

# **Covenant House New Jersey**

Financial Statements

June 30, 2018

## 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, 2018, 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, 2018 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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

December 7, 2018

## Covenant House New Jersey

Statement of Financial Position  
June 30, 2018  
(with comparative amounts at June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,209,828	\$ 919,283
Investments	995,676	924,136
Contributions receivable, net	3,181,036	1,931,003
Government grants receivable	108,624	335,406
Other receivables	353	6,321
Due from Parent	396,639	409,417
Prepaid expenses and other assets	75,838	65,056
Deposits held with trustee	541,861	532,686
Property, plant and equipment, net	<u>13,835,458</u>	<u>14,177,159</u>
	<u>\$ 21,345,313</u>	<u>\$ 19,300,467</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,045,872	\$ 938,463
Refundable advances	940,115	985,014
Other liabilities	46,025	46,025
Mortgages payable, net	<u>2,928,459</u>	<u>2,915,035</u>
Total Liabilities	<u>4,960,471</u>	<u>4,884,537</u>
Net Assets		
Unrestricted	13,221,543	12,558,119
Temporarily restricted	<u>3,163,299</u>	<u>1,857,811</u>
Total Net Assets	<u>16,384,842</u>	<u>14,415,930</u>
	<u>\$ 21,345,313</u>	<u>\$ 19,300,467</u>

See notes to financial statements

## Covenant House New Jersey

### Statement of Activities Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
<b>SUPPORT AND REVENUE</b>				
Contributions (including donated land of \$387,000 in 2018)	\$ 2,818,947	\$ 2,487,821	\$ 5,306,768	\$ 4,315,486
Government and private grants	2,325,275	-	2,325,275	2,280,032
Branding dollars from Parent	3,053,174	-	3,053,174	3,144,006
Grants from Parent related to Sleep Out events	1,216,721	-	1,216,721	1,448,913
Special events, net of direct expenses of \$393,374 and \$390,658	1,662,788	-	1,662,788	1,190,117
Contributed services	25,000	-	25,000	50,000
Net assets released from restrictions	1,182,333	(1,182,333)	-	-
Total Support and Revenue	12,284,238	1,305,488	13,589,726	12,428,554
<b>INVESTMENT AND OTHER INCOME</b>				
Dividends and interest	22,149	-	22,149	20,412
Unrealized gain	-	-	-	3,988
Other income	52,550	-	52,550	52,599
Total Investment and Other Income	74,699	-	74,699	76,999
Total Support and Revenue and Investment and Other Income	12,358,937	1,305,488	13,664,425	12,505,553
<b>EXPENSES</b>				
Program expenses	9,934,381	-	9,934,381	9,319,111
Supporting Services				
Management and general	986,845	-	986,845	904,233
Fundraising	774,287	-	774,287	563,650
Total Expenses	11,695,513	-	11,695,513	10,786,994
Change in Net Assets	663,424	1,305,488	1,968,912	1,718,559
<b>NET ASSETS</b>				
Beginning of year	12,558,119	1,857,811	14,415,930	12,697,371
End of year	\$ 13,221,543	\$ 3,163,299	\$ 16,384,842	\$ 14,415,930

