

Covenant House New Jersey

Financial Statements

June 30, 2021

Independent Auditors' Report

Board of Directors
Covenant House New Jersey

Report on the Financial Statements

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, 2021, 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, 2021 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, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 4, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 2, 2021

Covenant House New Jersey

Statement of Financial Position
June 30, 2021
(with comparative amounts at June 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,675,127	\$ 3,479,210
Investments	4,734,959	2,903,081
Contributions receivable, net	798,169	1,452,432
Government grants receivable	637,176	494,790
Other receivables	68,506	35,186
Prepaid expenses and other assets	84,819	27,091
Deposits held with trustee	540,568	530,787
Property, plant and equipment, net	<u>12,768,336</u>	<u>13,027,434</u>
	<u>\$ 22,307,660</u>	<u>\$ 21,950,011</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,126,820	\$ 1,086,092
Refundable advances	805,419	850,318
Other liabilities	46,025	46,025
Due to Parent	20,244	27,536
Paycheck Protection Program loan	1,456,635	1,456,635
Mortgages payable, net	<u>2,968,712</u>	<u>2,955,288</u>
Total Liabilities	<u>6,423,855</u>	<u>6,421,894</u>
Net Assets		
Without donor restrictions	15,247,909	14,113,498
With donor restrictions	<u>635,896</u>	<u>1,414,619</u>
Total Net Assets	<u>15,883,805</u>	<u>15,528,117</u>
	<u>\$ 22,307,660</u>	<u>\$ 21,950,011</u>

See notes to financial statements

Covenant House New Jersey

Statement of Activities
Year Ended June 30, 2021
(with summarized totals for the year ended June 30, 2020)

	Without donor Restriction	With Donor Restriction	Total 2021	Total 2020
SUPPORT AND REVENUE				
Contributions	\$ 3,105,856	\$ -	\$ 3,105,856	\$ 2,963,499
Government and private grants	3,097,651	-	3,097,651	2,574,253
Branding dollars from Parent	2,887,223	-	2,887,223	2,673,000
Grants from Parent related to Sleep Out events	1,954,621	-	1,954,621	1,522,026
Special events, net of direct expenses of \$90,622 and \$161,586	2,121,361	-	2,121,361	2,224,549
Net assets released from restrictions	<u>778,723</u>	<u>(778,723)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>13,945,435</u>	<u>(778,723)</u>	<u>13,166,712</u>	<u>11,957,327</u>
INVESTMENT AND OTHER INCOME				
Dividends and interest	67,385	-	67,385	76,155
Unrealized gain	1,204	-	1,204	53,777
Other income	<u>88,973</u>	<u>-</u>	<u>88,973</u>	<u>170,096</u>
Total Investment and Other Income	<u>157,562</u>	<u>-</u>	<u>157,562</u>	<u>300,028</u>
Total Support and Revenue and Investment and Other Income	<u>14,102,997</u>	<u>(778,723)</u>	<u>13,324,274</u>	<u>12,257,355</u>
EXPENSES				
Program services	10,478,541	-	10,478,541	9,997,635
Supporting Services				
Management and general	1,137,089	-	1,137,089	1,176,670
Fundraising	<u>1,352,956</u>	<u>-</u>	<u>1,352,956</u>	<u>959,501</u>
Total Expenses	<u>12,968,586</u>	<u>-</u>	<u>12,968,586</u>	<u>12,133,806</u>
Change in Net Assets	1,134,411	(778,723)	355,688	123,549
NET ASSETS				
Beginning of year	<u>14,113,498</u>	<u>1,414,619</u>	<u>15,528,117</u>	<u>15,404,568</u>
End of year	<u>\$ 15,247,909</u>	<u>\$ 635,896</u>	<u>\$ 15,883,805</u>	<u>\$ 15,528,117</u>

See notes to financial statements

Covenant House New Jersey
Statement of Functional Expenses
Year Ended June 30, 2021
(with summarized totals for the year ended June 30, 2020)

