Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Covenant House Washington, D.C.

June 30, 2014 and 2013

Covenant House Washington, D.C.

Contents

Grant Thornton LLP
2010 Corporate Ridge, Suite 400
McLean, VA 22102-7838
T 703.847.7500
F 703.848.9580

GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

Report of Independent Certified Public Accountants

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, 2014 and 2013, and the related statements of activities and changes in net assets, 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.

Auditor's 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 auditor's 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 Organization'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 Organization'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, 2014 and 2013, the statement of activities and the changes in net assets, functional expenses, and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 30, 2015, on our consideration of the Organization'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 the effectiveness of 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 the Organization's internal control over financial reporting and compliance.

Grant Thornton LLP

McLean, Virginia
March 30, 2015

Covenant House Washington, D.C.

Statements of Financial Position

Year ended June 30,	2014	2013
Assets		
Cash and cash equivalents	$ 1,745,105	$ 2,017,365
Cash and cash equivalents – restricted	74,587	78,523
Grants receivable, net of allowance for doubtful accounts and disallowed costs of $32,510 and $39,608 for 2014 and 2013, respectively	464,583	404,554
Due from parent	2,374	19,008
Prepaid expenses	51,396	54,379
Property, plant and equipment, net	4,379,352	4,638,969
Long-term contributions receivable, net	295,888	299,289
Other assets	39,884	31,029
Total Assets	7,053,169	7,543,116
Liabilities and Net Assets		
Liabilities		
Accounts payable, accrued expenses and refundable advances	$ 508,959	$ 439,383
Deferred revenue	71,324	56,103
Note payable	368,893	382,753
Total Liabilities	949,176	878,239
Net Assets		
Unrestricted		
Undesignated, available for general use	1,544,900	1,821,659
Investment in property, plant and equipment	4,010,459	4,256,215
Total Unrestricted Net Assets	5,555,359	6,077,874
Temporarily Restricted Net Assets	548,634	587,003
Total Net Assets	6,103,993	6,664,877
Total Liabilities and Net Assets	$ 7,053,169	$ 7,543,116

The accompanying notes are an integral part of this statement.

Covenant House Washington, D.C.

Statements of Activities and Changes in Net Assets

Year ended June 30,	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Contributions, Revenue and Reclassifications						
Contributions						
Contributions from individuals, foundations and corporations	$ 797,515	$ 229,344	$ 1,026,859	$ 311,120	$ 401,339	$ 712,459
Contributed services and merchandise	38,673	—	38,673	24,917	—	24,917
Branding dollars from parent	2,111,000	—	2,111,000	2,251,000	—	2,251,000
Total Contributions	2,947,188	229,344	3,176,532	2,587,037	401,339	2,988,376
Government grants and contracts	1,694,054	—	1,694,054	1,396,954	—	1,396,954
Other revenue	211,138	—	211,138	462,034	—	462,034
Interest and dividends	1,579	—	1,579	1,129	—	1,129
Total Revenue	4,853,959	229,344	5,083,303	4,447,154	401,339	4,848,493
Net assets released from restrictions	267,713	(267,713)	—	533,624	(533,624)	—
Total Contributions and Revenue	5,121,672	(38,369)	5,083,303	4,980,778	(132,285)	4,848,493
Expenses						
Program Services						
Shelter and crisis care	1,237,489	—	1,237,489	1,085,346	—	1,085,346
Outreach	627,177	—	627,177	527,220	—	527,220
Rights of passage	932,206	—	932,206	797,353	—	797,353
Community service center	1,001,203	—	1,001,203	935,160	—	935,160
Public education	688,694	—	688,694	662,326	—	662,326
Total program services	4,486,769	—	4,486,769	4,007,405	—	4,007,405
Supporting services						
Management and general	821,034	—	821,034	726,843	—	726,843
Fundraising	336,384	—	336,384	342,103	—	342,103
Total supporting services	1,157,418	—	1,157,418	1,068,946	—	1,068,946
Total Expenses	5,644,187	—	5,644,187	5,076,351	—	5,076,351
Changes in Net Assets	(522,515)	(38,369)	(560,884)	(95,573)	(132,285)	(227,858)
Net Assets, beginning of year	6,077,874	587,003	6,664,877	6,173,447	719,288	6,892,735
Net Assets, end of year	$ 5,555,359	$ 548,634	$ 6,103,993	$ 6,077,874	$ 587,003	$ 6,664,877

The accompanying notes are an integral part of this statement.

