Under 21 Covenant House New York

Financial Statements

June 30, 2023

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Directors
Under 21 Covenant House New York

Opinion

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, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Policy

As discussed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board ("FASB") Topic 842, Leases, using the effective date method with July 1, 2022 as the date of initial adoption. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 1, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 5, 2023

Under 21 Covenant House New York

Statement of Financial Position
June 30, 2023
(with comparative amounts at June 30, 2022)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 7,225,596	$ 5,047,708
Investments	114,250	107,837
Government grants receivable	3,761,089	4,984,131
Contributions receivable	1,212,725	874,000
Other receivables, net	184,061	180,640
Due from Parent	52,497	115,027
Prepaid expenses and other assets	593,922	673,280
Property and equipment, net	397,773	560,482
Right of use assets - operating leases	13,153,726	-
Beneficial interest in perpetual trust	1,674,679	1,776,619
	$ 28,370,318	$ 14,319,724
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 2,384,759	$ 2,576,804
Finance lease obligations	11,059	23,873
Due to third party	374,568	-
Due to 460 West 41st Street LLC	2,000,000	2,000,000
Lease liability, operating leases	13,142,791	-
Deferred revenue	13,265	3,608
Total Liabilities	17,926,442	4,604,285
Net Assets		
Without donor restrictions	6,231,624	5,221,849
With donor restrictions	4,212,252	4,493,590
Total Net Assets	10,443,876	9,715,439
	$ 28,370,318	$ 14,319,724

See notes to financial statements

Under 21 Covenant House New York

Statement of Activities
Year Ended June 30, 2023
(with summarized totals for the year ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
SUPPORT AND REVENUE				
Government grants and contracts	$ 19,287,885	$ -	$ 19,287,885	$ 21,419,197
Contributions	711,617	2,543,087	3,254,704	3,353,893
Pass-through grants from Parent	-	607,000	607,000	200,000
Restricted Site Investment Fund from Parent	-	-	-	70,000
Branding dollars from Parent	9,349,565	-	9,349,565	10,032,436
Contributions of nonfinancial assets	360,793	-	360,793	326,462
Other income	249,315	-	249,315	261,751
	29,959,175	3,150,087	33,109,262	35,663,739
Net assets released from restrictions	3,329,485	(3,329,485)	-	-
Total Support and Revenue	33,288,660	(179,398)	33,109,262	35,663,739
EXPENSES				
Program services	29,169,966	-	29,169,966	30,802,662
Supporting Services				
Management and general	2,459,652	-	2,459,652	2,223,827
Fundraising	649,267	-	649,267	532,524
Total Expenses	32,278,885	-	32,278,885	33,559,013
Change in Net Assets Before Nonoperating Changes	1,009,775	(179,398)	830,377	2,104,726
NONOPERATING CHANGES				
Impairment loss on property and equipment	-	-	-	(203,121)
Change in value of beneficial interest in perpetual trust	-	(101,940)	(101,940)	(371,728)
Change in Net Assets	1,009,775	(281,338)	728,437	1,529,877
NET ASSETS				
Beginning of year	5,221,849	4,493,590	9,715,439	8,185,562
End of year	$ 6,231,624	$ 4,212,252	$ 10,443,876	$ 9,715,439

See notes to financial statements

Under 21 Covenant House New York

Statement of Functional Expenses
Year Ended June 30, 2023
(with summarized totals for the year ended June 30, 2022)

