Covenant House and Affiliates

Consolidated Financial Statements
Together with Independent Auditors’ Report
June 30, 2019

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Consolidated Financial Statements
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June 30, 2019

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PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Directors
Covenant House and Affiliates

We have audited the accompanying consolidated financial statements of Covenant House and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of Covenant House Toronto and Covenant House Vancouver, controlled affiliated organizations, which statements reflect total assets constituting 21.07% of consolidated total assets as of June 30, 2019, and total revenues of 18.51% of consolidated total revenues for the year then ended. Those statements, which were prepared in accordance with Canadian accounting standards for not-for-profit organizations, were audited by other auditors in accordance with Canadian generally accepted auditing standards, and whose reports have been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of Covenant House Toronto and Covenant House Vancouver, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for Covenant House Toronto and Covenant House Vancouver, prior to these conversion adjustments, is based solely on the reports of the other auditors and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, based on our audit and the reports of the other auditors, and the additional audit procedures performed, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covenant House and Affiliates as of June 30, 2019, and the consolidated changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2019, Covenant House and Affiliates adopted new accounting guidance resulting in a change in the manner in which they present net assets and report certain aspects of their consolidated financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Covenant House and Affiliates' June 30, 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PKF O'Connor Davies, LLP

May 5, 2020

Covenant House and Affiliates

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

	2019	2018
ASSETS		
Cash and cash equivalents	$ 24,651,824	$ 23,797,917
Restricted cash	255,263	391,291
Contributions receivable, net (Note 3)	19,491,848	16,004,723
Grants receivable (Note 4)	8,241,733	6,553,310
Notes receivable (Note 5)	12,813,000	12,813,000
Prepaid expenses and other assets, net (Note 6)	7,297,667	7,310,764
Investments (Note 7)	62,575,353	56,603,933
Investments, other (Note 7)	16,613,823	17,455,756
Property, plant and equipment, net (Note 8)	161,543,849	134,011,675
Property held for sale (Note 8)	31,423	31,423
Beneficial interests in trusts (Note 11)	6,181,741	6,104,507
Total Assets	$ 319,697,524	$ 281,078,299
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 14,013,952	$ 15,359,903
Deferred revenue (Note 10)	2,484,366	2,619,627
Line of credit, other debt obligations and capital leases (Note 9)	42,138,451	27,878,176
Deferred rent	877,086	1,196,027
Obligations due under split-interest agreements (Note 11)	4,343,778	5,939,337
Conditional asset retirement obligation (Note 2)	414,374	414,374
Construction escrow deposits (Note 8)	7,901,803	2,650,538
Construction loans payble (Note 12)	5,881,841	-
Pension benefits liability (Note 13)	19,247,968	17,294,768
Other liabilities	162,226	162,226
Total Liabilities	97,465,845	73,514,976
Net Assets		
Without donor restrictions (Note 14)	160,758,951	155,310,708
With donor restrictions (Note 15 and 16)	61,472,728	52,252,615
Total Net Assets	222,231,679	207,563,323
Total Liabilities and Net Assets	$ 319,697,524	$ 281,078,299

See notes to consolidated financial statements

Covenant House and Affiliates

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

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
CONTRIBUTIONS AND OTHER REVENUE				
Contributions from individuals, foundations and corporations, including legacies and bequests of $15,923,521 and $11,228,664 for 2019 and 2018	$ 102,069,384	$ 25,426,946	$ 127,496,330	$ 123,068,247
Government grants and contracts	42,600,051	31,795	42,631,846	37,533,052
Contributed goods and services	4,567,483	-	4,567,483	3,978,827
Special events revenue, net of costs of direct benefits to donors of $2,445,820 and $2,385,613 for 2019 and 2018	19,945,391	-	19,945,391	18,827,936
School management fees	8,562,389	-	8,562,389	8,170,718
Total Contributions and Other Revenue	177,744,698	25,458,741	203,203,439	191,578,780
INVESTMENT RETURN				
Interest and dividends, net	1,408,122	168,844	1,576,966	1,633,216
Net unrealized gain (loss)	943,101	(326,890)	616,211	487,920
Net realized gain	486,936	537,272	1,024,208	1,325,593
Change in value of split-interest agreements	(298,009)	631,284	333,275	365,430
Change in value of beneficial interest in trusts	(11,492)	196,254	184,762	108,905
Sales of customer lists and other income	3,960,909	-	3,960,909	3,296,970
Total Investment Return	6,489,567	1,206,764	7,696,331	7,218,034
	184,234,265	26,665,505	210,899,770	198,796,814
Net assets released from restrictions	17,537,314	(17,537,314)	-	-
Total Contributions and Other Revenue and Investment Return	201,771,579	9,128,191	210,899,770	198,796,814
EXPENSES				
Program services	151,171,814	-	151,171,814	142,627,228
Supporting Services				
Management and general	20,389,741	-	20,389,741	17,049,931
Fundraising	22,974,069	-	22,974,069	22,948,053
Total Expenses	194,535,624	-	194,535,624	182,625,212
Change in Net Assets from Operations	7,235,955	9,128,191	16,364,146	16,171,602
Foreign currency translation adjustment	377,311	91,922	469,233	(1,226,780)
Pension related activity, other than net periodic pension cost	(2,165,023)	-	(2,165,023)	4,673,634
Realized gain on sale of property	-	-	-	15,467,467
Change in Net Assets	5,448,243	9,220,113	14,668,356	35,085,923
NET ASSETS				
Beginning of year	155,310,708	52,252,615	207,563,323	172,477,400
End of year	$ 160,758,951	$ 61,472,728	$ 222,231,679	$ 207,563,323

