

Covenant House Washington, D.C.

Financial Statements

June 30, 2019 and 2018

Covenant House Washington, D.C.

Financial Statements
June 30, 2019 and 2018

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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, 2019 and 2018 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House Washington, D.C. as of June 30, 2019 and 2018 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Covenant House Washington, D.C. adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

PKF O'Connor Davies, LLP

Bethesda, Maryland
February 5, 2020

Covenant House Washington, D.C.

Statements of Financial Position

	June 30,	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 202,180	\$ 175,974
Cash and cash equivalents - restricted	42,824	85,743
Grants receivable	36,003	207,012
Pledge receivable	200,000	-
Other receivables	23,312	75,814
Prepaid expenses	12,737	4,753
Property and equipment, net	3,312,605	3,595,140
Long-term contributions receivable	278,883	282,284
Other assets	5,250	18,650
	<u>\$ 4,113,794</u>	<u>\$ 4,445,370</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 448,980	\$ 864,338
Deferred revenue	60,589	75,845
Due to Parent	587,404	91,476
Line of credit	500,000	-
Note payable	277,822	297,083
Total Liabilities	<u>1,874,795</u>	<u>1,328,742</u>
Net Assets		
Without Donor Restrictions		
Available for operations	(1,096,367)	(518,730)
Investment in property and equipment	3,034,783	3,298,057
Total Without Donor Restrictions	1,938,416	2,779,327
With donor restrictions	300,583	337,301
Total Net Assets	<u>2,238,999</u>	<u>3,116,628</u>
	<u>\$ 4,113,794</u>	<u>\$ 4,445,370</u>

See notes to financial statements

Covenant House Washington, D.C.

Statements of Activities

	Year Ended June 30, 2019			Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions	\$ 583,971	\$ 89,590	\$ 673,561	\$ 327,666	\$ 179,800	\$ 507,466
Contributed services and merchandise	16,894	-	16,894	172,077	-	172,077
Government grants	2,449,840	-	2,449,840	2,524,912	-	2,524,912
Branding dollars from Parent	1,667,000	-	1,667,000	1,891,000	-	1,891,000
Grants from Parent related to National Sleep Out Event	103,258	-	103,258	80,265	-	80,265
Special event revenue, net of direct benefits to donors of \$4,079 and \$99,482	113,135	-	113,135	165,553	-	165,553
Net assets released from restrictions	126,308	(126,308)	-	258,634	(258,634)	-
Total Support and Revenue	<u>5,060,406</u>	<u>(36,718)</u>	<u>5,023,688</u>	<u>5,420,107</u>	<u>(78,834)</u>	<u>5,341,273</u>
OTHER INCOME						
Other income	101,189	-	101,189	303,380	-	303,380
Loss on sale of vehicles	(19,192)	-	(19,192)	-	-	-
Total Other Income	<u>81,997</u>	<u>-</u>	<u>81,997</u>	<u>303,380</u>	<u>-</u>	<u>303,380</u>
Total Support and Revenue and Other Income	<u>5,142,403</u>	<u>(36,718)</u>	<u>5,105,685</u>	<u>5,723,487</u>	<u>(78,834)</u>	<u>5,644,653</u>
EXPENSES						
Program services	5,210,586	-	5,210,586	5,795,247	-	5,795,247
Supporting Services						
Management and general	627,492	-	627,492	613,700	-	613,700
Fundraising	145,236	-	145,236	162,545	-	162,545
Total Expenses	<u>5,983,314</u>	<u>-</u>	<u>5,983,314</u>	<u>6,571,492</u>	<u>-</u>	<u>6,571,492</u>
Change in Net Assets	(840,911)	(36,718)	(877,629)	(848,005)	(78,834)	(926,839)
NET ASSETS						
Beginning of year	<u>2,779,327</u>	<u>337,301</u>	<u>3,116,628</u>	<u>3,627,332</u>	<u>416,135</u>	<u>4,043,467</u>
End of year	<u>\$ 1,938,416</u>	<u>\$ 300,583</u>	<u>\$ 2,238,999</u>	<u>\$ 2,779,327</u>	<u>\$ 337,301</u>	<u>\$ 3,116,628</u>

See notes to financial statements

Covenant House Washington, D.C.

