Under 21 Covenant House New York

Financial Statements and
Uniform Guidance Schedules
Together with Independent Auditors' Report

June 30, 2018

Under 21 Covenant House New York

Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2018

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ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Directors
Under 21 Covenant House New York

Report on the Financial Statements

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, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented on page 20 for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

December 17, 2018

Under 21 Covenant House New York

Statement of Financial Position
June 30, 2018
(with comparative amounts at June 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 71,174	$ 24,638
Investments	108,453	106,244
Government grants receivable	2,050,524	1,718,779
Contributions receivable	663,140	40,000
Other receivables	46,919	30,469
Due from Parent	270,314	470,058
Prepaid expenses and other assets	223,976	167,616
Property and equipment, net	658,594	819,720
Beneficial interest in perpetual trust	2,063,025	2,136,810
	$ 6,156,119	$ 5,514,334
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 2,007,657	$ 1,928,566
Capital lease obligations	88,623	137,169
Loans payable to Parent	-	901,527
Total Liabilities	2,096,280	2,967,262
Net Assets		
Unrestricted	1,030,672	105,661
Temporarily restricted	860,316	198,775
Permanently restricted	2,168,851	2,242,636
Total Net Assets	4,059,839	2,547,072
	$ 6,156,119	$ 5,514,334

See notes to financial statements

Under 21 Covenant House New York

Statement of Activities
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
SUPPORT AND REVENUE					
Contributions	$ 344,324	$ 1,300,000	$ -	$ 1,644,324	$ 816,372
Government and private grants (including $45,215 and $328,034 of goods and services contributed)	11,412,358	-	-	11,412,358	11,028,167
Branding dollars from Parent	9,435,500	-	-	9,435,500	9,828,192
Contributed goods and services	90,862	-	-	90,862	281,009
Total Support and Revenue	21,283,044	1,300,000	-	22,583,044	21,953,740
INVESTMENT AND OTHER INCOME					
Dividends and interest	321	2,649	-	2,970	2,472
Net unrealized and realized (loss) gain on investments	-	(440)	-	(440)	7,137
Other income	201,820	-	-	201,820	190,559
Total Investment and Other Income	202,141	2,209	-	204,350	200,168
Net assets released from restrictions	640,668	(640,668)	-	-	-
Total Support and Revenue and Investment and Other Income	22,125,853	661,541	-	22,787,394	22,153,908
EXPENSES					
Program services	20,381,023	-	-	20,381,023	20,480,401
Supporting Services					
Management and general	1,328,579	-	-	1,328,579	1,370,245
Fundraising	163,812	-	-	163,812	18,745
Total Expenses	21,873,414	-	-	21,873,414	21,869,391
Change in Net Assets Before Nonoperating Changes	252,439	661,541	-	913,980	284,517
NONOPERATING CHANGES					
Forgiveness of loans payable to Parent	736,527	-	-	736,527	-
Loss on disposal of property	(63,955)	-	-	(63,955)	-
Change in value of beneficial interest in perpetual trust	-	-	(73,785)	(73,785)	(10,291)
Change in Net Assets	925,011	661,541	(73,785)	1,512,767	274,226
NET ASSETS					
Beginning of year	105,661	198,775	2,242,636	2,547,072	2,272,846
End of year	$ 1,030,672	$ 860,316	$ 2,168,851	$ 4,059,839	$ 2,547,072