	Program Services									Supporting Services			Cost of Direct Benefits to Donors	Total Expenses	Total 2020	
	Short-term Housing and Crisis Care	Outreach	Behavioral Health/Health Services	Young Families Program	Drop-in Services	Program Development	Nancy's Place	Rights of Passage	Permanent Supportive Housing	Total Program Services	Management and General	Fundraising				Total Supporting Services
Salaries	\$ 1,681,841	\$ 224,302	\$ 188,820	\$ 340,701	\$ 840,794	\$ 765,836	\$ 269,691	\$ 984,714	\$ -	\$ 5,296,699	\$ 640,118	\$ 835,098	\$ 1,475,216	\$ -	\$ 6,771,915	\$ 6,319,416
Payroll taxes	128,083	17,082	14,380	25,947	64,032	58,323	20,539	74,992	-	403,378	48,749	63,598	112,347	-	515,725	513,312
Employee benefits	401,511	53,548	45,078	81,337	200,725	182,830	64,384	235,084	-	1,264,497	152,817	199,365	352,182	-	1,616,679	1,562,649
Total Salaries and Related Expenses	2,211,435	294,932	248,278	447,985	1,105,551	1,006,989	354,614	1,294,790	-	6,964,574	841,684	1,098,061	1,939,745	-	8,904,319	8,395,377
Professional fees	7,812	-	-	7,812	3,906	-	11,312	25,158	7,000	63,000	13,060	-	13,060	-	76,060	210,086
Consulting	3,840	-	-	3,550	1,919	36,545	-	-	-	45,854	-	7,965	7,965	-	53,819	63,556
Supplies	55,333	1,124	-	7,756	27,662	14,551	1,982	22,322	116	130,846	15,703	335	16,038	-	146,884	123,645
Telephone	4,610	1,581	209	7,893	2,305	275	9,684	18,037	1,360	45,954	46,337	2,250	48,587	-	94,541	89,528
Postage and printing	344	141	-	353	172	1,185	360	942	-	3,497	5,902	22,287	28,189	-	31,686	24,937
Occupancy																
Fuel and utilities	92,621	6	-	26,115	46,304	-	9,024	40,069	21,082	235,221	-	-	-	-	235,221	270,585
Repairs and maintenance	87,055	8,850	-	12,012	43,521	2,959	40,905	82,035	17,210	294,547	-	-	-	-	294,547	173,298
Rent and other	15,447	2,000	-	-	7,723	-	-	22,000	-	47,170	-	-	-	-	47,170	69,960
Equipment	59,773	-	-	17,625	29,882	2,266	438	12,825	544	123,353	900	-	900	-	124,253	92,221
Specific Assistance to Individuals																
Food	74,423	15,927	-	2,459	37,206	449	4,238	7,008	-	141,710	-	-	-	-	141,710	130,393
Clothing, allowance, other	27,517	140,921	11,767	11,278	13,756	89,999	752	630,067	-	926,057	-	200	200	-	926,257	729,458
Other purchased services	78,558	5,915	16,538	34,495	39,273	8,135	13,492	47,081	4,596	248,083	70,354	136,197	206,551	90,622	545,256	570,631
Dues, licenses and permits	10,572	-	750	4,951	5,285	3,612	5,428	7,756	-	38,354	7,646	3,495	11,141	-	49,495	64,475
Insurance	113,054	1,860	-	17,343	56,518	-	9,186	44,803	-	242,764	-	-	-	-	242,764	209,810
Miscellaneous	18,693	10,391	435	8,194	9,345	14,058	6,906	19,343	11,361	98,726	132,364	82,166	214,530	-	313,256	206,790
Total Functional Expenses Before Depreciation and Amortization	2,861,087	483,648	277,977	609,821	1,430,328	1,181,023	468,321	2,274,236	63,269	9,649,710	1,133,950	1,352,956	2,486,906	90,622	12,227,238	11,424,750
Depreciation and amortization	321,455	4,752	-	35,725	160,727	-	6,561	299,611	-	828,831	3,139	-	3,139	-	831,970	870,642
Total Functional Expenses	3,182,542	488,400	277,977	645,546	1,591,055	1,181,023	474,882	2,573,847	63,269	10,478,541	1,137,089	1,352,956	2,490,045	90,622	13,059,208	12,295,392
Less direct benefit to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	(90,622)	(90,622)	(161,586)
Total Expenses Reported by Function on the Statement of Activities	\$ 3,182,542	\$ 488,400	\$ 277,977	\$ 645,546	\$ 1,591,055	\$ 1,181,023	\$ 474,882	\$ 2,573,847	\$ 63,269	\$ 10,478,541	\$ 1,137,089	\$ 1,352,956	\$ 2,490,045	\$ -	\$ 12,968,586	\$ 12,133,806

