

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

Financial Statements

June 30, 2016 and 2015

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

Financial Statements  
June 30, 2016 and 2015

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## Independent Auditors' Report

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

### **Report on the Financial Statements**

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, 2016 and 2015 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, 2016 and 2015 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  
March 9, 2017

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

Statements of Financial Position

	June 30,	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 159,371	\$ 1,109,745
Cash and cash equivalents - restricted	80,659	62,633
Grants receivable, net	290,975	391,824
Other receivables	54,644	47,505
Due from Parent	13,640	6,753
Prepaid expenses	422	1,223
Property and equipment, net	4,082,616	4,347,806
Long-term contributions receivable	289,086	292,487
Other assets	31,411	22,012
	<u>\$ 5,002,824</u>	<u>\$ 6,281,988</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 347,501	\$ 502,097
Deferred revenue	11,829	3,477
Note payable	332,236	351,673
Total Liabilities	<u>691,566</u>	<u>857,247</u>
Net Assets		
Unrestricted		
Undesignated	176,792	878,184
Investment in property and equipment	3,750,380	3,996,133
Total Unrestricted	<u>3,927,172</u>	<u>4,874,317</u>
Temporarily restricted	384,086	550,424
Total Net Assets	<u>4,311,258</u>	<u>5,424,741</u>
	<u>\$ 5,002,824</u>	<u>\$ 6,281,988</u>

See notes to financial statements

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

Statements of Activities

	Year Ended June 30, 2016			Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Contributions	\$ 254,207	\$ 182,030	\$ 436,237	\$ 545,602	\$ 137,542	\$ 683,144
Contributed services and merchandise	212,117	-	212,117	231,936	-	231,936
Government grants	1,265,275	-	1,265,275	982,468	275,750	1,258,218
Branding dollars from Parent	2,096,000	-	2,096,000	2,096,000	-	2,096,000
Grants from Parent related to National Sleep Out Event	78,352	-	78,352	69,031	-	69,031
Special event revenue, net of direct benefits to donors of \$90,102 and \$87,232	42,419	-	42,419	27,913	-	27,913
Net assets released from restrictions	348,368	(348,368)	-	411,502	(411,502)	-
Total Support and Revenue	<u>4,296,738</u>	<u>(166,338)</u>	<u>4,130,400</u>	<u>4,364,452</u>	<u>1,790</u>	<u>4,366,242</u>
<b>INVESTMENT AND OTHER INCOME</b>						
Interest and dividends	1,117	-	1,117	813	-	813
Other income	245,807	-	245,807	339,197	-	339,197
Total Investment and Other Income	<u>246,924</u>	<u>-</u>	<u>246,924</u>	<u>340,010</u>	<u>-</u>	<u>340,010</u>
Total Support and Revenue and Investment and Other Income	<u>4,543,662</u>	<u>(166,338)</u>	<u>4,377,324</u>	<u>4,704,462</u>	<u>1,790</u>	<u>4,706,252</u>
<b>EXPENSES</b>						
Program services	4,444,382	-	4,444,382	4,357,888	-	4,357,888
Supporting Services						
Management and general	879,505	-	879,505	891,414	-	891,414
Fundraising	166,920	-	166,920	136,202	-	136,202
Total Expenses	<u>5,490,807</u>	<u>-</u>	<u>5,490,807</u>	<u>5,385,504</u>	<u>-</u>	<u>5,385,504</u>
Change in Net Assets	(947,145)	(166,338)	(1,113,483)	(681,042)	1,790	(679,252)
<b>NET ASSETS</b>						
Beginning of year	<u>4,874,317</u>	<u>550,424</u>	<u>5,424,741</u>	<u>5,555,359</u>	<u>548,634</u>	<u>6,103,993</u>
End of year	<u>\$ 3,927,172</u>	<u>\$ 384,086</u>	<u>\$ 4,311,258</u>	<u>\$ 4,874,317</u>	<u>\$ 550,424</u>	<u>\$ 5,424,741</u>