See notes to consolidated financial statements

Covenant House and Affiliates

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

	Program Services									Supporting Services					
	Shelter and Crisis Care	Outreach	Mother / Child	Medical	Community Service Center	Public Education	Rights of Passage	Schools	Total Program Services	Management and General	Fundraising	Total Supporting Services	Costs of Direct Benefits To Donors	2019 Total Expenses	2018 Total Expenses
Salaries and wages	$ 34,009,751	$ 3,243,511	$ 2,858,279	$ 4,330,711	$ 6,969,711	$ 6,023,940	$ 14,654,299	$ 4,629,067	$ 76,719,269	$ 9,004,560	$ 6,427,212	$ 15,431,772	$ -	$ 92,151,041	$ 85,123,725
Payroll taxes	3,193,902	284,079	252,467	411,702	612,204	541,554	1,307,235	272,523	6,875,666	848,137	528,964	1,377,101	-	8,252,767	7,298,670
Employee benefits	5,988,564	586,937	408,070	933,747	1,161,445	1,118,077	2,438,827	1,105,685	13,741,352	1,846,545	1,133,511	2,980,056	-	16,721,408	16,193,113
Total Salaries and Related Expenses	43,192,217	4,114,527	3,518,816	5,676,160	8,743,360	7,683,571	18,400,361	6,007,275	97,336,287	11,699,242	8,089,687	19,788,929	-	117,125,216	108,615,508
Faith Community costs	6,748	-	-	-	3,348	-	-	-	10,096	-	-	-	-	10,096	314,904
Contributed legal services	173,627	21,703	-	21,703	86,814	-	108,517	-	412,364	112,279	-	112,279	-	524,643	673,338
Accounting fees	80,051	10,792	11,118	32,339	34,796	16,681	64,069	17,885	267,731	578,450	14,320	592,770	-	860,501	949,711
Legal fees	152,149	6,766	30,840	14,080	31,848	13,078	61,872	49,792	360,425	224,793	146,712	371,505	-	731,930	348,179
Medical fees	47,230	257	4,604	172,210	9,355	-	30,163	-	263,819	313	3	316	-	264,135	315,042
Consulting fees	1,125,625	51,597	56,861	139,458	440,023	941,252	311,127	-	3,065,943	1,033,383	1,631,382	2,664,765	-	5,730,708	4,907,106
Supplies	641,016	44,063	47,645	196,736	124,087	44,392	289,078	384,293	1,771,310	184,260	126,568	310,828	1,146	2,083,284	1,824,879
Telephone	406,457	49,642	36,029	45,152	99,325	71,711	215,357	69,175	992,848	215,470	87,054	302,524	-	1,295,372	1,199,364
Postage and printing	262,016	18,166	33,458	26,530	69,226	3,663,210	78,220	4,792	4,155,618	302,840	9,206,184	9,509,024	233	13,664,875	15,565,780
Fuel and utilities	1,388,946	118,397	116,596	84,143	222,235	140,525	631,157	196,621	2,898,620	143,340	41,830	185,170	-	3,083,790	3,275,863
Repairs and maintenance	1,043,491	51,491	80,938	64,614	160,146	43,414	475,526	91,711	2,011,331	137,303	26,772	164,075	-	2,175,406	2,183,384
Rent and other	619,021	120,966	52,529	38,994	351,614	420,656	985,095	-	2,588,875	511,068	135,114	646,182	763	3,235,820	3,187,505
Equipment	872,115	75,616	68,033	64,691	224,778	99,160	721,749	51,212	2,177,354	191,645	68,101	259,746	-	2,437,100	1,354,841
Travel and transportation	667,679	114,770	60,990	42,125	238,267	109,604	251,910	57,886	1,543,231	222,235	257,687	479,922	333	2,023,486	1,600,714
Specific Assistance to Individuals															
Food	2,494,915	100,365	261,603	37,346	193,866	44,064	730,296	3	3,862,458	73,139	4,132	77,271	217,978	4,157,707	3,388,066
Medical	153,208	4,496	6,765	167,794	21,774	5,997	7,572	-	367,606	2,649	-	2,649	-	370,255	361,197
Contributed medical	-	-	-	9,675	1,613	-	4,838	-	16,126	-	-	-	-	16,126	102,218
Clothing, allowance and other	1,576,775	124,144	106,332	76,426	689,807	166,936	2,424,390	17,188	5,181,998	23,540	5,599	29,139	-	5,211,137	4,116,704
Contributed clothing and merchandise	1,087,280	59,657	52,909	144,968	57,353	6,929	466,216	-	1,875,312	17,051	115,329	132,380	145,060	2,152,752	2,115,725
Temporary help	168,391	14,659	4,572	216,573	65,933	53,595	56,876	300	580,899	184,502	30,748	215,250	-	796,149	1,001,043
Other purchased services	2,102,357	159,966	215,221	270,637	359,249	2,015,450	855,826	487,560	6,466,266	883,461	2,010,466	2,893,927	1,993,909	11,354,102	11,013,674
Dues, licenses, and permits	91,230	7,316	17,676	21,958	21,589	12,529	49,220	6,508	228,026	88,235	35,647	123,882	150	352,058	388,720
Subscriptions and publications	36,406	3,597	2,126	3,140	11,239	8,723	16,455	8	81,694	30,610	47,416	78,026	-	159,720	119,029
Staff recruitment	85,558	22,035	177	3,404	29,481	15,683	63,349	-	219,687	339,483	31,877	371,360	-	591,047	359,302
Insurance	824,969	73,580	98,704	71,396	130,477	47,133	390,897	115,433	1,752,589	242,898	39,547	282,445	-	2,035,034	1,921,530
Contributed services	162,275	2,889	935	142,646	24,792	6	171,841	-	505,384	1,084,633	59,970	1,144,603	15,335	1,665,322	1,366,317
Contributed goods	134,208	-	33,552	-	-	-	-	-	167,760	720	-	720	32,126	200,606	625,582
Miscellaneous, net	668,132	50,020	137,122	175,577	141,231	116,699	208,942	27,947	1,525,670	317,847	121,276	439,123	38,787	2,003,580	1,613,802
Bank charges and fees	447,412	32,721	74,760	25,689	81,912	23,765	151,618	3,039	840,916	322,204	155,754	477,958	-	1,318,874	1,215,443
Interest	355,016	21,813	-	4,854	61,050	3,807	28,911	-	475,451	127,236	3,888	131,124	-	606,575	951,118
Loss on foreign currency exchange	3,043	96	-	199	16	-	-	-	3,354	508	266	774	-	4,128	4,560
Total Before Depreciation and Amortization	61,069,563	5,476,107	5,130,911	7,991,217	12,730,604	15,768,570	28,251,448	7,588,628	144,007,048	19,295,337	22,493,329	41,788,666	2,445,820	188,241,534	176,980,148
Depreciation and amortization	3,368,327	394,501	202,725	135,710	745,798	807,342	1,308,652	201,711	7,164,766	1,094,404	480,740	1,575,144	-	8,739,910	8,030,677
Total Functional Expenses	64,437,890	5,870,608	5,333,636	8,126,927	13,476,402	16,575,912	29,560,100	7,790,339	151,171,814	20,389,741	22,974,069	43,363,810	2,445,820	196,981,444	185,010,825
Less direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	-	2,445,820	2,445,820	2,385,613
Total Expenses Reported by Function on Statement of Activities	$ 64,437,890	$ 5,870,608	$ 5,333,636	$ 8,126,927	$ 13,476,402	$ 16,575,912	$ 29,560,100	$ 7,790,339	$ 151,171,814	$ 20,389,741	$ 22,974,069	$ 43,363,810	$ -	$ 194,535,624	$ 182,625,212

See notes to consolidated financial statements

Covenant House and Affiliates

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 14,668,356	$ 35,085,923
Adjustments to reconcile change in net assets to net cash from operating activities		
Discount on contributions receivable	17,415	63,754
Amortization of customer lists	1,121,396	1,120,972
Realized and unrealized gains on investments	(1,640,419)	(1,813,513)
Contributed investments	(158,061)	(121,970)
Gain on sale of property	-	(15,467,467)
Loss on disposal and sale of property, plant and equipment	29,718	71,572
Contributed property, plant, and equipment	(1,224,321)	(818,257)
Change in value of beneficial interest in trusts	(184,762)	(108,905)
Amortization of deferred revenue and loan discount	(207,375)	(189,920)
Deferred rent	(318,941)	(260,062)
Change in value of split interest agreements	(333,275)	(365,430)
Pension benefits liability adjustment	1,953,200	(3,525,051)
Depreciation and amortization	7,618,514	6,909,705
Amortization of deferred financing costs	78,787	78,787
Bad debt expense	766,111	1,236,060
Foreign currency translation adjustment	(469,233)	1,226,780
Changes in operating assets and liabilities		
Contributions receivable	(4,270,651)	(4,985,766)
Grants receivable	(1,688,423)	(1,292,656)
Prepaid expenses and other assets	(201,659)	321,640
Accounts payable and accrued expenses	(1,345,951)	702,012
Deferred revenue	72,114	216,450
Other liabilities	-	(58,180)
Net Cash from Operating Activities	14,282,540	18,026,478
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	136,028	(30,918)
Beneficial interests in trusts	107,528	66,727
Purchase of customer lists	(906,640)	(498,820)
Purchases of investments	(21,700,265)	(36,530,557)
Sales of investments	18,369,258	29,806,343
Capital expenditures	(33,872,985)	(13,892,882)
Construction escrow deposits	5,251,265	2,650,538
Proceeds from sale of property	486,533	15,893,267
Net Cash from Investing Activities	(32,129,278)	(2,536,302)