See notes to financial statements

Under 21 Covenant House New York

Statement of Functional Expenses
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	Program Services						Supporting Services				
	Shelter and Crisis Care	Outreach	Mother/Child	Medical	Rights of Passage	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2018	Total 2017
Salaries and wages	$ 5,011,499	$ 203,525	$ 1,326,332	$ 1,757,211	$ 2,948,088	$ 11,246,655	$ 762,781	$ 113,772	$ 876,553	$ 12,123,208	$ 12,077,923
Payroll taxes	538,045	26,246	144,354	183,723	328,884	1,221,252	78,738	12,315	91,053	1,312,305	1,253,497
Employee benefits	1,171,963	57,169	314,429	400,182	714,611	2,658,354	171,507	28,584	200,091	2,858,445	2,342,630
Total Salaries and Related Expenses	6,721,507	286,940	1,785,115	2,341,116	3,991,583	15,126,261	1,013,026	154,671	1,167,697	16,293,958	15,674,050
Faith community	93,183	3,388	38,967	8,471	25,413	169,422	-	-	-	169,422	94,623
Accounting fees	6,150	-	-	21,725	6,150	34,025	39,975	-	39,975	74,000	73,500
Legal fees	14,472	3,691	4,094	1,217	7,634	31,108	727	325	1,052	32,160	13,789
Medical fees	-	-	-	-	-	-	-	-	-	-	38,063
Consulting fees	72,341	7,296	28,243	27,295	26,499	161,674	1,444	1,864	3,308	164,982	88,775
Supplies	64,977	1,866	10,673	134,343	39,842	251,701	7,336	106	7,442	259,143	303,236
Telephone	64,260	654	11,615	8,165	48,492	133,186	5,252	15	5,267	138,453	149,556
Postage and printing	1,975	702	262	2,268	1,321	6,528	1,380	103	1,483	8,011	12,181
Occupancy											
Fuel and utilities	237,717	-	58,305	21,611	170,709	488,342	21,611	-	21,611	509,953	517,617
Repairs and maintanence	208,380	157	44,305	18,349	132,869	404,060	14,751	-	14,751	418,811	381,656
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	6,602	-	-	3,132	873	10,607	1,419	-	1,419	12,026	74,301
Equipment	18,532	1,095	3,194	10,834	10,151	43,806	11,699	491	12,190	55,996	136,472
Transportation and entertainment	12,195	9,996	1,296	2,392	8,963	34,842	1,245	91	1,336	36,178	44,460
Specific Assistance to Individuals											
Food	255,586	1,485	62,589	4,093	26,842	350,595	4,967	184	5,151	355,746	465,298
Medical	-	-	-	-	300	300	-	-	-	300	292
Contributed services-other	-	-	-	90,862	-	90,862	-	-	-	90,862	108,147
Clothing, allowance and other	209,435	16,233	39,800	964	380,035	646,467	68	-	68	646,535	665,259
Contributed clothing and merchandise	23,210	-	-	22,005	-	45,215	-	-	-	45,215	493,024
Temporary help	97,174	394	1,367	24,308	12,692	135,935	12,248	332	12,580	148,515	258,980
Other purchased services	386,457	166	23,494	64,353	143,010	617,480	81,825	165	81,990	699,470	651,145
Dues, licenses, and permits	18,175	489	20,455	9,004	17,714	65,837	2,232	202	2,434	68,271	23,815
Subscriptions and publications	153	41	49	6	84	333	69	-	69	402	1,602
Staff recruitment	2,214	-	553	553	1,107	4,427	6,641	-	6,641	11,068	129,161
Insurance	156,806	1,747	24,193	43,904	105,711	332,361	14,348	-	14,348	346,709	326,125
Miscellaneous	1,208	2	4	340	1,030	2,584	1,174	500	1,674	4,258	8,816
Conference, convention and meetings	20,329	235	3,440	14,611	10,553	49,168	10,942	128	11,070	60,238	15,210
Bank charges and fees	2,061	-	1	2,293	1,866	6,221	9,710	-	9,710	15,931	12,227
Interest	3,078	51	151	2,297	2,298	7,875	9,174	-	9,174	17,049	19,476
Total Functional Expenses Before Depreciation and Amortization	9,189,487	336,628	2,175,407	2,991,751	5,465,083	20,158,356	1,314,978	163,812	1,478,790	21,637,146	21,734,340
Depreciation and amortization	103,169	3,544	23,627	32,669	59,658	222,667	13,601	-	13,601	236,268	135,051
Total Functional Expenses	$ 9,292,656	$ 340,172	$ 2,199,034	$ 3,024,420	$ 5,524,741	$ 20,381,023	$ 1,328,579	$ 163,812	$ 1,492,391	$ 21,873,414	$ 21,869,391

