

Covenant House Washington, D.C.

Financial Statements

June 30, 2022 and 2021

Covenant House Washington, D.C.

Financial Statements
June 30, 2022 and 2021

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Independent Auditors' Report

Board of Directors
Covenant House Washington, D.C.

Opinion

We have audited the accompanying financial statements of Covenant House Washington, D.C. (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

PKF O'Connor Davies, LLP

Bethesda, Maryland
February 16, 2023

Covenant House Washington, D.C.

Statements of Financial Position

	June 30,	
	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,249,151	\$ 3,305,645
Cash and cash equivalents - restricted	29,493	19,218
Grants receivable	1,060,707	258,044
Other receivables	103,064	52,056
Prepaid expenses	15,038	17,473
Property and equipment, net	2,874,933	2,722,974
Contributions receivable - land use	268,680	272,081
Other assets	55,559	27,455
	<u>\$ 5,656,625</u>	<u>\$ 6,674,946</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 479,992	\$ 538,149
Deferred revenue	41,000	36,000
Due to Parent	20,005	11,955
PPP refundable advance / loan	111,950	236,159
Total Liabilities	<u>652,947</u>	<u>822,263</u>
Net Assets		
Without Donor Restrictions		
Available for operations	1,807,365	2,765,761
Investment in property and equipment	2,874,933	2,722,974
Without Donor Restrictions	<u>4,682,298</u>	<u>5,488,735</u>
With donor restrictions	321,380	363,948
Total Net Assets	<u>5,003,678</u>	<u>5,852,683</u>
	<u>\$ 5,656,625</u>	<u>\$ 6,674,946</u>

See notes to the financial statements.

Covenant House Washington, D.C.

Statements of Activities

	Year Ended June 30, 2022			Year Ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions	\$ 824,764	\$ 190,000	\$ 1,014,764	\$ 504,999	\$ 194,160	\$ 699,159
Site investment funds	50,000	-	50,000	-	-	-
Contributed services and merchandise	40,895	-	40,895	258,852	-	258,852
Government grants	4,167,729	-	4,167,729	3,024,717	-	3,024,717
PPP income	-	-	-	333,053	-	333,053
Branding dollars from Parent	1,432,500	-	1,432,500	1,464,223	-	1,464,223
Grants from Parent related to National Sleep Out Event	111,075	-	111,075	129,650	-	129,650
Special event revenue, net of direct benefits to donors of \$11,197 and \$5,736	217,375	-	217,375	100,895	-	100,895
Net assets released from restrictions	232,568	(232,568)	-	139,215	(139,215)	-
Total Support and Revenue	<u>7,076,906</u>	<u>(42,568)</u>	<u>7,034,338</u>	<u>5,955,604</u>	<u>54,945</u>	<u>6,010,549</u>
OTHER INCOME						
Other income	25,371	-	25,371	3,539	-	3,539
Gain on sale of building	-	-	-	4,012,927	-	4,012,927
Total Other Income	<u>25,371</u>	<u>-</u>	<u>25,371</u>	<u>4,016,466</u>	<u>-</u>	<u>4,016,466</u>
Total Support and Revenue and Other Income	<u>7,102,277</u>	<u>(42,568)</u>	<u>7,059,709</u>	<u>9,972,070</u>	<u>54,945</u>	<u>10,027,015</u>
EXPENSES						
Program services	6,392,122	-	6,392,122	5,890,290	-	5,890,290
Supporting Services						
Management and general	1,091,197	-	1,091,197	769,674	-	769,674
Fundraising	425,395	-	425,395	152,584	-	152,584
Total Expenses	<u>7,908,714</u>	<u>-</u>	<u>7,908,714</u>	<u>6,812,548</u>	<u>-</u>	<u>6,812,548</u>
Change in Net Assets	(806,437)	(42,568)	(849,005)	3,159,522	54,945	3,214,467
NET ASSETS						
Beginning of year	<u>5,488,735</u>	<u>363,948</u>	<u>5,852,683</u>	<u>2,329,213</u>	<u>309,003</u>	<u>2,638,216</u>
End of year	<u>\$ 4,682,298</u>	<u>\$ 321,380</u>	<u>\$ 5,003,678</u>	<u>\$ 5,488,735</u>	<u>\$ 363,948</u>	<u>\$ 5,852,683</u>

See notes to the financial statements.

