

Under 21 Covenant House New York

Financial Statements

June 30, 2017

Independent Auditors' Report

Board of Directors Under 21 Covenant House New York

We have audited the accompanying financial statements of Under 21 Covenant House New York (the "Organization"), which comprise the statement of financial position as of June 30, 2017, 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 Under 21 Covenant House New York as of June 30, 2017 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 13, 2017

Under 21 Covenant House New York

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 24,638	\$ 103,339
Investments	106,244	96,663
Government grants receivable	1,718,779	1,899,401
Contributions receivable	40,000	465,000
Other receivables	30,469	55,382
Due from Parent	470,058	150,745
Prepaid expenses and other assets	167,616	124,964
Property and equipment, net	819,720	632,396
Beneficial interest in perpetual trust	<u>2,136,810</u>	<u>2,147,101</u>
	<u>\$ 5,514,334</u>	<u>\$ 5,674,991</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,928,566	\$ 2,066,479
Capital lease obligations	137,169	175,139
Loans payable to Parent	<u>901,527</u>	<u>1,160,527</u>
Total Liabilities	<u>2,967,262</u>	<u>3,402,145</u>
Net Assets		
Unrestricted (deficit)	105,661	(693,397)
Temporarily restricted	198,775	713,316
Permanently restricted	<u>2,242,636</u>	<u>2,252,927</u>
Total Net Assets	<u>2,547,072</u>	<u>2,272,846</u>
	<u>\$ 5,514,334</u>	<u>\$ 5,674,991</u>

See notes to financial statements

Under 21 Covenant House New York

Statement of Activities Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
SUPPORT AND REVENUE					
Contributions	\$ 606,372	\$ 210,000	\$ -	\$ 816,372	\$ 987,829
Government and private grants (including \$328,034 and \$35,195 of goods and services contributed)	11,028,167	-	-	11,028,167	10,151,899
Branding dollars from Parent	9,828,192	-	-	9,828,192	9,402,129
Contributed goods and services	281,009	-	-	281,009	150,770
Total Support and Revenue	<u>21,743,740</u>	<u>210,000</u>	<u>-</u>	<u>21,953,740</u>	<u>20,692,627</u>
INVESTMENT AND OTHER INCOME					
Dividends and interest	26	2,446	-	2,472	2,368
Net unrealized and realized gain (loss) on investments	-	7,137	-	7,137	(9,575)
Other income	190,559	-	-	190,559	205,019
Total Investment and Other Income	<u>190,585</u>	<u>9,583</u>	<u>-</u>	<u>200,168</u>	<u>197,812</u>
Net assets released from restrictions	734,124	(734,124)	-	-	-
Total Support and Revenue and Investment and Other Income	<u>22,668,449</u>	<u>(514,541)</u>	<u>-</u>	<u>22,153,908</u>	<u>20,890,439</u>
EXPENSES					
Program services	20,480,401	-	-	20,480,401	19,819,059
Supporting Services					
Management and general	1,370,245	-	-	1,370,245	1,442,316
Fundraising	18,745	-	-	18,745	27,100
Total Expenses	<u>21,869,391</u>	<u>-</u>	<u>-</u>	<u>21,869,391</u>	<u>21,288,475</u>
Change in Net Assets (Deficit) Before Nonoperating Changes	799,058	(514,541)	-	284,517	(398,036)
NONOPERATING CHANGES					
Change in value of beneficial interest in perpetual trust	-	-	(10,291)	(10,291)	(127,876)
Change in Net Assets (Deficit)	799,058	(514,541)	(10,291)	274,226	(525,912)
NET ASSETS (DEFICIT)					
Beginning of year	<u>(693,397)</u>	<u>713,316</u>	<u>2,252,927</u>	<u>2,272,846</u>	<u>2,798,758</u>
End of year	<u>\$ 105,661</u>	<u>\$ 198,775</u>	<u>\$ 2,242,636</u>	<u>\$ 2,547,072</u>	<u>\$ 2,272,846</u>