Covenant House Washington, D.C.

Statement of Functional Expenses

Year ended June 30, 2014

	Program Services						Supporting Services			
	Shelter and Crisis Care	**Outreach**	**Community Service Center**	**Public Education**	**Rights of Passage**	**Total Program Services**	**Management and General**	**Fundraising**	**Total Supporting Services**	**Total**
Salaries and wages	660,042	293,616	514,556	364,698	337,001	2,169,913	338,585	121,707	460,292	2,630,205
Payroll taxes	64,048	27,419	50,125	33,701	32,019	207,312	28,725	10,325	39,050	246,362
Employee benefits	122,617	65,464	103,220	70,892	83,315	445,508	58,847	16,686	75,533	521,041
Total salaries and related expenses	846,707	386,499	667,901	469,291	452,335	2,822,733	426,157	148,718	574,875	3,397,608
Accounting fees	5,503	5,503	5,503	5,503	5,503	27,515	33,629	-	33,629	61,144
Legal fees	160	-	-	-	-	160	8,392	-	8,392	8,552
Bad Debt	1,800	1,800	(11,750)	(11,750)	1,800	(18,100)	11,002	-	11,002	(7,098)
Medical fees	115	85	200	55	884	1,339	115	27	142	1,481
Consulting fees	14,611	24,535	41,880	41,880	14,611	137,517	14,763	57,921	72,684	210,201
Supplies	13,204	4,741	4,968	4,750	5,665	33,328	13,021	1,995	15,016	48,344
Telephone	13,354	13,301	11,083	9,320	22,408	69,466	13,934	3,137	17,071	86,537
Postage & printing	20,266	19,680	19,695	19,695	19,769	99,105	7,618	75,194	82,812	181,917
Occupancy										
Fuel and utilities	41,391	23,585	27,278	18,660	26,286	137,200	45,819	1,410	47,229	184,429
Repairs and maintenance	17,706	6,358	2,645	2,645	2,705	32,059	22,780	-	22,780	54,839
Rent and other	2,690	5,287	8,175	5,288	273,967	295,407	7,643	520	8,163	303,570
Equipment	7,072	5,231	6,949	6,527	17,929	43,708	10,739	908	11,647	55,355
Transportation	5,514	7,787	6,123	5,810	5,668	30,902	18,362	999	19,361	50,263
Specific assistance to individuals										
Food	66,237	5,949	19,399	10,459	3,676	105,720	90	157	247	105,967
Clothing, allowance and other	37,362	16,518	29,717	29,582	16,332	129,511	14	159	173	129,684
Contributed clothing and merchandise	2,235	2,235	2,235	2,235	2,235	11,175	-	9,142	9,142	20,317
Temporary help	14	14	14	14	14	70	86	-	86	156
Other purchased services	58,280	24,054	41,819	41,474	25,417	191,044	119,725	10,137	129,862	320,906
Dues, licenses and permits	828	828	1,973	1,208	828	5,665	1,610	2,063	3,673	9,338
Subscriptions and publications	128	128	128	128	128	640	783	-	783	1,423
Insurance	2,501	4,982	7,727	4,956	2,475	22,641	4,664	505	5,169	27,810
Donated Services	1,976	1,976	2,060	2,060	1,976	10,048	426	7,800	8,226	18,274
Miscellaneous	7,970	7,734	7,721	7,657	7,559	38,641	23,823	8,222	32,045	70,686
Bank charges and fees	360	360	360	360	360	1,800	2,166	25	2,191	3,991
Interest	181	6,570	181	181	181	7,294	17,659	-	17,659	24,953
Total functional expenses before depreciation and amortization	1,168,165	575,740	903,984	677,988	910,711	4,236,588	805,020	329,039	1,134,059	5,370,647
Depreciation and amortization	69,324	51,437	97,219	10,706	21,495	250,181	16,014	7,345	23,359	273,540
Total Expenses Reported by Function on the Statement of Activities	$ 1,237,489	627,177	1,001,203	688,694	932,206	4,486,769	821,034	336,384	1,157,418	5,644,187

The accompanying notes are an integral part of this statement.

Covenant House Washington, D.C.