See notes to consolidated financial statements

Covenant House and Affiliates

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

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under line of credit and other debt obligations	$ 15,145,562	$ 6,882,035
Proceeds from construction loans payable	5,881,841	-
Repayments of line of credit and other debt obligations	(824,661)	(18,891,580)
Principal payments under capital lease obligations	(239,813)	(195,908)
Payment of annuity obligations	(1,623,380)	(646,247)
Additions to gift annuity arrangements	361,096	1,608,259
Net Cash from Financing Activities	18,700,645	(11,243,441)
Net Change in Cash and Cash Equivalents	853,907	4,246,735
CASH AND CASH EQUIVALENTS		
Beginning of year	23,797,917	19,551,182
End of year	$ 24,651,824	$ 23,797,917
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 441,831	$ 647,028
Assets acquired under capital lease obligations	100,400	154,194
NON-CASH OPERATING AND INVESTING ACTIVITIES ACTIVITIES		
Accrued interest included in property, plant and equipment	16,115	-

See notes to consolidated financial statements

1. Organization and Tax Status

Covenant House (Parent), is a not-for-profit organization founded in 1968 and incorporated in 1972. Covenant House (Parent) and affiliates (collectively, "Covenant House"), provided shelter, food, clothing, medical attention, crisis intervention, public education, prevention, and other services that reached approximately 74,000 and 89,000 young people during fiscal 2019 and 2018.

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

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

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

In December 2018, 460 West 41st Street, LLC (the "LLC") filed its certificate of formation with the state of Delaware. Covenant House (Parent) has both 100% membership interest and the exclusive right to manage and control the affairs of the LLC. In April 2019, CH Housing Development Fund Corporation ("HDFC") was incorporated in the state of New York as a separate Not-for-Profit Corporation.

Both the LLC and HDFC were formed for the purpose of acquiring, operating and developing a transitional housing facility located at 538-550 Tenth Avenue and 552-554 Tenth Avenue in New York, New York (collectively, the "Property"). HDFC, as nominee of the LLC, acquired the legal interest in the Property and then through a Declaration of Interest and Nominee Agreement, the LLC acquired the beneficial interest in the Property. Covenant House (Parent) intends to have the LLC enter into a master lease agreement with the New York affiliate, Covenant House New York/Under 21 for the Property upon its completion.

1. Organization and Tax Status *(continued)*

Covenant House (Parent) is qualified as a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, it is not subject to federal income taxes under Section 501(a) of the Code. Covenant House (Parent), as a not-for-profit organization, is also exempt from state and local income taxes and has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code and qualifies for the maximum charitable contribution deduction for donors. The U.S. affiliates of Covenant House (Parent) are also classified as tax-exempt organizations and are not subject to federal income taxes under Section 501(a) of the Code, and as not-for-profit organizations, are also exempt from state and local income taxes.

During Fiscal Year 2019, Covenant House California (the "California affiliate") acquired the DreamCatcher Youth Services ("DreamCatcher") program which included a property acquisition, from its' parent agency, Alameda Family Services (AFS). DreamCatcher's mission is consistent with that of the California affiliate; providing support and housing for homeless and trafficked youth in Oakland, CA. DreamCatcher specializes in working with youth ages 13-18, and has been a long-time access point for youth to transition from homelessness into the California affiliate's Oakland Program.

In 2012, Covenant House Holdings, LLC ("CHH") was formed as a special purpose entity for the purpose of participation in a New Markets Tax Credit ("NMTC") financing transaction, and received an allocation of NMTC funds pursuant to Section 45D of the Code to fund the opening of the crisis center located at 755 A Street, Anchorage, Alaska. Covenant House Alaska (the "Alaska affiliate") is the sole member of CHH.

Covenant House Toronto and Covenant House Vancouver, both located in Canada and international affiliates of Covenant House, are charitable organizations registered under the Income Tax Act (Canada). Covenant House Toronto was incorporated without share capital under the Corporations Act (Ontario) and Covenant House Vancouver was incorporated under the British Columbia Act.

Fundación Casa Alianza México, I.A.P. is not subject to income taxes in accordance with (Mexican) Income Tax Law, except for nondeductible expenses incurred. Based on Nicaragua's applicable fiscal equity law, Asociación Casa Alianza Nicaragua as a nonprofit organization is exempt from income taxes. Asociación La Alianza (Guatemala) and Casa Alianza de Honduras are also not-for-profit organizations and are not subject to income taxes under their respective country's income tax laws.

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services

Program Services

Shelter and Crisis Care
The shelter and crisis care program provides crisis care, shelter, food, clothing, counseling and legal advice to abandoned and runaway youths through Covenant House affiliates' in North and Central America.

Outreach
The outreach program is an effort to reach youths who would otherwise not find their way to the shelters. Outreach vans cruise the city streets every night, searching for these youths, and providing them with food, a trained counselor and a safe ride to a shelter.

Mother/Child Program
The mother/child program provides emergency shelter, food and counseling to homeless mothers under the age of 21 and their children.

Medical
Medical services include clinics maintained by certain Covenant House affiliates to provide youths in the programs with needed medical attention.

Community Service Center
The community service center program provides comprehensive services to youths who have left Covenant House affiliates' crisis centers, and other youths in the community who need support to maintain themselves in stable living situations.

Public Education
The public education program informs and educates the public on how to identify potential "runaway" and "throwaway" adolescents, the public and private resources available to help such adolescents before they leave home and the public support services available to these families to improve the home environment.

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

Schools
The Schools program provides services to youths who need support to complete their education and obtain employment. If they are suspended from school, the program provides general educational development classes, job training and a reduction in the length of the suspension.

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

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 such programs.

Fundraising
Fundraising services relate to the activities of Covenant House's development department in raising general and specific contributions.

Costs of Direct Benefits to Donors
Costs of direct benefits to donors are those costs incurred in connection with special events related to items benefiting attendees of such events, such as meals and entertainment.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Covenant House (Parent) and its affiliates. All significant intercompany transactions and balances have been eliminated in consolidation.

Change in Accounting Principle

On July 1, 2018, Covenant House adopted new guidance regarding the *Presentation of Financial Statements for Not-for-Profit Entities* (ASU 2016-14). This guidance requires Covenant House to collapse the three-category classification of net assets (unrestricted, temporarily restricted, and permanently restricted) into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires Covenant House to make certain expanded disclosures relating to the liquidity of financial assets (see Note 19), and the presentation of expenses by both natural and functional classification in one location in the consolidated financial statements (see consolidated statement of functional expenses). As a result of implementing this standard, prior year amounts for unrestricted net assets are now presented as net assets without donor restrictions and temporarily restricted and permanently restricted net assets are combined as net assets with donor restrictions.

