Covenant House New Jersey

Financial Statements

June 30, 2016

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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, 2016, 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.

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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, 2016 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 9, 2016

Covenant House New Jersey

Statement of Financial Position
June 30, 2016
(with comparative amounts at June 30, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 337,651	$ 448,999
Investments	900,789	872,351
Contributions receivable	784,193	88,343
Government grants receivable	287,154	390,617
Other receivables	12,846	9,108
Due from Parent	174,125	21,855
Prepaid expenses and other assets	61,308	47,939
Deposits held with trustee	523,532	514,394
Property, plant and equipment, net	14,585,675	15,367,657
	$ 17,667,273	$ 17,761,263
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 797,353	$ 765,012
Deferred revenue	-	179,608
Refundable advances	1,029,913	1,074,811
Other liabilities	46,025	46,025
Line of credit	195,000	-
Mortgages payable, net	2,901,611	2,888,187
Total Liabilities	4,969,902	4,953,643
Net Assets		
Unrestricted	12,597,371	12,657,620
Temporarily restricted	100,000	150,000
Total Net Assets	12,697,371	12,807,620
	$ 17,667,273	$ 17,761,263

See notes to financial statements

Covenant House New Jersey

Statement of Activities
Year Ended June 30, 2016
(with summarized totals for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
SUPPORT AND REVENUE				
Contributions	$ 2,440,044	$ 100,000	$ 2,540,044	$ 1,581,810
Government and private grants	1,849,530	-	1,849,530	2,003,042
Branding dollars from Parent	3,234,000	-	3,234,000	3,234,000
Grants from Parent related to national sleep out event	371,449	-	371,449	540,068
Special events, net of direct expenses of $340,724 and $346,439	2,311,004	-	2,311,004	1,674,160
Contributed services	50,000	-	50,000	25,000
Net assets released from restrictions	150,000	(150,000)	-	-
Total Support and Revenue	10,406,027	(50,000)	10,356,027	9,058,080
INVESTMENT AND OTHER INCOME				
Dividends and interest	20,274	-	20,274	19,578
Unrealized gain (loss)	9,213	-	9,213	(9,312)
Other income	64,260	-	64,260	128,382
Total Investment and Other Income	93,747	-	93,747	138,648
Total Support, Revenue, Investment and Other Income	10,499,774	(50,000)	10,449,774	9,196,728
EXPENSES				
Program expenses	9,229,590	-	9,229,590	9,243,198
Supporting Services				
Management and general	816,529	-	816,529	801,625
Fundraising	513,904	-	513,904	609,040
Total Expenses	10,560,023	-	10,560,023	10,653,863
Change in Net Assets	(60,249)	(50,000)	(110,249)	(1,457,135)
NET ASSETS				
Beginning of year	12,657,620	150,000	12,807,620	14,264,755
End of year	$ 12,597,371	$ 100,000	$ 12,697,371	$ 12,807,620

See notes to financial statements

Covenant House New Jersey

Statement of Functional Expenses
Year Ended June 30, 2016
(with summarized totals for the year ended June 30, 2015)