	Program Services					Supporting Services				
	Immediate Housing	Transitional Living - Rights of Passage	Permanent Supportive Housing	Health and Well-Being	Total Program Services	Management and General	Fundraising	Total Supporting Services	2023 Total	2022 Total
Salaries and wages	$ 7,277,268	$ 3,682,298	$ 1,372,432	$ 2,513,915	$ 14,845,913	$ 709,829	$ 423,871	$ 1,133,700	$ 15,979,613	$ 15,810,338
Payroll taxes	748,461	378,722	141,154	252,514	1,520,851	80,880	43,595	124,475	1,645,326	1,372,511
Employee benefits	1,677,977	848,978	316,423	579,599	3,422,977	169,323	97,726	267,049	3,690,026	3,635,601
Total Salaries and Related Expenses	9,703,706	4,909,998	1,830,009	3,346,028	19,789,741	960,032	565,192	1,525,224	21,314,965	20,818,450
Accounting fees	-	-	-	26,100	26,100	76,750	-	76,750	102,850	109,900
Legal fees	-	-	32,491	97,838	130,329	121,566	-	121,566	251,895	69,830
Consulting fees	110,858	63,577	61,116	164,523	400,074	162,064	5,870	167,934	568,008	752,899
Supplies	189,557	113,348	7,946	493,160	804,011	71,706	3,542	75,248	879,259	554,124
Telephone	132,444	135,436	24,307	28,803	320,990	47,606	6,279	53,885	374,875	370,620
Postage and printing	7,360	6,057	5,380	1,135	19,932	7,126	1,792	8,918	28,850	50,376
Occupancy										
Fuel and utilities	180,036	186,004	31,260	17,028	414,328	96,105	4,128	100,233	514,561	513,814
Repairs and maintenance	143,341	196,465	22,064	13,521	375,391	91,015	8,613	99,628	475,019	219,694
Rent to Parent and other	966,988	1,384,562	149,071	88,989	2,589,610	280,488	18,540	299,028	2,888,638	2,907,378
Furniture, equipment and software	94,143	64,585	16,751	82,417	257,896	62,190	5,431	67,621	325,517	493,509
Transportation	5,913	8,516	12,167	1,751	28,347	804	-	804	29,151	42,134
Specific Assistance to Individuals										
Food	264,303	84,226	204	-	348,733	-	-	-	348,733	410,570
Rent, scholarships, supplies and other	356,047	171,556	1,479,017	50,211	2,056,831	-	-	-	2,056,831	2,288,924
Temporary help	229,075	66,941	17,281	14,659	327,956	59,240	-	59,240	387,196	264,547
Other purchased services	129,374	57,279	18,608	45,714	250,975	42,367	11,797	54,164	305,139	355,235
Dues, licenses, and permits	15,604	10,678	6,995	-	33,277	5,940	-	5,940	39,217	40,320
Subscriptions and publications	1,177	918	402	1,771	4,268	4,899	3,015	7,914	12,182	12,005
Staff recruitment	6,480	4,055	2,865	-	13,400	147,412	-	147,412	160,812	156,976
Insurance	170,017	118,834	39,776	46,921	375,548	111,919	9,023	120,942	496,490	460,598
Miscellaneous	10,742	16,521	4,227	2,794	34,284	30,879	220	31,099	65,383	98,330
Parent administrative fees on grants	172,533	45,395	32,072	75,000	325,000	1,016	-	1,016	326,016	234,416
Conference, convention and meetings	54,712	31,210	12,008	24,573	122,503	32,635	2,860	35,495	157,998	115,477
Grant expense to 460 West 41st Street LLC	-	-	-	-	-	-	-	-	-	2,000,000
Bad debt expense	-	-	-	-	-	6,591	-	6,591	6,591	10,642
Total Expenses Before Depreciation and Amortization	12,944,410	7,676,161	3,806,017	4,622,936	29,049,524	2,420,350	646,302	3,066,652	32,116,176	33,350,768
Depreciation and amortization	68,248	22,262	8,995	20,937	120,442	39,302	2,965	42,267	162,709	208,245
Total Expenses	$ 13,012,658	$ 7,698,423	$ 3,815,012	$ 4,643,873	$ 29,169,966	$ 2,459,652	$ 649,267	$ 3,108,919	$ 32,278,885	$ 33,559,013