Statement of Functional Expenses
Year Ended June 30, 2019

	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	\$ 1,047,693	\$ 337,653	\$ 718,988	\$ 285,814	\$ 211,049	\$ 2,601,197	\$ 259,001	\$ 80,657	\$ 339,658	\$ -	\$ 2,940,855
Payroll taxes	84,516	28,971	59,056	25,096	19,318	216,957	34,024	6,364	40,388	-	257,345
Employee benefits	210,437	58,957	113,114	63,576	54,963	501,047	46,260	13,983	60,243	-	561,290
Total Salaries and Related Expenses	1,342,646	425,581	891,158	374,486	285,330	3,319,201	339,285	101,004	440,289	-	3,759,490
Professional fees	13,021	6,778	7,088	25,838	25,838	78,563	43,302	11,279	54,581	-	133,144
Supplies	10,339	5,451	4,495	2,682	1,797	24,764	6,412	240	6,652	-	31,416
Telephone	12,277	11,412	22,348	13,759	11,839	71,635	11,832	1,296	13,128	-	84,763
Postage and printing	2,745	331	331	331	331	4,069	693	662	1,355	-	5,424
Occupancy:											
Fuel and utilities	44,602	38,712	22,622	32,499	27,813	166,248	28,114	3,163	31,277	-	197,525
Repairs and maintenance	20,878	7,299	7,307	5,808	5,463	46,755	22,824	-	22,824	-	69,579
Rent and other	79,204	67,324	597,483	916	916	745,843	3,749	-	3,749	-	749,592
Equipment	7,613	15,141	10,164	14,268	12,387	59,573	15,841	1,270	17,111	-	76,684
Travel, transportation and conferences	10,126	2,036	3,403	1,927	1,911	19,403	4,114	630	4,744	-	24,147
Specific assistance to individuals	53,471	20,522	16,504	16,160	13,113	119,770	-	-	-	-	119,770
Other purchased services	62,511	25,389	19,705	27,628	26,216	161,449	28,405	5,921	34,326	4,079	199,854
Dues, licenses and permits	577	440	440	437	482	2,376	1,481	115	1,596	-	3,972
Subscriptions and publications	1,450	1,450	1,450	1,520	1,520	7,390	1,062	4,870	5,932	-	13,322
Staff recruitment	11,523	11,058	11,148	11,058	11,058	55,845	38,891	81	38,972	-	94,817
Insurance	14,008	14,642	8,480	8,480	8,480	54,090	30,004	-	30,004	-	84,094
Donated services	347	347	347	347	347	1,735	1,420	-	1,420	-	3,155
Miscellaneous	1,735	433	609	433	433	3,643	1,592	-	1,592	-	5,235
Bad debt (recovery)	3,390	(849)	(2,817)	(553)	(553)	(1,382)	(3,525)	45	(3,480)	-	(4,862)
Bank charges and fees	897	897	897	897	897	4,485	9,455	-	9,455	-	13,940
Interest	7,503	15,210	6,423	3,807	3,807	36,750	16,026	2,498	18,524	-	55,274
Depreciation	70,526	52,526	23,619	63,983	17,727	228,381	26,515	12,162	38,677	-	267,058
Total Functional Expenses	1,771,389	722,130	1,653,204	606,711	457,152	5,210,586	627,492	145,236	772,728	4,079	5,987,393
Less cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	(4,079)	(4,079)
Total Expenses Reported by Function on the Statement of Activities	\$ 1,771,389	\$ 722,130	\$ 1,653,204	\$ 606,711	\$ 457,152	\$ 5,210,586	\$ 627,492	\$ 145,236	\$ 772,728	\$ -	\$ 5,983,314

Covenant House Washington, D.C.

Statement of Functional Expenses
Year Ended June 30, 2018

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

Covenant House Washington, D.C.

