

THE COVERING HOUSE
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019, and the related statements 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, 2019, 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
March 2, 2020

THE COVERING HOUSE
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
MODIFIED CASH BASIS
DECEMBER 31, 2019

ASSETS

| | |
|---|--------------------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 202,327 |
| Cash - salary support | 10,394 |
| Cash - transitional living | 15,000 |
| Cash - mental health | 1,850 |
| Cash - continuing education | <u>14,088</u> |
| Total current assets | <u>243,659</u> |
| NONCURRENT ASSETS | |
| Property and equipment, net of accumulated depreciation | <u>707,015</u> |
| Total noncurrent assets | <u>707,015</u> |
| Total assets | <u><u>\$ 950,674</u></u> |

LIABILITIES AND NET ASSETS

| | |
|-----------------------------------|--------------------------|
| CURRENT LIABILITIES | |
| Credit card payable | \$ 6,700 |
| Payroll liabilities | <u>44,860</u> |
| Total current liabilities | <u>51,560</u> |
| NONCURRENT LIABILITIES | |
| None | <u>-</u> |
| Total noncurrent liabilities | <u>-</u> |
| Total liabilities | <u>51,560</u> |
| NET ASSETS | |
| Without donor restrictions | 857,782 |
| With donor restrictions | <u>41,332</u> |
| Total net assets | <u>899,114</u> |
| Total liabilities and net assets | <u><u>\$ 950,674</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, 2019

| | Without Donor restrictions | With Donor restrictions | Total |
|---------------------------------------|-------------------------------|----------------------------|-------------------|
| SUPPORT AND REVENUE | | | |
| Contributed support | \$ 623,318 | \$ - | \$ 623,318 |
| Grant income | 126,000 | 105,000 | 231,000 |
| Program revenue | 237,549 | - | 237,549 |
| Events revenue | 237,677 | - | 237,677 |
| In-kind contributions | 41,860 | - | 41,860 |
| Other revenue | 118 | - | 118 |
| | <u>1,266,522</u> | <u>105,000</u> | <u>1,371,522</u> |
| Net assets released from restrictions | | | |
| Satisfaction of restrictions | 141,749 | (141,749) | - |
| | <u>1,408,271</u> | <u>(36,749)</u> | <u>1,371,522</u> |
| EXPENSES | | | |
| Program expenses | 997,477 | - | 997,477 |
| | <u>997,477</u> | <u>-</u> | <u>997,477</u> |
| Supporting services | | | |
| Administrative expenses | 168,160 | - | 168,160 |
| Fundraising | 88,236 | - | 88,236 |
| | <u>256,396</u> | <u>-</u> | <u>256,396</u> |
| Total expenses | <u>1,253,873</u> | <u>-</u> | <u>1,253,873</u> |
| Changes in net assets from operations | <u>154,398</u> | <u>(36,749)</u> | <u>117,649</u> |
| INVESTMENT ACTIVITIES | | | |
| Interest and dividends | 1,336 | - | 1,336 |
| | <u>1,336</u> | <u>-</u> | <u>1,336</u> |
| Changes in net assets | 155,734 | (36,749) | 118,985 |
| Net assets - beginning of year | <u>702,048</u> | <u>78,081</u> | <u>780,129</u> |
| Net assets - end of year | <u>\$ 857,782</u> | <u>\$ 41,332</u> | <u>\$ 899,114</u> |

See accompanying notes and independent auditors' report

THE COVERING HOUSE
STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

| | <u>Program Expenses</u> | <u>Administrative Expenses</u> | <u>Fundraising</u> | <u>Total</u> |
|--------------------------------|-----------------------------|------------------------------------|-------------------------|----------------------------|
| Office expense | \$ 1,205 | \$ 19,675 | \$ - | \$ 20,880 |
| Professional fees | 7,151 | 2,078 | - | 9,229 |
| Contributed supplies | 41,860 | - | - | 41,860 |
| Depreciation | 7,136 | - | - | 7,136 |
| Facilities and equipment | 19,816 | 14,861 | - | 34,677 |
| Phone and internet | 1,369 | 586 | - | 1,955 |
| Insurance | 33,770 | 9,526 | - | 43,296 |
| Payroll and payroll taxes | 794,117 | 121,434 | - | 915,551 |
| Travel and meetings | 2,948 | - | - | 2,948 |
| Awareness and education | 4,517 | - | - | 4,517 |
| Clinical expenses | 13,618 | - | - | 13,618 |
| Education/life skills programs | 12,852 | - | - | 12,852 |
| Program training and materials | 7,232 | - | - | 7,232 |
| Fundraising and events | - | - | 88,236 | 88,236 |
| Residential home | 40,166 | - | - | 40,166 |
| Miscellaneous | 9,720 | - | - | 9,720 |
| Total | <u><u>\$ 997,477</u></u> | <u><u>\$ 168,160</u></u> | <u><u>\$ 88,236</u></u> | <u><u>\$ 1,253,873</u></u> |

