

Covenant House New Jersey

Financial Statements

June 30, 2015

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, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

O'CONNOR DAVIES, LLP

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House New Jersey as of June 30, 2015 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.

Prior Period Financial Statements

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

O'Connor Davies, LLP

December 11, 2015

Covenant House New Jersey

Statements of Financial Position

	June 30	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 448,999	\$ 1,093,142
Investments	872,351	885,086
Contributions receivable	88,343	58,211
Government grants receivable	390,617	336,209
Other receivables	9,108	13,129
Due from parent	21,855	34,452
Mortgage receivable	-	52,400
Prepaid expenses and other assets	47,939	51,051
Deposits held with trustee	514,394	505,274
Deferred financing costs, net	109,044	122,468
Property, plant and equipment, net	<u>15,367,657</u>	<u>16,223,125</u>
	<u>\$ 17,870,307</u>	<u>\$ 19,374,547</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 765,012	\$ 774,495
Deferred revenue	179,608	13,551
Refundable advances	1,074,811	1,278,490
Other liabilities	46,025	46,025
Mortgages payable	<u>2,997,231</u>	<u>2,997,231</u>
Total Liabilities	<u>5,062,687</u>	<u>5,109,792</u>
Net Assets		
Unrestricted	12,657,620	14,114,755
Temporarily restricted	<u>150,000</u>	<u>150,000</u>
Total Net Assets	<u>12,807,620</u>	<u>14,264,755</u>
	<u>\$ 17,870,307</u>	<u>\$ 19,374,547</u>

See notes to financial statements

Covenant House New Jersey

Statements of Activities

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$ 1,581,810	\$ -	\$ 1,581,810	\$ 1,833,005	\$ 150,000	\$ 1,983,005
Government and private grants	2,003,042	-	2,003,042	2,119,236	-	2,119,236
Branding dollars from parent	3,234,000	-	3,234,000	3,234,000	-	3,234,000
Special events, net of direct expenses of \$346,439 and \$344,462	2,214,228	-	2,214,228	2,157,352	-	2,157,352
Total Support and Revenues	<u>9,033,080</u>	<u>-</u>	<u>9,033,080</u>	<u>9,343,593</u>	<u>150,000</u>	<u>9,493,593</u>
INVESTMENT AND OTHER INCOME						
Dividends and interest	19,578	-	19,578	19,750	-	19,750
Unrealized (loss) gain	(9,312)	-	(9,312)	10,818	-	10,818
Other income	153,382	-	153,382	223,139	-	223,139
Total Investment and Other Income	<u>163,648</u>	<u>-</u>	<u>163,648</u>	<u>253,707</u>	<u>-</u>	<u>253,707</u>
Total Support, Revenue, Investment and Other Income	<u>9,196,728</u>	<u>-</u>	<u>9,196,728</u>	<u>9,597,300</u>	<u>150,000</u>	<u>9,747,300</u>
EXPENSES						
Program expenses	9,243,198	-	9,243,198	9,002,415	-	9,002,415
Supporting services						
Management and general	801,625	-	801,625	816,362	-	816,362
Fundraising	609,040	-	609,040	501,819	-	501,819
Total Expenses	<u>10,653,863</u>	<u>-</u>	<u>10,653,863</u>	<u>10,320,596</u>	<u>-</u>	<u>10,320,596</u>
Change in Net Assets	(1,457,135)	-	(1,457,135)	(723,296)	150,000	(573,296)
NET ASSETS						
Beginning of year	14,114,755	150,000	14,264,755	14,838,051	-	14,838,051
End of year	<u>\$ 12,657,620</u>	<u>\$ 150,000</u>	<u>\$ 12,807,620</u>	<u>\$ 14,114,755</u>	<u>\$ 150,000</u>	<u>\$ 14,264,755</u>

