

Covenant House Washington, D.C.

Financial Statements and
OMB Circular A-133 Financial Report
Together With Independent Auditors' Report

June 30, 2015 and 2014

Covenant House Washington, D.C.

Financial Statements
June 30, 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 statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

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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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

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

Other Matters

Report on Supplementary Information

Our 2015 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2016 on our consideration of Covenant House Washington, D.C.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covenant House Washington, D.C.'s internal control over financial reporting and compliance.

O'Connor Davies, LLP

Bethesda, Maryland
January 11, 2016

Covenant House Washington, D.C.

Statements of Financial Position

	June 30,	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 1,109,745	\$ 1,745,105
Cash and cash equivalents - restricted	62,633	74,587
Grants receivable, net	391,824	410,025
Other receivables, net	47,505	54,558
Due from parent	6,753	2,374
Prepaid expenses	1,223	51,396
Property and equipment, net	4,347,806	4,379,352
Long-term contributions receivable, net	292,487	295,888
Other assets	<u>22,012</u>	<u>39,884</u>
	<u><u>\$ 6,281,988</u></u>	<u><u>\$ 7,053,169</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 502,097	\$ 508,959
Deferred revenue	3,477	71,324
Note payable	<u>351,673</u>	<u>368,893</u>
Total Liabilities	<u>857,247</u>	<u>949,176</u>
Net Assets		
Unrestricted		
Undesignated	878,184	1,544,900
Investment in property and equipment	<u>3,996,133</u>	<u>4,010,459</u>
Total Unrestricted	4,874,317	5,555,359
Temporarily restricted	<u>550,424</u>	<u>548,634</u>
Total Net Assets	<u>5,424,741</u>	<u>6,103,993</u>
	<u><u>\$ 6,281,988</u></u>	<u><u>\$ 7,053,169</u></u>

See notes to financial statements

Covenant House Washington, D.C.

Statements of Activities

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 545,602	\$ 137,542	\$ 683,144	\$ 535,114	\$ 229,344	\$ 764,458
Contributed services and merchandise	231,936	-	231,936	38,673	-	38,673
Government grants	982,468	275,750	1,258,218	1,694,054	-	1,694,054
Branding dollars from parent	2,096,000	-	2,096,000	2,111,000	-	2,111,000
Special event revenue, net of direct benefits to donors of \$87,232 and \$174,366	96,944	-	96,944	88,035	-	88,035
Total Support and Revenue	<u>3,952,950</u>	<u>413,292</u>	<u>4,366,242</u>	<u>4,466,876</u>	<u>229,344</u>	<u>4,696,220</u>
INVESTMENT AND OTHER INCOME						
Interest and dividends	813	-	813	1,579	-	1,579
Other income	339,197	-	339,197	211,138	-	211,138
Net assets released from restrictions	411,502	(411,502)	-	267,713	(267,713)	-
Total Investment and Other Income	<u>751,512</u>	<u>(411,502)</u>	<u>340,010</u>	<u>480,430</u>	<u>(267,713)</u>	<u>212,717</u>
Total Support, Revenue, Investment, and Other Income	<u>4,704,462</u>	<u>1,790</u>	<u>4,706,252</u>	<u>4,947,306</u>	<u>(38,369)</u>	<u>4,908,937</u>
EXPENSES						
Program services	4,357,888	-	4,357,888	4,391,643	-	4,391,643
Supporting services						
Management and general	891,414	-	891,414	815,178	-	815,178
Fundraising	136,202	-	136,202	263,000	-	263,000
Total Expenses	<u>5,385,504</u>	<u>-</u>	<u>5,385,504</u>	<u>5,469,821</u>	<u>-</u>	<u>5,469,821</u>
Change in Net Assets	(681,042)	1,790	(679,252)	(522,515)	(38,369)	(560,884)
NET ASSETS						
Beginning of year	5,555,359	548,634	6,103,993	6,077,874	587,003	6,664,877
End 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>

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 & 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
Total Salaries and Related Expenses	842,209	380,880	445,763	581,999	369,223	2,620,074	572,206	58,436	630,642	3,250,716
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	5,288	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	3,769	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	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 and amortization	71,943	54,173	24,359	66,202	18,283	234,960	27,346	12,543	39,889	274,849
Total Functional Expenses	1,161,045	777,781	915,797	909,590	593,675	4,357,888	891,414	136,202	1,027,616	5,472,736
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(87,232)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,161,045	\$ 777,781	\$ 915,797	\$ 909,590	\$ 593,675	\$ 4,357,888	\$ 891,414	\$ 136,202	\$ 1,027,616	\$ 5,385,504

See notes to financial statements

Covenant House Washington, D.C.

Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services				Supporting Services				Cost of Direct Benefits to Donors	Total Expenses
	Emergency Housing and Crisis Care	Outreach	Community Service Center	Public Education	Rights of Passage & Supportive Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 660,042	\$ 293,616	\$ 514,556	\$ 364,698	\$ 337,001	\$ 2,169,913	\$ 338,585	\$ 121,707	\$ 480,292	\$ -
Payroll taxes	64,048	27,419	50,125	33,701	32,019	207,312	28,725	10,325	39,050	-
Employee benefits	122,617	65,464	103,220	70,892	83,315	445,508	58,847	16,686	75,533	-
Total Salaries and Related Expenses	846,707	386,499	667,901	469,291	452,335	2,822,733	426,157	148,718	574,875	-
Professional fees	5,778	5,588	5,703	5,558	6,387	29,014	42,136	27	42,163	-
Consulting fees	14,611	24,535	41,880	41,880	14,611	137,517	14,763	57,921	72,684	-
Supplies	13,204	4,741	4,968	4,750	5,665	33,328	13,021	1,995	15,016	-
Telephone	13,354	13,301	11,083	9,320	22,408	69,466	13,934	3,137	17,071	-
Postage and printing	785	785	785	785	839	3,979	1,762	1,810	3,572	-
Occupancy:										174,366
Fuel and utilities	41,391	23,585	27,278	18,660	26,286	137,200	45,819	1,410	47,229	-
Repairs and maintenance	17,706	6,358	2,645	2,645	2,705	32,059	22,780	-	22,780	-
Rent and other	2,690	5,287	8,175	5,288	273,967	295,407	7,643	520	8,163	-
Equipment	7,072	5,231	6,949	6,527	17,929	43,706	10,739	908	11,647	-
Travel, transportation and conferences	5,514	7,787	6,123	5,810	5,668	30,902	18,362	999	19,361	-
Specific assistance to individuals	105,834	24,702	51,351	42,276	22,243	246,406	104	9,458	9,562	-
Temporary help	14	14	14	14	14	70	86	-	86	-
Other purchased services	58,280	24,054	41,819	41,474	25,417	191,044	119,725	10,137	129,862	-
Dues, licenses and permits	828	828	1,973	1,208	828	5,665	1,610	2,063	3,673	-
Subscriptions and publications	128	128	128	128	128	640	783	-	783	-
Insurance	2,501	4,982	7,727	4,956	2,475	22,641	4,664	505	5,169	-
Donated services	1,976	1,976	2,060	2,060	1,976	10,048	426	7,800	8,226	-
Miscellaneous	7,970	7,734	7,721	7,657	7,559	38,641	23,823	8,222	32,045	-
Bad debt	1,800	1,800	(11,750)	(11,750)	1,800	(18,100)	11,002	-	11,002	-
Bank charges and fees	360	360	360	360	360	1,800	2,166	25	2,191	-
Interest	181	6,570	181	181	181	7,294	17,659	-	17,659	-
Depreciation and amortization	69,324	51,437	97,219	10,706	21,495	250,181	16,014	7,345	23,359	-
Total Functional Expenses	1,218,008	608,282	982,293	669,784	913,276	4,391,643	815,178	263,000	1,078,178	174,366
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(174,366)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,218,008	\$ 608,282	\$ 982,293	\$ 669,784	\$ 913,276	\$ 4,391,643	\$ 815,178	\$ 263,000	\$ 1,078,178	\$ -
										\$ 5,469,821

See notes to financial statements

Covenant House Washington, D.C.