See notes to financial statements

Under 21 Covenant House New York

Statement of Cash Flows
Year Ended June 30, 2018
(with comparative amounts for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$1,512,767	$ 274,226
Adjustments to reconcile change in net assets to net cash from operating activities		
Net unrealized and realized loss (gain) on investments	440	(7,137)
Depreciation and amortization	236,268	135,051
Loss on disposal of property	63,955	-
Forgiveness of loans payable to Parent	(901,527)	(259,000)
Change in beneficial interest in perpetual trust	73,785	10,291
Changes in operating assets and liabilities		
Government grants receivable	(331,745)	180,622
Contributions receivable	(623,140)	425,000
Other receivables	(16,450)	24,913
Due from Parent	199,744	(319,313)
Prepaid expenses and other assets	(56,360)	(42,652)
Accounts payable and accrued expenses	79,091	(137,913)
Net Cash from Operating Activities	236,828	284,088
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(139,097)	(304,672)
Purchase of investments	(2,649)	(2,444)
Net Cash from Investing Activities	(141,746)	(307,116)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under capital lease obligations	(48,546)	(55,673)
Net Change in Cash and Cash Equivalents	46,536	(78,701)
CASH AND CASH EQUIVALENTS		
Beginning of year	24,638	103,339
End of year	$ 71,174	$ 24,638
SUPPLEMENTAL CASH FLOW INFORMATION		
Assets acquired under capital lease obligations	$ -	$ 17,703
Cash paid for interest	16,651	15,463

See notes to financial statements

1. Organization and Tax Status

Under 21 Covenant House New York (the "Organization") is a not-for-profit organization founded in 1981 and incorporated in 1992. Covenant House (the "Parent") and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical attention, crisis intervention, public education, prevention, and other services that reached approximately 89,000 and 80,000 young people during fiscal 2018 and 2017.

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

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

The 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 Toronto
Covenant House Vancouver
Fundacion Casa Alianza Mexico, I.A.P.

The 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.

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.

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.

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, 2018 and 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, if necessary, 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.

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, 2015.

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 2018 and 2017, the Organization recognized contributed goods of approximately $45,000 and $493,000. The Organization also received contributed services, primarily for medical services for its health clinic, of approximately $91,000 and $108,000 for fiscal 2018 and 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 $169,000 and $95,000 for the years ended June 30, 2018 and 2017, 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, 2017, 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 17, 2018.

3. Investments

Investments of $108,453 and $106,244 at June 30, 2018 and 2017 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 $2,050,524 and $1,718,779 at June 30, 2018 and 2017 are expected to be collected within one year. As of June 30, 2018 and 2017, no allowance for doubtful accounts was determined to be necessary.

5. Contributions Receivable

Contributions receivable of $663,140 and $40,000 at June 30, 2018 and 2017 are expected to be collected within one year. As of June 30, 2018 and 2017, no allowance for doubtful accounts was determined to be necessary.

6. Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Equipment	$ 2,736,843	$ 3,268,932
Leasehold improvements	6,140,416	11,268,084
	8,877,259	14,537,016
Accumulated depreciation and amortization	(8,218,665)	(13,717,296)
Property and equipment, net	$ 658,594	$ 819,720

During June 2018, the Parent sold a building located in Manhattan, New York City. This building provided space for the Organization's Mother and Child shelter. As a result of the sale, the Organization wrote off $5,798,854 of leasehold improvements and equipment which resulted in a loss on disposal which is reflected within the statement of activities.

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 $2,063,025 and $2,136,810 at June 30, 2018 and 2017. 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:

	2018		
	Beginning Balance at July 01, 2017	Change in Fair Value	Ending Balance at June 30, 2018
Beneficial interest in perpetual trust	$ 2,136,810	$ (73,785)	$ 2,063,025

	2017		
	Beginning Balance at July 01, 2016	Change in Fair Value	Ending Balance at June 30, 2017
Beneficial interest in perpetual trust	$ 2,147,101	$ (10,291)	$ 2,136,810

8. Capital Lease Obligations

Aggregate future minimum lease payments due under the Organization's capital lease obligations as of June 30, 2018 are as follows:

Year Ending June 30	
2019	$ 49,555
2020	34,663
2021	3,549
2022	3,549
Total Minimum Lease Payments	91,316
Less: amount representing interest	(2,693)
Present Value of Minimum Lease Payments	$ 88,623

Accumulated depreciation and amortization on equipment acquired under capital lease obligations amounted to $153,901 and $105,355 at June 30, 2018 and 2017.

