Covenant House New Jersey

Financial Statements

June 30, 2017

Independent Auditors' Report

Board of Directors
Covenant House New Jersey

We have audited the accompanying financial statements of Covenant House New Jersey (the "Organization"), which comprise the statement of financial position as of June 30, 2017, 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. 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 New Jersey as of June 30, 2017 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 8, 2017

Covenant House New Jersey

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 919,283	$ 337,651
Investments	924,136	900,789
Contributions receivable	1,931,003	784,193
Government grants receivable	335,406	287,154
Other receivables	6,321	12,846
Due from Parent	409,417	174,125
Prepaid expenses and other assets	65,056	61,308
Deposits held with trustee	532,686	523,532
Property, plant and equipment, net	14,177,159	14,585,675
	$ 19,300,467	$ 17,667,273
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 938,463	$ 797,353
Refundable advances	985,014	1,029,913
Other liabilities	46,025	46,025
Line of credit	-	195,000
Mortgages payable, net	2,915,035	2,901,611
Total Liabilities	4,884,537	4,969,902
Net Assets		
Unrestricted	12,558,119	12,597,371
Temporarily restricted	1,857,811	100,000
Total Net Assets	14,415,930	12,697,371
	$ 19,300,467	$ 17,667,273

See notes to financial statements

Covenant House New Jersey

Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
SUPPORT AND REVENUE				
Contributions	$ 2,457,675	$ 1,857,811	$ 4,315,486	$ 2,540,044
Government and private grants	2,280,032	-	2,280,032	1,849,530
Branding dollars from Parent	3,144,006	-	3,144,006	3,234,000
Grants from Parent related to Sleep Out events	1,448,913	-	1,448,913	949,821
Special events, net of direct expenses of $390,658 and $340,724	1,190,117	-	1,190,117	1,732,632
Contributed services	50,000	-	50,000	50,000
Net assets released from restrictions	100,000	(100,000)	-	-
Total Support and Revenue	10,670,743	1,757,811	12,428,554	10,356,027
INVESTMENT AND OTHER INCOME				
Dividends and interest	20,412	-	20,412	20,274
Unrealized gain	3,988	-	3,988	9,213
Other income	52,599	-	52,599	64,260
Total Investment and Other Income	76,999	-	76,999	93,747
Total Support and Revenue and Investment and Other Income	10,747,742	1,757,811	12,505,553	10,449,774
EXPENSES				
Program expenses	9,319,111	-	9,319,111	9,229,590
Supporting Services				
Management and general	904,233	-	904,233	816,529
Fundraising	563,650	-	563,650	513,904
Total Expenses	10,786,994	-	10,786,994	10,560,023
Change in Net Assets	(39,252)	1,757,811	1,718,559	(110,249)
NET ASSETS				
Beginning of year	12,597,371	100,000	12,697,371	12,807,620
End of year	$ 12,558,119	$ 1,857,811	$ 14,415,930	$ 12,697,371