See notes to financial statements

Covenant House New Jersey

Statement of Functional Expenses Year Ended June 30, 2015

	Program Services									Supporting Services			Cost of Direct Benefits to Donors	Total Expenses	
	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	Fund Raising			Total Supporting Services
Salaries	\$ 1,417,911	\$ 332,853	\$ 356,470	\$ 271,069	\$ 708,977	\$ 615,300	\$ 221,438	\$ 730,523	\$ -	\$ 4,654,541	\$ 445,051	\$ 366,109	\$ 811,160	\$ -	\$ 5,465,701
Payroll taxes	180,289	42,323	45,326	34,467	90,147	78,236	28,156	92,887	-	591,831	56,589	46,551	103,140	-	694,971
Employee benefits	317,641	74,566	79,857	60,725	158,825	137,840	49,607	163,652	-	1,042,711	99,700	82,016	181,716	-	1,224,427
Total Salaries and Related Expenses	1,915,841	449,742	481,653	366,261	957,949	831,376	299,201	987,062	-	6,289,083	601,340	494,676	1,096,016	-	7,385,099
Faith community	41,160	-	-	-	20,581	-	-	-	-	61,741	-	-	-	-	61,741
Professional fees	28,610	-	-	14,452	14,305	218	14,243	23,015	6,600	101,443	18,239	-	18,239	-	119,682
Consulting	277	-	846	185	-	28,012	185	277	-	29,781	1,538	6,540	8,078	-	37,859
Supplies	63,648	3,991	1,622	3,714	31,825	1,268	10,517	7,450	487	124,520	6,907	4,536	11,443	-	135,963
Telephone	10,191	6,443	5,401	4,360	5,096	786	3,545	7,967	777	44,566	56,898	2,379	59,277	-	103,843
Postage and printing	367	1,947	204	6,772	183	4,150	135	280	-	14,038	6,931	10,423	17,354	-	31,392
Occupancy															
Fuel and utilities	122,763	3,809	2,065	29,181	61,383	-	8,195	31,500	14,553	273,449	-	-	-	-	273,449
Repairs and maintenance	52,714	5,803	1,811	9,627	26,358	-	6,640	6,218	14,081	123,252	-	-	-	-	123,252
Rent and other	8,104	23,500	21,600	-	4,052	-	-	-	2,245	59,501	9,659	-	9,659	-	69,160
Equipment	16,290	1,255	272	508	8,145	-	2,166	8,130	410	37,176	30	-	30	-	37,206
Specific Assistance to Individuals															
Food	91,666	14,450	4,534	2,341	45,835	667	8,036	3,436	-	170,965	-	766	766	-	171,731
Clothing, allowance, other	39,830	3,786	16,705	12,693	19,916	19,555	9,914	293,234	(2,365)	413,268	9,525	2,360	11,885	-	425,153
Other purchased services	65,774	1,257	46,994	17,749	32,888	17,697	16,376	34,413	7,806	240,954	38,904	61,172	100,076	346,439	687,469
Dues, licenses and permits	5,488	6,125	939	5,888	2,744	2,875	4,512	6,175	199	34,945	7,573	10,646	18,219	-	53,164
Insurance	84,072	11,119	2,568	20,605	42,037	-	8,988	39,588	4,200	213,177	-	-	-	-	213,177
Miscellaneous	34,251	28,805	19,706	7,566	17,126	3,339	7,821	8,963	-	127,577	40,733	15,542	56,275	-	183,852
Total Functional Expenses Before Depreciation and Amortization	2,581,046	562,032	606,920	501,902	1,290,423	909,943	400,474	1,457,708	48,993	8,359,436	798,277	609,040	1,407,317	346,439	10,113,192
Depreciation and amortization	342,759	5,067	-	38,093	171,380	-	6,995	319,468	-	883,762	3,348	-	3,348	-	887,110
Total Functional Expenses	2,923,805	567,099	606,920	539,995	1,461,803	909,943	407,469	1,777,176	48,993	9,243,198	801,625	609,040	1,410,665	346,439	11,000,302
Less direct benefit to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	(346,439)	(346,439)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,923,805	\$ 567,099	\$ 606,920	\$ 539,995	\$ 1,461,803	\$ 909,943	\$ 407,469	\$ 1,777,176	\$ 48,993	\$ 9,243,198	\$ 801,625	\$ 609,040	\$ 1,410,665	\$ -	\$ 10,653,863

