

**Covenant House Washington, D.C.**

Financial Statements

June 30, 2018 and 2017

**Covenant House Washington, D.C.**

Financial Statements  
June 30, 2018 and 2017

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## Independent Auditors' Report

**Board of Directors**  
**Covenant House Washington, D.C.**

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, 2018 and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 Washington, D.C. as of June 30, 2018 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.

*PKF O'Connor Davies, LLP*

Bethesda, Maryland  
February 27, 2019

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**Covenant House Washington, D.C.**

Statements of Financial Position

	June 30,	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 175,974	\$ 68,156
Cash and cash equivalents - restricted	85,743	91,498
Grants receivable	207,012	180,073
Other receivables	75,814	107,911
Due from Parent	-	103,085
Prepaid expenses	4,753	8,815
Property and equipment, net	3,595,140	3,845,027
Long-term contributions receivable	282,284	285,685
Other assets	<u>18,650</u>	<u>22,527</u>
	<u>\$ 4,445,370</u>	<u>\$ 4,712,777</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 864,338	\$ 308,498
Deferred revenue	75,845	45,603
Note payable	297,083	315,209
Due to Parent	<u>91,476</u>	<u>-</u>
Total Liabilities	<u>1,328,742</u>	<u>669,310</u>
Net Assets		
Unrestricted		
Available for operations	(518,730)	97,514
Investment in property and equipment	<u>3,298,057</u>	<u>3,529,818</u>
Total Unrestricted	2,779,327	3,627,332
Temporarily restricted	<u>337,301</u>	<u>416,135</u>
Total Net Assets	<u>3,116,628</u>	<u>4,043,467</u>
	<u>\$ 4,445,370</u>	<u>\$ 4,712,777</u>

See notes to financial statements

**Covenant House Washington, D.C.**

Statements of Activities

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Contributions	\$ 327,666	\$ 179,800	\$ 507,466	\$ 588,653	\$ 159,638	\$ 748,291
Contributed services and merchandise	172,077	-	172,077	211,220	-	211,220
Government grants	2,524,912	-	2,524,912	1,851,025	-	1,851,025
Branding dollars from Parent	1,891,000	-	1,891,000	2,011,000	-	2,011,000
Grants from Parent related to National Sleep Out Event	80,265	-	80,265	96,134	-	96,134
Special event revenue, net of direct benefits to donors of \$99,482 and \$119,383	165,553	-	165,553	141,814	-	141,814
Net assets released from restrictions	258,634	(258,634)	-	127,589	(127,589)	-
<b>Total Support and Revenue</b>	<u>5,420,107</u>	<u>(78,834)</u>	<u>5,341,273</u>	<u>5,027,435</u>	<u>32,049</u>	<u>5,059,484</u>
<b>INVESTMENT AND OTHER INCOME</b>						
Interest and dividends	-	-	-	55	-	55
Other income	303,380	-	303,380	240,895	-	240,895
<b>Total Investment and Other Income</b>	<u>303,380</u>	<u>-</u>	<u>303,380</u>	<u>240,950</u>	<u>-</u>	<u>240,950</u>
<b>Total Support and Revenue and Investment and Other Income</b>	<u>5,723,487</u>	<u>(78,834)</u>	<u>5,644,653</u>	<u>5,268,385</u>	<u>32,049</u>	<u>5,300,434</u>
<b>EXPENSES</b>						
Program services	5,795,247	-	5,795,247	4,619,411	-	4,619,411
Supporting Services						
Management and general	613,700	-	613,700	781,969	-	781,969
Fundraising	162,545	-	162,545	166,845	-	166,845
<b>Total Expenses</b>	<u>6,571,492</u>	<u>-</u>	<u>6,571,492</u>	<u>5,568,225</u>	<u>-</u>	<u>5,568,225</u>
<b>Change in Net Assets</b>	(848,005)	(78,834)	(926,839)	(299,840)	32,049	(267,791)
<b>NET ASSETS</b>						
Beginning of year	<u>3,627,332</u>	<u>416,135</u>	<u>4,043,467</u>	<u>3,927,172</u>	<u>384,086</u>	<u>4,311,258</u>
End of year	<u>\$ 2,779,327</u>	<u>\$ 337,301</u>	<u>\$ 3,116,628</u>	<u>\$ 3,627,332</u>	<u>\$ 416,135</u>	<u>\$ 4,043,467</u>

