

Covenant House Missouri

Financial Statements

June 30, 2015 and 2014

Independent Auditors' Report

Board of Directors Covenant House Missouri

We have audited the accompanying financial statements of Covenant House Missouri (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows 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 accounting principles generally accepted in the United States of America; this includes 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 from 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 financial position of Covenant House Missouri as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Organization as of June 30, 2014, were audited by other auditors whose report dated January 12, 2015, expressed an unmodified opinion on those statements.

O'Connor Davies, LLP

Harrison, New York
November 23, 2015

Covenant House Missouri

Statements of Financial Position

	June 30,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 1,072,151	\$ 1,016,360
Investments	363,205	255,327
Government grants receivable	155,715	100,411
Other receivables	21,468	713
Prepaid expenses and other assets	6,369	9,813
Property and equipment, net	3,756,047	3,940,761
	\$ 5,374,955	\$ 5,323,385
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses, and refundable advances	\$ 219,044	\$ 209,963
Due to Parent	4,167	4,561
Notes payable to Parent	1,859,196	1,994,788
Other liabilities	116,201	116,201
Total Liabilities	2,198,608	2,325,513
 Net Assets		
Unrestricted	3,072,885	2,997,872
Temporarily restricted	103,462	-
Total Net Assets	3,176,347	2,997,872
	\$ 5,374,955	\$ 5,323,385

See notes to financial statements

Covenant House Missouri

Statements of Activities

Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>2014 Unrestricted</u>
SUPPORT AND REVENUE				
Contributions	\$ 1,096,485	\$ 100,000	\$ 1,196,485	\$ 1,101,712
Contributed services and merchandise	38,608	-	38,608	58,776
Government grants	894,429	-	894,429	888,854
Branding dollars from Parent	856,000	-	856,000	841,000
Special event revenue, net	<u>452,139</u>	<u>-</u>	<u>452,139</u>	<u>358,854</u>
	<u>3,337,661</u>	<u>100,000</u>	<u>3,437,661</u>	<u>3,249,196</u>
INVESTMENT AND OTHER INCOME				
Interest and dividends	4,839	3,462	8,301	7,496
Realized and unrealized gains	818	-	818	10,477
Other income	<u>28,832</u>	<u>-</u>	<u>28,832</u>	<u>22,292</u>
	<u>34,489</u>	<u>3,462</u>	<u>37,951</u>	<u>40,265</u>
Total Support, Revenue, Investment and Other Income	3,372,150	103,462	3,475,612	3,289,461
EXPENSES				
Program services	2,981,540	-	2,981,540	2,875,461
Supporting services				
Management and general	224,356	-	224,356	229,129
Fundraising	<u>91,241</u>	<u>-</u>	<u>91,241</u>	<u>83,624</u>
	<u>315,597</u>	<u>-</u>	<u>315,597</u>	<u>312,753</u>
Total Expenses	3,297,137	-	3,297,137	3,188,214
Loss on sale of property and equipment held for sale	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,221</u>
Change in Net Assets	<u>75,013</u>	<u>103,462</u>	<u>178,475</u>	<u>(58,974)</u>
NET ASSETS				
Beginning of year	<u>2,997,872</u>	<u>-</u>	<u>2,997,872</u>	<u>3,056,846</u>
End of year	<u>\$ 3,072,885</u>	<u>\$ 103,462</u>	<u>\$ 3,176,347</u>	<u>\$ 2,997,872</u>