See notes to financial statements

Covenant House New Jersey

Statement of Functional Expenses Year Ended June 30, 2014

	Program Services									Supporting Services			Cost of Direct Benefits to Donors	Total Expenses	
	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	Fund Raising			Total Supporting Services
Salaries	\$ 1,408,271	\$ 402,832	\$ 176,604	\$ 258,821	\$ 704,135	\$ 562,882	\$ 201,910	\$ 699,795	\$ -	\$ 4,415,250	\$ 421,910	\$ 317,608	\$ 739,518	\$ -	\$ 5,154,768
Payroll taxes	183,990	52,594	23,057	33,918	91,995	73,490	26,488	91,555	-	577,087	55,321	41,467	96,788	-	673,875
Employee benefits	307,093	87,562	38,388	57,243	153,547	122,351	44,873	153,588	-	964,645	94,111	69,037	163,148	-	1,127,793
Total Salaries and Related Expenses	1,899,354	542,988	238,049	349,982	949,677	758,723	273,271	944,938	-	5,956,982	571,342	428,112	999,454	-	6,956,436
Faith community	64,282	-	-	-	32,141	-	-	-	-	96,423	-	-	-	-	96,423
Professional fees	11,781	-	-	11,781	5,890	-	14,681	23,471	4,800	72,404	44,635	-	44,635	-	117,039
Consulting	3,399	-	5,628	3,359	1,699	25,968	3,359	5,038	-	48,450	12,848	31,237	44,085	-	92,535
Supplies	46,021	7,390	82	5,506	23,010	4,015	4,403	5,910	6,325	102,662	8,391	3,444	11,835	-	114,497
Telephone	11,595	12,453	-	6,857	5,797	450	4,877	12,947	996	55,972	61,669	1,359	63,028	-	119,000
Postage and printing	1,036	2,788	2	1,511	518	4,286	397	675	149	11,362	8,314	11,347	19,661	-	31,023
Occupancy															
Fuel and utilities	107,259	5,899	-	28,759	53,630	-	9,881	39,198	11,127	255,753	-	-	-	-	255,753
Repairs and maintenance	56,908	5,854	-	11,905	28,454	-	4,258	7,455	30,566	145,400	-	-	-	-	145,400
Rent and other	8,959	43,677	-	-	4,480	-	-	51	17,701	74,868	7,032	-	7,032	-	81,900
Equipment	13,156	4,908	-	8,805	6,578	200	419	6,446	903	41,415	277	-	277	-	41,692
Specific Assistance to Individuals															
Food	89,651	11,645	866	3,863	44,826	145	11,528	3,960	-	166,484	5	98	103	-	166,587
Clothing, allowance, other	55,635	16,071	24,155	9,675	27,818	35,023	5,274	277,297	645	451,593	3,742	3,281	7,023	-	458,616
Other purchased services	63,644	4,790	40,740	22,468	31,822	13,355	18,914	47,246	8,230	251,209	48,295	3,946	52,241	344,462	647,912
Dues, licenses and permits	5,976	1,576	730	5,797	2,988	2,000	2,741	3,857	90	25,755	5,235	-	5,235	-	30,990
Insurance	86,199	13,816	-	18,938	43,100	-	8,515	36,872	4,264	211,704	-	-	-	-	211,704
Miscellaneous	37,091	38,552	1,768	7,983	18,545	7,740	9,299	12,656	14,472	148,106	41,221	18,995	60,216	-	208,322
Total Functional Expenses Before Depreciation and Amortization	2,561,946	712,407	312,020	497,189	1,280,973	851,905	371,817	1,428,017	100,268	8,116,542	813,006	501,819	1,314,825	344,462	9,775,829
Depreciation and amortization	343,578	5,079	-	38,184	171,789	-	7,012	320,231	-	885,873	3,356	-	3,356	-	889,229
Total Functional Expenses	2,905,524	717,486	312,020	535,373	1,452,762	851,905	378,829	1,748,248	100,268	9,002,415	816,362	501,819	1,318,181	344,462	10,665,058
Less direct benefit to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	(344,462)	(344,462)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,905,524	\$ 717,486	\$ 312,020	\$ 535,373	\$ 1,452,762	\$ 851,905	\$ 378,829	\$ 1,748,248	\$ 100,268	\$ 9,002,415	\$ 816,362	\$ 501,819	\$ 1,318,181	\$ -	\$ 10,320,596