See notes to financial statements

## Covenant House New Jersey

### Statement of Functional Expenses Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	Program Services								Supporting Services			Cost of Direct Benefits to Donors	Total Expenses	Total 2017		
	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
Salaries	\$ 1,538,104	\$ 297,983	\$ 351,820	\$ 334,790	\$ 768,937	\$ 742,637	\$ 197,369	\$ 786,166	\$ -	\$ 5,017,806	\$ 556,306	\$ 450,085	\$ 1,006,391	\$ -	\$ 6,024,197	\$ 5,685,111
Payroll taxes	159,397	30,881	36,460	34,695	79,687	76,961	20,453	81,472	-	520,006	57,651	46,643	104,294	-	624,300	672,204
Employee benefits	295,341	57,218	67,555	64,285	147,648	142,598	37,898	150,957	-	963,500	106,820	86,424	193,244	-	1,156,744	1,085,853
Total Salaries and Related Expenses	1,992,842	386,082	455,835	433,770	996,272	962,196	255,720	1,018,595	-	6,501,312	720,777	583,152	1,303,929	-	7,805,241	7,443,168
Faith community	90,791	-	-	-	45,389	-	-	-	-	136,180	-	-	-	-	136,180	52,945
Professional fees (including contributed services of \$25,000 in 2018 and \$50,000 in 2017)	13,701	-	-	13,700	6,850	403	17,201	27,551	7,000	86,406	29,139	-	29,139	-	115,545	116,500
Consulting	215	-	-	215	108	175,295	215	322	-	176,370	1,074	25,681	26,755	-	203,125	97,647
Supplies	47,703	2,111	764	3,895	23,848	2,091	2,452	12,289	1,156	96,309	7,258	14,792	22,050	-	118,359	119,684
Telephone	10,583	5,211	5,049	15,807	5,291	1,044	6,494	25,202	1,547	76,228	78,580	2,035	80,615	-	156,843	123,591
Postage and printing	234	973	58	2,826	117	2,060	787	1,658	-	8,713	6,394	13,884	20,278	-	28,991	23,287
Occupancy																
Fuel and utilities	108,859	4,721	3,046	24,793	54,421	-	9,553	36,190	18,256	259,839	-	-	-	-	259,839	275,015
Repairs and maintenance	79,240	11,087	2,415	20,907	39,614	-	3,352	5,606	39,362	201,583	-	-	-	-	201,583	197,152
Rent and other	8,168	22,350	21,600	-	4,083	-	-	1,000	-	57,201	8,353	-	8,353	-	65,554	67,646
Equipment	13,709	380	1,468	537	6,854	2,283	7,152	18,105	490	50,978	-	-	-	-	50,978	54,323
Specific Assistance to Individuals																
Food	76,206	10,321	4,397	1,801	38,097	2,141	6,476	6,004	-	145,443	-	2,148	2,148	-	147,591	162,397
Clothing, allowance, other	41,587	2,973	10,351	8,670	20,790	30,066	7,151	558,017	-	679,605	-	6,469	6,469	-	686,074	521,385
Other purchased services	65,842	1,223	44,292	23,571	32,916	14,385	16,006	42,143	4,788	245,166	61,471	103,756	165,227	393,374	803,767	668,002
Dues, licenses and permits	9,915	350	1,772	8,433	4,957	1,897	8,607	12,924	520	49,375	14,053	731	14,784	-	64,159	39,051
Insurance	78,876	12,149	2,754	14,316	39,432	-	4,660	41,279	9,908	203,374	56,745	-	56,745	-	260,119	230,702
Miscellaneous	37,698	18,466	13,071	10,750	18,846	17,776	16,504	34,773	-	167,884	-	21,639	21,639	-	189,523	188,500
Total Functional Expenses Before Depreciation and Amortization	2,676,169	478,397	566,872	583,991	1,337,885	1,211,637	362,330	1,841,658	83,027	9,141,966	983,844	774,287	1,758,131	393,374	11,293,471	10,380,995
Depreciation and amortization	307,331	4,543	-	34,156	153,666	-	6,272	286,447	-	792,415	3,001	-	3,001	-	795,416	796,657
Total Functional Expenses	2,983,500	482,940	566,872	618,147	1,491,551	1,211,637	368,602	2,128,105	83,027	9,934,381	986,845	774,287	1,761,132	393,374	12,088,887	11,177,652
Less direct benefit to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	(393,374)	(393,374)	(390,658)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,983,500	\$ 482,940	\$ 566,872	\$ 618,147	\$ 1,491,551	\$ 1,211,637	\$ 368,602	\$ 2,128,105	\$ 83,027	\$ 9,934,381	\$ 986,845	\$ 774,287	\$ 1,761,132	\$ -	\$ 11,695,513	\$ 10,786,994