See notes to financial statements

Covenant House New Jersey

Statement of Functional Expenses
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	Program Services										Supporting Services					
	Shelter and Crisis Care	Outreach	Behavioral Health/Health Services	RLH Mother/Child	Community Service Center	Program Development	Nancy's Place	Rights of Passage	Supportive Apartment Living	Total Program Services	Management and General	Fundraising	Total Supporting Services	Cost of Direct Benefits to Donors	Total Expenses	Total 2016
Salaries	$ 1,508,760	$ 270,696	$ 321,041	$ 321,357	$ 754,267	$ 718,722	$ 196,066	$ 683,830	$ -	$ 4,774,739	$ 507,989	$ 402,383	$ 910,372	$ -	$ 5,685,111	$ 5,541,749
Payroll taxes	178,395	32,007	37,960	37,997	89,184	84,981	23,183	80,856	-	564,563	60,064	47,577	107,641	-	672,204	696,896
Employee benefits	288,172	51,703	61,319	61,379	144,065	137,275	37,448	130,611	-	911,972	97,026	76,855	173,881	-	1,085,853	1,150,234
Total Salaries and Related Expenses	1,975,327	354,406	420,320	420,733	987,516	940,978	256,697	895,297	-	6,251,274	665,079	526,815	1,191,894	-	7,443,168	7,388,879
Faith community	35,298	-	-	-	17,647	-	-	-	-	52,945	-	-	-	-	52,945	52,949
Professional fees (including contributed services of $50,000 for 2017 and 2016)	14,851	-	-	14,850	7,424	-	18,350	29,275	7,000	91,750	24,750	-	24,750	-	116,500	115,712
Consulting	248	-	-	248	124	94,306	248	372	-	95,546	1,240	861	2,101	-	97,647	37,922
Supplies	57,880	792	637	6,852	28,936	2,025	3,343	11,083	166	111,714	7,561	409	7,970	-	119,684	96,573
Telephone	7,719	6,074	5,855	3,695	3,859	1,110	4,973	7,949	801	42,035	79,314	2,242	81,556	-	123,591	110,675
Postage and printing	421	1,073	400	4,430	210	4,255	59	357	-	11,205	5,155	6,927	12,082	-	23,287	35,324
Occupancy																
Fuel and utilities	121,674	4,583	3,372	25,032	60,828	-	7,943	35,525	16,058	275,015	-	-	-	-	275,015	245,482
Repairs and maintenance	73,625	74	667	29,008	36,807	8,861	5,143	28,838	14,129	197,152	-	-	-	-	197,152	140,444
Rent and other	7,655	24,000	21,600	-	3,827	-	-	-	-	57,082	10,564	-	10,564	-	67,646	65,482
Equipment	18,748	74	-	4,240	9,373	18,612	-	1,628	1,240	53,915	408	-	408	-	54,323	95,192
Specific Assistance to Individuals																
Food	75,821	15,990	11,601	3,722	37,905	911	7,760	5,655	-	159,365	68	2,964	3,032	-	162,397	198,907
Clothing, allowance, other	34,568	2,263	24,086	10,398	17,281	19,203	6,621	406,443	-	520,863	249	273	522	-	521,385	436,352
Other purchased services	60,823	2,407	43,836	29,758	30,407	4,266	11,909	27,341	19,883	230,630	44,065	2,649	46,714	390,658	668,002	611,859
Dues, licenses and permits	5,514	6,540	55	4,053	2,757	1,950	3,743	6,478	-	31,090	7,861	100	7,961	-	39,051	45,118
Insurance	89,542	11,825	3,606	22,548	44,765	-	10,162	42,107	6,147	230,702	-	-	-	-	230,702	232,189
Miscellaneous	25,163	16,603	13,057	5,597	12,580	14,115	6,927	19,136	-	113,178	54,912	20,410	75,322	-	188,500	163,479
Total Functional Expenses Before Depreciation and Amortization	2,604,877	446,704	549,092	585,164	1,302,246	1,110,592	343,878	1,517,484	65,424	8,525,461	901,226	563,650	1,464,876	390,658	10,380,995	10,072,538
Depreciation and Amortization	307,810	4,550	-	34,209	153,905	-	6,282	286,894	-	793,650	3,007	-	3,007	-	796,657	828,209
Total Functional Expenses	2,912,687	451,254	549,092	619,373	1,456,151	1,110,592	350,160	1,804,378	65,424	9,319,111	904,233	563,650	1,467,883	390,658	11,177,652	10,900,747
Less direct benefit to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	(390,658)	(390,658)	(340,724)
Total Expenses Reported by Function on the Statement of Activities	$ 2,912,687	$ 451,254	$ 549,092	$ 619,373	$ 1,456,151	$ 1,110,592	$ 350,160	$ 1,804,378	$ 65,424	$ 9,319,111	$ 904,233	$ 563,650	$ 1,467,883	$ -	$ 10,786,994	$ 10,560,023