See notes to financial statements

Covenant House New Jersey

Statements of Cash Flows

	Year Ended	
	June 30	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,457,135)	\$ (573,296)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized loss (gain)	9,312	(10,818)
Amortization of deferred revenue	(44,899)	(247,080)
Amortization of deferred financing costs	13,424	13,424
Depreciation and amortization	873,686	875,806
Loss on sale of property held for sale	-	4,455
Changes in operating assets and liabilities		
Contributions receivable	(30,132)	8,080
Grants receivable	(54,408)	(110,259)
Other receivables	4,021	231,911
Due from parent	12,597	123,441
Prepaid expenses and other assets	3,112	(1,258)
Accounts payable and accrued expenses	(9,483)	32,033
Other liabilities	-	46,025
Deferred revenue	7,277	112,755
Net Cash from Operating Activities	(672,628)	505,219
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(18,218)	(418,869)
Purchase of investments	(18,977)	(39,077)
Proceeds from sale of investments	22,400	-
Proceeds from sale of property	-	55,545
Net Cash from Investing Activities	(14,795)	(402,401)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits held with trustee	(9,120)	(9,101)
Proceeds from mortgage receivable	52,400	1,000
Proceeds from line of credit	1,400,000	-
Payments of line of credit	(1,400,000)	-
Net Cash from Financing Activities	43,280	(8,101)
Net Change in Cash and Cash Equivalents	(644,143)	94,717
CASH AND CASH EQUIVALENTS		
Beginning of year	1,093,142	998,425
End of year	\$ 448,999	\$ 1,093,142
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid for interest	\$ 22,464	\$ 9,052

See notes to financial statements

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

1. Organization and Tax Status

Covenant House New Jersey (the "Organization"), a not-for-profit organization, is an operating affiliate of Covenant House (the "Parent"), a New York-based organization. The Organization provides shelter, residential services, community services, and outreach services to youths in New Jersey. The Parent is the sole member of the Organization and is itself a private not-for-profit organization which, through its affiliates, provides shelter, food, clothing, counseling, medical attention, crisis intervention, public education, and other services to more than 51,000 and 57,000 runaway and homeless youths during the fiscal years ended June 30, 2015 and 2014.

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

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

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

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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation

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

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), grants 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 statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Cash and Cash Equivalents

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

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, 2015 and 2014

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, 2015 and 2014.

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, 2015 and 2014, 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 ("NJDC") require the Organization to establish certain escrow funds (See Note 9). As of June 30, 2015 and 2014, 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, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs are presented net of accumulated amortization and are being amortized on a straight-line basis over the term of the mortgages payable.

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, 2011.

Donated Services

The Organization recognizes the fair value of donated services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Contributed services which do not meet these criteria are not recognized as revenue and are not reported in the accompanying financial statements.

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 2015 and 2014, health insurance and reimbursement for other personal expenses are provided to Community members by the Organization. The expenses associated with Community members totaled approximately \$62,000 and \$96,000 for the years ended June 30, 2015 and 2014, and are reported in the accompanying statements of functional expenses as part of shelter and crisis care and community service center.

Reclassifications

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

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 11, 2015.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (*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 provided 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 RL Mother/Child Program

The Organization provides emergency shelter, food, and counseling to homeless mothers under the age of 23 and their children. Services provided under the program are through a collaboration agreement with Raphael's Life House (see note 13)

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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

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

Components of Program and Supporting Services (continued)

Program Services (continued)

Supportive Apartment Living

The Supportive Apartment 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.