See accompanying notes and independent auditors' report

THE COVERING HOUSE
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------|
| Changes in net assets | \$ 118,985 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | |
| Depreciation | 7,136 |
| Changes in assets and liabilities: | |
| Increase (decrease) in credit card payable | 680 |
| Increase (decrease) in payroll liabilities | 9,197 |
| | 135,998 |
| Net cash provided by (used in) operating activities | 135,998 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-----------|
| Proceeds from sale of investments | 21,040 |
| Purchase of property and equipment | (239,052) |
| | (218,012) |
| Net cash provided by (used in) investing activities | (218,012) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|--|------------|
| None | - |
| | - |
| Net cash provided by (used in) financing activities | - |
| Net increase (decrease) in cash and cash equivalents | (82,014) |
| Cash and cash equivalents - beginning of year | 325,673 |
| Cash and cash equivalents - end of year | \$ 243,659 |

See accompanying notes and independent auditors' report

THE COVERING HOUSE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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 trafficking.

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 card 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 of the Organization have been prepared in accordance with the modified cash basis of accounting. The Organization reports information regarding its financial position as activities according to the following net asset classifications:

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 that the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets re reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of support, revenues, and expenses – modified cash basis.

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, 2019, no amounts have been recognized for uncertain tax positions. The Organization’s tax returns filed for 2016 and prior are closed.

THE COVERING HOUSE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 trafficking. It provides various services including life skills, therapeutic services, supportive adult 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 | \$ 202,327 |
| Cash - salary support | 10,394 |
| Cash - transitional living | 15,000 |
| Cash - mental health | 1,850 |
| Cash - continuing education | 14,088 |
| Total cash and cash equivalents | <u>\$ 243,659</u> |

Property and Equipment

Property and equipment is recorded at cost or, in the case of donated property, at its 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 expenses 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 2019 financial statements. The Organization believes that total omitted assets are immaterial.

Depreciation expense for the year ended December 31, 2019 was \$17,136.

THE COVERING HOUSE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2 - NON-CASH CONTRIBUTIONS

The Organization receives donations of services, products, and securities. The amounts of these donations are recorded in the financial statements at their fair market values at the time of donation. The Organization received \$41,860 in non-cash contributions for the year ended December 31, 2019.

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of December 31, 2019 follows:

| | |
|-------------------------------|--------------------------|
| Building | \$ 400,000 |
| Leasehold improvements | 32,762 |
| Vehicle | 18,399 |
| Equipment | <u>18,915</u> |
| Total property and equipment | 470,076 |
| Accumulated depreciation | <u>(25,600)</u> |
| Total depreciable assets, net | 444,476 |
| Construction in progress | <u>262,539</u> |
| Property and equipment, net | <u><u>\$ 707,015</u></u> |

NOTE 4 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing programs and other activities have been summarized on a functional basis in the statements of support, revenue, and expenses – modified cash basis. 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.

THE COVERING HOUSE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 5 - OPERATING LEASES

In September 2015, the Organization entered into a 60-month lease with Daniels Realty for office space. The lease calls for monthly payments of \$2,838, and the lease expires August 2020.

In August 2019, the Organization entered into a month-to-month lease with iStorage for storage space. The lease calls for monthly payments of \$189.

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:

For the year ending December 31:

| | |
|-------|------------------|
| 2020 | \$ 22,708 |
| Total | <u>\$ 22,708</u> |

Rent expense totaled \$34,062 for the year ended December 31, 2019.

NOTE 6 - AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31, 2019:

| | |
|--|-------------------|
| Financial assets at year-end: | |
| Cash and cash equivalents | \$ 243,659 |
| Total financial assets at year-end | <u>243,659</u> |
| Less amounts not available for general expenditures within one year | |
| Net assets with period restrictions in excess of one year | - |
| Net assets with purpose restrictions | 41,332 |
| Total amounts not available to meet general expenditures within one year | <u>41,332</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 202,327</u> |

THE COVERING HOUSE
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 7 - NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions at December 31, 2019 are available for the following purposes or periods:

| Restricted for: | <u>Purpose</u> | <u>Period</u> |
|---|------------------|---------------|
| Kauffman - case manager | \$ 4,088 | \$ - |
| Shared Hope - case manager | 10,394 | - |
| East Missouri Foundation - transitional living | 15,000 | - |
| Bellaether Foundation - continuing education | 10,000 | - |
| Episcopal Presbyterian Health Trust - mental health | 1,350 | - |
| Sisters of Charity - mental health | 500 | - |
| Total | <u>\$ 41,332</u> | <u>\$ -</u> |

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 2, 2020, the date which the financial statements were available for issue, and noted no reportable events.