



Covenant House Washington, D.C.

Financial Statements

June 30, 2017 and 2016

Covenant House Washington, D.C.

Financial Statements
June 30, 2017 and 2016

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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, 2017 and 2016 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, 2017 and 2016 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

New York, New York
February 11, 2018

Covenant House Washington, D.C.

Statements of Financial Position

	June 30,	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 68,156	\$ 159,371
Cash and cash equivalents - restricted	91,498	80,659
Grants receivable, net	180,073	290,975
Other receivables	107,911	54,644
Due from Parent	103,085	13,640
Prepaid expenses	8,815	422
Property and equipment, net	3,845,027	4,082,616
Long-term contributions receivable	285,685	289,086
Other assets	<u>22,527</u>	<u>31,411</u>
	<u>\$4,712,777</u>	<u>\$5,002,824</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 308,498	\$ 347,501
Deferred revenue	45,603	11,829
Note payable	<u>315,209</u>	<u>332,236</u>
Total Liabilities	<u>669,310</u>	<u>691,566</u>
Net Assets		
Unrestricted		
Available for operations	97,514	176,792
Investment in property and equipment	<u>3,529,818</u>	<u>3,750,380</u>
Total Unrestricted	3,627,332	3,927,172
Temporarily restricted	<u>416,135</u>	<u>384,086</u>
Total Net Assets	<u>4,043,467</u>	<u>4,311,258</u>
	<u>\$4,712,777</u>	<u>\$5,002,824</u>

See notes to financial statements

Covenant House Washington, D.C.

Statements of Activities

	Year Ended June 30, 2017			Year Ended June 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 588,653	\$ 159,638	\$ 748,291	\$ 254,207	\$ 182,030	\$ 436,237
Contributed services and merchandise	211,220	-	211,220	212,117	-	212,117
Government grants	1,851,025	-	1,851,025	1,265,275	-	1,265,275
Branding dollars from Parent	2,011,000	-	2,011,000	2,096,000	-	2,096,000
Grants from Parent related to National Sleep Out Event	96,134	-	96,134	78,352	-	78,352
Special event revenue, net of direct benefits to donors of \$119,383 and \$90,102	141,814	-	141,814	42,419	-	42,419
Net assets released from restrictions	<u>127,589</u>	<u>(127,589)</u>	<u>-</u>	<u>348,368</u>	<u>(348,368)</u>	<u>-</u>
Total Support and Revenue	<u>5,027,435</u>	<u>32,049</u>	<u>5,059,484</u>	<u>4,296,738</u>	<u>(166,338)</u>	<u>4,130,400</u>
INVESTMENT AND OTHER INCOME						
Interest and dividends	55	-	55	1,117	-	1,117
Other income	<u>240,895</u>	<u>-</u>	<u>240,895</u>	<u>245,807</u>	<u>-</u>	<u>245,807</u>
Total Investment and Other Income	<u>240,950</u>	<u>-</u>	<u>240,950</u>	<u>246,924</u>	<u>-</u>	<u>246,924</u>
Total Support and Revenue and Investment and Other Income	<u>5,268,385</u>	<u>32,049</u>	<u>5,300,434</u>	<u>4,543,662</u>	<u>(166,338)</u>	<u>4,377,324</u>
EXPENSES						
Program services	4,619,411	-	4,619,411	4,444,382	-	4,444,382
Supporting Services						
Management and general	781,969	-	781,969	879,505	-	879,505
Fundraising	<u>166,845</u>	<u>-</u>	<u>166,845</u>	<u>166,920</u>	<u>-</u>	<u>166,920</u>
Total Expenses	<u>5,568,225</u>	<u>-</u>	<u>5,568,225</u>	<u>5,490,807</u>	<u>-</u>	<u>5,490,807</u>
Change in Net Assets	(299,840)	32,049	(267,791)	(947,145)	(166,338)	(1,113,483)
NET ASSETS						
Beginning 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>
End 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>

See notes to financial statements

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
Total Salaries and Related Expenses	1,254,889	246,963	698,968	475,992	263,726	2,940,538	458,431	125,158	583,589	-	3,524,127
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
Recovery bad debt	(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
Total Functional Expenses	1,676,599	407,405	1,377,938	700,304	457,165	4,619,411	781,969	166,845	948,814	119,383	5,687,608
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(119,383)	(119,383)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,676,599	\$ 407,405	\$ 1,377,938	\$ 700,304	\$ 457,165	\$ 4,619,411	\$ 781,969	\$ 166,845	\$ 948,814	\$ -	\$ 5,568,225

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
Total Salaries and Related Expenses	893,141	294,346	576,491	583,319	358,593	2,705,890	419,136	100,523	519,659	-	3,225,549
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
Total Functional Expenses	1,250,675	495,342	1,178,819	915,163	604,383	4,444,382	879,505	166,920	1,046,425	90,102	5,580,909
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(90,102)	(90,102)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,250,675	\$ 495,342	\$ 1,178,819	\$ 915,163	\$ 604,383	\$ 4,444,382	\$ 879,505	\$ 166,920	\$ 1,046,425	\$ -	\$ 5,490,807

Covenant House Washington, D.C.