See notes to financial statements

## Covenant House New Jersey

### Statement of Cash Flows Year Ended June 30, 2018 (with comparative amounts for the year ended June 30, 2017)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,968,912	\$ 1,718,559
Adjustments to reconcile change in net assets to net cash from operating activities		
Donated land	(387,000)	-
Unrealized gain	-	(3,988)
Amortization of refundable advances	(44,899)	(44,899)
Amortization of deferred financing costs	13,424	13,424
Depreciation and amortization	795,416	796,657
Changes in operating assets and liabilities		
Contributions receivable	(1,250,033)	(1,146,810)
Government grants receivable	226,782	(48,252)
Other receivables	5,968	6,525
Due from Parent	12,778	(235,292)
Prepaid expenses and other assets	(10,782)	(3,748)
Accounts payable and accrued expenses	107,409	141,110
Net Cash from Operating Activities	1,437,975	1,193,286
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(66,715)	(388,141)
Purchase of investments	(71,540)	(19,359)
Net Cash from Investing Activities	(138,255)	(407,500)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deposits held with trustee	(9,175)	(9,154)
Proceeds from line of credit	2,149,500	1,021,000
Payments of line of credit	(2,149,500)	(1,216,000)
Net Cash from Financing Activities	(9,175)	(204,154)
Net Change in Cash and Cash Equivalents	1,290,545	581,632
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	919,283	337,651
End of year	\$ 2,209,828	\$ 919,283
 <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 17,865	\$ 3,826

See notes to financial statements

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2018

### 1. Organization and Tax Status

Covenant House New Jersey (the "Organization"), is a not-for-profit organization founded and incorporated in 1989. 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 89,000 and 80,000 young people during fiscal 2018 and 2017.

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 44<sup>th</sup> 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.



## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2018

### 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 education, 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.

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2018

### 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.

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2018

### **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.

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2018

### **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 or fair value if donated. 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, 2018 and 2017.

#### ***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, 2018 and 2017, 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 ("NJDCFA") require the Organization to establish certain escrow funds (See Note 9). As of June 30, 2018 and 2017, the Organization's deposits held with trustee consist of cash held in interest-bearing savings accounts at Bank of America, N.A.

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2018

### **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 method which approximates the interest method over the term of the mortgages payable. Amortization of deferred financing costs amounted to \$13,424 in fiscal 2018 and 2017 and is included in miscellaneous expenses (which includes interest expense) in the statement of functional expenses.

#### ***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, 2015.

#### ***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 2018 and 2017, health insurance and reimbursement for other personal expenses are provided to Community members by the Organization. The expenses associated with Community members totaled approximately \$136,000 and \$53,000 for the years ended June 30, 2018 and 2017, 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, 2017, from which the summarized information was derived.

#### ***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 7, 2018.

## Covenant House New Jersey

### Notes to Financial Statements June 30, 2018

#### 3. Investments

Investments at June 30, 2018 and 2017 consisted of the following 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:

	<u>2018</u>	<u>2017</u>
Fixed income mutual fund	\$ 945,110	\$ 924,036
Equities	50,466	-
Money market fund, at cost	100	100
	<u>\$ 995,676</u>	<u>\$ 924,136</u>

#### 4. Contributions Receivable

Contributions receivable at June 30, 2018 and 2017 are scheduled to be collected as follows:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 1,239,397	\$ 763,525
Due within two to four years	2,037,080	1,200,333
	3,276,477	1,963,858
Discount to present value (1.38%)	(95,441)	(32,855)
	<u>\$ 3,181,036</u>	<u>\$ 1,931,003</u>

#### 5. Government Grants Receivable

All government grants receivable as of June 30, 2018 and 2017 are expected to be collected within one year.

#### 6. Property, Plant and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 2,387,830	\$ 2,000,830
Building and improvements	20,510,828	20,461,338
Furniture and equipment	1,281,957	1,281,957
Vehicles	386,535	369,310
Leasehold improvements	9,415	9,415
	24,576,565	24,122,850
Accumulated depreciation and amortization	(10,741,107)	(9,945,691)
Property, plant and equipment, net	<u>\$ 13,835,458</u>	<u>\$ 14,177,159</u>

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2018

### 7. Refundable Advances

Refundable advances consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
State of New Jersey Department of Human Services (Crisis Center)	\$ 8,670	\$ 9,754
State of New Jersey Department of Community Affairs	131,445	175,260
U.S. Department of Housing and Urban Development	<u>800,000</u>	<u>800,000</u>
	<u>\$ 940,115</u>	<u>\$ 985,014</u>

#### ***State of New Jersey Department of Human Services (NJ DHS) (Crisis Center)***

During fiscal 2006, the Organization was awarded a grant/loan of \$21,675 from NJ DHS 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 5% 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 related mortgage.