Statement of Functional Expenses

Year ended June 30, 2013

	Program Services						Supporting Services			
	Shelter and Crisis Care	**Outreach**	**Community Service Center**	**Public Education**	**Rights of Passage**	**Total Program Services**	**Management and General**	**Fundraising**	**Total Supporting Services**	**Total**
Salaries and wages	$ 562,313	240,466	$ 527,514	$ 378,963	$ 288,736	$ 1,997,992	$ 294,210	$ 120,883	$ 415,093	$ 2,413,085
Payroll taxes	71,295	29,822	61,843	42,385	34,512	239,857	31,739	13,370	45,109	284,965
Employee benefits	98,632	49,160	88,509	61,686	65,934	363,921	48,430	23,790	72,220	436,141
Total salaries and related expenses	732,240	319,448	677,866	483,034	389,182	2,601,770	374,379	158,043	532,422	3,134,192
Accounting fees	4,741	4,741	4,741	4,741	4,741	23,705	35,557	—	35,557	59,262
Legal fees	400	400	400	400	400	2,000	3,000	—	3,000	5,000
Medical fees	623	187	116	71	206	1,203	68	36	104	1,307
Consulting fees	2,814	12,254	19,963	19,963	2,814	57,808	17,130	50,600	67,730	125,538
Supplies	19,116	2,385	6,462	5,952	5,638	39,553	12,106	550	12,656	52,209
Telephone	13,559	14,291	10,130	8,222	18,668	64,870	14,133	4,975	19,108	83,978
Postage & printing	2,312	2,285	2,463	2,391	2,301	11,752	2,392	39,136	41,528	53,280
Occupancy										
Fuel and utilities	42,266	31,801	31,880	20,690	24,154	150,791	50,131	3,890	54,021	204,812
Repairs and maintenance	13,704	3,210	2,860	2,860	3,169	25,803	22,740	—	22,740	48,543
Rent and other	2,155	4,325	6,738	4,325	261,337	278,880	6,886	1,013	7,899	286,779
Equipment	16,379	6,242	6,728	5,940	19,638	54,927	14,686	2,357	17,043	71,970
Transportation	7,599	12,124	11,127	9,536	10,109	50,495	25,744	13,058	38,802	89,297
Specific assistance to individuals	—									
Food	71,893	4,970	20,669	11,938	2,115	111,585	90	98	188	111,773
Clothing, allowance and other	33,921	23,958	31,347	31,347	12,078	132,651	681	5,655	6,336	138,987
Temporary help	1,461	1,461	1,460	1,460	1,585	7,427	9,993	2,560	12,553	19,980
Other purchased services	31,104	18,750	29,051	28,831	14,211	121,947	106,209	38,651	144,860	266,807
Dues, licenses and permits	690	663	1,454	573	859	4,239	2,388	1,147	3,535	7,774
Subscriptions and publications	80	80	90	90	80	420	23	1,522	1,545	1,965
Insurance	1,988	4,367	7,010	4,366	1,987	19,718	2,562	1,375	3,937	23,655
Contributed services	1,428	1,428	1,428	1,428	1,428	7,140	10,709	—	10,709	17,849
Miscellaneous	(3,002)	(3,382)	(3,006)	(3,204)	(3,142)	(15,736)	(28,192)	5,010	(23,182)	(38,918)
Bank charges and fees	291	291	291	291	291	1,455	1,887	791	2,678	4,133
Interest	124	7,751	123	123	123	8,244	16,176	1	16,177	24,421
Total functional expenses before depreciation and amortization	997,886	474,030	871,391	645,368	773,972	3,762,647	701,478	330,468	1,031,946	4,794,593
Depreciation and amortization	87,460	53,190	63,769	16,958	23,381	244,758	25,365	11,635	37,000	281,758
Total Expenses Reported by Function on the Statement of Activities	$ 1,085,346	$ 527,220	$ 935,160	$ 662,326	$ 797,353	$ 4,007,405	$ 726,843	$ 342,103	$ 1,068,946	$ 5,076,351

The accompanying notes are an integral part of this statement.

Covenant House Washington, D.C.