Statements of Cash Flows

	Year Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (267,791)	\$ (1,113,483)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	269,036	270,279
Bad debt expense (recovery)	(23,674)	15,981
Net change in operating assets and liabilities		
Cash and cash equivalents - restricted	(10,839)	(18,026)
Grants receivable	134,576	84,868
Other receivables	(53,267)	(7,139)
Long-term contributions receivable	3,401	3,401
Due from Parent	(89,445)	(6,887)
Prepaid expenses	(8,393)	801
Other assets	8,884	(9,399)
Accounts payable, accrued liabilities and refundable advances	(39,003)	(154,596)
Deferred revenue	33,774	8,352
Net Cash from Operating Activities	(42,741)	(925,848)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(31,447)	(5,089)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(17,027)	(19,437)
 Change in Cash and Cash Equivalents	(91,215)	(950,374)
 CASH AND CASH EQUIVALENTS		
Beginning of year	159,371	1,109,745
End of year	\$ 68,156	\$ 159,371
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 24,068	\$ 26,124

See notes to financial statements

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2017 and 2016

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 80,000 young people during fiscal 2017.

In fiscal 2016, Covenant House, provided shelter, food, clothing, medical attention, crisis intervention, and other services to approximately 47,000 runaway and homeless. The increase from 2016 to 2017 is due to the inclusion of Public Education and Prevention programs.

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

Covenant House Alaska	Covenant House New York/Under 21
Covenant House California	Covenant House Pennsylvania/Under 21
Covenant House Chicago	Covenant House Texas
Covenant House Connecticut	Covenant House Western Avenue
Covenant House Florida	Covenant House Testamentum
Covenant House Georgia	Covenant House Holdings, LLC
Covenant House Illinois	Covenant International Foundation
Covenant House Michigan	Rights of Passage, Inc.
Covenant House Missouri	Under 21 Boston, Inc.
Covenant House New Jersey	268 West 44th Corporation
Covenant House New Orleans	

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)	Covenant House Toronto
Casa Alianza de Honduras	Covenant House Vancouver
Casa Alianza Internacional	Fundación Casa Alianza México, I.A.P.
Casa Alianza Nicaragua	

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, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016

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, 2014.

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 11, 2018.

3. Grants Receivable

Grants receivable of \$180,073 and \$290,975 at June 30, 2017 and 2016 are presented net of an allowance for doubtful accounts of \$0 and \$11,662 and represent the amounts due from various governmental and private agencies for the Organization's programs. All grants receivable as of June 30, 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, 2017 and 2016

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 7,607,394	\$ 7,607,394
Furniture and equipment	1,913,922	1,913,922
Vehicles	<u>92,796</u>	<u>61,349</u>
	9,614,112	9,582,665
Less accumulated depreciation	<u>(5,769,085)</u>	<u>(5,500,049)</u>
	<u>\$ 3,845,027</u>	<u>\$ 4,082,616</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, 2017 and 2016 was \$315,209 and \$332,236. 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:

2018	\$ 18,005
2019	19,115
2020	20,941
2021	22,233
2022	23,366
Thereafter	<u>211,549</u>
	<u>\$ 315,209</u>

6. Commitments and Contingencies

Leases

The Organization has entered into various noncancelable operating leases for equipment and apartment for programs; these leases expire at various dates through August 2021. Rental expenses under all operating leases amounted to \$467,604 and \$359,420 for the years ended June 30, 2017 and 2016.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2017 and 2016

6. Commitments and Contingencies (continued)

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

2018	\$ 336,762
2019	191,681
2020	125,899
2021	635
	<u>\$ 654,977</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, 2017 and 2016, the balance of the long term receivable of \$285,685 and \$289,086 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.

7. Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Community Service Center	\$ 285,685	\$ 289,086
Literacy program	20,000	20,000
Emergency housing and crisis care	37,500	75,000
Mental health care	71,250	-
Preston Blue Scholarship Program	1,700	-
	<u>\$ 416,135</u>	<u>\$ 384,086</u>

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Notes to Financial Statements
June 30, 2017 and 2016

7. Temporarily Restricted Net Assets *(continued)*

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

	<u>2017</u>	<u>2016</u>
Community service center	\$ 3,401	\$ 3,401
Emergency housing and crisis care	113,750	142,938
Employment/work program	-	91,500
Education/GED program	<u>10,438</u>	<u>110,529</u>
	<u>\$ 127,589</u>	<u>\$ 348,368</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 \$66 million and \$64.3 million for the Parent in fiscal years ended June 30, 2017 and 2016. 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 \$36 million and \$33.6 million for the years ended June 30, 2017 and 2016. In fiscal 2017 and 2016, the Organization received \$2,011,000 and \$2,096,000 in contributions from the Parent. At June 30, 2017 and 2016, the amounts due from the Parent totaled \$103,085 and \$13,640.

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 \$92,800 and \$79,412 for the years ended June 30, 2017 and 2016.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2017 and 2016

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 \$91,498 and \$80,659 at June 30, 2017 and 2016.

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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