	Program Services										Supporting Services					
	Shelter and Crisis Care	Outreach	Behavioral Health/Health Services	RLH Mother/Child	Community Service Center	Program Development	Nancy's Place	Rights of Passage	Supportive Apartment Living	Total Program Services	Management and General	Fund Raising	Total Supporting Services	Cost of Direct Benefits to Donors	Total Expenses	Total 2015
Salaries	$ 1,394,638	$ 283,686	$ 354,922	$ 320,196	$ 697,214	$ 769,806	$ 201,645	$ 727,360	$ -	$ 4,749,467	$ 458,784	$ 333,498	$ 792,282	$ -	$ 5,541,749	$ 5,465,701
Payroll taxes	175,381	35,674	44,633	40,266	87,677	96,806	25,358	91,468	-	597,263	57,694	41,939	99,633	-	696,896	694,971
Employee benefits	284,111	57,792	88,804	65,229	142,034	156,822	41,078	149,675	-	985,545	96,750	67,939	164,689	-	1,150,234	1,224,427
Total Salaries and Related Expenses	1,854,130	377,152	488,359	425,691	926,925	1,023,434	268,081	968,503	-	6,332,275	613,228	443,376	1,056,604	-	7,388,879	7,385,099
Faith community	35,301	-	-	-	17,648	-	-	-	-	52,949	-	-	-	-	52,949	61,741
Professional fees (including contributed services of $50,000 and $25,000)	27,618	-	-	10,950	13,807	212	14,450	23,425	7,000	97,462	18,250	-	18,250	-	115,712	119,682
Consulting	185	-	139	185	92	10,000	185	277	-	11,063	6,625	20,234	26,859	-	37,922	37,859
Supplies	49,648	178	1,009	3,204	23,547	1,167	5,039	3,881	2,684	90,357	4,249	1,967	6,216	-	96,573	135,963
Telephone	9,514	6,575	6,052	4,291	4,820	1,150	5,657	8,998	806	47,863	61,011	1,801	62,812	-	110,675	103,843
Postage and printing	301	2,138	231	2,883	151	2,222	194	480	-	8,600	8,147	18,577	26,724	-	35,324	31,392
Occupancy										-						
Fuel and utilities	110,773	3,626	2,149	25,780	55,378	-	7,525	30,100	10,151	245,482	-	-	-	-	245,482	273,449
Repairs and maintenance	74,063	-	1,632	12,644	37,026	-	1,196	11,958	1,925	140,444	-	-	-	-	140,444	123,252
Rent and other	7,192	24,150	21,600	-	3,596	-	-	-	-	56,538	8,944	-	8,944	-	65,482	69,160
Equipment	44,666	193	-	6,173	22,330	321	2,320	11,437	7,622	95,062	-	130	130	-	95,192	37,206
Specific Assistance to Individuals																
Food	100,317	14,698	13,411	7,275	50,151	329	8,901	3,759	-	198,841	17	49	66	-	198,907	171,731
Clothing, allowance, other	55,547	913	12,437	6,276	27,769	14,931	8,095	306,351	-	432,319	294	3,739	4,033	-	436,352	425,153
Other purchased services	58,786	300	45,912	21,110	29,491	16,371	12,302	35,920	4,276	224,468	42,230	4,437	46,667	340,724	611,859	687,469
Dues, licenses and permits	5,969	6,517	845	4,571	2,987	1,275	4,324	8,631	2,150	37,269	7,708	141	7,849	-	45,118	53,164
Insurance	89,395	12,688	3,934	23,053	44,691	-	10,268	42,833	5,327	232,189	-	-	-	-	232,189	213,177
Interest expense	-	-	-	-	-	-	2,639	10,785	-	13,424	18,443	-	18,443	-	31,867	35,888
Miscellaneous	20,309	16,099	18,601	4,040	11,374	7,325	3,561	6,643	-	87,952	24,207	19,453	43,660	-	131,612	161,388
Total Functional Expenses Before Depreciation and Amortization	2,543,714	465,227	616,311	558,126	1,271,783	1,078,737	354,737	1,473,981	41,941	8,404,557	813,353	513,904	1,327,257	340,724	10,072,538	10,126,616
Depreciation and amortization	325,188	4,807	-	36,140	162,594	-	3,998	292,306	-	825,033	3,176	-	3,176	-	828,209	873,686
Total Functional Expenses	2,868,902	470,034	616,311	594,266	1,434,377	1,078,737	358,735	1,766,287	41,941	9,229,590	816,529	513,904	1,330,433	340,724	10,900,747	11,000,302
Less direct benefit to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	(340,724)	(340,724)	(346,439)
Total Expenses Reported by Function on the Statement of Activities	$ 2,868,902	$ 470,034	$ 616,311	$ 594,266	$ 1,434,377	$ 1,078,737	$ 358,735	$ 1,766,287	$ 41,941	$ 9,229,590	$ 816,529	$ 513,904	$ 1,330,433	$ -	$ 10,560,023	$ 10,653,863

See notes to financial statements

Covenant House New Jersey

Statement of Cash Flows
Year Ended June 30, 2016
(with comparative amounts for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (110,249)	$ (1,457,135)
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized (gain) loss	(9,213)	9,312
Amortization of refundable advances	(44,898)	(44,899)
Amortization of deferred financing costs	13,424	13,424
Depreciation and amortization	828,209	873,686
Changes in operating assets and liabilities		
Contributions receivable	(695,850)	(30,132)
Government grants receivable	103,463	(54,408)
Other receivables	(3,738)	4,021
Due from Parent	(152,270)	12,597
Prepaid expenses and other assets	(13,369)	3,112
Accounts payable and accrued expenses	32,341	(9,483)
Deferred revenue	(179,608)	7,277
Net Cash from Operating Activities	(231,758)	(672,628)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(46,227)	(18,218)
Purchase of investments	(19,225)	(18,977)
Proceeds from sale of investments	-	22,400
Net Cash from Investing Activities	(65,452)	(14,795)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits held with trustee	(9,138)	(9,120)
Proceeds from mortgage receivable	-	52,400
Proceeds from line of credit	1,988,036	1,400,000
Payments of line of credit	(1,793,036)	(1,400,000)
Net Cash from Financing Activities	185,862	43,280
Net Change in Cash and Cash Equivalents	(111,348)	(644,143)
CASH AND CASH EQUIVALENTS		
Beginning of year	448,999	1,093,142
End of year	$ 337,651	$ 448,999
SUPLEMENTAL CASH FLOWS INFORMATION		
Cash paid for interest	$ 11,942	$ 16,401

See notes to financial statements

1. Organization and Tax Status

Covenant House New Jersey (the "Organization"), a not-for-profit organization, is an operating affiliate of Covenant House (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 47,000 and 51,000 runaway and homeless youths during the fiscal years ended June 30, 2016 and 2015.