See notes to financial statements

Covenant House New Jersey

Statement of Cash Flows
Year Ended June 30, 2021
(with comparative amounts for the year ended June 30, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 355,688	\$ 123,549
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized gain	(1,204)	(53,777)
Amortization of refundable advances	(44,899)	(44,898)
Amortization of debt issuance costs	13,424	13,405
Depreciation and amortization	818,546	857,237
Changes in operating assets and liabilities		
Contributions receivable	654,263	1,464,634
Government grants receivable	(142,386)	(266,281)
Other receivables	(33,320)	(35,186)
Due to Parent	(7,292)	17,929
Prepaid expenses and other assets	(57,728)	50,548
Accounts payable and accrued expenses	40,728	14,816
Net Cash from Operating Activities	1,595,820	2,141,976
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(559,448)	(513,870)
Sale of investments	230,143	434,032
Purchase of investments	(2,060,817)	(1,157,734)
Net Cash from Investing Activities	(2,390,122)	(1,237,572)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits held with trustee	(9,781)	(14,807)
Proceeds from Paycheck Protection Program loan	-	1,456,635
Proceeds from line of credit	-	755,000
Payments of line of credit	-	(1,375,000)
Net Cash from Financing Activities	(9,781)	821,828
Net Change in Cash and Cash Equivalents	(804,083)	1,726,232
 CASH AND CASH EQUIVALENTS		
Beginning of year	3,479,210	1,752,978
End of year	\$ 2,675,127	\$ 3,479,210
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ -	\$ 19,440

See notes to financial statements

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

1. Organization and Tax Status

Covenant House New Jersey (the "Organization"), is a not-for-profit organization, which was incorporated in 1989, providing shelter and crisis care and outreach services to youth in the New Jersey area. 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 18,000 young people during fiscal year 2021. During fiscal year 2021, the worldwide COVID-19 pandemic impacted the number of youth Covenant House reached, as affiliates took measures to ensure social distancing, set aside isolation rooms for symptomatic youth, paused in-person public education and prevention programs, and, throughout the year, suspended or modified street outreach. The pandemic impacted all operations, including food production (meal provision was nearly 75% higher than pre-pandemic levels); the creation of online opportunities for mental health care, education, and job readiness training; development of appropriate intake protocols; implementation of new cleaning and sanitizing protocols, and other measures, all of which drove up operating costs. Nevertheless, Covenant House provided a total of nearly 690,000 nights of housing and safety for, on average, 1,883 youth each night.

Covenant House (Parent) is the sole member of the following not-for-profit affiliates:

- 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 Jersey
- 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 44th Corporation
- 460 West 41st 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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

1. Organization and Tax Status *(continued)*

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.

Components of Program and Supporting Services

Program Services

Short-term Housing and Crisis Care (formerly Shelter and Crisis Care)

The short-term housing and crisis care program provides emergency services, temporary housing, food, clothing, medical care, mental health services, and legal aid to young people experiencing homelessness or human trafficking.

Outreach

Street outreach teams actively seek out young people experiencing homelessness who may need help. The team assists with critical safety needs by providing transportation to a safe shelter. Young people living on the streets can receive food, water, hygiene kits, clothing, blankets, counseling, and referrals to services such as medical care, employment, and education 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.