Covenant House Washington, D.C.

**Statement of Functional Expenses
Year Ended June 30, 2022**

	Program Services					Supporting Services				Cost of Direct Benefits to Donors	Total Expenses
	Emergency Housing and Crisis Care	Outreach	Transitional Living - Rights of Passage	Drop-In Services	Public Education and Prevention	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and wages	\$ 747,784	\$ 655,730	\$ 1,082,749	\$ 93,110	\$ 299,136	\$ 2,878,509	\$ 380,904	\$ 172,568	\$ 553,472	\$ -	\$ 3,431,981
Payroll taxes	67,671	55,447	97,673	13,282	28,434	262,507	54,334	11,373	65,707	-	328,214
Employee benefits	157,607	114,871	192,762	15,211	62,091	542,542	62,230	469	62,699	-	605,241
Total Salaries and Related Expenses	973,062	826,048	1,373,184	121,603	389,661	3,683,558	497,468	184,410	681,878	-	4,365,436
Professional fees	25,292	25,360	51,299	17,207	32,204	151,362	70,384	96,680	167,064	-	318,426
Supplies	24,337	18,712	43,573	8,223	8,270	103,115	33,642	2,307	35,949	-	139,064
Telephone	12,436	7,052	34,127	5,302	5,302	64,219	21,691	-	21,691	-	85,910
Postage and printing	2,886	657	875	430	430	5,278	1,760	37,412	39,172	-	44,450
Occupancy:											
Fuel and utilities	22,942	23,399	80,259	16,037	16,037	158,674	65,605	-	65,605	-	224,279
Repairs and maintenance	37,804	8,807	119,400	7,937	7,937	181,885	32,469	-	32,469	-	214,354
Rent and other	122,124	26,463	498,624	1,463	1,463	650,137	5,987	-	5,987	-	656,124
Equipment	87,480	21,352	85,425	8,786	24,812	227,855	35,944	919	36,863	-	264,718
Travel, transportation and conferences	15,405	9,202	13,533	7,488	11,605	57,233	30,634	3,510	34,144	-	91,377
Specific assistance to individuals	89,887	130,586	128,976	4,125	107,283	460,857	16,875	-	16,875	-	477,732
Other purchased services	38,328	28,240	278,226	21,779	23,979	390,552	89,094	74,084	163,178	11,197	564,927
Dues, licenses and permits	228	228	528	228	228	1,440	931	3,209	4,140	-	5,580
Subscriptions and publications	1,071	228	684	228	428	2,639	932	11,187	12,119	-	14,758
Staff recruitment	1,217	680	680	680	680	3,937	2,783	9,493	12,276	-	16,213
Insurance	10,713	14,686	13,551	10,713	10,713	60,376	43,827	-	43,827	-	104,203
Donated services and merchandise	3,355	3,355	3,355	3,355	3,355	16,775	13,725	-	13,725	-	30,500
Miscellaneous	68	68	68	68	68	340	277	-	277	-	617
Bad debts	409	409	409	409	409	2,045	1,673	-	1,673	-	3,718
Bank charges and fees	915	915	915	915	915	4,575	3,743	-	3,743	-	8,318
Interest	2,018	2,009	2,009	2,009	2,009	10,054	8,218	-	8,218	-	18,272
Depreciation	44,204	27,753	27,753	27,753	27,753	155,216	113,535	2,184	115,719	-	270,935
Total Functional Expenses	1,516,181	1,176,209	2,757,453	266,738	675,541	6,392,122	1,091,197	425,395	1,516,592	11,197	7,919,911
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(11,197)	(11,197)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,516,181	\$ 1,176,209	\$ 2,757,453	\$ 266,738	\$ 675,541	\$ 6,392,122	\$ 1,091,197	\$ 425,395	\$ 1,516,592	\$ -	\$ 7,908,714

See notes to the financial statements.

Covenant House Washington, D.C.