See notes to financial statements

Under 21 Covenant House New York

Statement of Functional Expenses Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	Program Services					Supporting Services					Total 2017	Total 2016
	Shelter and Crisis Care	Outreach	Mother/Child	Medical	Rights of Passage	Total Program Services	Management and General	Fundraising	Total Supporting Services			
Salaries and wages	\$ 5,181,147	\$ 221,790	\$ 1,302,508	\$ 1,586,439	\$ 3,052,591	\$ 11,344,475	\$ 724,641	\$ 8,807	\$ 733,448	\$ 12,077,923	\$ 11,745,948	
Payroll taxes	537,721	23,018	135,180	164,647	316,811	1,177,377	75,206	914	76,120	1,253,497	1,101,414	
Employee benefits	1,004,934	43,018	252,634	307,705	592,080	2,200,371	140,551	1,708	142,259	2,342,630	2,220,794	
Total Salaries and Related Expenses	6,723,802	287,826	1,690,322	2,058,791	3,961,482	14,722,223	940,398	11,429	951,827	15,674,050	15,068,156	
Faith community	52,043	1,892	21,763	4,731	14,194	94,623	-	-	-	94,623	87,228	
Accounting fees	6,350	-	-	19,525	6,350	32,225	41,275	-	41,275	73,500	73,500	
Legal fees	4,812	1,361	1,474	580	2,838	11,065	2,724	-	2,724	13,789	24,121	
Medical fees	-	-	-	38,063	-	38,063	-	-	-	38,063	15,313	
Consulting fees	42,561	7,208	9,704	5,053	23,633	88,159	616	-	616	88,775	170,816	
Supplies	82,437	1,729	16,630	148,073	45,120	293,989	9,198	49	9,247	303,236	457,763	
Telephone	70,546	1,006	15,685	9,694	45,872	142,803	6,729	24	6,753	149,556	198,429	
Postage and printing	4,169	423	483	1,505	4,059	10,639	1,528	14	1,542	12,181	12,122	
Occupancy												
Fuel and utilities	245,108	-	53,042	22,510	173,534	494,194	23,423	-	23,423	517,617	473,664	
Repairs and maintenance	179,287	942	60,679	13,967	113,708	368,583	13,073	-	13,073	381,656	543,629	
Rent to parent	491,310	-	13,242	111,240	291,342	907,134	41,715	4,635	46,350	953,484	953,484	
Rent and other	28,791	-	-	32,144	5,434	66,369	7,932	-	7,932	74,301	1,025	
Equipment	30,880	2,535	7,270	62,102	19,795	122,582	11,564	2,326	13,890	136,472	110,429	
Transportation and entertainment	15,033	8,828	5,239	1,228	13,455	43,783	640	37	677	44,460	59,681	
Specific Assistance to Individuals												
Food	325,887	1,869	89,216	2,921	41,424	461,317	3,896	85	3,981	465,298	798,314	
Medical	131	41	44	-	73	289	3	-	3	292	-	
Contributed services-other	9,240	-	-	92,187	5,880	107,307	840	-	840	108,147	123,252	
Clothing, allowance and other	199,484	12,146	47,911	1,820	403,871	665,232	27	-	27	665,259	674,614	
Contributed clothing and merchandise	238,427	-	-	32,972	207,672	479,071	13,953	-	13,953	493,024	62,712	
Temporary help	73,908	58	3,959	88,412	41,344	207,681	51,250	49	51,299	258,980	163,547	
Other purchased services	395,157	97	18,155	56,932	101,879	572,220	78,871	54	78,925	651,145	545,164	
Dues, licenses, and permits	9,117	570	1,535	5,158	6,210	22,590	1,223	2	1,225	23,815	27,757	
Subscriptions and publications	411	43	119	81	206	860	742	-	742	1,602	614	
Staff recruitment	25,832	-	6,458	6,458	12,916	51,664	77,497	-	77,497	129,161	2,621	
Insurance	146,932	1,922	22,065	43,012	98,711	312,642	13,483	-	13,483	326,125	312,303	
Miscellaneous	105	56	103	-	8,519	8,783	-	33	33	8,816	14,274	
Conference, convention and meetings	2,050	944	535	6,175	2,838	12,542	2,660	8	2,668	15,210	34,069	
Bank charges and fees	1,223	-	-	1,834	1,223	4,280	7,947	-	7,947	12,227	9,414	
Interest	3,984	-	153	2,505	3,188	9,830	9,646	-	9,646	19,476	14,827	
Total Functional Expenses, Before Depreciation and Amortization	9,409,017	331,496	2,085,786	2,869,673	5,656,770	20,352,742	1,362,853	18,745	1,381,598	21,734,340	21,032,842	
Depreciation and amortization	66,176	263	7,578	9,722	43,920	127,659	7,392	-	7,392	135,051	255,633	
Total Functional Expenses	\$ 9,475,193	\$ 331,759	\$ 2,093,364	\$ 2,879,395	\$ 5,700,690	\$ 20,480,401	\$ 1,370,245	\$ 18,745	\$ 1,388,990	\$ 21,869,391	\$ 21,288,475	