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

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 Covenant House'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 consolidated statement of activities as net assets released from restrictions and are reclassified to net assets without donor restrictions.

Contributions

Contributions, including unconditional promises to give, are reported as revenues in the period received. Unconditional promises to give that are greater than one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as with donor restrictions. Covenant House reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Covenant House maintains an allowance for doubtful accounts for estimated losses that may result from the inability of donors to make required payments. Such allowances are based upon several factors including, but not limited to, historical collection experience and the creditworthiness of the respective donor.

Government Contracts and Grants

Revenue from government grants and contracts is recognized as earned, that is, as related costs are incurred under the grant or contract agreement, or it is recognized as revenue in the period in which services are rendered.

Several affiliates have been awarded special-purpose grants/loans from federal, state and/or local agencies for the purpose of constructing and/or renovating their facilities. The unearned portions of these grants/loans are reflected as deferred revenue on the consolidated statement of financial position and are being amortized over the period of the respective grant/loan agreements.

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

Contributed Goods and Services

Covenant House recognizes the fair value of contributed services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Contributed services which do not meet these criteria are not recognized as revenue in the accompanying consolidated financial statements.

Special Events

Revenues and expenses incurred relative to special events are recognized upon occurrence of the respective event. Revenues are shown net of costs of direct benefits to donors.

School Management Fees

School management fee revenue is reported at the gross amount billed as the principal or primary obligor for the operation of certain individual charter schools. Costs of operating the schools include salaries of school staff, facility costs, and other amounts which are recognized on the accrual basis when incurred.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash balances held in bank accounts and highly liquid investments with maturities of three months or less from the date of purchase, except for those cash equivalents which are included in Covenant House's investment portfolio and are held for long-term investment purposes.

Investments

Investments are carried at fair value. Marketable equity securities and debt obligations are carried at fair value based on quoted market values. Covenant House follows guidance which removed the requirements to categorize within the fair value hierarchy alternative investments where fair value is measured using the net asset value (NAV). The fair value of the non-exchange traded alternative investments have been estimated using NAV as reported by the respective external investment manager or general partner. U.S. GAAP guidance provides for the use of NAV as a "Practical Expedient" for estimating fair value of alternative investments. Because such alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could potentially be material.

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

Investments (continued)

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on the first-in, first-out method and are recorded in the consolidated statement of activities in the period in which the securities are sold. Dividends and interest are recognized as earned. Income earned from investments, including realized and unrealized gains and losses, is recorded as without donor restrictions, except where the instructions of the donor specify otherwise.

Investments – Other

Investments – other, consist of certificates of deposit held for investment with maturities greater than three months at time of purchase that are not debt securities and are carried at amortized cost.

Other Assets, Customer Lists

The costs of customer lists purchased by Covenant House (Parent) for generating fundraising contributions are capitalized and amortized from the date of purchase using the straight-line method over an estimated useful life of three to five years.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost if purchased or, if donated, at fair value at the date of the gift, less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets which range from 3 to 33 years. Leasehold improvements are amortized on a straight-line basis over the lesser of the term of the lease or their estimated useful lives. As of June 30, 2019 and 2018, property held for sale is recorded at the lower of cost or fair value, less costs to sell at $31,423 and is not depreciated.

Impairment of Long-Lived Assets

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

Deferred Rent

U.S. GAAP requires that rent is expensed on a straight-line basis over the lease term, notwithstanding the actual cash payments required under the lease, with the difference between the straight-line expense and the actual rent payments shown as deferred rent on the consolidated statement of financial position.

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

Split-Interest Agreements and Beneficial Interests in Trusts

Covenant House is a beneficiary of various perpetual trusts and trusts with a defined time frame ("term trusts") that are held by others. Under the terms of these trusts, Covenant House has an irrevocable right to receive all or a portion of the income earned on the trust assets for the life of the trust. Covenant House does not control the assets held by these trusts. Covenant House measures its beneficial interest in trusts held by others based upon its beneficial interest in the fair value of the underlying investments held by the trusts. The fair value of Covenant House's beneficial interest is adjusted during the term of the trusts for changes in fair value of the underlying investments or the changes to Covenant House's beneficial interest. Such adjustments are reported as change in value of beneficial interest in trusts on the consolidated statement of activities.

In addition, Covenant House holds assets under split-interest agreements consisting of charitable remainder trusts and charitable gift annuities for which Covenant House serves as the trustee. Such agreements provide for payments to the donors or their stipulated beneficiaries of either income earned on related investments or specified annuity amounts. Assets held under these agreements are included in investments. A portion of the contributed assets is considered to be a charitable contribution for income tax purposes and has been recognized as a contribution at the date of gift. When the terms of the gift instrument have been met, the remaining amount of the gift may be used for general or specific purposes as stipulated by the respective donor. Under Covenant House's charitable gift annuities and charitable remainder trust programs where Covenant House is the trustee, liabilities are recorded for the present value of the estimated future payments expected to be made to the donors and/or beneficiaries, as long as they live, after which time the remaining assets, if any, are available for the general use of Covenant House, unless as otherwise stipulated by the donor. The liabilities are adjusted during the term of the trust or annuity contract for changes in the life expectancy of the donor or beneficiary, discount rate, and other changes in the estimates of future payments. Such adjustments are reported as change in value of split-interest agreements on the consolidated statement of activities.

Asset Retirement Obligations

Asset retirement obligations include, but are not limited to, certain types of environmental issues that are legally required for remediation upon an asset's retirement, as well as contractually required asset retirement obligations. Conditional asset retirement obligations ("CARO") are obligations whose settlement may be conditional on a future event and/or where the timing or method of such settlement may be uncertain. The liability related to such obligations totaled $414,374 at June 30, 2019 and 2018, and primarily relates to required future asbestos remediation expected to occur in the next 2 to 4 years. For the years ended June 30, 2019 and 2018, depreciation expense recorded on the related asset totaled $0. Accretion of interest related to these obligations in fiscal 2019 and 2018 totaled $0 and Covenant House did not incur any payments for asbestos remediation in fiscal 2019 and 2018.

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

Functional Expense Allocation

The majority of expenses are directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of square footage of office space occupied, salaries, the support to affiliates prorated program percentage allocation and other bases determined by Covenant House's management. Expenses of shared services or non-program services are allocated based on number of full-time employees and their percentage of time spent on certain programs, fundraising and administrative duties.

Fair Value of Financial Instruments

The three levels of the fair value hierarchy used by Covenant House are described below:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable in the market.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these securities includes investments for which quoted prices are available, but traded less frequently and investments that are valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Investments are classified within the level of the lowest significant input considered in determining fair value. In evaluating the level at which Covenant House's investments have been classified, Covenant House has assessed factors including, but not limited to, price transparency, subscription activity, redemption activity and the existence or absence of certain restrictions such as a gate or lockup period.