9. Temporarily and Permanently Restricted Net Assets

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

	2018	2017
Purpose Restrictions		
Various donor-imposed purpose restrictions		
(principally anti-human trafficking and scholarships)	$ 860,316	$ 198,775

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:

	2018	2017
Purpose Restrictions		
Various donor-imposed purpose restrictions		
(principally anti-human trafficking and scholarships)	$ 640,668	$ 734,124

Permanently restricted nets assets consist of the following amounts and purposes at June 30, 2018 and 2017:

	2018	2017
Donor restricted interest in trust	$ 2,063,025	$ 2,136,810
General endowment	105,826	105,826
	$ 2,168,851	$ 2,242,636

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 $2,063,025 and $2,136,810, as of June 30, 2018 and 2017:

	June 30, 2018			
	Unrestricted	Temporarily Resticted	Permanently Restricted	Total
Composition of endowment net assets by type of fund:				
Donor-restricted endowment funds	$ -	$ 8,396	$ 105,826	$114,222
Changes in endowment net assets:				
Endowment net assets, beginning of year	$ -	$ 6,187	$ 105,826	$112,013
Interest and dividends	-	2,649	-	2,649
Net depreciation in fair value of investments	-	(440)	-	(440)
Endowment net assets, end of year	$ -	$ 8,396	$ 105,826	$114,222

10. Endowment *(continued)*

	June 30, 2017			
	Unrestricted	Temporarily Resticted	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

11. Government and Private Grants

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

	2018	2017
CITY OF NEW YORK		
Department of Youth and Community Development	$ 6,125,168	$ 4,983,660
Public Health Solutions, Inc.	45,000	45,000
Department of Social Services	-	14,850
	6,170,168	5,043,510
STATE OF NEW YORK		
Safety Net Payment/Public Goods Pool	142,938	766,221
Medicaid	464,865	245,432
NYC Office of Mental Health-On Site Rehabilitation	153,367	152,519
Supportive Housing Program	69,182	74,352
	830,352	1,238,524
FEDERAL GOVERNMENT		
U.S. Department of Housing and Urban Development:		
Direct awards	2,670,952	2,854,717
Passed through NYC Dept. of Homeless Services	212,371	212,371
U.S. Department of Health and Human Services:		
Direct awards	1,164,075	1,057,968
Passed through the State of NY Dept. of Health and Mental Hygiene	22,005	18,845
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	109,471	137,301
Passed through the State of NY Dept. of Health	19,539	19,236
Passed through the State of NY Division of Food Distribution	-	-
Passed through the Food Bank for New York City	23,210	13,339
U.S. Department of Justice:		
Direct awards	190,215	123,451
U.S. Department of Labor:		
Passed through the State of NY Dept. of Labor	-	13,055
	4,411,838	4,746,133
Total	$ 11,412,358	$ 11,028,167

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 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. Beginning in the year ended June 30, 2018, the Organization contributed $342,682 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expense.

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 $439,000 and $394,000 for 2018 and 2017.

13. Related Party Transactions

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of the affiliates. Contributions and promises to give totaled approximately $64 million and $66 million for the Parent in fiscal years 2018 and 2017. 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 $35 million and $36 million for fiscal years 2018 and 2017. In fiscal 2018 and 2017, the Organization received $9,435,500 and $9,828,192 in branding dollars from the Parent.

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 leased 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 called for payments of $77,250 and $2,207 per month, through August 1, 2018. Currently, the lease for the Crisis Care and Rights of Passage shelters is on a month to month basis with the monthly payment remaining at $77,250. There was no renewal for the Mother and Child space since the Parent sold this property in June 2018. Expenses incurred each year under these two lease agreements totaled approximately $953,000 in each of the fiscal years 2018 and 2017. Certain improvements, which were funded by the Organization, were made to the facility and have been capitalized.