See notes to financial statements

Under 21 Covenant House New York

Statement of Cash Flows Year Ended June 30, 2017 (with comparative amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 274,226	\$ (525,912)
Adjustments to reconcile change in net assets to net cash from operating activities		
Net unrealized and realized (gain) loss on investments	(7,137)	9,575
Depreciation and amortization	135,051	255,633
Forgiveness of loans payable to Parent	(259,000)	-
Change in beneficial interest in perpetual trust	10,291	127,876
Changes in operating assets and liabilities		
Government grants receivable	180,622	(789,485)
Contributions receivable	425,000	425,000
Other receivables	24,913	23,947
Due from Parent	(319,313)	1,361,295
Prepaid expenses and other assets	(42,652)	6,148
Accounts payable and accrued expenses	(137,913)	(582,217)
Net Cash from Operating Activities	284,088	311,860
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(304,672)	(334,935)
Purchase of investments	(2,444)	(2,308)
Net Cash from Investing Activities	(307,116)	(337,243)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under capital lease obligations	(55,673)	(58,479)
Net Change in Cash and Cash Equivalents	(78,701)	(83,862)
CASH AND CASH EQUIVALENTS		
Beginning of year	103,339	187,201
End of year	\$ 24,638	\$ 103,339
SUPPLEMENTAL CASH FLOW INFORMATION		
Assets acquired under capital lease obligations	\$ 17,703	\$ 101,529
Cash paid for interest	15,463	17,708

See notes to financial statements

Under 21 Covenant House New York

Notes to Financial Statements
June 30, 2017

1. Organization and Tax Status

Under 21 Covenant House New York (the "Organization") is an operating affiliate of Covenant House (Parent). Covenant House (Parent) is a not-for-profit organization founded in 1968 and incorporated in 1972. 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 80,000 young people during fiscal 2017.

In fiscal 2016, Covenant House provided shelter, food, clothing, medical attention, crisis intervention, and other services to approximately 47,000 runaway and homeless. The increase from 2016 to 2017 is due to the inclusion of Public Education and Prevention programs.

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

Covenant House Alaska	Covenant House Pennsylvania/Under 21
Covenant House California	Covenant House Texas
Covenant House Chicago	Covenant House Washington, D.C.
Covenant House Connecticut	Covenant House Western Avenue
Covenant House Florida	Covenant House Testamentum
Covenant House Georgia	Covenant House Holdings, LLC
Covenant House Illinois	Covenant International Foundation
Covenant House Michigan	Rights of Passage, Inc.
Covenant House Missouri	Under 21 Boston, Inc.
Covenant House New Jersey	268 West 44th Corporation
Covenant House New Orleans	

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)	Covenant House Toronto
Casa Alianza de Honduras	Covenant House Vancouver
Casa Alianza Internacional	Fundacion Casa Alianza Mexico, I.A.P.
Casa Alianza Nicaragua	

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 York income and sales taxes.