Young Families Program (formerly The RLH Mother/Child Program)

The young families program provides emergency services, short and long-term housing, food, and medical and mental health care to pregnant and parenting youth and their children. The program also offers young families access to free child care services, parenting support, and a full range of educational, vocational, and job placement services.

Drop-In Services (formerly The Community Service Center)

Drop-in services are another form of outreach at the Organization. Youth in this program are not receiving residential services, but are provided access to nutritious meals, hot showers, hygiene products, laundry services, and new clothing and shoes. They can request and receive medical and mental health services, case management services, transitional and permanent housing assistance, and they may take part in the education and employment program.

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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Transitional Living - Rights of Passage

The Organization's transitional living programs, often referred to as "Rights of Passage" or ROP, are where young people take steps toward independence. Youth live in ROP for 18-24 months, where they tap their potential and plan for the future. Here they build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. The staff supports each young person on their journey toward sustainable independence and a hope-filled future.

Permanent Supportive Housing

The Permanent Supportive Housing program provides housing to youth and young families through scattered-site apartments, where they receive ongoing case management and behavioral health services. The Organization help youth by covering a portion of their rent, a portion that dwindles as their capacity for independence increases. Community apartments and rapid rehousing programs are emerging as an increasingly important part of the Organization's continuum of care.

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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

2. Summary of Significant Accounting Policies (continued)

Net Asset Presentation

The financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Net assets without donor restrictions are those currently available for use at the discretion of the board and management for use in the Organization's operations. Net assets with donor restrictions are those which are subject to donor-imposed restrictions that the Organization expects will be met either by actions of the Organization or the passage of time and may include net assets to be held in perpetuity. The Organization had no perpetually restricted net assets at June 30, 2021 and 2020.

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.

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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

2. Summary of Significant Accounting Policies (continued)

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. Leasehold improvements are amortized over the lesser of the estimated useful life or term of the lease inclusive of expected renewals. 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, 2021 and 2020.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

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. 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, 2021 and 2020, the Organization's deposits held with trustee consist of cash held in interest-bearing savings accounts at Bank of America, N.A.

Debt Issuance Costs

Debt issuance 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 debt issuance costs amounted to \$13,424 and \$13,405 in fiscal 2021 and 2020 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, 2018.

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, 2020, from which the summarized information was derived.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

2. Summary of Significant Accounting Policies (continued)

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 2, 2021.

In July 2021, the U.S. Department of Housing and Urban Development (“HUD”) performed a monitoring audit of certain programs they fund. On September 27, 2021, HUD communicated to the Organization the details of their findings. Management has provided a corrective action plan and is awaiting a response from the agency. As of the date of the financial statements, the potential effects, if any, cannot be determined.

3. Investments

Investments at June 30, 2021 and 2020 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>2021</u>	<u>2020</u>
Fixed income mutual fund	\$ 4,729,119	\$ 2,902,981
Equities	5,740	-
Money market fund, at cost	100	100
	<u>\$ 4,734,959</u>	<u>\$ 2,903,081</u>

4. Contributions Receivable

Contributions receivable, less discount ranging from 1.38% to 2.52% at June 30, 2021 and 2020 are scheduled to be collected as follows:

	<u>2021</u>	<u>2020</u>
Due within one year	\$ 862,363	\$ 890,895
Due within two to five years	31,187	600,149
	893,550	1,491,044
Allowance for doubtful accounts	(94,769)	-
Discount to present value	(612)	(38,612)
	<u>\$ 798,169</u>	<u>\$ 1,452,432</u>

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

5. Property, Plant and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 2,387,830	\$ 2,387,830
Building and improvements	21,546,857	21,058,242
Furniture and equipment	1,500,947	1,471,158
Vehicles	542,014	500,970
Leasehold improvements	<u>9,415</u>	<u>9,415</u>
	25,987,063	25,427,615
Accumulated depreciation and amortization	<u>(13,218,727)</u>	<u>(12,400,181)</u>
Property, Plant and Equipment, Net	<u><u>\$12,768,336</u></u>	<u><u>\$13,027,434</u></u>