See notes to financial statements

Under 21 Covenant House New York

Statement of Cash Flows
Year Ended June 30, 2023
(with comparative amounts for the year ended June 30, 2022)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 728,437	$ 1,529,877
Adjustments to reconcile change in net assets to net cash from operating activities		
Unrealized (gain) loss on investments	(2,147)	22,947
Depreciation and amortization	162,709	208,245
Impairment loss on property and equipment	-	203,121
Bad debt expense	6,591	10,642
Amortization of right of use assets - operating leases	2,852,529	-
Change in beneficial interest in perpetual trust	101,940	371,728
Changes in operating assets and liabilities		
Government grants receivable	1,223,042	(1,652,443)
Contributions receivable	(338,725)	(598,435)
Other receivables	(10,012)	(48,047)
Deferred revenue	9,657	3,608
Due to 460 West 41st Street LLC	-	2,000,000
Due to third party	374,568	-
Due from Parent	62,530	(115,027)
Due to Parent	-	(65,938)
Prepaid expenses and other assets	79,358	(146,700)
Accounts payable and accrued expenses	(192,045)	(49,019)
Lease liabilities	(2,863,464)	-
Net Cash from Operating Activities	2,194,968	1,674,559
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(128,789)
Purchase of investments	(4,266)	(6,204)
Net Cash from Investing Activities	(4,266)	(134,993)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under finance lease obligations	(12,814)	-
Net Change in Cash and Cash Equivalents	2,177,888	1,539,566
CASH AND CASH EQUIVALENTS		
Beginning of year	5,047,708	3,508,142
End of year	$ 7,225,596	$ 5,047,708

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 and mental health care, crisis intervention, education and vocational services, public education and prevention, and other programs that reached approximately 58,000 young people during fiscal 2023. Throughout fiscal 2023, Covenant House provided a total of more than 790,000 nights of housing and safety for, on average, 2,165 youth each night.

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

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

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

Asociación La Alianza (Guatemala)	Covenant House Toronto
Casa Alianza de Honduras	Covenant House Vancouver
Casa Alianza Internacional	Fundación Casa Alianza México, I.A.P.
Casa Alianza Nicaragua	

Covenant House (Parent) is the founder of Fundación Casa Alianza México, 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)*

Program Services and Supporting Services

Program Services

Immediate Housing (formerly Shelter and Crisis Care
The Immediate and Short-term Housing program focuses on crisis care and provides emergency services: temporary, immediate housing; nutritious meals; clothing; medical care; mental health services; and legal aid to all young people ages 16-22 who are experiencing homelessness or human trafficking. The Organization's high-quality programs and services meet youths' immediate needs, stabilize their situation, and help them consider their longer-term goals for education, employment, and career planning. The Organization is expertly equipped to respond to the unique needs of young survivors of human trafficking, youth who identify as LGBTQ+, and youth who are pregnant or parenting. The Organization's shelter doors are always open, 24/7, and we have provided uninterrupted service to children and youth for more than 50 years.

Transitional Living - Rights of Passage
The Organization's Transitional Living programs, often referred to as "Rights of Passage" or ROP, are where young people take their boldest steps toward independence. Youth live in ROP for up to 24 months, where they tap their potential and plan for the future. The Organization's research shows that the longer a young person resides with us, and takes advantage of the Organization's programs, the more likely they are to experience positive outcomes, including stable housing, gainful employment, and higher education. In the Transitional Living programs, youth build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. The Organization's staff support each young person on their journey toward sustainable independence and a hope-filled future.

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

Health and Well-Being (formerly Medical)
Homelessness impacts young people's physical and mental well-being in many ways, and because youth are still developing cognitively, physically, psychologically, and emotionally, those impacts can have deep effects. This is even more the case for young people of color and those who identify as LGBTQ+, as they face unique challenges associated with racism and prejudice, and for survivors of human trafficking. Half of all Covenant House youth indicate to us they are dealing with a mental health challenge, and our data shows that LGBTQ+ youth are more likely to face these challenges than their peers. Covenant House welcomes all young people with unconditional love and absolute respect.

1. Organization and Tax Status *(continued)*

Program Services and Supporting Services (continued)

Program Services (continued)

Health and Well-Being (formerly Medical) (continued)
The Organization's trauma-informed Health and Well-being services range from medical care at on-site health centers at certain Covenant House sites to yoga classes, art and music therapy, one-on-one and group counseling, religious and spiritual services, and physical fitness. Through these activities and the stability and care they receive at the Organization, young people begin to heal from the harm they experienced while living unhoused, taking control of their lives, building on their strengths, and nourishing their self-confidence.

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.