**Statement of Functional Expenses
Year Ended June 30, 2021**

	Program Services					Supporting Services			Cost of Direct Benefits to Donors	Total Expenses	
	Emergency Housing and Crisis Care	Outreach	Transitional Living - Rights of Passage	Drop-In Services	Public Education and	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries and wages	\$ 552,866	\$ 566,711	\$ 1,382,682	\$ 110,148	\$ 203,581	\$ 2,815,988	\$ 342,241	\$ 88,469	\$ 430,710	\$ -	\$ 3,246,698
Payroll taxes	65,049	64,089	198,295	10,051	22,897	360,381	28,321	11,321	39,642	-	400,023
Employee benefits	90,156	49,289	253,859	11,987	54,811	460,102	37,462	11,243	48,705	-	508,807
Total Salaries and Related Expenses	708,071	680,089	1,834,836	132,186	281,289	3,636,471	408,024	111,033	519,057	-	4,155,528
Professional fees	14,847	10,085	12,779	9,488	9,790	56,989	109,867	2,152	112,019	-	169,008
Supplies	6,825	12,563	34,752	3,351	3,943	61,434	2,957	10,653	13,610	-	75,044
Telephone	5,788	6,423	50,538	1,190	3,122	67,061	3,471	1,304	4,775	-	71,836
Postage and printing	1,273	1,273	1,318	1,273	1,273	6,410	5,203	-	5,203	-	11,613
Occupancy:											
Fuel and utilities	15,398	19,970	92,507	3,582	8,616	140,073	15,413	1,041	16,454	-	156,527
Repairs and maintenance	8,835	8,556	126,374	1,805	4,766	150,336	5,287	1,997	7,284	-	157,620
Rent and other	1,481	16,055	509,117	1,453	1,453	529,559	4,689	4,680	9,369	-	538,928
Equipment	16,178	16,954	109,334	3,511	21,910	167,887	11,731	2,295	14,026	-	181,913
Travel, transportation and conferences	7,556	3,073	3,084	2,851	2,875	19,439	7,085	4,297	11,382	-	30,821
Specific assistance to individuals	9,240	94,888	152,417	6,814	7,265	270,624	-	-	-	-	270,624
Other purchased services	26,958	38,630	167,448	9,818	17,010	259,864	30,517	9,330	39,847	5,736	305,447
Dues, licenses and permits	277	238	314	202	202	1,233	784	13	797	-	2,030
Subscriptions and publications	1,550	1,536	1,536	1,536	1,536	7,694	6,096	-	6,096	-	13,790
Staff recruitment	574	574	574	574	574	2,870	2,346	-	2,346	-	5,216
Insurance	8,929	8,736	26,424	5,276	6,814	56,179	14,485	3,357	17,842	-	74,021
Donated services and merchandise	19,038	19,763	96,936	19,038	25,896	180,671	78,181	-	78,181	-	258,852
Miscellaneous	799	11,819	799	283	627	14,327	4,510	905	5,415	-	19,742
Bad debts	1,601	1,313	4,947	1,313	1,313	10,487	10,171	(4,798)	5,373	-	15,860
Bank charges and fees	793	793	793	793	793	3,965	3,245	-	3,245	-	7,210
Interest	2,493	9,904	2,493	2,146	2,379	19,415	11,673	-	11,673	-	31,088
Depreciation	71,132	51,965	23,367	63,300	17,538	227,302	33,939	4,325	38,264	-	265,566
Total Functional Expenses	929,636	1,015,200	3,252,687	271,783	420,984	5,890,290	769,674	152,584	922,258	5,736	6,818,284
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(5,736)	(5,736)
Total Expenses Reported by Function on the Statement of Activities	\$ 929,636	\$ 1,015,200	\$ 3,252,687	\$ 271,783	\$ 420,984	\$ 5,890,290	\$ 769,674	\$ 152,584	\$ 922,258	\$ -	\$ 6,812,548

See notes to the financial statements.

Covenant House Washington, D.C.

