

**Covenant House New Jersey**

Financial Statements

June 30, 2019

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House New Jersey as of June 30, 2019 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.

***Change in Accounting Principle***

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

***Report on Summarized Comparative Information***

We have previously audited the Organization's June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

December 6, 2019

## Covenant House New Jersey

Statement of Financial Position  
June 30, 2019  
(with comparative amounts at June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,752,978	\$ 2,209,828
Investments	2,125,602	995,676
Contributions receivable, net	2,917,066	3,181,036
Government grants receivable	228,509	108,624
Other receivables	-	353
Due from Parent	-	396,639
Prepaid expenses and other assets	77,639	75,838
Deposits held with trustee	515,980	541,861
Property, plant and equipment, net	<u>13,370,801</u>	<u>13,835,458</u>
	<u>\$ 20,988,575</u>	<u>\$ 21,345,313</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,071,276	\$ 1,045,872
Refundable advances	895,216	940,115
Other liabilities	46,025	46,025
Due to Parent	9,607	-
Line of credit	620,000	-
Mortgages payable, net	<u>2,941,883</u>	<u>2,928,459</u>
Total Liabilities	<u>5,584,007</u>	<u>4,960,471</u>
Net Assets		
Without donor restriction	13,120,584	13,216,810
With donor restriction	<u>2,283,984</u>	<u>3,168,032</u>
Total Net Assets	<u>15,404,568</u>	<u>16,384,842</u>
	<u>\$ 20,988,575</u>	<u>\$ 21,345,313</u>

See notes to financial statements

## Covenant House New Jersey

### Statement of Activities Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	Without donor Restriction	With Donor Restriction	Total 2019	Total 2018
<b>SUPPORT AND REVENUE</b>				
Contributions (including donated land of \$387,000 in 2018)	\$ 1,582,604	\$ 1,116,703	\$ 2,699,307	\$ 5,306,768
Government and private grants	2,516,889	-	2,516,889	2,325,275
Branding dollars from Parent	2,673,488	-	2,673,488	3,053,174
Grants from Parent related to Sleep Out events	1,450,858	-	1,450,858	1,216,721
Special events, net of direct expenses of \$369,885 and \$393,374	1,985,646	-	1,985,646	1,662,788
Contributed services	-	-	-	25,000
Net assets released from restrictions	<u>2,000,751</u>	<u>(2,000,751)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>12,210,236</u>	<u>(884,048)</u>	<u>11,326,188</u>	<u>13,589,726</u>
<b>INVESTMENT AND OTHER INCOME</b>				
Dividends and interest	34,741	-	34,741	22,149
Unrealized gain	550	-	550	-
Other income	<u>173,324</u>	<u>-</u>	<u>173,324</u>	<u>52,550</u>
Total Investment and Other Income	<u>208,615</u>	<u>-</u>	<u>208,615</u>	<u>74,699</u>
Total Support and Revenue and Investment and Other Income	<u>12,418,851</u>	<u>(884,048)</u>	<u>11,534,803</u>	<u>13,664,425</u>
<b>EXPENSES</b>				
Program expenses	10,428,338	-	10,428,338	9,934,381
Supporting Services				
Management and general	1,039,317	-	1,039,317	986,845
Fundraising	<u>1,047,422</u>	<u>-</u>	<u>1,047,422</u>	<u>774,287</u>
Total Expenses	<u>12,515,077</u>	<u>-</u>	<u>12,515,077</u>	<u>11,695,513</u>
Change in Net Assets	(96,226)	(884,048)	(980,274)	1,968,912
<b>NET ASSETS</b>				
Beginning of year	<u>13,216,810</u>	<u>3,168,032</u>	<u>16,384,842</u>	<u>14,415,930</u>
End of year	<u>\$ 13,120,584</u>	<u>\$ 2,283,984</u>	<u>\$ 15,404,568</u>	<u>\$ 16,384,842</u>