The following methods and assumptions were used by Covenant House in estimating the fair value of its financial instruments:

Common stocks, mutual funds, government securities, corporate debt securities and alternative investments: The reported fair value of common stocks, mutual funds, government securities and corporate debt securities is based on quoted market prices or other similar inputs. The fair values assigned to non-exchange traded alternative investments are based on valuations provided by the respective external investment manager or general partner. Covenant House believes such values are reasonable and appropriate.

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

Fair Value of Financial Instruments (continued)

Beneficial interests in trusts: The fair value of beneficial interests in trusts is determined by Covenant House's share of the fair value of the assets held by the trust.

Obligations due under split-interest agreements: The fair value of obligations due under split-interest agreements is based upon actuarial assumptions utilizing the required rate of return as of the measurement date.

Accounting for Uncertainty in Income Taxes

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

Foreign Currency Translation

Covenant House has determined that its functional currency is the United States dollar. Accordingly, for those affiliates that do not use the United States dollar as their functional currency, assets and liabilities are translated using the current exchange rate in effect at the consolidated statement of financial position date. Operations are translated using the weighted-average exchange rate in effect during the fiscal year. The resulting foreign exchange gains and/or losses are recorded on the consolidated statement of activities.

Concentration of Credit Risk

Financial instruments that potentially subject Covenant House to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. Covenant House does not believe that a significant risk of loss, due to the failure of a financial institution, presently exists.

Concentrations of credit risk with respect to receivables are generally diversified due to the large number of entities and individuals composing Covenant House's donor base.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of credit risk.

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

Deferred Financing Costs

Debt issuance costs are reported on the consolidated statement of financial position as a direct deduction from line of credit, other debt obligations and capital leases. Amortization of these costs is provided using the straight line method, which does not differ materially from the effective interest method, over the life of the related debt. Covenant House reflects amortization of deferred financing costs within interest expense.

Reclassification

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

Prior Year Summarized Comparative Information

The consolidated 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 Covenant House's consolidated financial statements as of and for the year ended June 30, 2018, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is May 5, 2020.

3. Contributions Receivable

Contributions receivable that are due in more than one year have been discounted to their present value using discount rates ranging from 1.38% to 6.75% in 2019 and 2018. At June 30, 2019 and 2018, net receivables are expected to be collected as follows:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	$ 15,105,985	$ 11,473,261
Within five years	4,345,864	4,211,170
Thereafter	373,883	617,284
	19,825,732	16,301,715
Less: Discount to present value	(237,464)	(220,049)
Reserve for uncollectible accounts	(96,420)	(76,943)
	$ 19,491,848	$ 16,004,723

3. Contributions Receivable *(continued)*

During fiscal 2019 and 2018, Covenant House received notification of certain promises to give. However, due to their conditional nature, these gifts have not been reflected in the accompanying consolidated financial statements.

4. Grants Receivable

Grants receivable of $8,241,733 and $6,553,310 at June 30, 2019 and 2018 are expected to be collected within one year. As of June 30, 2019 and 2018, no allowance for doubtful accounts was determined to be necessary.

5. Notes Receivable

In connection with the New Markets Tax Credit (“NMTC”) transaction (Note 9) in September 2012, the Alaska affiliate loaned Covenant House Investment Fund, LLC, ("Investment Fund"), an unrelated entity, $12,813,000. The Investment Fund also received equity from a tax credit investor and then made a Qualified Equity Investment (“QEI”) in Wells Fargo Community Development Enterprise Round 8 Subsidiary 7, LLC ("Wells Fargo"), Brownfield Revitalization XXIV, LLC ("Brownfield") and Consortium America XXXI, LLC ("Consortium"), (collectively, the "CDEs").

The notes require interest to be paid monthly to the Alaska affiliate at a rate of 1% per annum, commencing in October 1, 2012. The full amount of unpaid principal is required to be paid on June 10, 2020. As security, the Investment Fund pledged its membership interest in the CDEs to the Alaska affiliate.

6. Other Assets, Customer Lists

Included in prepaid expenses and other assets on the consolidated statement of financial position are customer lists that Covenant House (Parent) purchased for purposes of generating fundraising contributions. At June 30, 2019 and 2018 the cost of the customer lists amounted to $8,610,544 and $7,703,904. Accumulated amortization at June 30, 2019 and 2018 amounted to $6,169,088 and $5,047,692. Amortization expense for fiscal year 2019 and 2018 amounted to $1,121,396 and $1,120,972.

Future amortization for Covenant House’s customer lists are as follows as of June 30:

	Amount
2020	$ 1,074,139
2021	846,011
2022	431,773
2023	80,612
2024	8,921
	$ 2,441,456

7. Investments

The following tables prioritize the inputs used to measure and report the fair value of Covenant House's investments at June 30:

	2019			
	Level 1	Level 2	Investments Valued Using NAV (*)	Total
Investments:				
Common stocks	$ 2,444,776	$ -	$ -	$ 2,444,776
U.S. government securities	951,764	-	-	951,764
Foreign government securities	45,176	-	-	45,176
Corporate debt securities	1,141,684	2,013,284	-	3,154,968
Mutual Funds:				
Stocks	21,332,109	-	-	21,332,109
Bonds	9,578,149	-	-	9,578,149
Combined	15,103,921	-	-	15,103,921
Fund of fund	-	-	3,297	3,297
Total Investments at Fair Value	$50,597,579	$ 2,013,284	$ 3,297	52,614,160
Cash and cash equivalents, at cost				9,961,193
Total Investments				$62,575,353

	2018			
	Level 1	Level 2	Investments Valued Using NAV (*)	Total
Investments:				
Common stocks	$ 2,207,161	$ -	$ -	$ 2,207,161
U.S. government securities	846,748	-	-	846,748
Foreign government securities	847,155	-	-	847,155
Corporate debt securities	1,331,990	2,824,256	-	4,156,246
Mutual Funds:				
Stocks	25,717,816	-	-	25,717,816
Bonds	9,586,219	-	-	9,586,219
Combined	6,630,482	-	-	6,630,482
Fund of fund	-	-	164,083	164,083
Total Investments at Fair Value	$47,167,571	$ 2,824,256	$ 164,083	50,155,910
Cash and cash equivalents, at cost				6,448,023
Total Investments				$56,603,933

7. Investments *(continued)*

(*) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

The categorization of the investments within the fair value hierarchy presented above is based solely on the pricing transparency of the respective instrument and does not necessarily correspond to Covenant House's perceived risk associated with the investment security.

Covenant House's policy is to recognize transfers in and transfers out at the end of the reporting period. There were no transfers between levels during fiscal 2019 and 2018.

Investment management fees of approximately $103,000 and $57,000 are netted with interest and dividends income in the accompanying consolidated statement of activities for the years ended June 30, 2019 and 2018.

Covenant House's certificates of deposit of $16,613,823 and $17,455,756 as of June 30, 2019 and 2018, are classified as investments, other, in the accompanying consolidated statement of financial position. These do not qualify as securities as defined by the guidance, and as such, fair value disclosures are not required.

Covenant House (Parent) invests in an alternative investment classified as "fund of fund" which is in the process of liquidating its interest. The proceeds will be reinvested according to a revised investment strategy adopted by Covenant House (Parent's) Board of Directors. Through this investment, Covenant House (Parent) is indirectly invested in hedge funds, limited partnerships and similar interests that invest in public and private securities and follow a variety of investment strategies.