Statements of Cash Flows

	Year Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (849,005)	\$ 3,214,467
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	270,935	265,566
Gain on sale of building	-	(4,012,927)
Long-term contributions receivable	3,401	3,401
Bad debt expense	3,718	15,860
Net change in operating assets and liabilities		
Grants receivable	(802,663)	(49,246)
Other receivables	(54,726)	(50,739)
Prepaid expenses	2,435	51,958
Other assets	(28,104)	(22,205)
Accounts payable, accrued liabilities and refundable advances	(58,157)	193,648
Due to Parent	8,050	(1,201,127)
PPP refundable advance	-	(333,053)
Deferred revenue	5,000	(114,737)
Net Cash from Operating Activities	(1,499,116)	(2,039,134)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(422,894)	(82,861)
Net proceeds from sale of building	-	4,208,115
Net Cash from Investing Activities	(422,894)	4,125,254
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(124,209)	(257,396)
Change in Cash, Cash Equivalents and Restricted Cash	(2,046,219)	1,828,724
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	3,324,863	1,496,139
End of year	\$ 1,278,644	\$ 3,324,863
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 18,272	\$ 31,088

See notes to the financial statements.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

1. Organization and Nature of Activities

Covenant House Washington, D.C. (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 Washington, D.C. metropolitan area.

Covenant House (the “Parent”) is a not-for-profit organization founded in 1968 and incorporated in 1972. The Parent and affiliates (collectively, “Covenant House”) provided shelter, food, clothing, medical and mental health care, crisis intervention, education and vocational services, public education and prevention, and other programs that reached approximately 43,000 young people during fiscal 2022. During fiscal 2022, the worldwide COVID-19 pandemic continued to impact the number of youth Covenant House reached, as affiliates prolonged measures to ensure social distancing, set aside isolation rooms for symptomatic youth, and modified street outreach. Nevertheless, in fiscal 2022, Covenant House provided a total of nearly 730,000 nights of housing and safety for, on average, 1,991 youth each night.

Covenant House (Parent) is the sole member of the following not-for-profit affiliates:

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Illinois
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House New York/Under 21
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House Holdings, LLC
- Covenant International Foundation
- CH Housing Development Fund Corporation
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44th Corporation
- 460 West 41st Street, LLC

Covenant House (Parent) is also the sole member of Covenant International Foundation (“CIF”), a not-for-profit corporation. Covenant House (Parent), together with CIF, represent the controlling interest in the following international not-for-profit affiliates:

- Asociación La Alianza (Guatemala)
- Casa Alianza de Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Covenant House Toronto
- Covenant House Vancouver
- Fundación Casa Alianza México, I.A.P.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

1. Organization and Nature of Activities (continued)

Covenant House (Parent) is the founder of Fundación Casa Alianza México, I.A.P.

The Organization has been determined to be a non-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

Components of Program and Supporting Services

Program Services

Emergency Housing and Crisis Care (formerly Short-term Housing and Crisis Care)

The Immediate and Short-term Housing program focuses on Crisis Care and provides emergency services; temporary, immediate housing; nutritious food; clothing; medical care; mental health services; and legal aid to young people ages 16-22 who are experiencing homelessness or human trafficking. The high-quality programs and services meet youths' immediate needs, stabilize their situation, and help them consider their longer-term goals for education, employment, and career planning. The Organization is expertly equipped to respond to the unique needs of young survivors of human trafficking, those who identify as LGBTQ+, and those who are pregnant or parenting.

Outreach

The Outreach program actively seeks out young people experiencing homelessness who may need help. In vans and on foot, Covenant House outreach workers go out to the neighborhoods, riverfronts, parks, and other places, where young people facing homelessness often seek refuge. Teams offer food, water, hygiene kits, clothing, blankets, counseling, and referrals. Through sustained contact, they build trust with the young people, the first step toward encouraging them to come into shelters and connect with services.

Transitional Living — Rights of Passage (ROP)

Covenant House's Transitional Living programs, often referred to as "Rights of Passage" or ROP, are where young people take their boldest steps toward independence. Youth live in ROP for up to 24 months, where they tap their potential and plan for the future. Here they build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. Covenant House staff support each young person on their journey toward sustainable independence and a hope-filled future.