See notes to financial statements

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

Statement of Functional Expenses  
Year Ended June 30, 2016

	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	\$ 766,905	\$ 239,169	\$ 502,057	\$ 483,522	\$ 295,611	\$ 2,287,264	\$ 331,554	\$ 88,135	\$ 419,689	\$ -	\$ 2,706,953
Payroll taxes	62,045	21,842	40,957	40,958	26,454	192,256	38,397	6,879	45,276	-	237,532
Employee benefits	64,191	33,335	33,477	58,839	36,528	226,370	49,185	5,509	54,694	-	281,064
<b>Total Salaries and Related Expenses</b>	<b>893,141</b>	<b>294,346</b>	<b>576,491</b>	<b>583,319</b>	<b>358,593</b>	<b>2,705,890</b>	<b>419,136</b>	<b>100,523</b>	<b>519,659</b>	<b>-</b>	<b>3,225,549</b>
Professional fees	6,521	16,806	7,135	41,053	40,883	112,398	17,759	9	17,768	-	130,166
Supplies	14,480	4,009	8,186	8,696	4,902	40,273	11,840	460	12,300	-	52,573
Telephone	8,269	8,240	20,503	7,521	7,522	52,055	30,931	-	30,931	-	82,986
Postage and printing	1,049	1,049	1,049	1,156	1,156	5,459	2,277	1,998	4,275	1,747	11,481
Occupancy:											
Fuel and utilities	66,141	25,995	46,495	63,668	41,771	244,070	43,846	3,657	47,503	-	291,573
Repairs and maintenance	5,837	6,918	5,230	44,365	5,230	67,580	21,779	-	21,779	-	89,359
Rent and other	377	377	356,370	377	377	357,878	1,542	-	1,542	-	359,420
Equipment	7,644	18,333	30,103	5,149	4,560	65,789	17,314	13	17,327	-	83,116
Travel, transportation and conferences	14,238	7,554	6,372	6,935	6,187	41,286	19,180	3,023	22,203	-	63,489
Specific assistance to individuals	75,727	8,643	23,989	58,769	43,716	210,844	748	33,319	34,067	24,135	269,046
Other purchased services	84,340	33,254	40,475	36,646	33,317	228,032	71,256	19,218	90,474	47,540	366,046
Dues, licenses and permits	1,065	1,065	1,065	1,883	1,103	6,181	1,954	2,404	4,358	-	10,539
Subscriptions and publications	639	639	639	639	639	3,195	888	1,694	2,582	-	5,777
Staff recruitment	3,130	2,670	3,000	3,120	2,710	14,630	10,881	40	10,921	-	25,551
Insurance	8,025	8,025	8,025	8,025	8,025	40,125	26,750	-	26,750	-	66,875
Donated services	10,880	10,880	10,880	10,880	10,880	54,400	44,507	-	44,507	16,680	115,587
Miscellaneous	1,305	948	948	1,098	948	5,247	3,091	562	3,653	-	8,900
Bad debt	1,758	1,758	1,758	1,758	1,758	8,790	7,191	-	7,191	-	15,981
Bank charges and fees	1,154	1,154	1,154	1,154	1,154	5,770	4,722	-	4,722	-	10,492
Interest	997	14,552	997	997	997	18,540	7,584	-	7,584	-	26,124
Depreciation	43,958	28,127	27,955	27,955	27,955	155,950	114,329	-	114,329	-	270,279
<b>Total Functional Expenses</b>	<b>1,250,675</b>	<b>495,342</b>	<b>1,178,819</b>	<b>915,163</b>	<b>604,383</b>	<b>4,444,382</b>	<b>879,505</b>	<b>166,920</b>	<b>1,046,425</b>	<b>90,102</b>	<b>5,580,909</b>
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(90,102)	(90,102)
<b>Total Expenses Reported by Function on the Statement of Activities</b>	<b>\$ 1,250,675</b>	<b>\$ 495,342</b>	<b>\$ 1,178,819</b>	<b>\$ 915,163</b>	<b>\$ 604,383</b>	<b>\$ 4,444,382</b>	<b>\$ 879,505</b>	<b>\$ 166,920</b>	<b>\$ 1,046,425</b>	<b>\$ -</b>	<b>\$ 5,490,807</b>