See notes to financial statements

Covenant House New Jersey

Statement of Cash Flows
Year Ended June 30, 2017
(with comparative amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,718,559	$ (110,249)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized gain	(3,988)	(9,213)
Amortization of refundable advances	(44,899)	(44,898)
Amortization of deferred financing costs	13,424	13,424
Depreciation and amortization	796,657	828,209
Changes in operating assets and liabilities		
Contributions receivable	(1,146,810)	(695,850)
Government grants receivable	(48,252)	103,463
Other receivables	6,525	(3,738)
Due from Parent	(235,292)	(152,270)
Prepaid expenses and other assets	(3,748)	(13,369)
Accounts payable and accrued expenses	141,110	32,341
Deferred revenue	-	(179,608)
Net Cash from Operating Activities	1,193,286	(231,758)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(388,141)	(46,227)
Purchase of investments	(19,359)	(19,225)
Net Cash from Investing Activities	(407,500)	(65,452)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits held with trustee	(9,154)	(9,138)
Proceeds from line of credit	1,021,000	1,988,036
Payments of line of credit	(1,216,000)	(1,793,036)
Net Cash from Financing Activities	(204,154)	185,862
Net Change in Cash and Cash Equivalents	581,632	(111,348)
CASH AND CASH EQUIVALENTS		
Beginning of year	337,651	448,999
End of year	$ 919,283	$ 337,651
SUPLEMENTAL CASH FLOWS INFORMATION		
Cash paid for interest	$ 3,826	$ 11,942

See notes to financial statements

1. Organization and Tax Status

Covenant House New Jersey (the "Organization"), a not-for-profit organization, is an operating affiliate of Covenant House (Parent). Covenant House (Parent) is a not-for-profit organization founded in 1968 and incorporated in 1972. Covenant House (Parent) and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical attention, crisis intervention, public education, prevention, and other services that reached approximately 80,000 young people during fiscal 2017.

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

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

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

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

- Asociacion La Alianza (Guatemala)
- Casa Alianza de Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Covenant House Vancouver
- Covenant House Toronto
- Fundacion Casa Alianza Mexico, I.A.P.

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

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

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services

Program Services

Shelter and Crisis Care
The Shelter and Crisis Care program provides crisis care, shelter, food, clothing, counseling, and legal advice to abandoned and runaway youths through Covenant House programs in New Jersey.

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.

Behavioral Health/Health Services
The Organization provides youths in the program with in-house counseling and outside referrals, however, all medical services are referred outside of the Organization.

The RLH Mother/Child Program
The Organization provides emergency shelter, food, and counseling to homeless mothers under the age of 23 and their children.

The 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.

Program Development
Development services are the costs related to developing and sustaining new and existing programs, including related funding sources.

Nancy's Place
The Nancy's Place program provides supportive housing for youths with mental health disorders.

Rights of Passage
The Rights of Passage program provides transitional living services to youths for up to 18 months, including individual counseling and help with their education and finding jobs and housing.

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Supportive Apartment Living
The Supportive Apartment Living program provides housing opportunities to youth who have demonstrated the ability to live independently and require minimal support. The Organization owns the apartments, but does not provide on-site supervision. Program youth receive case management and other supportive services throughout their tenancy.

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 relates to the activities of the development department in raising general and specific contributions.

Direct Benefit-to-Donor Costs

Direct benefit-to-donor costs are costs 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Asset Presentation

The Organization maintains its net assets under the following two classes:

Unrestricted - consist of resources available for the general support of the Organization's operations. Unrestricted net assets may be used at the discretion of the Organization's management and Board of Directors.

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

Net Asset Presentation (continued)

Temporarily restricted - represent amounts restricted by donors for specific activities of the Organization or to be used at some future date. 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 a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

There are no permanently restricted net assets.

Revenue Recognition

The Organization records earned revenues on an accrual basis. In addition, the Organization records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), certain contributed services and gifts of other assets. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. The Organization also raises funds through special events, such as galas. Event revenues, net of related costs with a direct-benefit to donors, are recorded as unrestricted contributions since such funds can be used for general operations unless there are donor-imposed restrictions. Costs to generate restricted and unrestricted donations and grants are expensed as incurred.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement 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.

Fair Value Measurements

The Organization follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable and are used to the extent that observable inputs do not exist.