Drop-In Services (formerly Community Service Center)

Drop-in services are another form of outreach at Covenant House affiliates. Youth in this program do not receive residential services, but receive access to nutritious meals, hot showers, hygiene products, laundry services, and new clothing and shoes. They can request and receive medical and mental health services, case management services, transitional and permanent housing assistance, and they may take part in education and employment programs.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

1. Organization and Nature of Activities *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Public Education and Prevention

Public Education and Prevention uses a variety of platforms to inform and educate the public, government officials, and young people about youth homelessness and human trafficking. Covenant House employs websites, social media, public service announcements, billboards, newsletters, school-based programs, community engagement and training, talks, lectures, and peer-to-peer events to raise awareness of the causes and impacts of youth homelessness and of the signs that a young person might be experiencing homelessness or human trafficking.

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.

Fundraising

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

Direct Benefit to Donor Costs

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

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 require 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.

Special Events

Revenue 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.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition

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

The Organization recognizes grant and contract revenues in the statements of activities to the extent that reimbursable expenses have been incurred for the purpose specified by the grantor during the period. Funds received in advance are reported as deferred revenue in the statements of financial position. Revenue for performance based grants and contracts is recognized on a fixed fee unit basis based on actual services rendered, not to exceed the maximum allowable per the grant or contract.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization allocated direct costs to program services. Supporting services include management and general and fundraising. Allocated expenses among program services and management and general and fundraising include salaries and related expenses, staff travel, consulting and professional fees, and other expenses which are allocated based on time and costs where efforts are made.

Deferred Revenue

Deposits received for program services not yet provided are recorded as deferred revenue and recognized as program service revenue in the period to which they pertain.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

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

Property and Equipment

The Organization follows the practice of capitalizing all expenditures for property, building and equipment with a cost in excess of \$5,000. Property and equipment are reported at cost at the date of acquisition or at their fair value at the date of donation. Expenditures that extend the useful life are capitalized, whereas minor costs of repairs and maintenance are expensed as incurred.

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

Buildings	30 years
Building improvements	3 to 30 years
Furniture and equipment	1 to 12 years
Vehicles	3 to 5 years

Asset Recoverability

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There is no such impairment for the years ended June 30, 2022 and 2021.

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 general 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 the fundraising activity. Contribution revenue is recognized based upon the present value of the estimated future payment to be made to the Organization.

Advertising Costs

Advertising costs are expensed as incurred.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

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

Donated Goods and Services

The Organization recognizes the fair 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.

Donated goods and services consist of items and services received by the Organization. These amounts are recorded as both revenue and expense at their estimated fair values at the date of receipt. Donated goods and services consist of the following for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>	<u>Usage</u>	<u>Donor Restriction</u>
Legal services	\$ -	\$ 112,351	Administration	None
Rent	30,500	75,000	Program Services	None
Supplies	10,395	71,501	Program Services	None
	<u>\$ 40,895</u>	<u>\$ 258,852</u>		

Donated supplies are valued at the price that would be paid to purchase the supplies at retail markets in the United States. Rent is valued at the amount for similar rental spaces in the area. Donated legal services are based on current rates of the legal services provided.

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, 2019.

Subsequent Events Evaluation by Management

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

3. Cash, Cash Equivalents, and Restricted Cash

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 Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

3. Cash, Cash Equivalents, and Restricted Cash (*continued*)

Cash, cash equivalents and restricted cash consistent of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,249,151	\$ 3,305,645
Restricted cash	29,493	19,218
	<u>\$ 1,278,644</u>	<u>\$ 3,324,863</u>

4. Grants Receivable

Grants receivable of \$1,060,707 and \$258,044 at June 30, 2022 and 2021 represent the amounts due from various governmental and private agencies for the Organization's programs. All grants receivable as of June 30, 2022 and 2021 are expected to be collected within one year. 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.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 7,458,831	\$ 7,066,380
Furniture and equipment	387,003	387,003
Vehicles	<u>62,582</u>	<u>32,882</u>
	7,908,416	7,486,265
Less accumulated depreciation	<u>(5,033,483)</u>	<u>(4,763,291)</u>
	<u>\$ 2,874,933</u>	<u>\$ 2,722,974</u>

6. PPP Refundable Advance

On May 1, 2020, the Organization received loan proceeds in the amount of \$858,800 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest is forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period").