Statements of Cash Flows

	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (679,252)	\$ (560,884)
Adjustments to reconcile change in net assets to		
net cash from operating activities		
Depreciation and amortization	274,849	273,541
Recovery of bad debts	-	(7,098)
Net change in operating assets and liabilities		
Cash and cash equivalents - restricted	11,954	3,936
Grants receivable	18,201	(52,931)
Other receivable	7,053	-
Long term contribution receivable	3,401	3,401
Due from parent	(4,379)	16,634
Prepaid expenses	50,173	2,983
Other assets	17,872	(8,855)
Accounts payable, accrued liabilities, refundable advances	(6,862)	69,576
Deferred revenue	<u>(67,847)</u>	<u>15,221</u>
Net Cash from Operating Activities	(374,837)	(244,476)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(243,303)	(13,924)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	<u>(17,220)</u>	<u>(13,860)</u>
Change in Cash and Cash Equivalents	(635,360)	(272,260)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,745,105</u>	<u>2,017,365</u>
End of year	\$ <u>1,109,745</u>	\$ <u>1,745,105</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 23,347	\$ 24,953

See notes to financial statements

Covenant House Washington, D.C.

Notes to Financial Statements June 30, 2015 and 2014

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 more than 51,173 (unaudited) and 57,364 (unaudited) runaway and homeless youths during the year ended June 30, 2015 and 2014.

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

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

The Organization has been determined to be a 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, 2015 and 2014

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

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

Net Assets Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as assets released from restrictions. There were no permanently restricted net assets during the years ended June 30, 2015 and 2014.

Revenue Recognition

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

Functional Allocation of Expenses

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

Cash and Cash Equivalents

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

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 costs at the date of acquisition or at their fair values at the date of donation. Building improvements are capitalized, whereas minor costs of repairs and maintenance are expensed as incurred.

Covenant House Washington, D.C.

Notes to Financial Statements June 30, 2015 and 2014

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, 2015 and 2014.

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, 2015 and 2014

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, 2012.

Reclassifications

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

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is January 11, 2016.

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.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Components of Program and Supporting Services (continued)

Program Services

Outreach

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

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 educations, 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, 2015 and 2014

3. Grants Receivable

Grants receivable of \$391,824 and \$410,025 at June 30, 2015 and 2014, net of allowance for doubtful accounts and disallowed costs of \$39,011 and \$38,567 at June 30, 2015 and 2014 represent the amounts due from various governmental and private agencies for the Organization's programs. All government grants receivable as of June 30, 2015 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. However, management has established a provision for such a liability in the amount of \$6,057 at June 30, 2015 and 2014.

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Buildings	\$ 7,607,394	\$ 7,374,442
Furniture and equipment	1,765,771	1,755,421
Furniture and equipment under capital leases	143,449	143,449
Vehicles	<u>61,119</u>	<u>61,119</u>
	9,577,733	9,334,431
Less accumulated depreciation	<u>(5,229,927)</u>	<u>(4,955,079)</u>
	<u>\$ 4,347,806</u>	<u>\$ 4,379,352</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, 2015 and 2014 was \$351,673 and \$368,893. Future minimum payments are \$36,804 per annum, including interest, through 2030.

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

2016	\$ 15,973
2017	16,959
2018	18,005
2019	19,115
2020	20,941
Thereafter	<u>260,680</u>
	<u>\$ 351,673</u>

Covenant House Washington, D.C.

Notes to Financial Statements June 30, 2015 and 2014

6. Commitments and Contingencies

Leases

The Organization has entered into various noncancelable operating leases for equipment; these leases expire at various dates through August 2019. Rental expenses under all operating leases amounted to \$278,178 and \$274,705 for the years ended June 30, 2015 and 2014.

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

2016	\$ 24,660
2017	7,812
2018	7,812
2019	<u>1,302</u>
	<u>\$ 41,586</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, 2015 and 2014, the balance of the long term other asset of \$292,487 and \$295,888 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, 2015 and 2014

7. Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Community service center	\$ 292,487	\$ 295,888
Literacy program	20,000	20,000
Emergency housing and crisis care	105,437	123,605
Employment/work program	32,500	8,400
Education/GED program	<u>100,000</u>	<u>100,741</u>
	<u>\$ 550,424</u>	<u>\$ 548,634</u>