Statements of Cash Flows

Year ended June 30,	**2014**	**2013**
Cash Flows from Operating Activities		
Change in net assets	$ (560,884)	$ (227,858)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	273,541	281,757
Recovery of bad debts	(7,098)	(170,280)
Changes in operating assets and liabilities:		
Contributions receivable	3,401	3,401
Grants receivable	(52,931)	248,622
Due from parent	16,634	4,161
Prepaid expenses	2,983	28,357
Other assets	(8,855)	(1,516)
Accounts payable, accrued expenses and refundable advances	69,576	(22,699)
Cash and cash equivalents - restricted	3,936	(2,110)
Deferred revenue	15,221	(62,167)
Net Cash (Used in) Provided by Operating Activities	(244,476)	79,668
Cash Flows from Investing Activities		
Purchases of property and equipment	(13,924)	(3,016)
Net Cash Used in Investing Activities	(13,924)	(3,016)
Cash Flows from Financing Activities		
Payment of debt obligations	(13,860)	(13,918)
Net Cash Used in Financing Activities	(13,860)	(13,918)
Net (Decrease) Increase in Cash and Cash Equivalents	(272,260)	62,734
Cash and Cash Equivalents, beginning of year	2,017,365	1,954,631
Cash and Cash Equivalents, end of year	$ 1,745,105	$ 2,017,365
Supplemental Cash Flow Information:		
Interest paid	$ 24,953	$ 22,886

The accompanying notes are an integral part of this statement.

NOTE A—ORGANIZATION

Covenant House Washington, D.C. (the Organization), a non-profit organization, is an operating affiliate of Covenant House (the Parent) providing shelter and crisis care, community services, and outreach services to youths in the Washington, D.C. area. The Parent is the sole member of the Organization and is itself a private, not-for-profit agency which, through its affiliates, provided shelter, food, clothing, counseling, medical attention, crisis intervention, and other services to more than 56,000 runaway, homeless, and at-risk youths during the year ended June 30, 2014.

The Organization is affiliated with the following not-profit organizations through common control by its Parent:

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 Vancouver
Covenant House Western Avenue
Covenant International Foundation
Asociacion La Alianza (Guatemala)
Casa Alianza De Honduras
Casa Alianza Nicaragua
Fundación Casa Alianza Mexico, I.A.P.
Testamentum
Under 21

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Net Asset Classifications

Resources for various purposes are classified for accounting and financial reporting purposes into net asset classes established according to their nature and purpose as follows:

Unrestricted Net Assets: Unrestricted net assets consist of resources available for the support of the Organization's operations. The unrestricted net assets may be used at the discretion of the Organization's management and the Board of Directors.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES–Continued

Investment in property, plant and equipment: The Organization presents investments in property and equipment, less related liabilities, as a separate component of unrestricted net assets as this is specifically board designated.

Temporarily Restricted Net Assets: Temporarily restricted net assets represent amounts restricted by donors and grantors for specific activities of the Organization or to be used at some future date.

Permanently Restricted Net Assets: Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources are to be maintained permanently. Income earned on permanently restricted net assets is available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors. As of June 30, 2014 and 2013, the Organization had no permanently restricted net assets.

Revenue Recognition

All unconditional contributions are recorded as revenue when received or pledged. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor. The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. It is the Organization's policy to record temporarily restricted contributions received and expended in the same accounting period as unrestricted revenue.

Contributions that the donor requires to be used to acquire long-lived assets (e.g. building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. The Organization reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Grants received from departments or agencies of the United States Government considered to be exchange transactions are recorded as revenue as related costs are incurred.

Amounts received in advance of restrictions being met are recorded as deferred revenue until such a date that those restrictions have been met.

Functional Expense Allocation

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses have been allocated among program and supporting service classifications on the basis of square footage of office space occupied, salaries, or other bases as deemed appropriate by the Organization's management. The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES–Continued

Allowance for Doubtful Accounts

Grants and contributions receivables over 365 days old are considered doubtful for collection and are reserved for on the statement of financial position. Management, in consultation with the finance committee, reviews receivables over 365 days old to determine if any of the aged receivables should be written off.

Cash and Cash Equivalents

The Organization considers all monies in banks and highly liquid investments with an original maturity of three months or less from date of purchase, which are not subject to withdrawal restrictions, to be cash and cash equivalents. The Organization maintains cash balances which may exceed federally insured limits. The Organization does not believe that this results in any significant credit risk. As of June 30, 2014 and 2013, $74,587 and $78,523 of cash and cash equivalents-restricted consist of funds held on behalf of others.

Fair Value of Financial Instruments

The carrying amounts of the Organization's financial instruments, which include cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate their fair value because of the short-term maturities of those instruments.