Under 21 Covenant House New York

Notes to Financial Statements
June 30, 2017

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. The Organization also provides comprehensive services to youth who have left the crisis centers and other youth in the community who need support to maintain themselves in stable living situations.

Outreach

The Outreach program is an effort to reach youths who are on the streets for various reasons. Outreach vans cruise the city streets at night searching for these youths to 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.

Mother/Child Program

The Organization provides emergency shelter, food, and counseling to homeless mothers under the age of 21 and their children.

Medical

The Organization maintains a health clinic which provides youths in the program with needed medical attention. The health clinic is a Federally Qualified Health Center ("FQHC") under Section 330 of the Public Health Services Act ("PHS").

Rights of Passage

Rights of Passage provides transitional home services for up to 24 months to youths, including individual counseling and help with completing their education and finding jobs and housing. The goal is to prepare young people for independent living by teaching them the skills, habits and attitudes a person needs to live and maintain self-sufficiency. Every resident that enters the Rights of Passage program makes a commitment to work full time, enhance their education and build a savings program for when they transition from the program.

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

Under 21 Covenant House New York

Notes to Financial Statements
June 30, 2017

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 require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Asset Presentation

The financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in the Organization's operations. Temporarily restricted amounts are those which are stipulated by donors for specific operating purposes or for future periods. Permanently restricted net assets result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Revenue Recognition

The Organization records earned revenues on an accrual basis. In addition, The Organization records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), grants receivable, certain contributed services and gifts of other assets. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. The Organization also raises funds through special events, such as galas. Event revenues are recorded as unrestricted contributions since such funds can be used for general operations unless there are donor-imposed restrictions. Related costs with a direct-benefit to donors are paid by the Parent. Costs to generate restricted and unrestricted donations and grants are expensed as incurred.

The Organization recognizes grant and contract revenues 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 of their restricted use are reported as contract advances in the statement of financial position. Revenue for performance based grants and contracts are recognized on a fixed fee unit basis based on actual services rendered, not to exceed the maximum allowable per the grant or contract.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Under 21 Covenant House New York

Notes to Financial Statements
June 30, 2017

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 and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided on the straight-line method, using the 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 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 independent third-party appraisals, as considered necessary. There is no such impairment for the years ended June 30, 2017 and 2016.

Under 21 Covenant House New York

Notes to Financial Statements
June 30, 2017

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

Beneficial Interest in Perpetual Trust

The Organization is a beneficiary of a perpetual trust that is held by a third party trustee. Under the terms of this trust, the Organization has an irrevocable right to receive all of the income earned on the trust assets for the life of the trust. The Organization does not control the assets held by the trust. The Organization measures its beneficial interest in the trust based upon its beneficial interest in the fair value of the underlying investments held by the trust. The fair value of the Organization's beneficial interest is adjusted annually for changes in fair value of the underlying investments or the changes to the Organization's beneficial interest. Such adjustments are reported as change in value of beneficial interest in trust on the statement of activities.

Contributions Receivable

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge or of cash or other assets. Contributions are considered available for unrestricted use, unless the donors restrict their use. Contributions to be received after one year are discounted at an interest rate commensurate with the risk involved. An allowance for uncollectible contributions 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, 2017 and 2016, 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.

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, 2014.

Contributed Goods and Services

The Organization recognizes the fair value of contributed goods and 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. During fiscal 2017 and 2016, the Organization recognized contributed goods of approximately \$493,000 and \$63,000. The Organization also received contributed services, primarily for medical services for its health clinic, of approximately \$108,000 and \$123,000 for fiscal 2017 and 2016.