#### ***State of New Jersey Department of Community Affairs (NJ DCA)***

During fiscal 2011, the Organization was awarded a grant/loan of \$529,870 from NJ DCA 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 10% 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.

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2018

### 7. Refundable Advances (continued)

#### *U.S. Department of Housing and Urban Development (“HUD”)(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 Rights of Passage (“ROP”) facility. An additional amount of \$18,375 was subsequently awarded 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, 2018 and 2017.

### 9. Mortgages Payable

Mortgages payable consist of the following at June 30:

	2018	2017
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
	<u>2,997,231</u>	<u>2,997,231</u>
Less: Deferred financing costs, net	<u>(68,772)</u>	<u>(82,196)</u>
	<u>\$ 2,928,459</u>	<u>\$ 2,915,035</u>

#### *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.



## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2018

### 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, 2018 and 2017, the escrow amount held with the trustee totaled \$269,905 and \$266,370. 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 2018 and 2017, 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, 2018 and 2017, the escrow amount held with the trustee totaled \$151,258 and \$149,158. 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 2018 and 2017, 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.

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2018

### **9. Mortgages Payable (continued)**

#### ***Montclair (Nancy's Place) Permanent Financing (contained)***

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, 2018 and 2017, the escrow amount held with the trustee totaled \$101,178 and \$98,578. 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 2018 and 2017, 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 2018 and 2017, 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 \$6,501 and \$6,540 in fiscal 2018 and 2017.

#### ***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, 2018 and 2017, the escrow amount held with the trustee totaled \$19,518 and \$18,580. 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 2018 and 2017, 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.

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2018

### 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, 2019. Interest on amounts borrowed will accrue at a rate of British Bankers Association LIBOR plus 3.50%. There were no outstanding borrowings on this line of credit facility at June 30, 2018 and 2017. Interest expense for fiscal 2018 and 2017 amounted to \$17,904 and \$3,826.

### 11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following programs or purposes:

	<u>2018</u>	<u>2017</u>
Jersey City Site	\$ 112,500	\$ 125,000
Time restricted	<u>3,050,799</u>	<u>1,732,811</u>
	<u>\$ 3,163,299</u>	<u>\$ 1,857,811</u>

Net assets of \$1,182,333 and \$100,000 were released from donor restriction during fiscal 2018 and 2017 by incurring expenses for the Organization's Jersey City Site and passage of time.

### 12. Government and Private Grants

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

	<u>2018</u>	<u>2017</u>
U.S. Department of Housing and Urban Development	\$ 1,078,638	\$ 1,204,859
U.S. Department of Health and Human Services	327,425	256,753
State of New Jersey Department of Children and Families	660,527	660,530
State of New Jersey Department of Human Services	65,000	65,000
State of New Jersey Department of Community Affairs	36,449	-
U.S. Department of Justice	98,587	35,491
Various other grants	<u>58,649</u>	<u>57,399</u>
	<u>\$ 2,325,275</u>	<u>\$ 2,280,032</u>

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.

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2018

### 12. Government and Private Grants *(continued)*

Government grants receivable consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
U.S. Department of Housing and Urban Development	\$ 32,213	\$ 68,131
U.S. Department of Justice	39,962	35,491
State of New Jersey Department of Community Affairs	36,449	175,300
State of New Jersey Department of Children and Families	-	55,045
State of New Jersey Department of Human Services	-	1,439
	<u>\$ 108,624</u>	<u>\$ 335,406</u>

As of June 30, 2018, 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 noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, 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 to freeze the future benefit accruals of 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. Beginning in the year ended June 30, 2018, the Organization contributed \$33,016 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expenses.

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 \$267,642 and \$268,713 for 2018 and 2017.

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2018

### **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 \$64 million and \$66 million in fiscal years ended 2018 and 2017. 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 \$35 million and \$36 million in the fiscal years ended 2018 and 2017. In fiscal 2018 and 2017, the Organization received approximately \$4,270,000 and \$4,593,000 in support from the Parent.

Amounts due from the Parent at June 30, 2018 and 2017, 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, 2018 and 2017 totaled \$396,639 and \$409,417.

### **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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