Adoption of New Accounting Policy

The Organization adopted FASB Topic 842, Leases, using the effective date method with July 1, 2022, as the date of initial adoption, with certain practical expedients available. The Organization elected the available practical expedients to account for its existing operating leases as operating leases, under the new guidance, without reassessing (a) whether the contracts contain a lease under the new standard, (b) whether the classification of capital (now finance) leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

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

Adoption of New Accounting Policy (continued)

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the Organization recognized a lease liability of $15,893,585, that represents the present value of the remaining operating lease payments of $17,619,035, discounted at 2.88%, and a Right of Use asset ("ROU") of $15,926,340, which represents the operating lease liability of $15,893,585, adjusted for prepaid rent of $32,755. The Organization's accounting policy for capital (now finance) leases remained the same.

The standard had a material impact on the Organization's statement of financial position but did not have an impact on its statements of activities and cash flows. The most significant impact was the recognition of the ROU asset and lease liability for its operating leases.

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

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

With donor restrictions – consist of resources which have either an implied or stated time restriction or have been restricted by donors for specific activities including gift instruments requiring the principal be invested in perpetuity and the income be used for specific or general purposes. Donor restrictions that have been satisfied are reported in the statement of activities as net assets released from restrictions and are reclassified to net assets without donor restrictions.

Revenue Recognition

The Organization records earned revenue on an accrual basis. Unconditional contributions are recorded at fair value when they are received. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met.

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

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

Functional Expense Allocation

Expenses are summarized and categorized based upon their functional classifications as either program services, management and general, or fundraising. Expenses readily identifiable to a single program or activity are charged directly to that function. Categories of expenses attributable to more than one program or supporting function are allocated on a reasonable basis. Occupancy and facilities costs are allocated based on square footage, the food services department is allocated based on youth headcount, the executive office, human resources, security, communications and information technology departments are allocated based on estimates of time and effort.

Operating Measure

The Organization has elected to present an operating measure in their statement of activities. Accordingly, items affecting operations are segregated from those not affecting operations. The Organization includes in its measure of operations all revenue and expenses that are an integral part of its program and supporting activities.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Fair Value Measurements

The Organization follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable and are used to the extent that observable inputs do not exist.

Investment Valuation and Income Recognition

Investments are valued at fair value in the statement of financial position. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

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

Allowance for Doubtful Accounts

The Organization maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make required payments. Such allowances are estimated based upon several factors including, but not limited to, historical experience and the financial condition of the donor. Uncollectible accounts are written off based upon the amount of time they have been outstanding and management's expected collectability. As of June 30, 2023 and 2022, an allowance of $60,470 and $30,811 was provided for other receivables.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis, using the half year convention over the estimated useful lives of the assets, which range from 3 to 10 years. The Organization capitalizes and depreciates all expenditures for property, equipment and leasehold improvements having a cost of $5,000 or more and a useful life in excess of one year.

Certain property and equipment purchased through government contracts that remain the property of the funding source or where it is probable that the items will revert back to the funder are treated as expenses in the year of purchase.

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. For the year ended June 30, 2022, the Organization recognized $203,121 of impairment losses. In 2023, there were no such losses.

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.

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

Contributions Receivable

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge, cash or other assets. Contributions are considered available without donor restrictions, unless the donors restrict their use. Contribution revenue is recognized based on the present value of the estimated future payments to be made to the Organization. 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.

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, 2020.

Contributions of Nonfinancial Assets

The Organization received donated contributions and services as follows for the years ended June 30:

	2023	2022	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Merchandise	$ 155,423	$ 150,667	Program and Administration	No associated donor restrictions	(a)
Vaccines	12,063	9,805	Program	No associated donor restrictions	(b)
Food	21,457	5,409	Program	No associated donor restrictions	(a)
Services	171,850	160,581	Program and Administration	No associated donor restrictions	(c)
	$ 360,793	$ 326,462			

(a) The Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

(b) In valuing contributed vaccines otherwise legally permissible for sale in the United States, the Organization used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Price (AMP) that approximates wholesale prices in the United States (that is, the principal market). In valuing pharmaceuticals not legally permissible for sale in the United States (and primarily consumed in developing markets), the Organization used third-party sources representing wholesale exit prices in the developing markets in which the products are approved for sale.

(c) Contributed services are valued at the estimated fair value based on current rates for similar services.