3. Investments

Investments at June 30, 2015 and 2014 consisted of fixed income securities, equities and 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 categorized by the fair value hierarchy at June 30, are as follows:

	<u>2015</u>	<u>2014</u>
Fixed income mutual fund	\$ 872,251	\$ 862,587
Equities	-	22,399
Money market fund	100	100
	<u>\$ 872,351</u>	<u>\$ 885,086</u>

4. Government Grants Receivable

All government grants receivable as of June 30, 2015 are expected to be collected within one year.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

5. Property, Plant and Equipment

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

	2015	2014
Land	\$ 2,000,830	\$ 2,000,830
Building and improvements	20,013,128	20,013,128
Furniture and equipment	1,275,557	1,275,557
Vehicles	322,326	304,108
Leasehold improvements	9,415	9,415
	23,621,256	23,603,038
Accumulated depreciation and amortization	(8,321,496)	(7,447,810)
	15,299,760	16,155,228
Construction-in-progress	67,897	67,897
Property, plant and equipment, net	\$ 15,367,657	\$ 16,223,125

6. Deferred Revenue

	2015	2014
William Simon Foundation	\$ 150,000	\$ -
Private grants, the conditions of which have not been satisfied	29,608	13,551
	\$ 179,608	\$ 13,551

William Simon Foundation

During fiscal 2015, the Organization was awarded a grant of \$150,000 from the William Simon Foundation for general support services for homeless youth in Jersey City. The grant was received at the end of June 2015 and was deferred until fiscal 2016 when the funds will be utilized per the conditions of the award.

Private Grants

Deferred revenue from various private grants will be recognized during the period in which the grant conditions are met.

7. Refundable Advances

	2015	2014
State of New Jersey Department of Human Services (Crisis Center)	\$ 11,921	\$ 13,005
State of New Jersey Department of Community Affairs	262,890	306,705
State of New Jersey Department of Children and Families	-	158,780
U.S. Department of Housing and Urban Development	800,000	800,000
	\$ 1,074,811	\$ 1,278,490

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

7. Refundable Advances (continued)

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 mortgage. At June 30, 2015 and 2014, the unamortized balance of the note was \$11,921 and \$13,005, and is reflected as deferred revenue on the accompanying statement of financial position.

State of New Jersey Department of Community Affairs

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 (See Note 13). 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.

At June 30, 2015 and 2014, the unamortized balance of the note was \$262,890 and \$306,705, and is reflected as deferred revenue on the accompanying statement of financial position.

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.

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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

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, 2015 and 2014.

9. Mortgages Payable

Mortgages payable consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
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	<u>165,179</u>	<u>165,179</u>
	<u>\$ 2,997,231</u>	<u>\$ 2,997,231</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.

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, 2015 and 2014, the escrow amount held with the trustee, which totaled \$259,319 and \$255,804. To the extent that principle payments are not covered by cash flows, the payment of principle will be deferred until the end of the mortgage term. In fiscal 2015, the project ran a deficit; as such no principle payments were made. The property serves as collateral for the loan.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

9. Mortgages Payable (continued)

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 at June 30, 2015 and 2014, 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, 2015 and 2014, the escrow amount held with the trustee totaled \$144,970 and \$142,882. To the extent that principle payments are not covered by cash flows, the payment of principle will be deferred until the end of the mortgage term. In fiscal 2015, the project ran a deficit; as such no principle 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 at June 30, 2015 and 2014. 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 statements of financial position and the balance of \$182,261 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. 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, 2015 and 2014, the escrow amount held with the trustee totaled \$93,395 and \$90,811. To the extent that principle payments are not covered by cash flows, the payment of principle is deferred until the end of the mortgage term. In fiscal 2015, the project ran a deficit; as such no principle payments were made. The property serves as collateral for the mortgage.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

9. Mortgages Payable (*continued*)

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 at June 30, 2015 and 2014. 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 principle and interest payments are not covered by cash flows, payment is deferred until the end of the mortgage term. In fiscal 2015, the project ran a deficit; as such no principle or interest payments were made. The property serves as collateral for the mortgage.