See notes to financial statements

**Covenant House Washington, D.C.**

Statement of Functional Expenses  
Year Ended June 30, 2018

	Program Services					Supporting Services			Cost of Direct Benefits to Donors	Total Expenses	
	Emergency Housing and Crisis Care	Outreach	Rights of Passage and Supportive Housing	Community Service Center	Public Education	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries and wages	\$ 1,114,236	\$ 447,221	\$ 746,530	\$ 451,162	\$ 260,189	\$ 3,019,338	\$ 344,246	\$ 108,616	\$ 452,862	\$ -	\$ 3,472,200
Payroll taxes	91,304	35,061	61,578	36,008	19,651	243,602	25,771	8,508	34,279	-	277,881
Employee benefits	242,332	67,391	151,739	75,189	32,661	569,312	37,934	8,820	46,754	-	616,066
<b>Total Salaries and Related Expenses</b>	<b>1,447,872</b>	<b>549,673</b>	<b>959,847</b>	<b>562,359</b>	<b>312,501</b>	<b>3,832,252</b>	<b>407,951</b>	<b>125,944</b>	<b>533,895</b>	<b>-</b>	<b>4,366,147</b>
Professional fees	7,040	6,460	6,780	31,971	32,110	84,361	14,134	2,805	16,939	-	101,300
Supplies	13,382	4,408	6,027	7,033	4,722	35,572	10,134	171	10,305	-	45,877
Telephone	12,350	10,905	22,097	11,075	8,542	64,969	19,425	570	19,995	-	84,964
Postage and printing	3,237	1,667	1,667	1,667	1,667	9,905	807	6,011	6,818	-	16,723
Occupancy:											
Fuel and utilities	44,957	41,519	39,601	46,142	30,904	203,123	32,110	3,428	35,538	-	238,661
Repairs and maintenance	13,098	5,604	3,313	3,313	3,313	28,641	14,145	-	14,145	-	42,786
Rent and other	97,474	11,830	563,191	762	762	674,019	3,118	-	3,118	-	677,137
Equipment	7,270	5,771	(675)	2,714	2,479	17,559	10,012	47	10,059	-	27,618
Travel, transportation and conferences	16,532	5,806	6,456	5,283	5,134	39,211	14,976	1,278	16,254	-	55,465
Specific assistance to individuals	112,200	42,696	71,458	39,444	32,572	298,370	-	-	-	-	298,370
Other purchased services	56,691	22,236	18,085	52,407	49,401	198,820	28,269	6,538	34,807	99,482	333,109
Dues, licenses and permits	1,001	809	809	2,109	809	5,537	1,348	1,916	3,264	-	8,801
Subscriptions and publications	505	505	505	505	505	2,525	718	1,324	2,042	-	4,567
Staff recruitment	940	40	220	310	130	1,640	81	81	162	-	1,802
Insurance	15,458	12,486	6,969	6,969	6,969	48,851	24,785	-	24,785	-	73,636
Donated services	347	347	347	347	347	1,735	1,420	-	1,420	-	3,155
Miscellaneous	92	(73)	2,726	(93)	(93)	2,559	(306)	3	(303)	-	2,256
Bad debt (recovery)	(1,037)	(1,341)	(841)	(1,044)	(1,341)	(5,604)	(5,552)	68	(5,484)	-	(11,088)
Bank charges and fees	865	865	865	865	865	4,325	3,537	-	3,537	-	7,862
Interest	698	12,839	1,663	699	696	16,595	5,884	112	5,996	-	22,591
Depreciation	71,300	52,900	23,787	64,439	17,856	230,282	26,704	12,249	38,953	-	269,235
<b>Total Functional Expenses</b>	<b>1,922,272</b>	<b>787,952</b>	<b>1,734,897</b>	<b>839,276</b>	<b>510,850</b>	<b>5,795,247</b>	<b>613,700</b>	<b>162,545</b>	<b>776,245</b>	<b>99,482</b>	<b>6,670,974</b>
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(99,482)	(99,482)
<b>Total Expenses Reported by Function on the Statement of Activities</b>	<b>\$ 1,922,272</b>	<b>\$ 787,952</b>	<b>\$ 1,734,897</b>	<b>\$ 839,276</b>	<b>\$ 510,850</b>	<b>\$ 5,795,247</b>	<b>\$ 613,700</b>	<b>\$ 162,545</b>	<b>\$ 776,245</b>	<b>\$ -</b>	<b>\$ 6,571,492</b>