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

Reclassification

Certain information in the prior year's financial statements has been reclassified to conform to the current year's presentation.

Leases

As of July 1, 2022, the Organization leases office space, space associated with its youth apartments, and site rentals in Bronx, NY, and determines if an arrangement is a lease at inception. Operating leases are included in right of use asset – operating leases ("ROU assets") and lease liability, operating leases on the accompanying statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The leases do not provide an implicit borrowing rate. The Organization uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend the lease and when it is reasonably certain that the Organization will exercise that option, such amounts are included in ROU assets and lease liabilities. Lease expense for the lease payments is recognized on a straight-line basis over the lease term.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Prior Year Summarized Comparative Information

The statements of activities and functional expenses include certain prior year summarized comparative information in total but not by net asset class or functional 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, 2022, 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 5, 2023.

3. Investments

Investments of $114,250 and $107,837 at June 30, 2023 and 2022 consist of affiliated pooled investments held with Covenant House (Parent) which are measured at fair value on a recurring basis based on Level 2 inputs using the fair value hierarchy.

4. Government Grants Receivable

Government grants receivable of $3,761,089 and $4,984,131 at June 30, 2023 and 2022 are expected to be collected within one year. As of June 30, 2023 and 2022, no allowance for doubtful accounts was determined to be necessary.

5. Contributions Receivable

Contributions receivable of $1,212,725 and $874,000 at June 30, 2023 and 2022 are expected to be collected within one year. As of June 30, 2023 and 2022, no allowance for doubtful accounts was determined to be necessary.

6. Property and Equipment

Property and equipment consist of the following at June 30:

	2023	2022
Equipment	$ 3,110,730	$ 3,110,730
Software	106,758	106,758
Leasehold improvements	27,140	27,140
	3,244,628	3,244,628
Accumulated depreciation and amortization	(2,846,855)	(2,684,146)
Property and Equipment, net	$ 397,773	$ 560,482

During 2022, the Organization disposed of $6,160,616 of leasehold improvements. The disposal resulted in an impairment loss totaling $203,121 and is reflected as a non-operating activity in the 2022 statement of activities. Depreciation and amortization expense amounted to $149,895 and $208,245 for the years ended June 30, 2023 and 2022.

7. Beneficial Interest in Perpetual Trust

The Organization maintains a beneficial interest in a trust administered by a third party. The beneficial interest in perpetual trust is measured at fair value and classified with Level 3 inputs using the fair value hierarchy.

7. Beneficial Interest in Perpetual Trust *(continued)*

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:

	2023	2022
Beginning of year	$ 1,776,619	$ 2,148,347
Change in fair value	(101,940)	(371,728)
End of year	$ 1,674,679	$ 1,776,619

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30:

	2023	2022
Anti-human trafficking and other programmatic activities	$ 2,423,323	$ 2,609,134
Donor restricted interest in perpetual trust	1,674,679	1,776,619
Unappropriated endowment earnings	8,424	2,011
Held in perpetuity (endowment)	105,826	105,826
	$ 4,212,252	$ 4,493,590

Net assets were released from donor restrictions satisfying the following restrictions for the years ended June 30:

	2023	2022
Anti-human trafficking and other programmatic activities	$ 3,329,485	$ 3,251,165

9. 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 endowment funds, unless otherwise stipulated by the donor: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to its endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds.

9. Endowment *(continued)*

The remaining portion of the donor-restricted endowment fund that is not classified as donor restricted net assets held in perpetuity is classified as donor 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 table details endowment net asset composition, excluding a third-party perpetual trust in the amount of $1,674,679 and $1,776,619, as of June 30:

	With Donor Restriction		
	Cumulative Earnings	Original Gift Amount	Total
Balance, June 30, 2021	$ 18,754	$ 105,826	$ 124,580
Interest and dividends	6,204	-	6,204
Net depreciation in fair value of investments	(22,947)	-	(22,947)
Balance, June 30, 2022	2,011	105,826	107,837
Interest and dividends	4,266	-	4,266
Net appreciation in fair value of investments	2,147	-	2,147
Balance, June 30, 2023	$ 8,424	$ 105,826	$ 114,250

10. Government Grants and Contracts

Government grant and contract revenues consist of the following for the years ended June 30:

	2023	2022
CITY OF NEW YORK		
Department of Youth and Community Development	$ 12,429,897	$ 12,011,246
Department of Health and Mental Hygiene	202,888	159,462
NYC Supportive Housing Initiative	1,466,375	1,453,015
Public Health Solutions	53,711	211,534
City Council	30,000	50,000
	14,182,871	13,885,257
STATE OF NEW YORK		
Department of Health	64,502	2,004,000
Medicaid	131,879	60,173
Safety Net Payment/Public Goods Pool	61,114	63,734
Supportive Housing Program	73,298	70,660
	330,793	2,198,567
FEDERAL GOVERNMENT		
U.S. Department of Health and Human Services:		
Direct awards	1,520,420	1,716,460
Passed through the Centers for Disease Control and Prevention	-	100,000
U.S. Department of Housing and Urban Development:		
Direct awards	2,642,393	2,736,971
U.S. Department of Agriculture:		
Passed through the State of NY Dept. of Education	83,754	62,858
U.S. Department of Homeleand Security:		
Direct awards	-	45,099
U.S. Department of Justice:		
Direct awards	527,654	673,985
	4,774,221	5,335,373
Total	$ 19,287,885	$ 21,419,197

In accordance with the terms of certain government 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.

11. 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. During the years ended June 30, 2023 and 2022, the Organization contributed $354,610 and $452,270 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expenses.

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) plan (the "403(b) Plan"). Employees are immediately eligible to participate in the 403(b) 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 403(b) 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 403 (b) Plan are 100% vested after employees have completed three years of service. Total expenses related to the 403(b) Plan were approximately $464,347 and $466,000 for 2023 and 2022.

12. Related Party Transactions

The Parent provides organizational management and financial support to its affiliated organizations conducting fundraising activities and contracting for certain services on an enterprise-wide basis.

The Parent received contributions and promises to give totaling approximating $86 million and $89 million in fiscal years 2023 and 2022. Of these funds, the Parent allocated to affiliates, based on the Parent's policy, approximately $36 million and $38 million for fiscal years 2023 and 2022. In fiscal 2023 and 2022, the Organization received $9,349,565 and $10,032,436 in support from the Parent (reflected as "Branding dollars" in the statement of activities).

Contributions: Fundraising proceeds received by the Parent are distributed among the Covenant House affiliates. In 2011, under a Memorandum of Understanding (MOU) between the Organization and the Parent, the Parent assumed responsibility for substantially all fundraising activity of the Organization, other than government grants, contracts, and fee-for-service arrangements. In 2016, the MOU was modified to specify that all funds raised from the Organization's board members, related individuals, special events, peer-to-peer events, corporations and planned gifts would also go to the Parent for inclusion in contributions distributed by the Parent to the Organization.

Grants awarded to the Parent and restricted by the donor for work performed by the Organization are passed through to the Organization. Grants passed through to the Organization from the Parent totaled $607,000 for the year ended June 30, 2023 and $200,000 for the year ended June 30, 2022.

12. Related Party Transactions *(continued)*

The Parent provided a Site Investment Fund ("SIF") to Covenant House affiliates during fiscal 2022. The SIF is to encourage innovative programming at Covenant House by implementing a new program or pilot program, build program capacity, make a material change in site-related program work, or introduce an innovative approach to current programs, support the range of site Workforce Development and Vocational Training activities, support young families in the adoption and implementation of the parenting curriculum/parenting programs and parenting skills assessment tool. The Parent provided to the Organization a total of $70,000 for the year ended June 30, 2022, towards the SIF. There were no such funds provided for fiscal 2023.

Parent administrative fees on grants: The Organization pays administrative fees assessed by the Parent on grant awards passed through to the Organization. Administrative fees incurred for grants received from the Parent totaled $326,016 and $234,416 for the years ended June 30, 2023 and 2022.

Due to/from: Amounts due to/from the Parent, result from costs netted against the planned monthly contributions from the Parent and timing differences between contributions collected by the Parent on the Organization's behalf and advances of support from the Parent. These amounts do not bear interest and have no specified repayment date. Amounts due from the Parent at June 30, 2023 and 2022 totaled $52,497 and $115,027.