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

Investment Valuation and Income Recognition

Investments are valued at fair value in the statement of financial position. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line method, using half year convention, over the estimated useful lives of the assets, which range from 3 to 33 years. The Organization follows the practice of capitalizing and depreciating all expenditures for property, equipment and leasehold improvements costing $5,000 or more and a useful life in excess of one year.

Long lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including undiscounted cash flow models, quoted fair values and third-party independent appraisals, as considered necessary. There is no such impairment for the years ended June 30, 2017 and 2016.

Contributions 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. As of June 30, 2017 and 2016, no allowance for doubtful accounts was determined to be necessary. Contribution revenue is recognized based on the present value of the estimated future payments to be made to the Organization.

Deposits Held with Trustee

The New Jersey Housing and Mortgage Finance Agency (“NJHMFA”) and New Jersey Department of Community Affairs (“NJDCA”) require the Organization to establish certain escrow funds (See Note 9). As of June 30, 2017 and 2016, the Organization’s deposits held with trustee consist of cash held in interest-bearing savings accounts at Bank of America, N.A.

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

Deferred Financing Costs

Deferred financing costs are presented as a direct deduction from the mortgages payable and are being amortized on a straight-line basis (which approximates the interest method) over the term of the mortgages payable. Amortization of deferred financing costs amounted to $13,424 in fiscal 2017 and 2016 and is included in miscellaneous expenses in the statement of activities.

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Contributed Services

The Organization recognizes the fair value of contributed 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.

Contributed services are provided by Covenant House Faith Community (the “Community”) members. Community members are full-time volunteers who commit themselves to a year of service to runaway and homeless youths. Room and board, a $20 stipend per week for fiscal year 2017 and 2016, health insurance and reimbursement for other personal expenses are provided to Community members by the Organization. The expenses associated with Community members totaled approximately $53,000 for the years ended June 30, 2017 and 2016, and are reported in the accompanying statement of activities and functional expenses as part of branding dollars from parent and faith community expenses.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements as of and for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications

Certain accounts in the fiscal 2016 financial statements have been reclassified to conform to the fiscal 201 financial statement presentation.

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 December 8, 2017.

3. Investments

Investments at June 30, 2017 and 2016 consisted of fixed income mutual funds measured at fair value on a recurring basis and classified with Level 1 inputs using the fair value hierarchy.

Major categories of investments are as follows at June 30:

	2017	2016
Fixed income mutual fund	$ 924,036	$ 900,689
Money market fund	100	100
	$ 924,136	$ 900,789

4. Contributions Receivable

Contributions receivable at June 30, 2017 and 2016 are scheduled to be collected as follows:

	2017	2016
Due within one year	$ 763,525	$ 784,193
Due within two to four years	1,200,333	-
	1,963,858	784,193
Discount to present value (1.38%)	(32,855)	-
	$ 1,931,003	$ 784,193

5. Government Grants Receivable

All government grants receivable as of June 30, 2017 and 2016 are expected to be collected within one year.

6. Property, Plant and Equipment

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

	2017	2016
Land	$ 2,000,830	$ 2,000,830
Building and improvements	20,462,009	20,110,276
Furniture and equipment	1,281,957	1,275,557
Vehicles	369,310	339,302
Leasehold improvements	9,415	9,415
	24,123,521	23,735,380
Accumulated depreciation and amortization	(9,946,362)	(9,149,705)
Property, plant and equipment, net	$ 14,177,159	$14,585,675

7. Refundable Advances

Refundable advances consist of the following at June 30:

	2017	2016
State of New Jersey Department of Human Services (Crisis Center)	$ 9,754	$ 10,838
State of New Jersey Department of Community Affairs	175,260	219,075
U.S. Department of Housing and Urban Development	800,000	800,000
	$ 985,014	$ 1,029,913

State of New Jersey Department of Human Services (NJDHS) (Crisis Center)

During fiscal 2006, the Organization was awarded a grant/loan of $21,675 from NJDHS in order to finance the renovation/improvement of its Newark Crisis Center. Pursuant to the terms of the capital funding agreement, the amount of the note is to be reduced by 10% annually one year after the anniversary date. Accordingly, the grant/loan has been recorded as deferred revenue and is being amortized on a straight-line basis into government and private grants revenue over the term of the mortgage.