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

	<u>2015</u>	<u>2014</u>
Community service center	\$ 26,828	\$ 93,750
Emergency housing and crisis care	200,567	31,250
Employment/work program	52,005	142,713
Education/GED program	<u>132,102</u>	<u>-</u>
	<u>\$ 411,502</u>	<u>\$ 267,713</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 \$60.8 million and \$57.8 million for the Parent in fiscal years ended June 30, 2015 and 2014. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations plus a Parent subsidy and appropriates funds classified as "Branding Dollars" or "Contributions Received from Parent" to each Covenant House affiliate. Total funds allocated to affiliates, based on the Parent's policy, approximated \$31.3 million and \$33.1 million for the years ended June 30, 2015 and 2014. In fiscal 2015 and 2014, the Organization received \$2,096,000 and \$2,111,000 in contributions from the Parent. At June 30, 2015 and 2014, the amounts due from the Parent totaled \$6,753 and \$2,374.

Covenant House Washington, D.C.

Notes to Financial Statements June 30, 2015 and 2014

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 \$123,890 and \$85,969 for the years ended June 30, 2015 and 2014.

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. In addition, the Organization maintains an Employee Gift Fund that consists of funds collected from employees to be used for birthday gifts and celebrations, expressions of sympathy, and other similar occasions. Because these funds are not assets of the Organization, a corresponding liability, which is recorded in accounts payable and accrued expenses 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:

Transitional living program	\$ 61,428	\$ 73,606
CHW custodial fund	<u>1,205</u>	<u>981</u>
	<u>\$ 62,633</u>	<u>\$ 74,587</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.

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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Covenant House Washington, D.C.

Supplemental Information
June 30, 2015

Covenant House Washington, D.C.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Cluster or Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development:			
Pass-through the Community Partnership for the			
Prevention of Homelessness			
Supportive Housing Program	14.235	DC0065L3G001205	\$ 134,050
Supportive Housing Program	14.235	DC0065L3G001407	<u>64,659</u>
Total Department of Housing and Urban Development			<u>198,709</u>
Department of Labor			
Pass-through the D.C. Department of Employment Services			
WIA/WIOA Youth Activities	17.259	EOM-DMPED-WIC-012-005	69,252
WIA/WIOA Youth Activities	17.259	EOM-DMPED-WIC-012-002	<u>73,640</u>
Total Department of Labor			<u>142,892</u>
Department of Education			
Pas-through the Office of the State Superintendent of Education			
Adult Education - Basic Grants to States	84.002	AFE/OSSE Federal Grant	<u>42,982</u>
Department of Health and Human Services:			
Pass-through the Department of Human Services, Economic Security Administration			
Temporary Assistance for the Needy Families	93.558	JA-IMA-12-0015	46,650
Community Services Block Grant	93.569	JA-FSA-00-0012	<u>205,034</u>
Total Department of Health and Human Services			<u>251,684</u>
Total Expenditures of Federal Awards			<u>\$ 636,267</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards

Covenant House Washington, D.C.

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

1. *Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Covenant House Washington, D.C. under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Covenant House Washington, D.C., Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Covenant House Washington, D.C.

2. *Summary of Significant Accounting Policies*

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-133, *Cost Principles for Nonprofit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. *Agency or Pass-Through Entity Identifying Number*

Agency or pass-through numbers are reported for programs where the federal funds are received indirectly. Therefore, agency and pass-through numbers are not required when received directly from the federal government.

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Covenant House Washington, D.C. (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor Davies, LLP

Bethesda, Maryland
January 11, 2016

**Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditors' Report

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

We have audited Covenant House Washington, D.C.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2015. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

O'Connor Davies, LLP

Bethesda, Maryland
January 11, 2016

Covenant House Washington, D.C.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2015**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

___ yes X no
___ yes X none reported

Noncompliance material to financial
statements noted?

___ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

___ yes X no
___ yes X none reported

Type of auditors' report issued on compliance
for major federal programs:

Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with Section 510(a) of OMB Circular A-133?

___ yes X no

Identification of major federal programs:

CFDA Number(s)

14.235

Name of Federal Program or Cluster

Supportive Housing Program

Dollar threshold used to distinguish
between Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee?

X yes ___ no

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2015.

Section III - Federal Award Findings and Questioned Costs

During our audit, we noted no material findings for the year ended June 30, 2015.

Covenant House Washington, D.C.

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2015**

Section II – Financial Statement Findings

None Reported

Section III – Federal Award Findings and Questioned Costs

None Reported