**Covenant House Washington, D.C.**

Statement of Functional Expenses  
Year Ended June 30, 2017

	Program Services					Supporting Services				Cost of Direct Benefits to Donors	Total Expenses
	Emergency Housing and Crisis Care	Outreach	Rights of Passage and Supportive Housing	Community Service Center	Public Education	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and wages	\$ 1,038,035	\$ 201,149	\$ 622,004	\$ 398,882	\$ 212,626	\$ 2,472,696	\$ 352,459	\$ 103,848	\$ 456,307	\$ -	\$ 2,929,003
Payroll taxes	79,345	16,300	48,594	31,395	17,323	192,957	32,843	7,634	40,477	-	233,434
Employee benefits	137,509	29,514	28,370	45,715	33,777	274,885	73,129	13,676	86,805	-	361,690
<b>Total Salaries and Related Expenses</b>	<b>1,254,889</b>	<b>246,963</b>	<b>698,968</b>	<b>475,992</b>	<b>263,726</b>	<b>2,940,538</b>	<b>458,431</b>	<b>125,158</b>	<b>583,589</b>	<b>-</b>	<b>3,524,127</b>
Professional fees	6,385	6,225	6,255	36,525	36,225	91,615	17,345	10,181	27,526	-	119,141
Supplies	13,285	2,222	8,302	5,220	1,896	30,925	7,060	(38)	7,022	-	37,947
Telephone	16,004	8,461	19,095	8,359	7,135	59,054	21,428	1,020	22,448	-	81,502
Postage and printing	1,138	1,138	1,138	1,150	1,150	5,714	3,377	1,279	4,656	-	10,370
Occupancy:											
Fuel and utilities	69,073	50,951	38,387	45,237	30,798	234,446	36,718	3,479	40,197	-	274,643
Repairs and maintenance	6,461	2,362	2,560	1,111	1,111	13,605	4,808	-	4,808	-	18,413
Rent and other	35,027	377	429,904	377	377	466,062	1,542	-	1,542	-	467,604
Equipment	21,693	2,728	17,991	4,558	4,463	51,433	9,372	492	9,864	-	61,297
Travel, transportation and conferences	18,471	6,161	5,641	5,200	4,818	40,291	15,556	1,617	17,173	-	57,464
Specific assistance to individuals	130,652	766	79,395	31,353	23,511	265,677	-	-	-	-	265,677
Other purchased services	45,084	24,666	27,999	42,627	40,456	180,832	56,571	8,236	64,807	119,383	365,022
Dues, licenses and permits	990	890	1,190	1,980	890	5,940	520	3,079	3,599	-	9,539
Subscriptions and publications	488	488	488	488	488	2,440	788	1,208	1,996	-	4,436
Staff recruitment	203	99	99	99	99	599	405	-	405	-	1,004
Insurance	9,518	9,518	9,518	9,518	9,518	47,590	31,725	-	31,725	-	79,315
Donated services	473	473	473	473	473	2,365	1,935	-	1,935	-	4,300
Miscellaneous	4,108	2,877	3,675	3,171	3,171	17,002	1,611	10,698	12,309	-	29,311
Bad debt (recovery)	(2,604)	(2,604)	(2,604)	(2,604)	(2,604)	(13,020)	(10,654)	-	(10,654)	-	(23,674)
Bank charges and fees	777	777	777	777	777	3,885	2,978	203	3,181	-	7,066
Interest	911	13,991	811	817	811	17,341	6,494	233	6,727	-	24,068
Depreciation	43,573	27,876	27,876	27,876	27,876	155,077	113,959	-	113,959	-	269,036
<b>Total Functional Expenses</b>	<b>1,676,599</b>	<b>407,405</b>	<b>1,377,938</b>	<b>700,304</b>	<b>457,165</b>	<b>4,619,411</b>	<b>781,969</b>	<b>166,845</b>	<b>948,814</b>	<b>119,383</b>	<b>5,687,608</b>
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(119,383)	(119,383)
<b>Total Expenses Reported by Function on the Statement of Activities</b>	<b>\$ 1,676,599</b>	<b>\$ 407,405</b>	<b>\$ 1,377,938</b>	<b>\$ 700,304</b>	<b>\$ 457,165</b>	<b>\$ 4,619,411</b>	<b>\$ 781,969</b>	<b>\$ 166,845</b>	<b>\$ 948,814</b>	<b>\$ -</b>	<b>\$ 5,568,225</b>