State of New Jersey Department of Community Affairs (NJDCA)

During fiscal 2011, the Organization was awarded a grant/loan of $529,870 from NJDCA for the renovation of Raphael's Life House, Elizabeth, NJ, for use as a transitional housing facility. Pursuant to the facility restriction clause and other terms of the capital funding agreement, a mortgage note of $438,150 was entered into and is to be forgiven and reduced by 20% annually one year after the issuance of a certificate of occupancy, provided that the Organization continues to use the facility for transitional housing purposes. The balance of the grant of $91,720 was used to equip the facility and is not repayable.

The Organization has not expressed nor does it have any intention of using the facilities referred to above for any purposes other than for their intended program activities for the foreseeable future.

U.S. Department of Housing and Urban Development ("HUD")

In fiscal 2010, the Organization was awarded a special-purpose grant of $1,123,500 from HUD, for the acquisition and operation of two (2) facilities to be used to start a new program, Supportive Apartment Living ("SAL") which will represent the next step in the continuum of care between Rights of Passage and aftercare. In June 2012, the Organization received the initial disbursement of $800,000. In July and November 2012, the Organization closed on properties in Montclair, NJ and Newark, NJ for which $650,000 and $150,000 of the proceeds from the grant were applied, consistent with the terms of the grant award. Pursuant to the facility restriction clause, the Organization must continue to use the facilities acquired for their intended program activities for a period of no less than twenty (20) years or be liable to refund the acquisition proceeds in part or in whole. Commencing in year eleven (11) and through year twenty (20), the amount of the grant which would become refundable would be reduced by 10% annually.

7. Refundable Advances *(continued)*

The Organization has not expressed nor does it have any present intention of using the facilities referred to above for any purposes other than for their intended program activities for the foreseeable future.

8. State of New Jersey Department of Human Services (Rights of Passage)

During fiscal 2001, the Organization was awarded a grant/loan of $100,000 from the NJDHS, in order to finance the renovation/improvement for the Newark Right of Passage ("ROP") facility. An additional amount of $18,375 was subsequently added during fiscal 2006 to finance additional costs at the facility. Pursuant to the facility restriction clause and other terms of the capital funding agreement, the amount of the note is to be reduced by 5% annually one year after the anniversary date, provided that the Organization maintains the new facility for its ROP program only. Accordingly, the grant/loan was recorded as deferred revenue and was amortized on a straight-line basis into government and private grants revenue over the term of the mortgage. During fiscal 2014, the facility was sold and the Organization was in discussions with NJDHS with regard to the return of the unamortized portion of the grant and accordingly, has reclassified and reported the unamortized portion of the grant of $46,025 as other liabilities as of June 30, 2017 and 2016.

9. Mortgages Payable

Mortgages payable consist of the following at June 30:

	2017	2016
Loan for Atlantic City Capital Project	$ 700,000	$ 700,000
Montclair (Nancy's Place) and Newark Capital Projects	648,346	648,346
Montclair (Nancy's Place) Permanent Financing	829,306	829,306
Montclair (Supportive Apartment Living) Permanent Financing	654,400	654,400
Newark (Supportive Apartment Living) Permanent Financing	165,179	165,179
	2,997,231	2,997,231
Less: Deferred financing costs, net	(82,196)	(95,620)
	$ 2,915,035	$ 2,901,611

Loan for Atlantic City Capital Project

In May 2006, the Organization secured a long-term loan from the Corporation for Supportive Housing ("CSH") for $528,000. The proceeds were used for the acquisition of land and related fees for a new transitional living program facility in Atlantic City, NJ. The Organization entered into an agreement to buy the related real estate on August 9, 2005. The loan was refinanced as part of new funding received from the NJHMFA which totaled approximately $4,000,000, of which $3,300,000 was received via a grant and $700,000 was received via a loan entered into on March 17, 2008.