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 Michigan
- Covenant House Missouri
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington D.C.
- Under 21 Boston, Inc.
- 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)
- Casa Alianza de Honduras
- Casa Alianza Nicaragua
- Casa Alianza Internacional
- Rights of Passage, Inc.
- 268 West 44th Corporation
- 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.

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.

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

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 (see note 14).

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.

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.

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

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 Assets 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.

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.

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

Net Assets Presentation (continued)

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), 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.

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.

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

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, 2016 and 2015.

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, 2016 and 2015, no allowance for doubtful accounts was determined to be necessary. Contribution revenue is recognized based on the present value of the estimated future payments to be made to the Organization.

Deposits Held with Trustee

The New Jersey Housing and Mortgage Finance Agency (“NJHMFA”) and New Jersey Department of Community Affairs (“NJDCA”) require the Organization to establish certain escrow funds (See Note 9). As of June 30, 2016 and 2015, the Organization’s deposits held with trustee consist of cash held in interest-bearing savings accounts at Bank of America, N.A.

Deferred Financing Costs

Deferred financing costs are presented as a direct deduction from the mortgages payable and are being amortized on a straight-line basis (which approximates the interest method) over the term of the mortgages payable.

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

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, 2013.

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 2016 and 2015, health insurance and reimbursement for other personal expenses are provided to Community members by the Organization. The expenses associated with Community members totaled approximately $53,000 and $62,000 for the years ended June 30, 2016 and 2015, and are reported in the accompanying statement of activities and functional expenses as part of branding dollars from parent and faith community expenses.

Reclassification

Certain accounts in the 2015 financial statements have been reclassified to conform to the current year financial statement presentation.

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, 2015, 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 9, 2016.

3. Investments

Investments at June 30, 2016 and 2015 consisted of fixed income mutual funds measured at fair value on a recurring basis and classified with Level 1 inputs using the fair value hierarchy.

Major categories of investments are as follows at June 30:

	2016	2015
Fixed income mutual fund	$ 900,689	$ 872,251
Money market fund	100	100
	$ 900,789	$ 872,351

4. Government Grants Receivable

All government grants receivable as of June 30, 2016 and 2015 are expected to be collected within one year.

5. Property, Plant and Equipment

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

	2016	2015
Land	$ 2,000,830	$ 2,000,830
Building and improvements	20,110,276	20,081,025
Furniture and equipment	1,275,557	1,275,557
Vehicles	339,302	322,326
Leasehold improvements	9,415	9,415
	23,735,380	23,689,153
Accumulated depreciation and amortization	(9,149,705)	(8,321,496)
Property, plant and equipment, net	$14,585,675	$15,367,657

6. Deferred Revenue

Deferred revenue consist of the following at June 30, 2015:

William Simon Foundation	$ 150,000
Private grants	29,608
	$ 179,608

7. Refundable Advances

Refundable advances consist of the following at June 30:

	2016	2015
State of New Jersey Department of Human Services (Crisis Center)	$ 10,838	$ 11,921
State of New Jersey Department of Community Affairs	219,075	262,890
U.S. Department of Housing and Urban Development	800,000	800,000
	$ 1,029,913	$ 1,074,811

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

During fiscal 2006, the Organization was awarded a grant/loan of $21,675 from NJDHS in order to finance the renovation/improvement of its Newark Crisis Center. Pursuant to the terms of the capital funding agreement, the amount of the note is to be reduced by 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.

State of New Jersey Department of Community Affairs (NJDCA)

During fiscal 2011, the Organization was awarded a grant/loan of $529,870 from NJDCA for the renovation of Raphael's Life House, Elizabeth, NJ, for use as a transitional housing facility (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.

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

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

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

7. Refundable Advances *(continued)*

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

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

During fiscal 2001, the Organization was awarded a grant/loan of $100,000 from the NJDHS, in order to finance the renovation/improvement for the Newark Right of Passage ("ROP") facility. An additional amount of $18,375 was subsequently added during fiscal 2006 to finance additional costs at the facility. Pursuant to the facility restriction clause and other terms of the capital funding agreement, the amount of the note is to be reduced by 5% annually one year after the anniversary date, provided that the Organization maintains the new facility for its ROP program only. Accordingly, the grant/loan was recorded as deferred revenue and was amortized on a straight-line basis into government and private grants revenue over the term of the mortgage. During fiscal 2014, the facility was sold and the Organization was in discussions with NJDHS with regard to the return of the unamortized portion of the grant and accordingly, has reclassified and reported the unamortized portion of the grant of $46,025 as other liabilities as of June 30, 2016 and 2015.