See notes to financial statements

## Covenant House New Jersey

### Statement of Functional Expenses Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	Program Services									Supporting Services			Cost of Direct Benefits to Donors	Total Expenses	Total 2018	
	Shelter and Crisis Care	Outreach	Behavioral Health/Health Services	RLH Mother/Child	Community Service Center	Program Development	Nancy's Place	Rights of Passage	Supportive Apartment Living	Total Program Services	Management and General	Fundraising				Total Supporting Services
Salaries	\$ 1,711,076	\$ 303,509	\$ 353,164	\$ 338,013	\$ 855,410	\$ 732,763	\$ 205,304	\$ 941,742	\$ -	\$ 5,440,981	\$ 592,634	\$ 629,852	\$ 1,222,486	\$ -	\$ 6,663,467	\$ 6,024,197
Payroll taxes	143,435	25,442	29,605	28,335	71,707	61,426	17,210	78,944	-	456,104	49,679	52,799	102,478	-	558,582	624,300
Employee benefits	369,776	65,590	76,321	73,047	184,860	158,355	44,388	203,517	-	1,175,834	128,072	136,116	264,188	-	1,440,022	1,156,744
Total Salaries and Related Expenses	2,224,287	394,541	459,090	439,395	1,111,977	952,544	266,882	1,224,203	-	7,072,919	770,385	818,767	1,589,152	-	8,662,071	7,805,241
Faith community	6,698	-	-	-	3,348	-	-	-	-	10,046	-	-	-	-	10,046	136,180
Professional fees (including contributed services of \$25,000 in 2018)	8,200	-	-	8,200	4,100	-	11,700	19,300	7,000	58,500	17,125	-	17,125	-	75,625	115,545
Consulting	226	-	-	226	113	66,142	226	338	-	67,271	3,135	32,205	35,340	-	102,611	203,125
Supplies	46,100	863	1,416	7,867	23,047	2,630	6,702	11,139	1,549	101,313	10,019	3,303	13,322	-	114,635	118,359
Telephone	6,655	5,222	4,986	8,469	3,327	1,115	5,929	14,450	3,193	53,346	49,899	2,600	52,499	-	105,845	156,843
Postage and printing	749	343	128	1,921	375	3,891	226	2,245	-	9,878	9,179	13,079	22,258	-	32,136	28,991
Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel and utilities	99,450	4,953	3,356	26,745	49,717	-	9,609	41,151	19,668	254,649	-	-	-	-	254,649	259,839
Repairs and maintenance	67,534	4,700	6,807	23,125	33,762	-	10,986	5,964	11,410	164,288	-	-	-	-	164,288	201,583
Rent and other	9,870	30,600	21,600	-	4,934	-	-	12,000	-	79,004	6,968	-	6,968	-	85,972	65,554
Equipment	67,483	403	49	25,125	33,736	2,117	696	7,303	8,800	145,712	370	2,635	3,005	-	148,717	50,978
Specific Assistance to Individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Food	75,759	7,945	3,244	2,446	37,874	2,975	4,667	6,372	-	141,282	6	805	811	-	142,093	147,591
Clothing, allowance, other	31,258	2,175	21,896	11,209	15,627	53,923	3,158	629,498	-	768,744	-	3,248	3,248	-	771,992	686,074
Other purchased services	74,596	1,538	29,775	16,145	37,292	-	16,574	36,456	9,736	222,112	47,744	132,731	180,475	369,885	772,472	803,767
Dues, licenses and permits	11,810	368	950	11,283	5,904	3,345	8,963	13,359	358	56,340	14,856	576	15,432	-	71,772	64,159
Insurance	80,897	16,053	4,228	23,040	40,442	-	10,200	43,521	5,537	223,918	-	-	-	-	223,918	260,119
Miscellaneous	40,037	21,426	17,348	5,563	20,016	51,774	10,404	33,395	-	199,963	106,606	37,473	144,079	-	344,042	189,523
Total Functional Expenses Before Depreciation and Amortization	2,851,609	491,130	574,873	610,759	1,425,591	1,140,456	366,922	2,100,694	67,251	9,629,285	1,036,292	1,047,422	2,083,714	369,885	12,082,884	11,293,471
Depreciation and amortization	309,905	4,581	-	34,442	154,953	-	6,325	288,847	-	799,053	3,025	-	3,025	-	802,078	795,416
Total Functional Expenses	3,161,514	495,711	574,873	645,201	1,580,544	1,140,456	373,247	2,389,541	67,251	10,428,338	1,039,317	1,047,422	2,086,739	369,885	12,884,962	12,088,887
Less direct benefit to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	(369,885)	(369,885)	(393,374)
Total Expenses Reported by Function on the Statement of Activities	\$ 3,161,514	\$ 495,711	\$ 574,873	\$ 645,201	\$ 1,580,544	\$ 1,140,456	\$ 373,247	\$ 2,389,541	\$ 67,251	\$ 10,428,338	\$ 1,039,317	\$ 1,047,422	\$ 2,086,739	\$ -	\$ 12,515,077	\$ 11,695,513