9. Mortgages Payable *(continued)*

Loan for Atlantic City Capital Project (continued)

The initial mortgage term for the $700,000 loan was for a 15-month construction period, followed by a 15-year permanent mortgage, with 0% interest for the entire term. Repayment will be made from twenty-five (25%) percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement.

At June 30, 2017 and 2016, the escrow amount held with the trustee totaled $266,370 and $262,842. To the extent that principal payments are not covered by cash flows, the payment of principal will be deferred until the end of the mortgage term. In fiscal 2017 and 2016, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the mortgage.

Montclair (Nancy's Place) and Newark Capital Projects

The Organization acquired a residential property in Montclair, NJ for a transitional living program, to serve youths with mental disabilities. The Montclair purchase and approximately half of two adjacent residential properties purchased in Newark for the transitional living program were covered by temporary financing of $1,015,500 obtained through CSH, on March 20, 2008. In accordance with terms of the agreement, partial payments aggregating $775,466 were made. These payments were made using grant funds awarded to the Organization from HUD.

At June 8, 2009, the remaining balance of $240,034 was refinanced by the NJHMFA into a new permanent mortgage aggregating $648,346, including additional loan proceeds for the acquisition of two adjacent properties. This mortgage is payable without interest over a period of 15 years. Repayment will be made from twenty-five (25%) percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2017 and 2016, the escrow amount held with the trustee totaled $149,158 and $147,062. To the extent that principal payments are not covered by cash flows, the payment of principal will be deferred until the end of the mortgage term. In fiscal 2017 and 2016, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the mortgage.

Montclair (Nancy's Place) Permanent Financing

On October 6, 2009, the Organization obtained permanent financing for the transitional living program facility in Montclair, NJ from NJHMFA aggregating $829,306. Of this amount, $538,000 was used to repay the existing debt obligation to the Parent, $109,729 was applied to fund required escrow balances, $30,187 was applied to financing expenses and capitalized as deferred financing costs in the accompanying statement of financial position and the rest was received by the Organization as cost reimbursement for construction costs previously incurred. This mortgage is payable without interest over a period of 15 years.

9. Mortgages Payable *(continued)*

Montclair (Nancy's Place) Permanent Financing (continued)

Repayment will be made from twenty-five (25%) percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2017 and 2016, the escrow amount held with the trustee totaled $98,578 and $95,984. To the extent that principal payments are not covered by cash flows, the payment of principal is deferred until the end of the mortgage term. In fiscal 2017 and 2016, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the mortgage.

Montclair (Supportive Apartment Living) Permanent Financing

On July 27, 2012, the Organization obtained permanent financing for the acquisition of a supportive apartment living facility in Montclair, NJ from NJDCA, passed through from HUD, aggregating $654,400. Of this amount $600,000 was received at the closing with the balance due as expenses related to the occupancy of the building are incurred. $1,000 was received both fiscal 2014 and fiscal 2013 and the balance of $52,400 was fully received as of June 30, 2015. The mortgage is payable over a period of 30 years with interest of 1% per annum, from the first of the month following the issuance of a final certificate of occupancy for the premises. Occupancy commenced on October 1, 2013. Repayment will be made from fifty (50%) percent of the project's cash flows after payment of expenses and debt service. To the extent that principal and interest payments are not covered by cash flows, payment is deferred until the end of the mortgage term. In fiscal 2017 and 2016, the project ran a deficit; as such no principal or interest payments were made. The property serves as collateral for the mortgage. Interest expense on this mortgage amounted to $6,540 and $6,501 in fiscal 2017 and 2016, while accrued interest payable at June 30, 2017 amounted to $25,114.

Newark (Supportive Apartment Living) Permanent Financing

On November 20, 2012, the Organization obtained permanent financing for the acquisition of a supportive apartment living facility in Newark, NJ from NJHMFA aggregating $165,179. The mortgage is payable without interest over a period of 30 years. Repayment will be made from twenty-five (25%) percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2017 and 2016, the escrow amount held with the trustee totaled $18,580 and $17,644. To the extent that payments are not covered by cash flows, the payment of principal will be deferred until the end of the mortgage term. In fiscal 2017 and 2016, the project ran a deficit; as such no principal payments were made. If it is determined at the maturity of the mortgage that the Organization cannot repay and if all mortgage terms and conditions have been met, NJHMFA may extend or refinance the mortgage. The property serves as collateral for the mortgage.