9. Mortgages Payable

Mortgages payable consist of the following at June 30:

	2016	2015
Loan for Atlantic City Capital Project	$ 700,000	$ 700,000
Montclair (Nancy's Place) and Newark Capital Projects	648,346	648,346
Montclair (Nancy's Place) Permanent Financing	829,306	829,306
Montclair (Supportive Apartment Living) Permanent Financing	654,400	654,400
Newark (Supportive Apartment Living) Permanent Financing	165,179	165,179
	2,997,231	2,997,231
Less: Deferred financing costs, net	(95,620)	(109,044)
	$ 2,901,611	$ 2,888,187

Loan for Atlantic City Capital Project

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

9. Mortgages Payable *(continued)*

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, 2016 and 2015, the escrow amount held with the trustee totaled $262,842 and $259,319. 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 2016 and 2015, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the loan.

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, 2016 and 2015, the escrow amount held with the trustee totaled $147,062 and $144,970. 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 2016 and 2015, 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 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.

9. Mortgages Payable *(continued)*

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

Repayment will be made from twenty-five (25%) percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2016 and 2015, the escrow amount held with the trustee totaled $95,984 and $93,395. 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 2016 and 2015, 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 2016 and 2015, the project ran a deficit; as such no principal 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. 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, 2016 and 2015, the escrow amount held with the trustee totaled $17,644 and $16,710. 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 2016 and 2015, the project ran a deficit; as such no principal payments were made. If it is determined at the maturity of the mortgage that the Organization cannot repay and if all mortgage terms and conditions have been met, NJHMFA may extend or refinance the mortgage. The property serves as collateral for the mortgage.

10. Line of Credit

The Organization has an available $1,000,000 line of credit agreement with Bank of America, N.A. which matures on February 28, 2017. Interest on amounts borrowed will accrue at a rate of British Bankers Association LIBOR plus 3.50%. The balance of outstanding borrowings on this line of credit facility were $195,000 and $0 at ended June 30, 2016 and 2015. Interest expense for fiscal 2016 and 2015 amounted to $18,443 and $22,464.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets of $100,000 and $150,000 at June 30, 2016 and 2015 include a purpose restriction for the operations of the Organization's Jersey City site. Net assets of $150,000 were released from donor restriction during fiscal 2016 by incurring expenses satisfying the intended purpose specified by the donor.

12. Government and Private Grants

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

	2016	2015
U.S. Department of Housing and Urban Development	$ 846,276	$ 837,482
U.S. Department of Health and Human Services	200,000	190,686
State of New Jersey Department of Children and Families	668,715	860,317
State of New Jersey Department of Human Services	54,640	69,658
Various other grants	79,899	44,899
	$ 1,849,530	$ 2,003,042

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:

	2016	2015
U.S. Department of Housing and Urban Development	$ 242,120	$ 240,712
U.S. Department of Health and Human Services	33,334	33,334
State of New Jersey Department of Human Services	11,700	10,160
State of New Jersey Department of Children and Families	-	106,411
	$ 287,154	$ 390,617

As of June 30, 2016 and 2015, the Organization has been approved for a number of government cost reimbursement grants in which conditions stipulated in the grant agreements have not yet been met. Accordingly, revenue pertaining to these grants has not been recognized in the accompanying financial statements.

13. Employee Benefit Plan

The Organization participates in a defined benefit pension plan sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. The Organization did not contribute to the defined benefit pension plan during the years ended June 30, 2016 and 2015. Effective December 31, 2006, the Parent froze service credits in the Plan. Compensation increases will continue to apply within the plan structure for those participants who have at least 45 points (age plus years of service). The Organization has further amended the plan effective August 1, 2009 to cease adjustments in the accrued benefit due to salary increases so that no further benefits will accrue under the plan after that date.

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan. Employees are immediately eligible to participate in the plan. Employees who work at least 1,000 hours per year are eligible to receive an employer contribution. The Organization makes annual contributions into the plan on behalf of employees ranging from 1% to 9% of employee compensation determined using a formula based on points, which equal the sum of age and years of service. Employer contributions to the plan are 100% vested after employees have completed three years of service. Total expense related to the 403(b) plan was $193,332 and $251,805 for 2016 and 2015.

14. 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, 2016 and 2015 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. 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.

15. 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 $64.3 million and $60.8 million in fiscal years ended 2016 and 2015. 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 $33.6 million each for both fiscal 2016 and 2015. In fiscal 2016 and 2015, the Organization received approximately $3,605,000 and $3,774,000 in support from the Parent.

Amounts due from the Parent at June 30, 2016 and 2015, 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, 2016 and 2015 totaled $174,125 and $21,855.

16. 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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