The following table lists such investments by major category:

2019

Type	Strategy	NAV in Fund	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Fund of fund	Invests in partnerships, derivatives, private investment companies, and hedge funds	$ 3,297	1	The fund is currently in the process of an orderly liquidation	$ -	Quarterly with 90 days notice	The fund has suspended redemptions upon approval of an orderly liquidation

7. Investments *(continued)*

2018							
Type	Strategy	NAV in Fund	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Fund of fund	Invests in partnerships, derivatives, private investment companies, and hedge funds	$ 164,083	1	The fund is currently in the process of an orderly liquidation	$ -	Quarterly with 90 days notice	The fund has suspended redemptions upon approval of an orderly liquidation

8. Property, Plant and Equipment and Property Held for Sale

Property, plant and equipment and property held for sale, consist of the following at June 30:

	2019	2018
Buildings	$ 127,407,492	$ 110,075,140
Building improvements	43,912,522	45,050,769
Equipment, furniture and vehicles	26,347,433	24,864,607
Equipment acquired under capital lease obligations	1,514,035	1,413,635
Leasehold improvements	10,901,948	10,774,710
	210,083,430	192,178,861
Less: Accumulated depreciation and amortization	(100,662,578)	(96,406,486)
	109,420,852	95,772,375
Land	30,955,975	26,489,478
Construction in progress	21,167,022	11,749,822
Property, plant and equipment, net	$ 161,543,849	$ 134,011,675
Property held for sale	$ 31,423	$ 31,423

Accumulated depreciation and amortization on equipment acquired under capital lease obligations amounted to $857,212 and $806,948 at June 30, 2019 and 2018.

Depreciation and amortization expense amounted to $7,618,514 and $6,909,705 for the years ended June 30, 2019 and 2018.

During fiscal year 2019, the California affiliate acquired the DreamCatcher program which included a property acquisition, from its’ parent agency, AFS. The total value of the acquired land was $112,596 and the building was for $1,366,884.

8. Property, Plant and Equipment and Property Held for Sale (*continued)*

On August 7, 2019 (the "effective date of the agreement"), the Illinois affiliate entered into a purchase agreement to acquire the land and building at 2934 West Lake Street in Chicago for $2,900,000. On August 10, 2019, the affiliate paid an initial deposit of $43,000. An additional deposit of $43,500 was paid in December 2019. During fiscal 2019, the affiliate received and capitalized $211,469 of pre-acquisition costs related to the contributed legal services surrounding the drafting of the purchase agreement. In January 2020, the affiliate closed on the purchase of the land and building.

On July 22, 2019 the Texas affiliate acquired certain real property for a purchase price of $3,750,000. At closing, the affiliate made a cash payment of $1,950,000 and obtained a loan totaling $1,800,000 held by Allegiance Bank (the "Bank") for the purpose of providing a portion of the purchase price (see Note 9). The loan with the Bank matures on July 22, 2024, and requires monthly payments of interest only at the rate of 5.50% per annum for the first eighteen months. Commencing with month nineteen, monthly installment payments of principal and interest shall be due based on an amortization of the original loan over 240 months. Upon maturity, the remaining principal and accrued interest are due in full. On August 7, 2019, the affiliate made a principal payment of $400,000 toward the loan.

The Vancouver affiliate is undertaking the redevelopment at 1302 and 1280 Seymour Street. During the year ended June 30, 2019, the affiliate completed the redevelopment of the facility at 1302 Seymour Street for a total cost of $19,085,039 CAD (US $14,428,797), including land of $5,633,675 CAD (US $4,259,208). The affiliate is committed to a construction contract for 1280 Seymour Street. During the year ended June 30, 2019, the affiliate wrote down the remaining net book value of the building improvements at 1280 Seymour Street for $568,769 CAD (US $430,004) recorded in depreciation and amortization expense and incurred $1,626,791 CAD (US $1,229,897) of professional development and construction costs related to the redevelopment which has been recorded as construction in progress. At June 30, 2019, the affiliate has contracted costs aggregating approximately $1,381,600 CAD (US $1,044,526) related to the redevelopment.

On April 1, 2001, the VanCity Place Society assigned to the Vancouver affiliate a land lease, free of charge, located on West Pender Street, Vancouver, which the VanCity Place Society acquired from the City of Vancouver. The lease expires on June 25, 2057. The Vancouver affiliate purchased the building located on the leased land and uses it for its program purposes. While the value of the purchased building was capitalized and has been depreciated since the date of purchase, no value was assigned to the free use of the land under the terms of the lease. Accordingly, in accordance with U.S. GAAP, for purposes of preparing its consolidated financial statements, Covenant House has recognized a restricted contribution at fair value for the right to use the land. The contribution is being amortized on a straight-line basis over the remaining term of the lease.

8. Property, Plant and Equipment and Property Held for Sale *(continued)*

During June 2018, Covenant House (Parent) sold a building located in Manhattan, New York City for total net proceeds of $15,582,467. The realized gain on the sale of the building was $15,407,467 for the year ended June 30, 2018.

Purchase and Sale, Development Agreement and Construction in Progress

Covenant House (Parent) entered into a development agreement with The Gotham Organization, Inc. ("Gotham"), effective October 20, 2017, to develop the transitional housing facility located at 538-550 Tenth Avenue and 552-554 Tenth Avenue in New York, New York (collectively, the "Property"). During fiscal 2019, a net asset transfer occurred between Covenant House (Parent) and the LLC totaling $1,942,566 for construction costs incurred for the Property by Covenant House (Parent), net of various construction liabilities. This consisted of construction in progress costs of $11,315,582, net of accrued construction loans payable of $1,471,213 and construction escrow deposits of $7,901,803.

In addition, Covenant House (Parent) entered into a purchase and sale agreement with GO Covenant, LLC, a newly formed affiliate of Gotham. GO Covenant, LLC, advanced certain pre-development and transaction costs to an escrow account ("Construction Escrow Deposits") for the purpose of designing and constructing the Property. The construction escrow deposits totaled $7,901,803 and $2,650,538 at June 30, 2019 and 2018.

Covenant House (Parent) and the LLC incurred $15,742,325 and $4,202,086 of construction in progress costs related to the Property as of June 30, 2019 and 2018.