See notes to financial statements

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

Statement of Functional Expenses  
Year Ended June 30, 2015

	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	\$ 701,663	\$ 300,120	\$ 360,261	\$ 464,721	\$ 291,467	\$ 2,118,232	\$ 397,628	\$ 52,656	\$ 450,284	\$ -	\$ 2,568,516
Payroll taxes	55,161	24,624	29,139	36,406	23,744	169,074	38,406	4,036	42,442	-	211,516
Employee benefits	85,385	56,136	56,363	80,872	54,012	332,768	136,172	1,744	137,916	-	470,684
<b>Total Salaries and Related Expenses</b>	<b>842,209</b>	<b>380,880</b>	<b>445,763</b>	<b>581,999</b>	<b>369,223</b>	<b>2,620,074</b>	<b>572,206</b>	<b>58,436</b>	<b>630,642</b>	<b>-</b>	<b>3,250,716</b>
Professional fees	12,505	24,014	12,360	47,999	47,814	144,692	20,086	6,591	26,677	-	171,369
Supplies	10,418	4,586	9,099	10,415	5,268	39,786	13,290	576	13,866	-	53,652
Telephone	14,522	10,902	16,432	9,183	7,802	58,841	15,514	2,952	18,466	-	77,307
Postage and printing	3,564	3,564	3,564	3,564	3,564	17,820	3,175	11,406	14,581	-	32,401
Occupancy:											
Fuel and utilities	31,818	48,270	31,507	36,649	24,870	173,114	35,475	1,927	37,402	-	210,516
Repairs and maintenance	18,299	3,440	3,440	3,440	3,440	32,059	18,573	-	18,573	-	50,632
Rent and other	377	377	275,129	377	377	276,637	1,542	-	1,542	-	278,179
Equipment	21,420	3,799	21,460	6,190	5,479	58,348	29,223	1,296	30,519	-	88,867
Travel, transportation and conferences	2,502	3,261	1,581	1,864	1,735	10,943	4,854	59	4,913	-	15,856
Specific assistance to individuals	50,885	35,255	15,630	69,825	56,471	228,066	86	5,924	6,010	-	234,076
Other purchased services	56,896	27,723	30,976	45,780	25,817	187,192	64,521	11,669	76,190	87,232	350,614
Dues, licenses and permits	795	795	795	3,045	795	6,225	890	2,336	3,226	-	9,451
Subscriptions and publications	142	142	142	142	142	710	-	583	583	-	1,293
Staff recruitment	319	79	199	319	159	1,075	252	72	324	-	1,399
Insurance	8,068	8,068	8,068	8,068	8,068	40,340	26,893	-	26,893	-	67,233
Donated services	7,638	157,638	7,638	7,638	7,638	188,190	12,097	19,149	31,246	-	219,436
Miscellaneous	4,214	7,672	5,144	4,380	4,219	25,629	15,952	683	16,635	-	42,264
Bad debt	1,094	1,094	1,094	1,094	1,094	5,470	4,475	-	4,475	-	9,945
Bank charges and fees	700	700	700	700	700	3,500	5,833	-	5,833	-	9,333
Interest	717	1,349	717	717	717	4,217	19,131	-	19,131	-	23,348
Depreciation	71,943	54,173	24,359	66,202	18,283	234,960	27,346	12,543	39,889	-	274,849
<b>Total Functional Expenses</b>	<b>1,161,045</b>	<b>777,781</b>	<b>915,797</b>	<b>909,590</b>	<b>593,675</b>	<b>4,357,888</b>	<b>891,414</b>	<b>136,202</b>	<b>1,027,616</b>	<b>87,232</b>	<b>5,472,736</b>
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(87,232)	(87,232)
<b>Total Expenses Reported by Function on the Statement of Activities</b>	<b>\$ 1,161,045</b>	<b>\$ 777,781</b>	<b>\$ 915,797</b>	<b>\$ 909,590</b>	<b>\$ 593,675</b>	<b>\$ 4,357,888</b>	<b>\$ 891,414</b>	<b>\$ 136,202</b>	<b>\$ 1,027,616</b>	<b>\$ -</b>	<b>\$ 5,385,504</b>

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

Statements of Cash Flows

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,113,483)	\$ (679,252)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	270,279	274,849
Bad debt expense	15,981	9,945
Net change in operating assets and liabilities		
Cash and cash equivalents - restricted	(18,026)	11,954
Grants receivable	84,868	8,256
Other receivables	(7,139)	7,053
Long term contributions receivable	3,401	3,401
Due from Parent	(6,887)	(4,379)
Prepaid expenses	801	50,173
Other assets	(9,399)	17,872
Accounts payable, accrued liabilities, refundable advances	(154,596)	(6,862)
Deferred revenue	<u>8,352</u>	<u>(67,847)</u>
Net Cash from Operating Activities	(925,848)	(374,837)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(5,089)	(243,303)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	<u>(19,437)</u>	<u>(17,220)</u>
 Change in Cash and Cash Equivalents	(950,374)	(635,360)
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,109,745</u>	<u>1,745,105</u>
 End of year	<u>\$ 159,371</u>	<u>\$ 1,109,745</u>
 <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 26,123	\$ 23,347



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

Notes to Financial Statements  
June 30, 2016 and 2015

### **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 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 over 46,991 (unaudited) and 51,173 (unaudited) runaway and homeless youths during the years ended June 30, 2016 and 2015.