See notes to financial statements

Covenant House Missouri

Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services				Supporting Services			Total Supporting Services	Cost of Direct Benefits to Donors	Total Expenses
	Shelter and Crisis Care	Outreach	Supportive Services	Rights of Passage	Total Program Services	Management and General	Development			
Salaries and wages	\$ 550,430	\$ 101,439	\$ 409,081	\$ 448,992	\$ 1,509,942	\$ 103,102	\$ 49,888	\$ 152,990	\$ -	\$ 1,662,932
Payroll taxes	47,037	8,668	34,958	38,368	129,031	8,811	4,263	13,074	-	142,105
Employee benefits	54,084	9,967	40,195	44,117	148,363	10,130	4,902	15,032	-	163,395
Total Salaries and Related Expenses	651,551	120,074	484,234	531,477	1,787,336	122,043	59,053	181,096	-	1,968,432
Accounting fees	11,431	2,107	8,496	9,324	31,358	2,141	1,036	3,177	-	34,535
Legal fees	-	-	-	-	-	6,238	-	6,238	-	6,238
Consulting fees	2,402	443	1,785	1,959	6,589	450	217	667	-	7,256
Supplies	4,638	1,152	7,640	4,449	17,879	677	327	1,004	-	18,883
Telephone	4,939	873	4,485	5,878	16,175	343	166	509	-	16,684
Postage and printing	5,662	1,524	4,457	4,783	16,426	1,050	508	1,558	-	17,984
Occupancy:										
Fuel and utilities	24,537	1,699	41,757	35,169	103,162	10,745	6,890	17,635	-	120,797
Repairs and maintenance	16,980	3,572	19,346	20,725	60,623	549	265	814	-	61,437
Equipment	14,242	1,449	10,771	28,627	55,089	4,472	713	5,185	-	60,274
Travel and Transportation	11,873	4,912	11,218	11,667	39,670	371	179	550	-	40,220
Conferences, Conventions & Meetings	5,377	618	6,773	3,789	16,557	574	277	851	-	17,408
Specific assistance to individuals:										
Food	36,805	-	18,386	6,314	61,505	-	-	-	-	61,505
Medical	325	-	5,063	523	5,911	-	-	-	-	5,911
Clothing, allowance and other	23,218	1,997	46,428	9,096	80,739	-	-	-	-	80,739
Contributed clothing and merchandise	10,067	162	9,064	13,077	32,370	-	-	-	-	32,370
Temporary help	57,345	3,797	77,026	37,768	175,936	5,142	2,984	8,126	-	184,062
Other purchased services	59,241	11,040	45,596	48,460	164,337	11,164	5,096	16,260	123,091	303,688
Dues, licenses and permits	125	160	496	125	906	2,547	145	2,692	-	3,598
Subscriptions and publications	-	-	-	-	-	469	4,559	5,028	-	5,028
Staff recruitment	-	-	-	-	-	2,628	-	2,628	-	2,628
Insurance	25,557	4,710	18,994	20,847	70,108	4,788	2,316	7,104	-	77,212
Miscellaneous	3,366	620	2,592	2,864	9,442	631	305	936	-	10,378
Bank charges and fees	-	-	-	-	-	10,350	-	10,350	-	10,350
Interest & Loan Closing Costs	-	-	-	-	-	24,160	-	24,160	-	24,160
Total Functional Expenses Before Depreciation and Amortization	969,681	160,909	824,607	796,921	2,752,118	211,532	85,036	296,568	123,091	3,171,777
Depreciation and amortization	71,229	12,618	70,034	75,541	229,422	12,824	6,205	19,029	-	248,451
Total Functional Expenses	1,040,910	173,527	894,641	872,462	2,981,540	224,356	91,241	315,597	123,091	3,420,228
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(123,091)	(123,091)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,040,910	\$ 173,527	\$ 894,641	\$ 872,462	\$ 2,981,540	\$ 224,356	\$ 91,241	\$ 315,597	\$ -	\$ 3,297,137

