	-	3,001
Clinical expenses	9,127	-	-	9,127
Education/life skills programs	22,183	-	-	22,183
Program training and materials	5,275	-	-	5,275
Fundraising and events	-	-	80,047	80,047
Residential home	36,361	-	-	36,361
Miscellaneous	2,126	-	-	2,126
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 761,853</u>	<u>\$ 198,234</u>	<u>\$ 80,047</u>	<u>\$ 1,040,134</u>

See accompanying notes and independent auditors' report

THE COVERING HOUSE
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$	398,707
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation		7,404
Unrealized (gain)/loss on investment		(289)
Changes in assets and liabilities:		
Increase (decrease) in credit card liabilities		(693)
Increase (decrease) in payroll liabilities		8,837
Net cash provided by (used in) operating activities		413,966

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments		(20,751)
Purchase of property and equipment		(33,678)
Non-cash contribution of building		(400,000)
Net cash provided by (used in) investing activities		(454,429)

CASH FLOWS FROM FINANCING ACTIVITIES

None		-
Net cash provided by (used in) financing activities		-
Net increase (decrease) in cash and cash equivalents		(40,463)
Cash and cash equivalents - beginning of year		366,136
Cash and cash equivalents - end of year	\$	325,673

See accompanying notes and independent auditors' report

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Covering House (the Organization) 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.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

Basis of Accounting

The financial statements of 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.

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 two classes of net assets that recognize the existence and nature of restrictions on its net assets.

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, no amounts have been recognized for uncertain tax positions. The Organization's tax returns filed prior to 2015 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.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Assets reserved for case management, continuing education, and scholarships on the statement of assets, liabilities and net assets - modified cash basis include donations received with restrictions imposed by donors (but not yet spent).

Cash	\$ 247,592
Cash - salary support	18,913
Cash - continuing education	39,168
Cash - scholarship for graduates	<u>20,000</u>
Total cash and cash equivalents	<u>\$ 325,673</u>

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment 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 property and equipment 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 2018 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.

NOTE 3 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between fundraising, administration or the appropriate program based on evaluations of the related benefits. Such allocations are determined by management on an equitable basis. Expenditures have been allocated based on time and effort or specific identification, when available.

NOTE 4 - 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, 2018, were as follows:

Stock	\$ 26,751
Building	400,000
In-kind contributions	<u>43,263</u>
Total non-cash contributions	<u>\$ 470,014</u>

THE COVERING HOUSE
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2018 follows:

Building	\$ 400,000
Building improvements	29,840
Leasehold improvements	32,762
Vehicle	18,399
Equipment	<u>12,562</u>
Total property and equipment	493,563
Less: accumulated depreciation	<u>(18,464)</u>
Property and equipment, net	<u>\$ 475,099</u>

Depreciation policies are disclosed in Note 1, and depreciation expense for the year ended December 31, 2018, was \$7,404.

NOTE 6 - OPERATING LEASES

In September 2015, the Organization entered into a 60 month lease with Daniels Realty for office space. Rent expense totaled \$34,040 for the year ended December 31, 2018.

Future minimum lease payments are as follows:

For the year ending December 31:

2019	\$ 34,062
2020	<u>22,708</u>
Total future minimum lease payments	<u>\$ 56,770</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.

THE COVERING HOUSE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 7 - 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, 2018.

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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stock	\$ 21,040	\$ -	\$ -	\$ 21,040
Total at fair value	<u>\$ 21,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,040</u>

THE COVERING HOUSE
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 8 - NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions at December 31, 2018 are available for the following purposes or periods:

Restricted for:	<u>Purpose</u>	<u>Period</u>
Roblee Foundation - Lead teacher	\$ 10,350	\$ -
Kauffman - Case manager	8,563	-
Mark Briehan - Scholarship for graduates	20,000	-
Daughters of Charity Foundation - Cont. education	<u>39,168</u>	<u>-</u>
Total	<u>\$ 78,081</u>	<u>\$ -</u>

NOTE 9 - AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year-end:	
Cash and cash equivalents	\$ <u>325,673</u>
Total financial assets at year-end	<u>325,673</u>
Less: amounts not available to be used within one year:	
Net assets with donor restrictions	78,081
Less: net assets with restrictions to be met in less than a year	<u>-</u>
Total net assets with donor restrictions	<u>78,081</u>
Financial assets available to meet general expenditures over the next twelve months	
	<u>\$ 247,592</u>

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 12, 2019, the date which the financial statements were available for issue, and noted no reportable events.