9. Line of Credit, Other Debt Obligations and Capital Leases

The following table summarizes the total amounts outstanding under the line of credit agreement, other debt obligations and capital leases attributed to Covenant House and each affiliate as of June 30:

Covenant House ("CH") Affiliate	Lender	Debt Obligation at June 30, 2019	Maturity Date	Interest Rate (per annum) at June 30, 2019	Debt Obligation at June 30, 2018
CH Parent Entity	CIT/Avaya Financial Services	$ -	6/30/2019	1.35%	$ 19,023
CH Parent Entity	Goldman Sachs	5,950,000	2/14/2020	LIBOR + 1.50%	-
CH Alaska/CH Holdings LLC	Wells Fargo (Loan A)	5,277,000	6/6/2020	0.744%	5,277,000
CH Alaska/CH Holdings LLC	Brownfield (Loan A)	4,521,600	6/6/2020	0.744%	4,521,600
CH Alaska/CH Holdings LLC	Consortium (Loan A)	3,014,400	6/6/2020	0.744%	3,014,400
CH Alaska/CH Holdings LLC	Wells Fargo (Loan B)	2,223,000	10/1/2042	0.744%	2,223,000
CH Alaska/CH Holdings LLC	Brownfield (Loan B)	1,358,400	10/1/2042	0.744%	1,358,400
CH Alaska/CH Holdings LLC	Consortium (Loan B)	905,600	10/1/2042	0.744%	905,600
CH California	NEC	-	2/28/2021	5.90%	39,610
CH California	Department of Housing and Community Development	592,000	9/23/2023	3.00%	-
CH California	Bank of America	1,313,633	1/28/2028	4.25%	1,358,681
CH California	Great American Leasing Co.	170,003	6/30/2020	1.94%	181,008
CH California	De Lage Financial Services	-	4/30/2019	3.00%	18,672
CH California	Weingart Foundation (Note 2)	750,000	11/5/2021	2.00%	-
CH California	Scott Boxenbaum (Note 1)	735,000	12/20/2018	4.00%	750,000
CH Florida	Milner, Inc	107,945	6/1/2023	18.00%	127,553
CH Florida	Great American Leasing Co.	-	3/9/2019	6.00%	14,879
CH New Jersey	New Jersey Housing and Mortgage Finance Agency ("NJHMFA")	829,306	10/6/2024	0.00%	829,306
CH New Jersey	NJHMFA	648,346	6/7/2024	0.00%	648,346
CH New Jersey	NJHMFA	700,000	3/31/2024	0.00%	700,000
CH New Jersey	NJHMFA	165,179	11/20/2042	0.00%	165,179
CH New Jersey	New Jersey Department of Community Affairs	654,400	7/27/2042	1.00%	654,400
CH New Jersey	Bank of America	620,000	4/30/2021	LIBOR + 3.50%	-
CH New York/Under 21	CIT/Avaya Financial Services	7,802	11/3/2019	2.90%	26,158
CH New York/Under 21	Pitney Bowes -Send Pro P2000 Mailing System Lease	10,000	5/28/2022	1.93%	13,735
CH New York/Under 21	Konica Minolta Business Solutions	21,220	5/7/2020	2.87%	48,730
CH New York/Under 21	Konica Minolta Business Solutions	1,811	12/19/2019	2.87%	-
CH Pennsylvania/Under 21	Citizens Bank	2,238,400	4/1/2021	2.31%	2,288,800
CH Texas	NEC Financial Services, LLC	31,174	9/4/2023	0.00%	-
CH Washington, D.C.	PNC Bank	277,822	1/27/2030	6.00%	297,083
CH Washington, D.C.	EagleBank	500,000	5/30/2020	6.50%	-
CH Toronto	City of Toronto	642,014	2024	0.00%	-
CH Vancouver	BC Housing/Proposal Development Funding	4,301,987	4/1/2029	0.00%	-
CH Vancouver	BC Housing Management Commission	3,818,100	Payable on demand	0.00%	2,723,491
		42,386,142			28,204,654
Less: Deferred financing costs		(247,691)			(326,478)
		$ 42,138,451			$ 27,878,176

Covenant House (Parent) entered into an unsecured line of credit agreement with a financial institution to borrow up to an aggregate amount of $15 million on February 14, 2019. Interest on outstanding borrowings is payable at the one-month LIBOR rate plus additional percentage points as defined in the agreement, which is 1.50% at June 30, 2019.

9. Line of Credit, Other Debt Obligations and Capital Leases *(continued)*

Total drawdowns under the unsecured line of credit agreement with the financial institution totaled $5,950,000 at June 30, 2019. There were no repayments on the line of credit during fiscal 2019. Subsequent to June 30, 2019, the Florida, Alaska and Missouri affiliates drew $1,000,000, $750,000 and $250,000, respectively, from Covenant House (Parent's) line of credit to be repaid within twelve months with an interest rate of the one-month LIBOR rate plus 150 basis points.

During 2018, Covenant House (Parent) had an unsecured line of credit agreement with a financial institution to borrow up to an aggregate amount of $15 million. The agreement matured on June 30, 2018 and was not renewed by Covenant House (Parent). Amounts drawn down from this credit facility have been fully paid as of June 30, 2018.

In 2012, CHH was formed for the purpose of participation in a NMTC financing transaction, and received an allocation of NMTC funds pursuant to Section 45D of the Internal Revenue Code (also see note 5).

Under the terms of the NMTC transaction, CHH received mortgage loans from the CDEs. The loans were comprised of Loan A amounts totaling $12,813,000 and Loan B amounts totaling $4,487,000. Per NMTC regulations, upon completion of a required seven-year period, the issuer of the NMTC loans is anticipated to liquidate its interest in the NMTC transaction, leading to the forgiveness of the loans. Due to the structure of the NMTC transaction, the Loan A balance is effectively a loan between the Alaska affiliate and CHH; however, since no legal right of offset exists, the note receivable of $12,813,000 and the loans payable of $17,300,000 have been reported gross on the accompanying consolidated statement of financial position. Interest accrues on the Loan A and Loan B notes at 0.744% per annum and is payable monthly. Any accrued but unpaid interest and unpaid principal on the Loan A notes is due in full on June 6, 2020. For Loan B notes, interest is payable monthly through June 6, 2020, at which time monthly payments of interest and principal sufficient to amortize the notes by October 1, 2042 are required.

During 2018, the California affiliate refinanced its outstanding debt and entered into a $1,375,000 term loan with Bank of America, with an interest rate of 4.25% and maturing on January 28, 2028.

On December 20, 2017 (the "agreement date"), the California affiliate obtained through financing a secured note payable of $750,000 ("Note 1") with an interest rate at 4% from a related party of the affiliate with the condition that the note be used for the Covenant House Western Avenue Property. All principal and accrued interest on this note was due and payable within one year from the agreement date. Payment on Note 1 has not been met as of the maturity date and the note is currently payable on demand. The total amount of interest expense relating to this note totaled $30,000 for the year ended June 30, 2019 and 2018.

9. Line of Credit, Other Debt Obligations and Capital Leases *(continued)*

On November 5, 2018 (the "disbursement date") the California affiliate obtained through financing an unsecured note payable of $750,000 ("Note 2") with an interest rate at 2% from an unrelated foundation, with the condition that the note be used to repay Note 1. The repayment of the principal balance and accrued interest will be due and payable three years from the disbursement date. The total amount of interest expense relating to Note 2 totaled $9,833 for the year ended June 30, 2019.

In fiscal year 2019, the California affiliate was awarded an Emergency Housing and Assistance Program Operating Facility ("EHAP") grant through Department of Housing and Community Development of $740,000 in order to secure funding on the purchase of the DreamCatcher property for a total value of $1,479,480. The difference between the EHAP fund and property value was contributed to the California affiliate for $850,801 and recorded as other income in the consolidated statement of activities. The grant is structured as a loan to the California affiliate, secured by a deed of trust on the DreamCatcher property and bears interest at the rate of 3% simple interest per annum.