See notes to financial statements

**Covenant House Washington, D.C.**

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (926,839)	\$ (267,791)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	269,235	269,036
Long-term contributions receivable	3,401	3,401
Bad debt (recovery)	(11,088)	(23,674)
Net change in operating assets and liabilities		
Cash and cash equivalents - restricted	5,755	(10,839)
Grants receivable	(15,851)	134,576
Other receivables	32,097	(53,267)
Due to / from Parent	194,561	(89,445)
Prepaid expenses	4,062	(8,393)
Other assets	3,877	8,884
Accounts payable, accrued liabilities and refundable advances	555,840	(39,003)
Deferred revenue	30,242	33,774
Net Cash from Operating Activities	145,292	(42,741)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(19,348)	(31,447)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	(18,126)	(17,027)
 Change in Cash and Cash Equivalents	107,818	(91,215)
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	68,156	159,371
End of year	\$ 175,974	\$ 68,156
 <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 22,591	\$ 24,068

See notes to financial statements



## Covenant House Washington, D.C.

Notes to Financial Statements  
June 30, 2018 and 2017

### 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. 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 attention, crisis intervention, public education and prevention, and other services that reached approximately 89,000 and 80,000 young people during fiscal June 30, 2018 and 2017.

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/Under21
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House Holdings, LLC
- Covenant International Foundation
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44<sup>th</sup> Corporation

Covenant House (Parent) is also the sole member of Covenant International Foundation ("CIF"), a not-for-profit corporation, and Covenant House (Parent), together with CIF, represent the controlling interest of 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 (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.

## **Covenant House Washington, D.C.**

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### ***Components of Program and Supporting Services***

##### ***Program Services***

###### Emergency Housing and Crisis Care

The Emergency Housing and Crisis Care program provides crisis care, shelter, food, clothing, counseling and legal advice to abandoned and runaway youths through Covenant House programs in the Washington, D.C. metropolitan area.

###### 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 provide 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.

###### Rights of Passage and Supportive Housing Program

The Rights of Passage program provides transitional living services to youths for up to 24 months, including individual counseling and help with their education and finding jobs and housing. The Supportive Housing Program provides transitional living services to youth with an identified disability for up to 60 months, including individual case management and help with education, housing and job placement.

###### Community Service Center

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 education, obtain employment, and maintain themselves in stable living situations.

###### Public Education

The Public Education program informs and educates the public on how to identify potential runaway and throwaway adolescents, the public and private resources available to help such adolescents before they leave home and the public support services available to these families to improve the home environment in an effort to prevent homelessness.

#### ***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.

## **Covenant House Washington, D.C.**

Notes to Financial Statements  
June 30, 2018 and 2017

### **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 Asset Presentation***

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. 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 statements of activities as assets released from restrictions. There were no permanently restricted net assets at June 30, 2018 and 2017.

#### ***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.

#### ***Property and Equipment***

The Organization follows the practice of capitalizing all expenditures for property, building and equipment with a cost in excess of \$1,000. 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.

## Covenant House Washington, D.C.

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### ***Property and Equipment (continued)***

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, 2018 and 2017.

#### ***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.

#### ***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.

#### ***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.

## **Covenant House Washington, D.C.**

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### ***Donated Goods and Services***

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.

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.