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

6. PPP Refundable Advance (*continued*)

The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries below a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the loan unless extended. Loan payments of principal and interest are deferred until the amount of loan forgiveness is determined by the United States Small Business Administration (“SBA”). If the Organization does not apply for forgiveness, payments begin approximately seven and a half months after the loan date.

The Organization intended to use all proceeds received in accordance with regulations established by the PPP. Management believed its use of the proceeds, including amounts expended would be forgiven. Management recognized the PPP loan as a conditional grant under ASC 958-605, Revenue Recognition-Contributions and recognized income as allowable costs were incurred and related conditions were met. During fiscal year 2021 and 2020, the SBA forgave a total of \$622,641 of the advance.

During the year ended June 30, 2021, the Organization recognized \$333,053 of income and remaining loan funds were reported as PPP refundable advance in the statement of financial position at June 30, 2021.

A principal payment of \$107,398 was paid in September 2021 and commencing October 2021 monthly payments of \$3,199 were due on the loan. The terms of payment were extended to five years after forgiveness was received. The remaining balance at June 30, 2022 and 2021 was \$111,950 and \$236,159.

Future principal payments for the years ending June 30 are payable as follows:

2023	\$	26,506
2024		29,868
2025		33,656
2026		21,920
	\$	<u>111,950</u>

7. Notes Payable

The Organization had a term loan with an original amount of \$397,742 that bore interest at 6% per annum, and was secured by a Deed of Trust on the underlying property located at 7 New York Avenue, Washington, D.C. The loan was paid in full during the year ended June 30, 2021, after the underlying property at 7 New York Avenue was sold.

8. Line of Credit

During July 2018 the Organization obtained a line of credit in the amount of \$500,000. Interest only payments are due monthly at the prime rate plus 0.50%. The line of credit is due on demand and secured by substantially all assets of the Organization. The line of credit was closed during the year ended June 30, 2021.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

9. Commitments and Contingencies

Leases

The Organization entered into various non-cancelable operating leases for equipment and apartments for programs; these leases expire at various dates through January 2031. Rental and other related expenses under all operating leases amounted to \$656,126 and \$538,928 for the years ended June 30, 2022 and 2021.

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

2023	\$	586,000
2024		570,000
2025		570,000
2026		180,000
2027		120,000
Thereafter		<u>430,000</u>
		<u>\$ 2,456,000</u>

Community Service Center

The Community Service Center resides on a parcel of land along Mississippi Avenue, SE, which is a part of a larger Building Bridges Across the River, Inc., (“BBAR”) development project. The Organization has negotiated a ground sublease with BBAR that was finalized on November 11, 2005. Based on the sublease agreement, the lease commencement date was determined retroactively to be January 20, 2003 with a termination date of July 18, 2100. The lease has an annual rent of \$25 per year and the Organization is responsible for operating expenses and utilities. The fair value of the land at the time of the lease agreement signing was recorded as a contribution receivable and a donor restricted contribution and is being released from restrictions over the period of the lease. At June 30, 2022 and 2021, the balance of the long term receivable of \$268,680 and \$272,081 is recorded in the accompanying financial statements. The Organization built a free-standing, two-story building on the premises, referred to as the Nancy Dickerson Whitehead Community Service Center, which the Organization owns and can sell, assign, or sublet after 15 years, assuming that the purchaser, assignee, or sub-lessee agrees to certain use restrictions, will perform a needed service at the development, and is financially capable. If the Organization sells the building, then BBAR would be entitled to 19% of the proceeds. The Organization uses the building and land to provide recreational, educational, social, cultural, and support services to homeless and at-risk youths.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

10. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30 are available for the following:

	<u>2022</u>	<u>2021</u>
Community service center	\$ 268,680	\$ 272,081
Fiber optics equipment	20,000	20,000
Preston Blue Scholarship program	1,700	1,700
Mini libraries	-	5,000
Consultant for capital campaign	31,000	31,000
Time restricted contributions	-	34,167
	<u>\$ 321,380</u>	<u>\$ 363,948</u>