At June 30, 2018 and 2017, a loan payable to the Parent totaled $0 and $379,336 which represented amounts advanced to the Organization in fiscal years 2007 and 2008 to cover moving expenses and the purchase of furniture and equipment. For the years ended June 30, 2018 and 2017, the amounts loaned were interest-free. In addition, at June 30, 2018 and 2017, the remaining loan payable to the Parent totaled $0 and $522,191, which represented amounts drawn down on the Parent's line of credit with JPMorgan Chase Bank N.A. For the years ended June 30, 2018 and 2017, the interest expense on this loan to the Parent amounted to approximately $14,000 and $10,000. During fiscal 2018, the Parent forgave the entire loan amount of $901,527 of which, $736,527 was reported in non-operating activities and $165,000 was reported within branding dollars received from the Parent in the statement of activities.

Amounts due from the Parent at June 30, 2018 and 2017, 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, 2018 and 2017 totaled $270,314 and $470,058.

14. Concentrations Credit Risk

Certain financial instruments potentially subject the Organization to concentrations of credit risk. These financial instruments consist primarily of cash, 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, 2018 are as follows:

Year ending June 30	
2019	$ 209,945
2020	105,289
	$ 315,234

* * * * *

Under 21 Covenant House New York

Uniform Guidance Schedules and Reports

June 30, 2018

Under 21 Covenant House New York

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development:				
Continuum of Care Program		14.267	$ -	$ 2,670,952
Pass-through from the New York City Department of Homeless Services:				
Emergency Solutions Grant Programs	20070001007	14.231	-	212,371
Total U.S. Department of Housing and Urban Development			-	2,883,323
U.S. Department of Health and Human Services:				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)		93.224	-	976,624
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth		93.557	-	187,451
Pass-through from the New York State Department of Health and Mental Hygiene:				
Immunization Cooperative Agreements	Not Available	93.268	-	22,005
Total U.S. Department of Health and Human Services			-	1,186,080
U.S. Department of Agriculture:				
Child Nutrition Cluster:				
Pass-through from the New York State Department of Education:				
School Breakfast Program	310200630021	10.553	-	37,647
Pass-through from the New York State Department of Education:				
National School Lunch Program	310200630027	10.555	-	71,824
Total Child Nutrition Cluster			-	109,471
Pass-through from the New York State Department of Health:				
Child and Adult Care Food Program	5910-0001	10.558	-	11,558
Child and Adult Care Food Program	5910-0002	10.558	-	7,981
Total Child and Adult Care Food Program			-	19,539
Pass-through from the Food Bank for New York City:				
Emergency Food Assistance Program (Food Commodities)	A1531-85337	10.569	-	23,210
Total U.S. Department of Agriculture			-	152,220
U.S. Department of Justice:				
Services for Trafficking Victims		16.320	-	190,215
Total Expenditures of Federal Awards			$ -	$ 4,411,838

See independent auditors’ report and notes to schedule of expenditures of federal awards

Under 21 Covenant House New York

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Under 21 Covenant House New York (the "Organization") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule based on the amount disbursed or received. The Organization received the following nonmonetary assistance:

U.S. Department of Agriculture:	
Food Contribution	$ 23,210
U.S. Department of Health and Human Services:	
Vaccines	22,005
Total Nonmonetary Assistance	$ 45,215

4. Subrecipients

For the year ended June 30, 2018, the Organization provided no funds to subrecipients.

5. Indirect Cost Rate

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Board of Directors
Under 21 Covenant House New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Under 21 Covenant House New York (the "Organization"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

December 17, 2018

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditors' Report

Board of Directors
Under 21 Covenant House New York

Report on Compliance for Each Major Federal Program

We have audited Under 21 Covenant House New York's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Under 21 Covenant House New York complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

December 17, 2018

Under 21 Covenant House New York

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	____ yes __X__ no
Significant deficiency(ies) identified?	____ yes __X__ none reported
Noncompliance material to financial statements noted?	____ yes __X__ no

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	____ yes __X__ no
Significant deficiency(ies) identified?	____ yes __X__ none reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ yes __X__ no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.267	Continuum of Care Program
16.320	Services for Trafficking Victims

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	__X__ yes ____ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2018.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal and state financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior Year Audit Findings

There were no findings in the prior year.