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 at June 30, 2015 and 2014. 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, 2015 and 2014, the escrow amount held with the trustee totaled \$16,711 and \$15,777. To the extent that payments are not covered by cash flows, the payment of principle will be deferred until the end of the mortgage term. In fiscal 2015, the project ran a deficit; as such no principle 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 matured on December 31, 2014 and was subsequently extended to February 29, 2016. Interest on amounts borrowed will accrue at a rate of British Bankers Association LIBOR plus 3.50%. As of June 30, 2015 and 2014, there are no outstanding borrowings on this line of credit facility.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

11. Government and Private Grants

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

	<u>2015</u>	<u>2014</u>
U.S. Department of Housing and Urban Development	\$ 837,482	\$ 981,249
U.S. Department of Health and Human Services	190,686	216,115
State of New Jersey Department of Children and Families	860,317	779,530
State of New Jersey Department of Human Services	69,658	55,000
State of New Jersey Casino Reinvestment Development Authority	-	36,525
Various other grants	44,899	50,817
	<u>\$ 2,003,042</u>	<u>\$ 2,119,236</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.

Government grants receivable consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
U.S. Department of Housing and Urban Development	\$ 240,712	\$ 238,794
U.S. Department of Health and Human Services	33,334	30,000
State of New Jersey Department of Community Affairs	-	11,000
State of New Jersey Department of Human Services	10,160	13,640
State of New Jersey Casino Reinvestment Development Authority	-	36,525
State of New Jersey Department of Children and Families	106,411	-
State of New Jersey Department of State	-	6,250
	<u>\$ 390,617</u>	<u>\$ 336,209</u>

As of June 30, 2015 and 2014, 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.

12. 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, 2015 and 2014. 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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

12. Employee Benefit Plan (*continued*)

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 approximately \$94,000 and \$100,000 for 2015 and 2014.

13. Raphael's Life House

In June 2003, the Organization entered into a collaboration agreement with the Board of Directors of Raphael's Life House ("RLH"), an entity independent of the Organization, to manage the day-to-day operations of a 12-bed Transitional Living Program which provides shelter to pregnant and mothering young women between the ages of 18 and 23 in Elizabeth, NJ. Each woman can reside at the facility with her child while she works with a service manager to develop and execute a case plan that will guide the youth to obtain independence.

Under the terms of the agreement, RLH and the Organization will agree upon annual fundraising goals for RLH and both are required to use their best efforts to meet their respective goals. However, if RLH cannot meet its goal, the Organization is required to fund the shortfall. Costs incurred by RLH for the years ended June 30, 2015 and 2014 did not exceed the Organization's funding level. The agreement will continue in effect until terminated and either party can terminate with 90 days' written notice to the other party.

During fiscal 2014, RLH's Board of Directors resolved to dissolve RLH and upon its dissolutions, the Organization would take title of RLH's assets. As of June 30, 2015, RLH's dissolution of its corporate status was complete. In November 2014, the Organization received approximately \$85,000 of cash, representing a full distribution of RLH's assets. Additionally, certain RLH Board members joined program boards of the Organization during fiscal 2015 as a way of continuing their involvement in the programmatic activities previously operated by RLH.

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 \$60.8 million and \$57.8 million in fiscal years ended 2015 and 2014. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2015 and 2014

14. Related Party Transactions (*continued*)

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 \$31.3 million and \$31.2 million for the years ended June 30, 2015 and 2014. In fiscal 2015 and 2014, the Organization received \$3,234,000, for both years, in contributions from the Parent.

Amounts due from the Parent at June 30, 2015 and 2014, 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, 2015 and 2014 totaled \$21,855 and \$34,452.

15. Concentrated Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash, cash equivalents and receivables from contracts. The Organization maintains its cash in bank deposit accounts which generally exceed federally insured limits. The Organization has not experienced any losses in such accounts receivables.

16. Commitments

The Organization has entered into various noncancellable operating leases primarily for space associated with its outreach programs and office equipment. Future minimum lease payments under operating leases that have remaining terms in excess of one year are \$9,906 as of June 30, 2015.

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