Amounts released from restrictions for years ended June 30, are as follows:

	<u>2022</u>	<u>2021</u>
Laundry equipment and supplies	\$ -	\$ 5,000
Workforce development	70,000	-
Food programs	120,000	-
Mental health program	-	15,000
Community service center	3,401	3,401
COVID support	-	45,981
Mini libraries	5,000	-
Consultant for capital campaign	-	-
Time restricted contributions	34,167	69,833
	<u>\$ 232,568</u>	<u>\$ 139,215</u>

11. 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 \$89 million and \$84 million for the Parent in fiscal years ended June 30, 2022 and 2021. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations including a Parent subsidy and appropriates funds classified as "Branding Dollars" or "Contributions Received from Parent" to each Covenant House affiliate. Total contributions allocated to affiliates, based on the Parent's policy, approximated \$38 million and \$36 million for the years ended June 30, 2022 and 2021. In fiscal 2022 and 2021, the Organization received \$1,432,500 and \$1,464,223 in contributions from the Parent. Additionally, in fiscal 2021 and 2020, the Organization received \$111,075 and \$129,650 from the Parent relating to national fund-raising sleep events. At June 30, 2022 and 2021, the amounts due to the Parent totaled \$20,005 and \$11,955.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

11. Related Party Transactions (*continued*)

The Parent provided a Site Investment Fund (“SIF”) to Covenant House affiliates during fiscal 2022. The SIF is to encourage innovative programming at CHPA by implementing a new program or pilot program, build program capacity, make a material change in site-related program work, or introduce an innovative approach to current programs, support the range site Workforce Development and Vocational Training activities, support young families in the adoption and implementation of the parenting curriculum/parenting programs and parenting skills assessment tool. The Parent provided the Organization with a total of \$50,000 for the year ended June 30, 2022, towards the SIF.

12. Employee Benefit Plans

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 \$207,081 and \$181,356 for the years ended June 30, 2022 and 2021.

The Organization participates in a noncontributory defined benefit pension plan (the “Plan”), which was established on August 1, 1982, and is sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Effective August 1, 2009, the Board of Directors of the Parent approved a freeze of future benefit accruals for all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent. Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. For the years ended June 30, 2022 and 2021, the Organization contributed \$76,435 and \$121,035 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statements of functional expenses.

13. Custodial Transactions

The Organization acts as an agent for youth receiving services through its Crisis Center and Transitional Living Program by holding their personal monies in separate bank accounts. Because these funds are not assets of the Organization, a corresponding liability, which is included in accounts payable, accrued expenses and refundable advances in the statements of financial position, has been established to the extent of the assets held by the Organization. The amounts held in these accounts were \$29,493 and \$19,218 at June 30, 2022 and 2021.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2022 and 2021

14. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash, cash equivalents and receivables. The Organization maintains its cash in bank deposit accounts which generally exceed federally insured limits. The Organization has not experienced any losses in such accounts. Concentrations of credit risk with respect to receivables are generally diversified due to the number of entities and individuals composing the entity's program and donor base. The Organization performs ongoing credit evaluations and writes off uncollectible amounts as they become known.

15. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 1,249,151	\$ 3,305,645
Grants receivable	1,060,707	258,044
Other receivables	103,064	52,056
Contributions receivable - land use	<u>268,680</u>	<u>272,081</u>
 Total financial assets	 2,681,602	 3,887,826
Less:		
Net Assets With Donor Restrictions	<u>(321,380)</u>	<u>(363,948)</u>
 Financial Assets Available to Meet Cash Needs for General Expenditure Within One Year	 <u>\$ 2,360,222</u>	 <u>\$ 3,523,878</u>

The Organization's working capital and cash flows are driven by contributions, grants and special event revenue. The Organization manages its financial assets to be available for its operating expenditures, liabilities and other obligations as they become due.

16. Sale of Building

On March 3, 2021 the Organization sold its property located at 7 New York Avenue, Washington, D.C. The sale price was \$4,600,000 resulting in a gain on the sale of \$4,012,927 after settlement and other charges. In conjunction with the sale, the note payable secured by the property was paid off.

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