Under 21 Covenant House New York

Notes to Financial Statements
June 30, 2017

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

Contributed Goods and 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 per week stipend, health insurance and reimbursement for other personal expenses are provided to Community members by the Organization. The expenses associated with Community members totaled approximately \$95,000 and \$87,000 for the years ended June 30, 2017 and 2016, and are reported in the accompanying statements of activities and functional expenses as part of branding dollars from Parent and faith community expenses.

Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended June 30, 2016, 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 13, 2017.

3. Investments

Investments of \$106,244 and \$96,663 at June 30, 2017 and 2016 consist of affiliated pooled investments held with the Parent which are measured at fair value on a recurring basis and classified with Level 2 inputs using the fair value hierarchy.

4. Government Grants Receivable

Government grants receivable of \$1,718,779 and \$1,899,401 at June 30, 2017 and 2016 are expected to be collected within one year. As of June 30, 2017 and 2016, no allowance for doubtful accounts was determined to be necessary.

5. Contributions Receivable

Contributions receivable of \$40,000 and \$465,000 at June 30, 2017 and 2016 are expected to be collected within one year. As of June 30, 2017 and 2016, no allowance for doubtful accounts was determined to be necessary.

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Notes to Financial Statements
June 30, 2017

6. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 3,268,932	\$ 3,280,603
Leasehold improvements	<u>11,268,084</u>	<u>10,956,558</u>
	14,537,016	14,237,161
Accumulated depreciation and amortization	<u>(13,717,296)</u>	<u>(13,604,765)</u>
Property and equipment, net	<u>\$ 819,720</u>	<u>\$ 632,396</u>

7. Beneficial Interest in Perpetual Trust

The Organization maintains a beneficial interest in a trust administered by a third party. This trust is perpetual in nature and was valued at \$2,136,810 and \$2,147,101 at June 30, 2017 and 2016. The beneficial interest in perpetual trust is measured at fair value and classified with Level 3 inputs using the fair value hierarchy.

The following table summarizes the changes in fair value associated with the Organization's beneficial interest in perpetual trust for the years ended June 30:

	<u>2017</u>		
	Beginning Balance at July 1, 2016	Change in Fair Value	Ending Balance at June 30, 2017
Beneficial interest in perpetual trust	<u>\$ 2,147,101</u>	<u>\$ (10,291)</u>	<u>\$ 2,136,810</u>

	<u>2016</u>		
	Beginning Balance at July 1, 2015	Change in Fair Value	Ending Balance at June 30, 2016
Beneficial interest in perpetual trust	<u>\$ 2,274,977</u>	<u>\$ (127,876)</u>	<u>\$ 2,147,101</u>

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Notes to Financial Statements
June 30, 2017

8. Capital Lease Obligations

Aggregate future minimum lease payments due under the Organization's capital lease obligations as of June 30, 2017 are as follows:

Year ending June 30	
2018	\$ 53,004
2019	49,555
2020	33,040
2021	3,549
2022	<u>3,549</u>
Total minimum lease payments	142,697
Less: amount representing interest	<u>(5,528)</u>
Present value of minimum lease payments	<u>\$ 137,169</u>

Accumulated depreciation and amortization on equipment acquired under capital lease obligations amounted to \$105,355 and \$80,601 at June 30, 2017 and 2016.

9. Temporarily and Permanently Restricted Net Assets

As of June 30, temporarily restricted net assets are available for the following:

	<u>2017</u>	<u>2016</u>
Purpose Restrictions		
Various donor-imposed purpose restrictions (principally anti-human trafficking and scholarships)	<u>\$ 198,775</u>	<u>\$ 713,316</u>

Net assets were released from temporary restrictions by incurring expenses and other costs satisfying the donor restrictions for the years ended June 30 as follows:

	<u>2017</u>	<u>2016</u>
Purpose Restrictions		
Various donor-imposed purpose restrictions (principally anti-human trafficking and scholarships)	<u>\$ 734,124</u>	<u>\$ 676,205</u>

Permanently restricted nets assets consist of the following amounts and purposes at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donor restricted interest in trust	\$ 2,136,810	\$ 2,147,101
General endowment	<u>105,826</u>	<u>105,826</u>
	<u>\$ 2,242,636</u>	<u>\$ 2,252,927</u>

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10. Endowment

On September 17, 2010, New York State passed the New York State Prudent Management of Institutional Funds Act (“NYPMIFA”), its version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). All not-for-profit organizations formed in New York must apply this law. The Organization classifies as donor-restricted permanent endowment funds unless otherwise stipulated by the donor: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to its permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds.