6. Refundable Advances

Refundable advances consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
State of New Jersey Department of Human Services (Crisis Center)	\$ 5,419	\$ 6,503
State of New Jersey Department of Community Affairs	-	43,815
U.S. Department of Housing and Urban Development	<u>800,000</u>	<u>800,000</u>
	<u><u>\$ 805,419</u></u>	<u><u>\$ 850,318</u></u>

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

During fiscal 2006, the Organization was awarded a grant/loan of \$21,675 from NJ DHS in order to finance the renovation/improvement of its Newark Crisis Center. Pursuant to the terms of the capital funding agreement, the amount of the note is to be reduced by 5% annually one year after the anniversary date. Accordingly, the grant/loan has been recorded as a refundable grant 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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

6. Refundable Advances (continued)

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.

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, 2021 and 2020.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

8. Mortgages Payable

Mortgages payable consist of the following at June 30:

	2021	2020
Loan for Atlantic City Capital Project	\$ 700,000	\$ 700,000
Montclair (Nancy's Place) and Newark Capital Projects	648,346	648,346
Montclair (Nancy's Place) Permanent Financing	829,306	829,306
Montclair (Supportive Apartment Living) Permanent Financing	654,400	654,400
Newark (Supportive Apartment Living) Permanent Financing	165,179	165,179
	<u>2,997,231</u>	<u>2,997,231</u>
Less: Debt issuance costs, net	(28,519)	(41,943)
	<u>\$ 2,968,712</u>	<u>\$ 2,955,288</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.

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, 2021 and 2020, the escrow amount held with the trustee totaled \$259,647 and \$256,383. 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 2021 and 2020, 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.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

8. Mortgages Payable (continued)

Montclair (Nancy's Place) and Newark Capital Projects (continued)

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, 2021 and 2020, the escrow amount held with the trustee totaled \$145,693 and \$143,745. 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 2021 and 2020, 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.

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, 2021 and 2020, the escrow amount held with the trustee totaled \$110,773 and \$108,891. 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 2021 and 2020, 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 in 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 2021 and 2020, 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 for both fiscal years ended 2021 and 2020.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

8. Mortgages Payable (continued)

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, 2021 and 2020, the escrow amount held with the trustee totaled \$24,455 and \$20,635. 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 2021 and 2020, 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.

9. Line of Credit

The Organization had an available \$1,000,000 line of credit agreement with Bank of America, N.A. which matures on February 28, 2023. Interest on amounts borrowed accrued at a rate of British Bankers Association London Inter-Bank Offering Rate plus 3.50%. There were no outstanding borrowings on this line of credit facility at June 30, 2021 and 2020. Interest expense for fiscal 2021 and 2020 amounted to \$0 and \$9,618.

10. Paycheck Protection Program Loan

On May 11, 2020, the Organization received loan proceeds in the amount of \$1,456,635 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries above a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the loan. Loan payments of principal or interest are deferred until the amount of loan forgiveness is determined by the United States Small Business Administration ("SBA"). If the Organization does not apply for forgiveness, payments begin approximately 16 months after the loan date.

As of June 30, 2021, the PPP loan is recognized as debt on the statement of financial position. The Organization will recognize the income from the forgiveness of the PPP loan when it received the notification of forgiveness from SBA in accordance with Accounting Standard Codification ("ASC") 470, Debt.

The PPP loan was subsequently forgiven in full by the SBA on July 31, 2021.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

11. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of time restricted contributions in the amount of \$635,896 and \$1,414,619 at June 30, 2021 and 2020.

Net assets of \$778,723 and \$919,365 were released from donor restrictions during fiscal 2021 and 2020 by the passage of time.