The Organization group's financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Organization held $1,100,536 and $1,099,396 in money market funds at June 30, 2014 and 2013, respectively, which are categorized as Level 1 securities.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES–Continued

Property, Plant and Equipment

Acquisitions of property, plant and equipment in excess of $1,000 are capitalized. Property, plant and equipment are recorded at acquisition cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line basis over the estimated useful lives of the assets that range from three to thirty years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the related lease period. Maintenance and repairs are charged to expense as incurred. Amortization of assets under capital leases is included in depreciation and amortization expense.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans, or changes in anticipated future cash flows. If an impairment indicator is present, the Organization evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Fair value is generally determined by estimates of future cash flows. No such impairment was noted for the years ended June 30, 2014 and 2013.

Contributed Service and Merchandise

Contributed services and merchandise are recognized as revenue if the service and merchandise received, create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services and merchandise are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

Contributions of clothing and merchandise are valued at the estimated fair value at the date of receipt and recognized as revenue and expensed when received.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Contributions Received from Parent

In fiscal 2014 and 2013, Contributions received from the Parent includes contributions received from individuals, corporations and foundations as a result of fundraising activities conducted by the Parent on behalf of the Organization and other Covenant House Affiliates. It also includes a subsidy or contribution from Parent to help support the program activities of the Organization. Covenant House Parent refers to this as “Branding Dollars” or “Contributions Received from Parent”.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Actual results could differ from those estimates.

Tax-Exempt Status

The organization is qualified as a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes under Section 509(a) of the Code, except for taxes on unrelated business income. The Organization has been classified as a publicly supported charitable organization under Section 509(a)(3) of the Code and qualifies for the maximum charitable contribution deduction for donors. On January 12, 2007 the Organization received a letter from the IRS approving a modification of its public charity status to 170(b)(1)(A)(vi) of the Code.

The Organization has processes presently in place to ensure the maintenance of it tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions.

Under the provisions of the Internal Revenue Code Section 501(c)(3), the Organization is exempt from taxes on income other than unrelated business income. The Organization recognizes or derecognizes tax positions on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. The Organization considered its income tax positions under the “more likely than not” level of certainty and determined there is no requirement to accrue any income tax liability at June 30, 2014 and 2013.

NOTE C—COMPONENTS OF PROGRAM AND SUPPORTING SERVICES

Shelter and Crisis Care

The Shelter and Crisis Care program provides crisis care, shelter, food, clothing, and counseling to abandoned and runaway youths and their children.

Outreach

The Outreach program is an effort to reach youths who are on the streets for various reasons. The Outreach van is on the city streets day and night, searching for these youths, providing them with food, a trained counselor, and assistance in accessing the Organization's residential services or other services, if needed. Youths are also referred to the Organization's Community Service Center where they receive ongoing counseling and other services.

Rights of Passage

The Rights of Passage program provides transitional living services for up to 24 months to youths and their children, including individual counseling and help with completing their education and locating jobs and housing.

Community Service Center

The Community Service Center program provides comprehensive services to youths in the residential programs and other youths in the community who need support to complete their education, obtain employment, and/or 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.

Fundraising

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

Management and General

Management and general services include administration, finance, and general support activities. Certain administrative costs that directly relate to specific programs have been allocated to such programs.

NOTE D—PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following at June 30:

	2014	2013
Building	$ 7,374,442	$ 7,374,442
Furniture and equipment	1,755,422	1,741,498
Furniture and equipment under capital leases	143,449	143,449
Vehicles	61,117	61,117
Total	9,334,430	9,320,506
Accumulated depreciation	(4,955,078)	(4,681,537)
	$ 4,379,352	$ 4,638,969

Depreciation expense for property, plant and equipment, including those assets under capital leases, amounted to $273,541 and $281,757 in 2014 and 2013.

NOTE E—NOTES PAYABLE

The Organization has a term loan with an original amount of $472,000 that had an original interest rate of 8.54% per annum, consisting of a fixed rate of 1.75% for five years plus the yield on five-year treasury bonds. During 2012, the Organization refinanced the term loan with a then current principal 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, 2014 and 2013 was $368,893 and $382,753. Future minimum payments are $36,804 per annum, including interest, through 2030.