#### ***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, 2015.

#### ***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 February 27, 2019.

During July of 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 .50%. The line of credit is due on demand and secured by substantially all assets of the Organization.

### **3. Grants Receivable**

Grants receivable of \$207,012 and \$180,073 at June 30, 2018 and 2017 represent the amounts due from various governmental and private agencies for the Organization's programs. All grants receivable as of June 30, 2018 and 2017 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.

## Covenant House Washington, D.C.

Notes to Financial Statements  
June 30, 2018 and 2017

### 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 7,624,347	\$ 7,607,394
Furniture and equipment	1,916,171	1,913,922
Vehicles	<u>92,941</u>	<u>92,795</u>
	9,633,459	9,614,111
Less accumulated depreciation	<u>(6,038,319)</u>	<u>(5,769,084)</u>
	<u>\$ 3,595,140</u>	<u>\$ 3,845,027</u>

### 5. Note Payable

The Organization has a term loan with an original amount of \$397,742 that currently bears interest at 6% per annum, and is secured by a Deed of Trust on the underlying property located at 7 New York Avenue, Washington, D.C. The balance outstanding at June 30, 2018 and 2017 was \$297,083 and \$315,209. Future minimum payments are \$36,804 per annum, including interest, through maturity in 2030.

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

2019	\$ 19,115
2020	20,294
2021	21,546
2022	22,875
2023	24,285
Thereafter	<u>188,968</u>
	<u>\$ 297,083</u>

### 6. Commitments and Contingencies

#### **Leases**

The Organization has entered into various noncancellable operating leases for equipment and apartment for programs; these leases expire at various dates through April 2023. Rental expenses under all operating leases amounted to \$677,137 and \$467,604 for the years ended June 30, 2018 and 2017.

## Covenant House Washington, D.C.

Notes to Financial Statements  
June 30, 2018 and 2017

### 6. Commitments and Contingencies (*continued*)

#### *Leases (continued)*

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

2019	\$ 416,909
2020	321,871
2021	196,607
2022	195,972
2023	163,311
	<u>\$ 1,294,670</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 temporarily restricted contribution and is being released from restrictions over the period of the lease. At June 30, 2018 and 2017, the balance of the long term receivable of \$282,284 and \$285,685 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 sublessee 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, 2018 and 2017

### 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following:

	<u>2018</u>	<u>2017</u>
Community Service Center	\$ 282,284	\$ 285,685
Literacy program	20,000	20,000
Workforce Readiness Program	22,500	-
Career Pathways in Hospitality Program	10,817	-
Emergency housing and crisis care	-	37,500
Mental health care	-	71,250
Preston Blue Scholarship Program	1,700	1,700
	<u>\$ 337,301</u>	<u>\$ 416,135</u>

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

	<u>2018</u>	<u>2017</u>
Community Service Center	\$ 3,401	\$ 3,401
Emergency housing and crisis care	37,500	113,750
Career Pathways in Hospitality Program	118,983	-
Mental health care	71,250	-
Safe haven program	20,000	-
Workforce Readiness Program	7,500	-
Education/GED program	-	10,438
	<u>\$ 258,634</u>	<u>\$ 127,589</u>

### 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 million and \$66 million for the Parent in fiscal years ended June 30, 2018 and 2017. 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 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 million and \$36 million for the years ended June 30, 2018 and 2017. In fiscal 2018 and 2017, the Organization received \$1,891,000 and \$2,011,000 in contributions from the Parent. At June 30, 2018 and 2017, the amounts due (to) from the Parent totaled (\$91,476) and \$103,085.



## **Covenant House Washington, D.C.**

Notes to Financial Statements  
June 30, 2018 and 2017

### **9. 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 by 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 \$165,117 and \$92,800 for the years ended June 30, 2018 and 2017.

The Organization participates in a noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, 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 to freeze the future benefit accruals of 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. Beginning in the year ended June 30, 2018, the Organization contributed \$83,415 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the 2018 statement of functional expenses.

### **10. 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 recorded 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 \$85,743 and \$91,498 at June 30, 2018 and 2017.

### **11. Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash, cash equivalents and receivables from contracts. 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.

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