See notes to financial statements

## Covenant House New Jersey

### Statement of Cash Flows Year Ended June 30, 2019 (with comparative amounts for the year ended June 30, 2018)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (980,274)	\$ 1,968,912
Adjustments to reconcile change in net assets to net cash from operating activities		
Donated land	-	(387,000)
Unrealized gain	(550)	-
Amortization of refundable advances	(44,899)	(44,899)
Amortization of deferred financing costs	13,424	13,424
Depreciation and amortization	802,078	795,416
Changes in operating assets and liabilities		
Contributions receivable	263,970	(1,250,033)
Government grants receivable	(119,885)	226,782
Other receivables	353	5,968
Due to/from Parent	406,246	12,778
Prepaid expenses and other assets	(1,801)	(10,782)
Accounts payable and accrued expenses	25,404	107,409
Net Cash from Operating Activities	364,066	1,437,975
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(337,421)	(66,715)
Sale of investments	173,692	-
Purchase of investments	(1,303,068)	(71,540)
Net Cash from Investing Activities	(1,466,797)	(138,255)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Deposits held with trustee	25,881	(9,175)
Proceeds from line of credit	1,375,000	2,149,500
Payments of line of credit	(755,000)	(2,149,500)
Net Cash from Financing Activities	645,881	(9,175)
Net Change in Cash and Cash Equivalents	(456,850)	1,290,545
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	2,209,828	919,283
End of year	\$ 1,752,978	\$ 2,209,828
 <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 20,147	\$ 17,865

See notes to financial statements

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

### 1. Organization and Tax Status

Covenant House New Jersey (the "Organization"), is a not-for-profit organization founded and incorporated in 1989. Covenant House (Parent) and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical attention, crisis intervention, public education, prevention, and other services that reached approximately 74,000 and 89,000 young people during fiscal 2019 and 2018.

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

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

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

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

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

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

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

### 1. Organization and Tax Status *(continued)*

#### ***Components of Program and Supporting Services***

##### ***Program Services***

###### *Shelter and Crisis Care*

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

###### *Outreach*

The Outreach program is an effort to reach youths who are on the streets for various reasons. Outreach vans cruise the city streets day and night searching for these youths and provide them with food, a trained counselor, and referrals to shelters and health and other services, if needed. Youths are also referred to the Organization's Community Service Center (CSC); there they receive ongoing counseling and other services.

###### *Behavioral Health/Health Services*

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

###### *The RLH Mother/Child Program*

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

###### *The Community Service Center*

The CSC program provides comprehensive services to youths in the residential programs and to other youths in the community who need support in order to complete their education, obtain employment, and maintain themselves in stable living situations.

###### *Program Development*

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

###### *Nancy's Place*

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

###### *Rights of Passage*

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

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

### 1. Organization and Tax Status *(continued)*

#### *Components of Program and Supporting Services (continued)*

##### *Program Services (continued)*

###### Supportive Apartment Living

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

##### *Supporting Services*

###### Management and General

Management and general services include administration, finance and general support activities. Certain administrative costs that relate to specific programs have been allocated to those programs.

###### Fundraising

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

###### Direct Benefit-to-Donor Costs

Direct benefit-to-donor costs are costs incurred in conjunction with items such as meals and entertainment benefitting attendees of special events.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation and Use of Estimates*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

#### *Change in Accounting Principle*

On July 1, 2018, the Organization adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities (ASU 2016-14). This guidance requires the Organization to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Organization to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

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

#### ***Net Asset Presentation***

The Organization reports information regarding its financial position and activities according to two classes of net assets.