12. Government and Private Grants

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

	<u>2021</u>	<u>2020</u>
U.S. Department of Housing and Urban Development	\$ 789,707	\$ 780,922
U.S. Department of Health and Human Services	551,216	442,110
State of New Jersey Department of Children and Families	750,730	660,529
State of New Jersey Department of Community Affairs	111,209	275,966
State of New Jersey Office of the Attorney General	326,849	-
State of New Jersey Department of Human Services	-	30,820
County of Essex	215,950	131,058
U.S. Department of Justice	119,159	54,840
City of Atlantic, New Jersey	10,000	10,000
Various NJ Counties	98,175	48,252
Various other grants	124,656	139,756
	<u>\$ 3,097,651</u>	<u>\$ 2,574,253</u>

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

Government grants receivable consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
U.S. Department of Housing and Urban Development	\$ 154,820	\$ 154,699
U.S. Department of Health and Human Services	130,810	166,253
U.S. Department of Justice	119,159	7,614
State of New Jersey Office of the Attorney General	99,706	-
State of New Jersey Department of Community Affairs	79,209	28,934
City of Elizabeth, New Jersey	17,585	-
County of Monmouth	16,250	-
County of Essex	11,652	79,353
County of Union	7,985	57,937
	<u>\$ 637,176</u>	<u>\$ 494,790</u>

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

12. Government and Private Grants *(continued)*

All government grants receivable as of June 30, 2021 and 2020 are expected to be collected within one year. As of June 30, 2021 and 2020, no allowance for doubtful accounts was determined to be necessary.

As of June 30, 2021, the Organization has been approved for a number of government cost reimbursement grants in which conditions stipulated in the grant agreements have not yet been met. Accordingly, revenue pertaining to these grants has not been recognized in the accompanying financial statements.

13. Employee Benefit Plan

The Organization participates in a noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Effective August 1, 2009, the Board of Directors of the Parent approved to freeze the future benefit accruals of all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent. Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. The Organization's share amounted to \$149,256 and \$188,925 for the years ended June 30, 2021 and 2020.

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 \$300,983 and \$291,062 for 2021 and 2020.

14. Related Party Transactions

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of the affiliates. Total contributions, promises to give, and government grants and contracts totaled approximately \$84 million and \$88 million for the parent in fiscal years ended 2021 and 2020. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations plus a Parent subsidy and appropriates funds classified as "Branding Dollars" or "Contributions Received from Parent" to each Covenant House affiliate. Total funds allocated to affiliated organizations, based on the Parent's policy, approximated \$36 million and \$38 million in the fiscal years ended 2021 and 2020. In fiscal 2021 and 2020, the Organization received approximately \$3,068,052 and \$4,195,000 in support from the Parent.

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

14. Related Party Transactions *(continued)*

Amounts due to/from the Parent at June 30, 2021 and 2020, 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 to the Parent at June 30, 2021 and 2020 totaled \$20,244 and \$27,536.

15. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and investments with major financial institutions. At times, the cash balance may be in excess of the federally insured limits. Investments are concentrated in a single mutual fund, however, the Organization monitors the fund's performance routinely. The Organization has not experienced any losses in regards to these concentrations of credit risk.

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.

16. 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:

	<u>2021</u>	<u>2020</u>
Financial Assets		
Cash and cash equivalents	\$2,675,127	\$3,479,210
Investments	4,734,959	2,903,081
Contributions receivable, net	798,169	1,452,432
Government grants receivable	637,176	494,790
Other receivables	<u>68,506</u>	<u>35,186</u>
Total Financial Assets	8,913,937	8,364,699
Less amounts unavailable for general expenditure:		
Amounts restricted by donors for time	(635,896)	(1,414,619)
Add amounts available for general expenditure:		
Satisfaction of donor imposed time restrictions	<u>617,480</u>	<u>804,564</u>
Financial Assets at Year End Available to Meet Cash Need for General Expenditures Within One Year	<u>\$8,895,521</u>	<u>\$7,754,644</u>

Covenant House New Jersey

Notes to Financial Statements
June 30, 2021

16. Liquidity and Availability of Financial Assets *(continued)*

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 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.

17. Risks and Uncertainties

The Organization's operations and financial performance may be affected by the recent COVID-19 outbreak, which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the Organization may experience a disruption in operations as well as a decline in revenue activities. The effects of the outbreak on the Organization's future business, financial condition and results of operations cannot be determined at this time.

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