Future minimum payments of principal on the note payable are:

2015	$ 15,045
2016	15,973
2017	16,959
2018	18,005
2019 and thereafter	302,911
Total	$ 368,893

NOTE F—TEMPORARILY RESTRICTED NET ASSETS

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

	2014	**2013**
Community service center	$ 299,289	$ 299,289
Literacy program	20,000	20,000
Shelter and crisis care	120,204	125,000
Employment/Work program	8,400	142,714
Education/GED program	100,741	—
Total temporarily restricted net assets	$ 548,634	$ 587,003

NOTE G—GRANTS AND CONTRACTS

The Organization receives grants from several federal agencies and agencies of the District of Columbia government, which are subject to audit. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited under government audit requirements.

Until such audits have been completed and final settlement is reached, there exists a contingency to refund any amounts received in excess of allowable costs. Management has established a provision for such a liability in the amount of $6,057 for the years ended June 30, 2014 and 2013, and it is included in the allowance for doubtful accounts and disallowed costs and netted with grants receivable in the statement of financial position.

NOTE H—PENSION PLAN

Effective December 31, 2006, Covenant House froze service credits in the defined benefit plan. Compensation increases continued to apply within the Plan structure for those participants who exceeded certain thresholds of age and years of service to protect the benefits of older and longer tenured employees. Covenant House further amended the plan effective August 1, 2009 to cease adjustments in the accrued benefit due to salary increases so that no further benefits will accrue under the plan after that date.

Effective January 1, 2007, the Parent adopted a 403(b) Plan for all employees. The Organization matches 50% of employee contributions to the 403(b) Plan up to the first 6.0% of pay they voluntarily contribute. Participants in the 403(b) Plan will be 100% vested after three years of service. Also, effective January 1, 2007, the Parent adopted a defined contribution pension plan for all employees with one or more years of service. The Organization provides all funding, with contributions ranging from 1.0% to 9.0% of salary based on age and years of service for those employees who work 1,000 hours or more annually. The Organization made employer contributions and employer match of $85,969 and $86,899 to the 403(b) Plan for the year ended June 30, 2014 and 2013 respectively.

NOTE I—COMMITMENTS

On December 12, 2000, the Organization entered into a memorandum of understanding with a developer, Building Bridges Across the River, Inc. (BBAR), to purchase a building to serve as the Organization's new Community Service Center. Construction of the building commenced in February 2002. Construction costs of $3,962,523 were paid in three installments. The Organization made a payment of $1,320,833 on January 28, 2002 and another of $1,320,833 on August 29, 2002. The final installment was paid upon substantial completion of construction in May 2003.

The new Community Service Center resides on a parcel of land along Mississippi Avenue, SE, which is a part of a larger 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 released from restrictions over the period of the lease. At June 30, 2014 and 2013, the balance of the long term other asset of $295,888 and $299,289, respectively, is recorded as a long term other asset 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.

NOTE I—COMMITMENTS—Continued

Equipment Lease

The Organization leases copier equipment under an operating lease expiring August 2019. In addition, the Organization rents other facilities under short term rental or leasing agreements. Total rent expense for the years ended June 30, 2014 and 2013 totaled $274,705 and $262,659.

Future minimum lease payments at June 30, 2014:

2015	$	28,029
2016		24,660
2017		7,812
2018		7,812
Thereafter		1,302
Total	$	69,615

NOTE J—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 its affiliates. Contributions and promises to give totaled approximately $57.8 million and $55.0 million for the Parent in the fiscal years ended 2014 and 2013, respectively. Contributions received from 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 appropriated “Branding Dollars” or “Contributions Received from Parent” to each Covenant House affiliate.

“Branding Dollars” or “Contributions Received from Parent” and allocated to affiliates, based on the Parent’s policy, approximated $31.1 million and $33.8 million in fiscal 2014 and 2013, respectively. In fiscal year 2014 and 2013, the organization received $2,111,000 and $2,251,000 respectively, in contributions received from parent. At June 30, 2014 and 2013, the amounts due from the Parent totaled $2,374 and $19,008, respectively.

NOTE K—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 as of June 30:

Account Description	**2014**	**2013**
Transitional Living Program	$ 73,606	$ 75,429
CHW Custodial Fund	981	3,094
Total custodial accounts	$ 74,587	$ 78,523

NOTE L—SUBSEQUENT EVENTS

The Organization evaluated its June 30, 2014 financial statements for subsequent events through March 30, 2015, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.