*Without donor restrictions* – consist of resources available for the general support of the Organization's operations. Net assets without donor restrictions may be used at the discretion of the Organization's management and Board of Directors.

*With donor restrictions* – consist of resources which have either a time restriction or have been restricted by donors for specific activities, including gift instruments requiring the principal be invested in perpetuity and the income be used for specific or general purposes. Donor restrictions that have been satisfied are reported in the statement of activities as net assets released from restrictions and are reclassified to net assets without donor restrictions. At June 30, 2019 and 2018, the Organization has no net assets with donor restrictions that are perpetual in nature.

#### ***Revenue Recognition***

The Organization records earned revenues on an accrual basis. In addition, the Organization records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), certain contributed services and gifts of other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The Organization also raises funds through special events. Event revenues, net of related costs with a direct-benefit to donors, are recorded as contributions without donor restriction since such funds can be used for general operations unless there are donor-imposed restrictions. Costs to generate donations, with and without donor restriction, are expensed as incurred.

The Organization recognizes government and private grant revenue in the statement of activities to the extent that reimbursable expenses have been incurred for the purpose specified by the grantor during the period. Funds received in advance are reported as refundable advances in the statement of financial position.

#### ***Functional Expenses***

Expenses are summarized and categorized based upon their functional classification as either program services, management and general or fundraising. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. All other expenses are allocated to functional categories based on estimates of time and effort, except for food and a portion of other purchased service costs, which are based on direct costs.

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2019

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

#### ***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.

#### ***Property, Plant and Equipment***

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

Long lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including undiscounted cash flow models, quoted fair values, and third-party independent appraisals, as considered necessary. There is no such impairment for the years ended June 30, 2019 and 2018.

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2019

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

#### ***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 general use, unless the donors restrict their use. Contributions to be received after one year are discounted at an interest rate commensurate with the risk involved. An allowance for uncollectible pledges receivable is provided, using management's judgment of potential defaults, which considers factors such as prior collection history, type of contribution and the nature of fundraising activity. As of June 30, 2019 and 2018, 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 8). As of June 30, 2019 and 2018, 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 method which approximates the interest method over the term of the mortgages payable. Amortization of deferred financing costs amounted to \$13,424 in both fiscal 2019 and 2018 and is included in miscellaneous expenses (which includes interest expense) in the statement of functional expenses.

#### ***Accounting for Uncertainty in Income Taxes***

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2016.

#### ***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.

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

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

#### ***Contributed Services (continued)***

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 2019 and 2018, health insurance and reimbursement for other personal expenses are provided to Community members by the Organization. The expenses associated with Community members totaled approximately \$10,000 and \$136,000 for the years ended June 30, 2019 and 2018, and are reported in the accompanying statement of activities and functional expenses as part of branding dollars from Parent and faith community expenses. In 2019, the Community stopped providing services to the Organization.

#### ***Reclassifications***

Certain amounts in the June 30, 2018 financial statements have been reclassified to conform to the June 30, 2019 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, 2018, 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 6, 2019.

### 3. Investments

Investments at June 30, 2019 and 2018 consisted of the following measured at fair value on a recurring basis and classified with Level 1 inputs using the fair value hierarchy.

Major categories of investments are as follows at June 30:

	<u>2019</u>	<u>2018</u>
Fixed income mutual fund	\$2,073,813	\$ 945,110
Equities	51,689	50,466
Money market fund, at cost	100	100
	<u>\$2,125,602</u>	<u>\$ 995,676</u>

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

### 4. Contributions Receivable

Contributions receivable, less discount ranging from 1.38% to 2.52% at June 30, 2019 and 2018 are scheduled to be collected as follows:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 1,578,363	\$ 1,239,397
Due within two to five years	<u>1,428,231</u>	<u>2,037,080</u>
	3,006,594	3,276,477
Discount to present value	<u>(89,528)</u>	<u>(95,441)</u>
	<u>\$ 2,917,066</u>	<u>\$ 3,181,036</u>