The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified as temporarily restricted net assets until such amounts are appropriated for expenditure by the Organization in a manner consistent with the uses, benefits, purposes and duration for which the endowment is established and the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of endowment investments; general economic conditions; the possible effects of inflation and deflation; other resources of the Organization; and, the investment policy of the Organization.

The Organization has adopted investment and spending policies for endowment assets that support the objective of providing a sustainable and increasing level of endowment income distribution to support the Organization’s activities while seeking to maintain the purchasing power of endowment assets. The Organization’s primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

The following details endowment net asset composition, excluding a third party perpetual trust in the amount of \$2,136,810 and \$2,147,101, as of June 30, 2017 and 2016:

	June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Composition of endowment net assets by type of fund:				
Donor-restricted endowment funds	\$ -	\$ 6,187	\$ 105,826	\$ 112,013
Changes in endowment net assets:				
Endowment net assets, beginning of year	\$ (3,396)	\$ -	\$ 105,826	\$ 102,430
Interest and dividends	-	2,446	-	2,446
Net appreciation in fair value of investments	3,396	3,741	-	7,137
Endowment net assets, end of year	\$ -	\$ 6,187	\$ 105,826	\$ 112,013

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10. Endowment (continued)

	June 30, 2016			
	Unrestricted	Temporarily Restricted		Total
		Permanently		
		Restricted	Restricted	
Composition of endowment net assets by type of fund:				
Donor-restricted endowment funds	\$ (3,396)	\$ -	\$ 105,826	\$ 102,430
Changes in endowment net assets:				
Endowment net assets, beginning of year	\$ -	\$ 3,871	\$ 105,826	\$ 109,697
Interest and dividends	-	2,308	-	2,308
Net depreciation in fair value of investments	(3,396)	(6,179)	-	(9,575)
Endowment net assets, end of year	\$ (3,396)	\$ -	\$ 105,826	\$ 102,430

11. Government and Private Grants

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

	2017	2016
CITY OF NEW YORK		
Department of Youth and Community Development	\$ 4,983,660	\$ 5,092,950
Public Health Solutions, Inc.	45,000	45,000
Department of Social Services	14,850	-
	5,043,510	5,137,950
STATE OF NEW YORK		
Safety Net Payment/Public Goods Pool	766,221	232,616
Medicaid	245,432	255,327
NYC Office of Mental Health-On Site Rehabilitation	152,519	151,161
Supportive Housing Program	74,352	20,325
	1,238,524	659,429
FEDERAL GOVERNMENT		
U.S. Department of Housing and Urban Development:		
Direct awards	2,854,717	2,852,608
Passed through NYC Dept. of Homeless Services	212,371	217,371
U.S. Department of Health and Human Services:		
Direct awards	1,057,968	1,016,125
Passed through NYC Dept. of Health & Mental Hygiene	18,845	23,080
U.S. Department of Energy		
Passed through Housing Community Renewal	295,850	-
U.S. Department of Agriculture:		
Passed through the State of NY Dept. of Education	137,301	175,899
Passed through the State of NY Dept. of Health	19,236	32,752
Passed through the State of NY Division of Food Distribution	-	11,755
Passed through the Food Bank for New York City	13,339	360
U.S. Department of Justice:		
Direct awards	123,451	24,570
U.S. Department of Labor:		
Passed through the State of NY Dept. of Labor	13,055	-
	4,746,133	4,354,520
Total	\$ 11,028,167	\$ 10,151,899

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11. Government and Private Grants *(continued)*

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.