Statements of Cash Flows

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (877,629)	\$ (926,839)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	267,058	269,235
Loss on sale of vehicles	19,192	-
Long-term contributions receivable	3,401	3,401
Bad debt (recovery)	(4,862)	(11,088)
Net change in operating assets and liabilities		
Cash and cash equivalents - restricted	42,919	5,755
Grants receivable	171,009	(15,851)
Pledge receivable	(200,000)	-
Other receivables	57,364	32,097
Prepaid expenses	(7,984)	4,062
Other assets	13,400	3,877
Accounts payable, accrued liabilities and refundable advances	(415,358)	555,840
Due to Parent	495,928	194,561
Deferred revenue	(15,256)	30,242
Net Cash from Operating Activities	(450,818)	145,292
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,994)	(19,348)
Proceeds from sale of vehicles	1,279	-
Net Cash from Investing Activities	(3,715)	(19,348)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(19,261)	(18,126)
Proceeds from line of credit	500,000	-
Net Cash from Financing Activities	480,739	(18,126)
 Change in Cash and Cash Equivalents	26,206	107,818
 CASH AND CASH EQUIVALENTS		
Beginning of year	175,974	68,156
End of year	\$ 202,180	\$ 175,974
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 55,274	\$ 22,591

See notes to financial statements

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

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, prevention, and other services that reached approximately 74,000 and 89,000 young people during fiscal June 30, 2019 and 2018.

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

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Illinois
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House New York/Under 21
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House Holdings, LLC
- Covenant International Foundation
- CH Housing Development Fund Corporation
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44th Corporation
- 460 West 41st Street, LLC

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

- Asociación La Alianza (Guatemala)
- Casa Alianza de Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Covenant House Toronto
- Covenant House Vancouver
- Fundación Casa Alianza México, I.A.P.

Covenant House (Parent) is the founder of Fundación Casa Alianza México, I.A.P.

The Organization has been determined to be a non-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

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. The program was terminated during fiscal year ended June 30, 2019.

Rites of Passage and Supportive Housing Program

The Rights of Passage program provides transitional living services for up to 24 months, to youths, including individual counseling and help with their education and search for jobs and housing. The Supportive Housing Program provides transitional living services for up to 60 months to youths with an identified disability, including individual case management and help with education, housing and job placement. The program was terminated during fiscal year ended June 30, 2019.

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. It also identifies public and private resources available to help such adolescents before they leave home and the public support services that are 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.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

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

Components of Program and Supporting Services (continued)

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.

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 require 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.

Change in Accounting Principle

On July 1, 2018, the Organization adopted U.S. GAAP guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the Organization to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Organization to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

Net Asset Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

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

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 program and supporting services have been summarized on a functional basis. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization allocated direct costs to program services. Supporting services include management and general and fundraising. Allocated expenses among program services and management and general and fundraising include salaries and related expenses, staff travel, consulting and professional fees, and other expenses which are allocated based on time and costs where efforts are made.

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.

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, 2019 and 2018.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

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

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 general 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 the fundraising activity. Contribution revenue is recognized based upon the present value of the estimated future payment 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.

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, 2016.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

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

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 5, 2020.

3. Grants Receivable

Grants receivable of \$36,003 and \$207,012 at June 30, 2019 and 2018 represent the amounts due from various governmental and private agencies for the Organization's programs. All grants receivable as of June 30, 2019 and 2018 are expected to be collected within one year. In accordance with the terms of certain government grants, the records of the Organization are subject to audit for varying periods after the date of final payment of the grants. The Organization is liable for any disallowed costs; however, management believes that the amount of disallowed costs, if any, would not be significant.

4. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Buildings and improvements	\$ 7,624,347	\$ 7,624,347
Furniture and equipment	1,916,171	1,916,171
Vehicles	<u>6,629</u>	<u>92,941</u>
	9,547,147	9,633,459
Less accumulated depreciation	<u>(6,234,542)</u>	<u>(6,038,319)</u>
	<u>\$ 3,312,605</u>	<u>\$ 3,595,140</u>

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

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, 2019 and 2018 was \$277,822 and \$297,083. 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:

2020	\$ 20,294
2021	21,546
2022	22,875
2023	24,285
2024	25,783
Thereafter	<u>163,039</u>
	<u>\$ 277,822</u>

6. Line of Credit

During July of 2018 the Organization obtained a line of credit in the amount of \$500,000. Interest only payments are due monthly at the prime rate plus .50% (6% at June 30, 2019). The line of credit is due on demand and secured by substantially all assets of the Organization. As of June 30, 2019, the outstanding amount was \$500,000.