### 5. Property, Plant and Equipment

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

	<u>2019</u>	<u>2018</u>
Land	\$ 2,387,830	\$ 2,387,830
Building and improvements	20,737,217	20,510,587
Furniture and equipment	1,328,273	1,281,957
Vehicles	451,010	386,535
Leasehold improvements	<u>9,415</u>	<u>9,415</u>
	24,913,745	24,576,324
Accumulated depreciation and amortization	<u>(11,542,944)</u>	<u>(10,740,866)</u>
Property, Plant and Equipment, Net	<u>\$ 13,370,801</u>	<u>\$13,835,458</u>

### 6. Refundable Advances

Refundable advances consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
State of New Jersey Department of Human Services (Crisis Center)	\$ 7,586	\$ 8,670
State of New Jersey Department of Community Affairs	87,630	131,445
U.S. Department of Housing and Urban Development	<u>800,000</u>	<u>800,000</u>
	<u>\$ 895,216</u>	<u>\$ 940,115</u>

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2019

### **6. 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 related mortgage.

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

During fiscal 2011, the Organization was awarded a grant/loan of \$529,870 from NJ DCA for the renovation of Raphael's Life House, Elizabeth, NJ, for use as a transitional housing facility. Pursuant to the facility restriction clause and other terms of the capital funding agreement, a mortgage note of \$438,150 was entered into and is to be forgiven and reduced by 10% annually one year after the issuance of a certificate of occupancy, provided that the Organization continues to use the facility for transitional housing purposes. The balance of the grant of \$91,720 was used to equip the facility and is not repayable.

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

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

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

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, 2019

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

During fiscal 2001, the Organization was awarded a grant/loan of \$100,000 from the NJDHS, in order to finance the renovation/improvement for the Newark Rights of Passage ("ROP") facility. An additional amount of \$18,375 was subsequently awarded during fiscal 2006 to finance additional costs at the facility. Pursuant to the facility restriction clause and other terms of the capital funding agreement, the amount of the note is to be reduced by 5% annually one year after the anniversary date, provided that the Organization maintains the new facility for its ROP program only. Accordingly, the grant/loan was recorded as deferred revenue and was amortized on a straight-line basis into government and private grants revenue over the term of the mortgage. During fiscal 2014, the facility was sold and the Organization was in discussions with NJDHS with regard to the return of the unamortized portion of the grant and accordingly, has reclassified and reported the unamortized portion of the grant of \$46,025 as other liabilities as of June 30, 2019 and 2018.

### 8. Mortgages Payable

Mortgages payable consist of the following at June 30:

	<u>2019</u>	<u>2018</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>
	2,997,231	2,997,231
Less: Deferred financing costs, net	<u>(55,348)</u>	<u>(68,772)</u>
	<u>\$ 2,941,883</u>	<u>\$ 2,928,459</u>

#### ***Loan for Atlantic City Capital Project***

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

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2019

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

#### ***Loan for Atlantic City Capital Project (continued)***

The initial mortgage term for the \$700,000 loan was for a 15-month construction period, followed by a 15-year permanent mortgage, with 0% interest for the entire term. Repayment will be made from twenty-five (25%) percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2019 and 2018, the escrow amount held with the trustee totaled \$250,283 and \$269,907. 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 2019 and 2018, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the mortgage.

#### ***Montclair (Nancy's Place) and Newark Capital Projects***

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

On 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, 2019 and 2018, the escrow amount held with the trustee totaled \$140,376 and \$151,258. 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 2019 and 2018, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the mortgage.

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

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

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

### 8. 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, 2019 and 2018, the escrow amount held with the trustee totaled \$104,686 and \$101,178. 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 2019 and 2018, 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 2019 and 2018, the project ran a deficit; as such no principal or interest payments were made. The property serves as collateral for the mortgage. Interest expense on this mortgage amounted to \$6,540 and \$6,501 in fiscal 2019 and 2018.

#### ***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, 2019 and 2018, the escrow amount held with the trustee totaled \$20,635 and \$19,518. 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 2019 and 2018, the project ran a deficit; as such no principal payments were made. If it is determined at the maturity of the mortgage that the Organization cannot repay and if all mortgage terms and conditions have been met, NJHMFA may extend or refinance the mortgage. The property serves as collateral for the mortgage.