12. Employee Benefit Plan

The Organization participates in a defined benefit pension plan sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. The Organization did not contribute to the defined benefit pension plan during the years ended June 30, 2017 and 2016. Effective December 31, 2006, the Parent froze service credits in the plan. Compensation increases continued to apply within the plan structure for those participants who have at least 45 points (age plus years of service). The Parent has further amended the plan effective August 1, 2009 to cease adjustments in the accrued benefit due to salary increases so that no further benefits accrue under the plan after that date.

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan. Employees are immediately eligible to participate in the plan. Employees who work at least 1,000 hours per year and have one year of service are eligible to receive an employer contribution. The Organization makes annual contributions to 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 expenses related to the 403(b) plan were approximately \$394,000 and \$392,000 for 2017 and 2016.

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 from the Parent to its affiliated organizations totaled approximately \$66 million and \$64.3 million in fiscal years 2017 and 2016. 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 \$33.6 million for fiscal years 2017 and 2016. In fiscal 2017 and 2016, the Organization received \$9,828,192 and \$9,402,129, in branding dollars from the Parent.

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13. Related Party Transactions *(continued)*

In fiscal 2011, the Organization entered into a Memorandum of Understanding with the Parent. Under the terms of the agreement, the Parent assumes responsibility for all fundraising activities of the Organization other than government grants, contracts and fee for service arrangements and thus, will receive all revenue earned from unrestricted contributions from individuals, foundations, corporations and bequests, except for those specified amounts required to be retained by the Organization. In return, the Organization will receive an increase in branding dollars from the Parent.

In May 2016, the Organization amended the Memorandum of Understanding with the Parent. One of the stipulations in the amended agreement states that all funds raised from the Organization's board members, related individuals, special events, peer-to-peer events, corporations and planned gifts will go the Parent. In turn, funds raised by the Organization's board members will be added to branding dollars in the subsequent year of event occurrence.

The Organization leases space in two buildings from the Parent for its primary address of operation, where the Crisis Care and Rights of Passage shelters are located, and additional space for its Mother and Child shelter, both of which are located in Manhattan, New York City. The leases call for payments of \$77,250 and \$2,207 per month, through August 1, 2017. Subsequent to fiscal year end, the Organization signed a new lease through August 1, 2018. Expenses incurred each year under these lease agreements totaled approximately \$953,000 in fiscal years 2017 and 2016. Certain improvements, which were funded by the Organization, were made to the facility and have been capitalized.

At June 30, 2017 and 2016, a portion of the amount comprising the loans payable to Parent totaled approximately \$379,000 and \$638,000 and represents amounts advanced to the Organization in fiscal years 2007 and 2008 to cover moving expenses and the purchase of furniture and equipment. The amounts loaned are interest-free with repayment terms to be determined. During fiscal 2017, the Parent forgave \$259,000 of this portion of the loans and the Organization reported this within branding dollars received from the Parent in the 2017 statement of activities. The remaining balance of loans payable to Parent of \$522,191 at June 30, 2017 and 2016, represents amounts drawn down on the Parent's line of credit with JPMorgan Chase Bank N.A. For the years ended June 30, 2017 and 2016, the interest expense on this loan to the Parent amounted to approximately \$10,000 and \$8,000.

Amounts due from the Parent at June 30, 2017 and 2016, 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 and have no specified repayment date. Amounts due from the Parent at June 30, 2017 and 2016 totaled \$470,058 and \$150,745.

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14. Concentrations Credit Risk

Certain financial instruments potentially subject the Organization to concentrations of credit risk. These financial instruments consist primarily of 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.

15. Commitments

The Organization has entered into various noncancellable operating leases primarily for space associated with its two addresses of operation, youth apartments and office equipment. Aggregate future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2017 are as follows:

2018	\$ 991,116
2019	<u>79,457</u>
	<u>\$ 1,070,573</u>

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