7. Commitments and Contingencies

Leases

The Organization has entered into various non-cancelable operating leases for equipment and apartment for programs; these leases expire at various dates through August 2023. Rental and other related expenses under all operating leases amounted to \$749,592 and \$677,137 for the years ended June 30, 2019 and 2018.

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

2020	\$ 540,955
2021	415,691
2022	415,056
2023	208,473
2024	<u>4,892</u>
	<u>\$ 1,585,067</u>

Covenant House Washington, D.C.

Notes to Financial Statements
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7. Commitments and Contingencies (*continued*)

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 a donor restricted contribution and is being released from restrictions over the period of the lease. At June 30, 2019 and 2018, the balance of the long term receivable of \$278,883 and \$282,284 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.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30 are available for the following:

	<u>2019</u>	<u>2018</u>
Community Service Center	\$ 278,883	\$ 282,284
Literacy program	20,000	20,000
Workforce Readiness Program	-	22,500
Career Pathways in Hospitality Program	-	10,817
Preston Blue Scholarship Program	1,700	1,700
	<u>\$ 300,583</u>	<u>\$ 337,301</u>

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

8. Net Assets With Donor Restrictions (*continued*)

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

	<u>2019</u>	<u>2018</u>
Other	\$ 6,045	\$ -
Hospitality	18,750	-
Community Service Center	3,401	3,401
Emergency housing and crisis care	-	37,500
Career Pathways in Hospitality Program	10,817	118,983
Mental health care	-	71,250
Safe Haven Program	20,000	20,000
Workforce Readiness Program	<u>67,295</u>	<u>7,500</u>
	<u>\$ 126,308</u>	<u>\$ 258,634</u>

9. 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 million for the Parent in fiscal years ended June 30, 2019 and 2018. 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 including a Parent subsidy and appropriates funds classified as “Branding Dollars” or “Contributions Received from Parent” to each Covenant House affiliate. Total contributions allocated to affiliates, based on the Parent’s policy, approximated \$34 million and \$35 million for the years ended June 30, 2019 and 2018. In fiscal 2019 and 2018, the Organization received \$1,667,000 and \$1,891,000 in contributions from the Parent. At June 30, 2019 and 2018, the amounts due to the Parent totaled \$587,404 and \$91,476. Additionally, in fiscal 2019 and 2018, the Organization received \$103,258 and \$80,265 from the Parent relating to national fund-raising sleep events.

10. Employee Benefit Plans

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan. Employees are immediately eligible to participate in the plan. Employees who work at least 1,000 hours per year are eligible to receive an employer contribution. The Organization makes annual contributions into the plan on behalf of employees ranging from 1% to 9% of employee compensation determined 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 \$188,565 and \$165,117 for the years ended June 30, 2019 and 2018.

Covenant House Washington, D.C.

Notes to Financial Statements
June 30, 2019 and 2018

10. Employee Benefit Plans (*continued*)

The Organization participates in a noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, and is sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Effective August 1, 2009, the Board of Directors of the Parent approved a freeze of future benefit accruals for all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent. Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. For the years ended June 30, 2019 and 2018, the Organization contributed \$103,846 and \$83,415 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statements of functional expenses.

11. 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 \$42,824 and \$85,743 at June 30, 2019 and 2018.

12. 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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Notes to Financial Statements
June 30, 2019 and 2018

13. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position as of June 30, 2019 are as follows:

Financial assets:		
Cash and cash equivalents	\$	202,180
Grants receivable		36,003
Pledge receivable		200,000
Other receivables		23,312
Long-term contributions receivable		<u>278,883</u>
Total financial assets		740,378
Less:		
Net Assets With Donor Restrictions		<u>(300,583)</u>
Financial Assets Available to Meet Cash Needs for General Expenditure Within One Year	\$	<u>439,795</u>

The Organization's working capital and cash flows are driven by contributions, grants and special event revenue. The Organization manages its financial assets, including a line of credit, to be available for its operating expenditures, liabilities and other obligations as they become due.

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