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

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Under 21 Boston, Inc.
- 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
- Rights of Passage, Inc.
- 268 West 44th Corporation
- Fundacion Casa Alianza Mexico, 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

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.

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

Notes to Financial Statements  
June 30, 2016 and 2015

### **1. Components of Program and Supporting Services (*continued*)**

#### ***Program Services (continued)***

##### 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, 2016 and 2015

### **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, 2016 and 2015.

#### ***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, 2016 and 2015

### 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, 2016 and 2015.

#### ***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, 2016 and 2015

### **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 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.

#### ***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, 2013.

#### ***Reclassifications***

Certain accounts in the 2015 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/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 9, 2017.

## Covenant House Washington, D.C.

### Notes to Financial Statements June 30, 2016 and 2015

#### 3. Grants Receivable

Grants receivable of \$290,975 and \$391,824 at June 30, 2016 and 2015 are presented net of an allowance for doubtful accounts of \$11,662 and \$39,011 at June 30, 2016 and 2015 and represent the amounts due from various governmental and private agencies for the Organization's programs. All grants receivable as of June 30, 2016 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.

#### 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 7,607,394	\$ 7,607,394
Furniture and equipment	1,913,922	1,909,220
Vehicles	<u>61,349</u>	<u>61,119</u>
	9,582,665	9,577,733
Less accumulated depreciation	<u>(5,500,049)</u>	<u>(5,229,927)</u>
	<u>\$ 4,082,616</u>	<u>\$ 4,347,806</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, 2016 and 2015 was \$332,236 and \$351,673. 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:

2017	\$ 16,959
2018	18,005
2019	19,115
2020	20,941
2021	22,233
Thereafter	<u>234,983</u>
	<u>\$ 332,236</u>

## Covenant House Washington, D.C.

Notes to Financial Statements  
June 30, 2016 and 2015

### 6. Commitments and Contingencies

#### *Leases*

The Organization has entered into various noncancelable operating leases for equipment; these leases expire at various dates through August 2018. Rental expenses under all operating leases amounted to \$359,420 and \$278,179 for the years ended June 30, 2016 and 2015.

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

2017	\$ 7,812
2018	7,812
2019	<u>1,302</u>
	<u>\$ 16,926</u>

#### *Community Service Center*

The new 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, 2016 and 2015, the balance of the long term receivable of \$289,086 and \$292,487 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, 2016 and 2015

### 7. Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Community service center	\$ 289,086	\$ 292,487
Literacy program	20,000	20,000
Emergency housing and crisis care	75,000	105,437
Employment/work program	-	32,500
Education/GED program	-	100,000
	<u>\$ 384,086</u>	<u>\$ 550,424</u>

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

	<u>2016</u>	<u>2015</u>
Community service center	\$ 3,401	\$ 26,828
Emergency housing and crisis care	142,938	200,567
Employment/work program	91,500	52,005
Education/GED program	110,529	132,102
	<u>\$ 348,368</u>	<u>\$ 411,502</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 \$64.3 million and \$60.8 million for the Parent in fiscal years ended June 30, 2016 and 2015. 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 \$33.6 million and \$31.3 million for the years ended June 30, 2016 and 2015. In fiscal 2016 and 2015, the Organization received \$2,096,000 for both years in contributions from the Parent. At June 30, 2016 and 2015, the amounts due from the Parent totaled \$13,640 and \$6,753.



## Covenant House Washington, D.C.

Notes to Financial Statements  
June 30, 2016 and 2015

### 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 \$79,412 and \$123,890 for the years ended June 30, 2016 and 2015.

### 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 as follows at June 30:

	<u>2016</u>	<u>2015</u>
Transitional living program	<u>\$ 80,659</u>	<u>\$ 62,633</u>

### 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.

### 12. Commitments and Contingencies

From time to time, the Organization may become involved in legal claims arising in the ordinary course of its activities. In the opinion of management, the outcome of any legal proceedings are covered by the Organization's insurance policies and accordingly, would not have a material effect on its financial position or changes in net assets.

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