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

### 9. Line of Credit

The Organization has an available \$1,000,000 line of credit agreement with Bank of America, N.A. which matures on April 30, 2020. Interest on amounts borrowed will accrue at a rate of British Bankers Association LIBOR plus 3.50%. As of June 30, 2019, \$620,000 was drawn down on the line of credit. There were no outstanding borrowings on this line of credit facility at June 30, 2018. Interest expense for fiscal 2019 and 2018 amounted to \$20,147 and \$17,904.

### 10. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 are available for the following programs or purposes:

	<u>2019</u>	<u>2018</u>
Jersey City Site	\$ -	\$ 112,500
Time restricted	<u>2,283,984</u>	<u>3,055,532</u>
	<u>\$ 2,283,984</u>	<u>\$ 3,168,032</u>

Net assets of \$2,000,751 and \$1,182,333 were released from donor restrictions during fiscal 2019 and 2018 by incurring expenses for the Organization's Jersey City Site and passage of time.

### 11. Government and Private Grants

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

	<u>2019</u>	<u>2018</u>
U.S. Department of Housing and Urban Development	\$ 840,428	\$ 812,588
U.S. Department of Health and Human Services	351,750	327,425
State of New Jersey Department of Children and Families	660,530	660,527
State of New Jersey Department of Human Services	65,070	65,000
State of New Jersey Department of Community Affairs	178,121	44,541
County of Essex	153,325	211,701
U.S. Department of Justice	100,000	98,587
City of Atlantic, New Jersey	40,000	-
Various NJ Counties	53,866	20,967
Various other grants	<u>73,799</u>	<u>83,939</u>
	<u>\$ 2,516,889</u>	<u>\$ 2,325,275</u>

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

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

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

Government grants receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
U.S. Department of Housing and Urban Development	\$ 102,369	\$ 32,213
U.S. Department of Justice	25,450	39,962
State of New Jersey Department of Community Affairs	45,535	36,449
County of Union	39,926	-
County of Essex	15,229	-
	<u>\$ 228,509</u>	<u>\$ 108,624</u>

All government grants receivable as of June 30, 2019 and 2018 are expected to be collected within one year. As of June 30, 2019 and 2018, no allowance for doubtful accounts was determined to be necessary.

As of June 30, 2019, 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 noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Effective August 1, 2009, the Board of Directors of the Parent approved to freeze the future benefit accruals of all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent. Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. The Organization's share amounted to \$124,615 and \$33,016 for the years ended June 30, 2019 and 2018.

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 \$226,833 and \$267,642 for 2019 and 2018.

## **Covenant House New Jersey**

Notes to Financial Statements  
June 30, 2019

### **13. Related Party Transactions**

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of the affiliates. Contributions and promises to give totaled approximately \$66 million and \$64 million for the parent in fiscal years ended 2019 and 2018. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations 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 \$34 million and \$35 million in the fiscal years ended 2019 and 2018. In fiscal 2019 and 2018, the Organization received approximately \$4,124,000 and \$4,270,000 in support from the Parent.

Amounts due to/from the Parent at June 30, 2019 and 2018, 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 (to) the Parent at June 30, 2019 and 2018 totaled \$(9,607) and \$396,639.

### **14. 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.

## Covenant House New Jersey

Notes to Financial Statements  
June 30, 2019

### 15. Liquidity and Availability of Financial Assets

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30, 2019:

Financial assets:	
Cash and cash equivalents	\$ 1,752,978
Investments	2,125,602
Contributions receivable, net	2,917,066
Government grants receivable	<u>228,509</u>
Total Financial Assets	7,024,155
Less amounts unavailable for general expenditure:	
Amounts restricted by donors for time	(2,283,984)
Add amounts available for general expenditure:	
Satisfaction of donor imposed time restrictions	<u>854,564</u>
Financial Assets at Year End Available to Meet Cash Need for General Expenditures Within One Year	<u>\$ 5,594,735</u>

As part of its liquidity management, the Organization monitors the status and collectability of its receivables on a regular basis. Any excess funds are invested in the Organization's money market account or investment account managed by an investment company. The Organization also has a \$1,000,000 line of credit with a bank, of which \$620,000 has been drawn as of June 30, 2019, which the Organization can use to finance short-term working capital needs. In addition, the Organization receives cash from grants and contributions through its fundraising efforts and from support received from the Parent through branding dollars.

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