See notes to financial statements

Covenant House Missouri

Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services				Total Program Services	Supporting Services		Total Supporting Services	Cost of Direct Benefits to Donors	Total Expenses
	Shelter and Crisis Care	Outreach	Supportive Services	Rights of Passage		Management and General	Development			
Salaries and wages	\$ 518,988	\$ 95,644	\$ 385,713	\$ 423,344	\$ 1,423,689	\$ 97,212	\$ 47,038	\$ 144,250	\$ -	\$ 1,567,939
Payroll taxes	43,485	8,014	32,319	35,472	119,290	8,145	3,941	12,086	-	131,376
Employee benefits	57,520	10,601	42,750	46,920	157,791	10,774	5,213	15,987	-	173,778
Total Salaries and Related Expenses	619,993	114,259	460,782	505,736	1,700,770	116,131	56,192	172,323	-	1,873,093
Accounting fees	15,204	2,802	11,300	12,402	41,708	2,848	1,378	4,226	-	45,934
Legal fees	-	-	-	-	-	14,992	-	14,992	-	14,992
Consulting fees	3,181	586	2,364	2,595	8,726	596	288	884	-	9,610
Supplies	4,213	982	9,643	3,395	18,233	418	202	620	-	18,853
Telephone	4,169	1,079	4,496	5,733	15,477	327	158	485	-	15,962
Postage and printing	7,122	1,861	5,256	5,913	20,152	1,321	639	1,960	-	22,112
Occupancy:										
Fuel and utilities	23,828	1,658	41,000	35,091	101,577	10,403	6,725	17,128	-	118,705
Repairs and maintenance	12,989	5,812	13,375	17,442	49,618	708	343	1,051	-	50,669
Rent and taxes	-	-	-	-	-	28	-	28	-	28
Equipment	13,474	1,302	9,566	17,001	41,343	1,324	641	1,965	-	43,308
Travel and Transportation	11,651	6,284	13,710	12,598	44,243	703	340	1,043	-	45,286
Conferences, Conventions & Meetings	3,422	390	10,374	2,655	16,841	177	86	263	-	17,104
Specific assistance to individuals:										
Food	33,531	169	17,271	6,877	57,848	-	-	-	-	57,848
Medical	210	-	3,621	146	3,977	-	-	-	-	3,977
Clothing, allowance and other	18,807	3,049	69,417	13,056	104,329	-	-	-	-	104,329
Contributed clothing and merchandise	13,771	221	12,397	17,887	44,276	-	-	-	-	44,276
Temporary help	57,090	4,444	79,560	39,050	180,144	11,482	3,303	14,785	-	194,929
Other purchased services	46,484	8,849	36,044	38,923	130,300	8,494	4,110	12,604	128,816	271,720
Dues, licenses and permits	35	-	439	140	614	930	585	1,515	-	2,129
Subscriptions and publications	-	-	-	-	-	458	-	458	-	458
Staff recruitment	-	-	-	-	-	6,419	-	6,419	-	6,419
Insurance	24,452	4,506	18,173	19,946	67,077	4,580	2,216	6,796	-	73,873
Miscellaneous	1,225	226	868	1,071	3,390	2,900	704	3,604	-	6,994
Bank charges and fees	-	-	-	-	-	6,238	-	6,238	-	6,238
Interest & Loan Closing Costs	-	-	-	-	-	25,843	-	25,843	-	25,843
	294,858	44,220	358,874	251,921	949,873	101,189	21,718	122,907	128,816	1,201,596
Depreciation and amortization	71,510	11,914	74,887	66,507	224,818	11,809	5,714	17,523	-	242,341
Total Functional Expenses	986,361	170,393	894,543	824,164	2,875,461	229,129	83,624	312,753	128,816	3,317,030
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	(128,816)	(128,816)
Total Expenses Reported by Function on the Statement of Activities	\$ 986,361	\$ 170,393	\$ 894,543	\$ 824,164	\$ 2,875,461	\$ 229,129	\$ 83,624	\$ 312,753	\$ -	\$ 3,188,214

See notes to financial statements

Covenant House Missouri

Statements of Cash Flows

	Years Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 178,475	\$ (58,974)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	248,451	242,341
Net realized gain on investments	(818)	(10,477)
Loss on disposal of property and equipment	-	160,221
Net change in operating assets and liabilities		
Government grants receivable	(55,304)	(9,114)
Other receivables	(20,755)	757
Prepaid expenses and other assets	3,444	187
Accounts payable, accrued liabilities, refundable advances	9,081	(1,149)
Due to Parent	(394)	2,566
Net Cash from Operating Activities	362,180	326,358
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of short-term investments	(107,060)	-
Sale of property and equipment	-	50,461
Purchase of property and equipment	(63,737)	(92,712)
Net Cash from Investing Activities	(170,797)	(42,251)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable to Parent	(135,592)	(133,909)
Change in Cash and Cash Equivalents	55,791	150,198
CASH AND CASH EQUIVALENTS		
Beginning of year	1,016,360	866,162
End of year	\$ 1,072,151	\$ 1,016,360
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 24,160	\$ 25,843

See notes to financial statements

Covenant House Missouri

Notes to Financial Statements
June 30, 2015 and 2014

1. Organization and Nature of Activities

Covenant House Missouri (the "Organization"), a not-for-profit organization, is an operating affiliate of Covenant House (the "Parent"), a New York-based organization. The Organization provides shelter, residential services, community services, and outreach services to youth in the St. Louis metropolitan area. The Parent is the sole member of the Organization and is itself a private not-for-profit organization which, through its affiliates, provided shelter, food, clothing, counseling, medical attention, crisis intervention, public education, and other services to more than 51,173 (unaudited) runaway and homeless youths during the year ended June 30, 2015.