10. Line of Credit

The Organization has an available $1,000,000 line of credit agreement with Bank of America, N.A. which matures on February 28, 2018. Interest on amounts borrowed will accrue at a rate of British Bankers Association LIBOR plus 3.50%. Outstanding borrowings on this line of credit facility amounted to $0 and $195,000 at June 30, 2017 and 2016. Interest expense for fiscal 2017 and 2016 amounted to $3,826 and $11,942.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following programs or purposes:

	2017	2016
Jersey City Site	$ 125,000	$ 100,000
Time Restricted	1,732,811	-
	$ 1,857,811	$ 100,000

Net assets of $100,000 and $150,000 were released from donor restriction during fiscal 2017 and 2016 by incurring expenses for the Organization's Jersey City site.

12. Government and Private Grants

Government and private grants revenue consist of the following for the years ended June 30:

	2017	2016
U.S. Department of Housing and Urban Development	$ 1,204,859	$ 846,276
U.S. Department of Health and Human Services	256,753	200,000
State of New Jersey Department of Children and Families	660,530	668,715
State of New Jersey Department of Human Services	65,000	54,640
U.S. Department of Justice	35,491	-
Various other grants	57,399	79,899
	$ 2,280,032	$ 1,849,530

In accordance with the terms of certain government and private grants, the records of the Organization are subject to audit after the date of final payment of the contracts. The Organization is liable for any disallowed costs; however, management of the Organization believes that the amount of costs disallowed, if any, would not be significant.

Government grants receivable consist of the following at June 30:

	2017	2016
U.S. Department of Housing and Urban Development	$ 68,131	$ 242,120
U.S. Department of Health and Human Services	-	33,334
U.S. Department of Justice	35,491	-
State of New Jersey Department of Community Affairs	175,300	-
State of New Jersey Department of Children and Families	55,045	-
State of New Jersey Department of Human Services	1,439	11,700
	$ 335,406	$ 287,154

12. Government and Private Grants *(continued)*

As of June 30, 2017 and 2016, the Organization has been approved for a number of government cost reimbursement grants in which conditions stipulated in the grant agreements have not yet been met. Accordingly, revenue pertaining to these grants has not been recognized in the accompanying financial statements.

13. Employee Benefit Plan

The Organization participates in a defined benefit pension plan 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. The Organization did not contribute to the defined benefit pension plan during the years ended June 30, 2017 and 2016. Effective December 31, 2006, the Parent froze service credits in the Plan. Compensation increases will continue to apply within the plan structure for those participants who have at least 45 points (age plus years of service). The Organization has 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 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 $268,713 and $193,332 for 2017 and 2016.

14. 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 from the Parent to its affiliated organizations totaled approximately $66 million and $64.3 million in fiscal years ended 2017 and 2016. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations plus a Parent subsidy and appropriates funds classified as “Branding Dollars” or “Contributions Received from Parent” to each Covenant House affiliate. Total funds allocated to affiliated organizations, based on the Parent’s policy, approximated $36 million and $33.6 million in fiscals ended 2017 and 2016. In fiscal 2017 and 2016, the Organization received approximately $4,593,000 and $3,605,000 in support from the Parent.

14. Related Party Transactions *(continued)*

Amounts due from the Parent at June 30, 2017 and 2016, result from timing differences between contributions collected by the Parent on the Organization's behalf and advances of support from the Parent, which do not bear interest. Amounts due from the Parent at June 30, 2017 and 2016 totaled $409,417 and $174,125.

15. Concentrations of Credit Risk

Certain financial instruments potentially subject the Organization to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents, contributions and government grants receivable and investments. The Organization places its cash and cash equivalents with high credit quality financial institutions which, at times, may exceed federally insured limits. 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.

The investment portfolio is managed by professional investment advisors and managers. The Organization performs ongoing evaluations of its portfolio and believes that credit risk to this portfolio is minimal.

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