Due to 460 West 41st Street, LLC: Amounts due to 460 West 41st Street, LLC (the "LLC"), result from a reimbursement award to the Organization for up to $2,000,000 for the construction of the new Health Center. Upon the completion of construction in fiscal 2022, the Organization recognized $2,000,000 in government grants and contracts and a corresponding pass-through grant expense to the LLC, since the LLC is the Landlord of the Health Center. Amounts due to the LLC at June 30, 2023 and 2022 totaled $2,000,000.

13. 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.

14. Lease Commitments

The Organization leases space from the Parent for its primary address of operation in New York City. The lease commenced in November 2021 and is between the Organization and 460 West 41st Street, LLC (the "Landlord") through June 30, 2027. Rent expense remained at $927,000 for each of the years ended June 30, 2023 and 2022.

The Organization has entered into five separate noncancellable operating leases for site rentals in Bronx, NY. These leases range in terms, with the latest expiring in May 2028. Each of these leases provides a different annual base rent payable in monthly installments.

The Organization also leases space associated with its youth apartments. These leases were grouped into five categories based on their commencement dates and all of them expire on June 30, 2024. Each of these leases provides a different annual base rent payable in monthly installments. During fiscal 2023, the Organization entered into new lease agreements for its youth apartments and recognized a combined ROU asset of $79,915.

The Organization amortizes these eleven operating leases over the remaining life of the lease agreements. Right-of-use assets consist of the following at June 30, 2023:

	$ 16,006,255
Less: accumulated amortization	(2,852,529)
	$ 13,153,726

As of June 30, 2023, the future minimum lease payments under the lease agreements above are as follows:

2024	$ 3,284,559
2025	2,669,083
2026	2,468,901
2027	1,187,577
2028	1,054,240
Thereafter	3,708,000
Total undiscounted operating lease payments	14,372,360
Less: imputed interest	(1,229,569)
Present value of operating lease liabilities	$ 13,142,791

Information associated with the measurement of the Organization's operating lease obligations as of June 30, 2023 is as follows:

Weighted-average remaining lease term in years for operating leases	6.37
Weighted-average discount rate for operating leases	2.88%

Operating lease expense for the year ended June 30, 2023 totaled $3,266,155. Cash paid for the amounts included in the measurement of operating lease liabilities for the year ended June 30, 2023 totals $3,246,675.

15. Finance Lease Obligations

The cost of equipment under finance leases totaled $93,768 at June 30, 2023 and 2022. Accumulated depreciation and amortization on equipment acquired under finance lease obligations amounted to $82,709 and $69,893 at June 30, 2023 and 2022. Both the cost of equipment and accumulated depreciation and amortization are included in the amounts in Note 6. Future minimum lease payments totaling $11,059 are due by the year ending June 30, 2024. Amortization expense was $12,816 and $28,197 for the years ended June 30, 2023 and 2022.

16. Liquidity and Availability of Financial Assets

The following reflects the Organization’s financial assets, reduced by amounts not available for general use within one year of that date because of donor-imposed or contractual restrictions.

	2023	2022
Financial Assets:		
Cash and cash equivalents	$ 7,225,596	$ 5,047,708
Investments	114,250	107,837
Government grants receivable	3,761,089	4,984,131
Contributions receivable	1,212,725	874,000
Due from Parent	52,497	115,027
Other receivables, net	184,061	180,640
	12,550,218	11,309,343
Less amounts unavailable for general expenditure:		
Amounts restricted for purpose by donors	(2,431,747)	(2,611,145)
Investments held in perpetuity	(105,826)	(105,826)
	(2,537,573)	(2,716,971)
Financial Assets Over the Next Twelve Months Available to Meet Cash Needs for General Expenditures	$ 10,012,645	$ 8,592,372

Operations of the Organization are funded primarily by government grants and contributions from the Parent and private foundations. Proactive budgeting and cash management is utilized to ensure availability of funds. Management has concluded sufficient resources are available to meet obligations for the next 12 months.

17. Other Commitments

As of June 30, 2023, the Organization accrued $374,568 for amounts due to vendors in relation to the Health Center’s 340B program. Such amount is included in due to third party on the accompanying statement of financial position.

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