The Organization is affiliated with the following not-for-profit organizations through common control.

- Covenant House Alaska
- Covenant House California
- Covenant House Florida
- Covenant House Georgia
- Covenant House Michigan
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House New York/Under 21
- Covenant International Foundation
- Covenant House Holdings, LLC
- Covenant House Toronto
- Covenant House Vancouver
- Asociacion La Alianza (Guatemala)
- Alianza de Honduras
- Casa Alianza Nicaragua
- Casa Alianza Internacional
- Fundacion Casa Alianza Mexico, I.A.P.

The Organization has been determined to be a not-for-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code. The Organization is also exempt from Missouri income and sales taxes.

Covenant House Missouri

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as assets released from restrictions. Temporarily restricted net assets at the end of 2015 are available for certain educational and training initiatives. Permanently restricted net assets represent those resources that have been designated by the donor to be held and invested in perpetuity. There were no permanently restricted net assets as of June 30, 2015 and 2014.

Revenue Recognition

Revenue is recognized as services are performed or expenditures are incurred under the Organization's contracts with its clients and funders.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Covenant House Missouri

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (*continued*)

Fair Value of Financial Instruments

The Organization follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investment Valuation and Income Recognition

Investments are valued at fair value in the statement of financial position. Interest, dividends, realized and unrealized gains and losses on the sale of investments are included in the statement of activities. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Property and Equipment

Property and equipment are reported at costs at the date of acquisition or at their fair values at the date of donation. Building improvements are capitalized, whereas minor costs of repairs and maintenance are expensed as incurred. The Organization follows the practice of capitalizing all expenditures for property, building and equipment with a cost in excess of \$500.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	33 years
Building improvements	1 to 39 years
Furniture and fixtures	1 to 12 years

Contributions and Pledges Receivable

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge or of cash or other assets. Contributions are considered available for unrestricted use, unless the donors restrict their use. Contributions to be received after one year are discounted at an interest rate commensurate with the risk involved. An allowance for uncollectible pledges receivable is provided, using management's judgment of potential defaults, which considers factors such as prior collection history, type of contribution and the nature of fundraising activity. Contribution revenue is recognized based on the present value of the estimated future payments to be made to the Organization.

Covenant House Missouri

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Special Events

Revenues and expenses incurred relative to special events are recognized upon occurrence of the respective event. Revenues are shown net of cost of direct benefits to donors.

Donated Goods and Services

Donated goods consist of items received by the Organization and awarded as prizes during the auctions held in relation to special events. These amounts are recorded as both revenue and expense at their estimated fair values at the date of receipt.

The Organization recognizes the fair market value of donated services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Contributed services which do not meet these criteria are not recognized as revenue and are not reported in the accompanying financial statements.

Asset Retirement Obligation

The Organization has recorded a liability for the future estimated costs of removing asbestos from buildings it owns. There are no assets legally restricted to fund this liability. The liability is recorded as other liabilities on the accompanying statements of financial position and is \$116,201 as of June 30, 2015 and 2014.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment are reviewed for impairment events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted fair values and third-party independent.

Advertising Costs

Advertising costs are expensed as incurred.

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that The Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2012.

Covenant House Missouri

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (*continued*)

Reclassifications

Certain accounts in the 2014 financial statements have been reclassified to conform to the current year financial statement presentation.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 23, 2015.

Components of Program and Supporting Services

Program Services

Shelter and Crisis Care

The Shelter and Crisis Care program provides crisis care, shelter, food, clothing, counseling and legal advice to abandoned and runaway youths through Covenant House programs in Missouri.

Outreach

The Outreach program is an effort to reach youths who are on the streets for various reasons. Outreach vans cruise the city streets day and night searching for these youths and providing them with food, a trained counselor, and referrals to shelters and health and other services, if needed. Youths are also referred to the Organization's Community Service Center (CSC); there they receive ongoing counseling and other services.

Supportive Services

The CSC program provides comprehensive services to youths in the residential programs and to other youths in the community who need support in order to complete their educations, obtain employment, and maintain themselves in stable living situations.

Rights of Passage

The Rights of Passage program provides transitional living services to youths for up to 18 months, including individual counseling and help with their education and finding jobs and housing.

Supporting Services

Management and General

Management and general services include administration, finance and general support activities. Certain administrative costs that relate to specific programs have been allocated to those programs.

Development

Development services relate to the activities of the development program in raising general and specific contributions

Covenant House Missouri

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies *(continued)*

Components of Program and Supporting Services (continued)

Direct Benefit-to-Donor Costs

Direct benefit-to-donor are costs incurred in conjunction with items such as meals and entertainment benefiting attendees of special events.

3. Investments

Investments at June 30, 2015 and 2014 consisted of fixed income securities and mutual funds measured at fair value on a recurring basis and classified with Level 1 inputs using the fair value hierarchy.

4. Government Grants Receivable

All government grants receivable as of June 30, 2015 are expected to be collected within one year.

5. Property and Equipment

Property and equipment consists of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Buildings	\$ 232,330	\$ 232,330
Building improvements	4,724,982	4,725,105
Furniture, vehicles and equipment	<u>747,784</u>	<u>683,655</u>
	5,705,096	5,641,090
Less accumulated depreciation	<u>1,949,049</u>	<u>1,700,329</u>
	<u>\$ 3,756,047</u>	<u>\$ 3,940,761</u>

6. Note Payable

During 2014, the Organization entered into a promissory note of \$2,184,000 with the Parent to finance related to real estate and leasehold improvements. The promissory note is due in monthly installments of \$13,313, including interest at 1.25%, through January 15, 2028. The note is collateralized by \$250,000 of investments.

Covenant House Missouri

Notes to Financial Statements
June 30, 2015 and 2014

6. Note Payable (*continued*)

Future principal maturities relating to the note payable for the years ending June 30 are as follows:

2016	\$ 137,297
2017	139,023
2018	140,771
2019	142,540
2020	144,332
Thereafter	<u>1,155,233</u>
	<u>\$ 1,859,196</u>

7. Commitments and Contingencies

Leases

The Organization has entered into various noncancelable operating leases for equipment; these leases expire at various dates through May 2020. Rental expenses under all operating leases amounted to \$17,513 and \$18,916 for the years ended June 30, 2015 and 2014.

Future minimum annual lease payments for the years ended June 30 are payable as follows:

2016	\$ 15,174
2017	14,667
2018	13,146
2019	13,146
2020	<u>12,050</u>
	<u>\$ 68,183</u>

Government Grants

In accordance with the terms of certain government grants, the records of the Organization are subject to audit for varying periods after the date of final payment of the grants. The Organization is liable for any disallowed costs; however, management believes that the amount of disallowed costs, if any, would not be significant. Government grants totaled \$894,429 and \$888,854 for the years ended June 30, 2015 and 2014.

8. Related Party Transactions

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of the affiliates. Contributions and promises to give totaled approximately \$60.8 million and \$57.8 million for the Parent in the years ended June 30, 2015 and 2014. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates. The Parent combines contributions received from individuals, corporations

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8. Related Party Transactions (*continued*)

and foundations plus a Parent subsidy and appropriates funds classified as “Branding Dollars” or “Contributions Received from Parent” to each Covenant House affiliate. Total funds allocated to affiliates, based on the Parent’s policy, approximated \$31.3 million and \$33.1 million for the years ended June 30, 2015 and 2014 of which \$856,000 and \$841,000 in was allocated by the parent and is included in Branding dollars from the Parent.

During 2014 the Parent paid the Organization’s outstanding tax-exempt bonds and terminated the two related interest rate swap agreements. In exchange, the Organization entered into a promissory note with the Parent (see note 6).

9. Employee Benefit Plan

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan. Employees are immediately eligible to participate in the plan. Employees who work at least 1,000 hours per year are eligible to receive an employer contribution. The Organization makes annual contributions into the plan on behalf of employees ranging from 1% to 9% of employee compensation determined using a formula based on points, which equal the sum of age and years of service. Employer contributions to the plan are 100% vested after employees have completed three years of service. Total expense related to the 403(b) plan was \$41,949 and \$38,835 for June 30, 2015 and 2014.

10. Concentration of Credit Risk

Financial instruments which potentially subject the Organization to a concentration of credit risk consist principally of cash deposits with financial institutions and accounts receivable. As of June 30, 2015 and 2014, cash in banks in excess of federally insured limits was \$296,181 and \$259,069. These deposits are maintained at financial institutions and the Organization has not experienced any losses.

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