In May 2006, the New Jersey affiliate secured a long-term loan from the Corporation for Supportive Housing ("CSH") for $528,000. The proceeds were used for the acquisition of land and related fees for a new transitional living program facility in Atlantic City, NJ. The New Jersey affiliate entered into an agreement to buy the related real estate on August 9, 2005. This loan was refinanced as part of new funding received from the New Jersey Housing and Mortgage Finance Agency ("NJHMFA") which totaled approximately $4,000,000, $3,300,000 of which was received via a grant and $700,000 was a loan, which was entered into on March 17, 2008. The initial mortgage term for the $700,000 loan is for a 15-month construction period, followed by a 15-year permanent mortgage, with 0% interest for the entire term. Repayment will be made from 25% percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2019 and 2018, the escrow amount held with the trustee totaled $250,283 and $269,905. To the extent that principal payments are not covered by cash flows, the payment of principal will be deferred until the end of the mortgage term. In fiscal 2019 and 2018, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the loan.

9. Line of Credit, Other Debt Obligations and Capital Leases *(continued)*

The New Jersey affiliate also acquired a residential property in Montclair, NJ for a transitional living program to serve youths with mental disabilities called Nancy's Place. The Montclair purchase and approximately half of two adjacent residential properties purchased in Newark, NJ, for the transitional living program were provided for by temporary financing of $1,015,500 obtained from CSH on March 20, 2008. In accordance with terms of the agreement, partial payments aggregating $775,466 were made. These payments were made using grant funds awarded to the New Jersey affiliate from the U.S. Department of Housing and Urban Development. At June 8, 2009, the remaining balance of $240,034 was refinanced by NJHMFA into a new permanent mortgage aggregating $648,346, including additional loan proceeds for the acquisition of two (2) adjacent properties. This mortgage is payable, without interest, over a period of 15 years. Repayment will be made from 25% percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2019 and 2018, the escrow amount held with the trustee totaled $140,376 and $151,258. To the extent that principal payments are not covered by cash flows, the payment of principal will be deferred until the end of the mortgage term. In fiscal 2019 and 2018, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the mortgage.

On October 6, 2009, the New Jersey affiliate obtained permanent financing for the transitional living program facility in Montclair, NJ, from NJHMFA, aggregating $829,306 at June 30, 2019 and 2018. Of this amount, $538,000 was used to repay the existing debt obligation to Covenant House (Parent), $109,729 was applied to fund required escrow balances, $30,187 was applied to financing expenses, capitalized as deferred financing costs on the accompanying consolidated statement of financial position, and the balance was received by the New Jersey affiliate as cost reimbursement for construction costs previously incurred. This mortgage is payable without interest over a period of 15 years. Repayment will be made from 25% of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2019 and 2018, the escrow amount held with the trustee totaled $104,686 and $101,178. To the extent that principal payments are not covered by cash flows, the payment of principal is deferred until the end of the mortgage term. In fiscal 2019 and 2018, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the mortgage.

On November 20, 2012, the New Jersey affiliate obtained permanent financing for the acquisition of a supportive apartment living facility in Newark, NJ from NJHMFA, aggregating $165,179. The mortgage is payable without interest over a period of 30 years. Repayment will be made from 25% of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement. At June 30, 2019 and 2018, the escrow amount held with the trustee totaled $20,635 and $19,518. To the extent that payments are not covered by cash flows, the payment of principal will be deferred until the end of the mortgage term. In fiscal 2019 and 2018, the project ran a deficit; as such no principal payments were made. If it is determined at the maturity of the mortgage that the New Jersey affiliate cannot repay and if all mortgage terms and conditions have been met, NJMFA may extend or refinance the mortgage. The property serves as collateral for the mortgage.

9. Line of Credit, Other Debt Obligations and Capital Leases *(continued)*

On July 27, 2012, the New Jersey affiliate obtained permanent financing for the acquisition of a supportive apartment living facility in Montclair, NJ from New Jersey Department of Community Affairs ("NJDCA"), aggregating $654,400 at June 30, 2019 and 2018. Of this amount $600,000 was received at the closing with the balance due as expenses related to the occupancy of the building are incurred. $1,000 was received both in fiscal 2014 and fiscal 2013 and the balance of $52,400 was fully received as of June 30, 2016. This mortgage is payable over a period of 30 years with interest of 1% per annum, from the first of the month following the issuance of a final certificate of occupancy for the premises. Occupancy commenced on October 1, 2013. Repayment will be made from 50% of the project's cash flows after payment of expenses and debt service. To the extent that principal and interest payments are not covered by the project's cash flows, payment is deferred until the end of the mortgage term. In fiscal 2019 and 2018, the project ran a deficit; as such no principal or interest payments were made. The property serves as collateral for the mortgage. Interest expense on this mortgage amounted to $6,540 and $6,501 in fiscal 2019 and 2018.

The New Jersey affiliate has an available $1,000,000 line of credit agreement with Bank of America, N.A. which was renewed and has a maturity date on April 30, 2021. Interest on amount borrowed accrued at a rate of British Banker's Association LIBOR plus 3.50%. As of June 3o0, 2019, $620,000 was drawn down on the line of credit. There were no outstanding borrowings on this line of credit facility at June 30, 2018. Interest expense for fiscal 2019 and 2018 amounted to $20,147 and $17,904.

The Georgia affiliate has a $300,000 line of credit agreement with Private Bank of Buckhead which was renewed on April 9, 2019 with a maturity date on April 5, 2020. There was no borrowing against the line as of June 30, 2019 and 2018. The line bears interest at the bank's prime lending rate 6%. The line is reviewed annually and is due on demand. Under terms of the line of credit, the Georgia affiliate is required to provide the lender with a copy of the audited financial statements without modification of the independent auditors' report within 120 days of the fiscal year end. The Georgia affiliate has obtained a waiver for this requirement.

In April 2016, the Pennsylvania affiliate refinanced its loan payable with a financial institution. The new term loan is for $2,650,000 maturing in April 2021 and has an interest rate based on the 30-day LIBOR rate plus 2%. Interest is payable monthly with a principal payment due in the amount of $4,200, with a final balloon payment due at maturity. Covenant House (Parent) has fully cash-collateralized the outstanding loan amount with the financial institution.

Effective March 12, 2018, the Pennsylvania affiliate renegotiated its loan terms with the financial institution. The affiliate entered into an interest rate swap agreement to effectively convert the variable interest rate to a fixed rate of 2.31% per annum. The change in the fair value of the swap agreement and the payments to or receipts from the counterparty to the swap are netted with interest expense on the consolidated statement of functional expense. Accordingly, the Pennsylvania affiliate recognized a $24,394 swap liability, which is included in accounts payable and accrued expenses, and the same amount included in the interest expense in the accompanying consolidated financial statements as of and for the year ended June 30, 2019. The maturity date and principal payment terms remain unchanged. The outstanding loan balance at June 30, 2019 and 2018 was $2,238,400 and $2,288,800.

9. Line of Credit, Other Debt Obligations and Capital Leases *(continued)*

The Toronto affiliate has an unsecured line of credit, maturing on demand, to borrow up to CAD $3,000,000 (US $2,290,860). Interest is payable at the bank's prime rate. During fiscal years 2019 and 2018, there were no drawings against this line of credit.

During fiscal 2019, the Toronto affiliate received CAD $885,000 (USD $642,014) in funding in the form of a forgivable loan from the City of Toronto towards the cost of the building purchased in 2018 for a new housing program. This amount is secured by a mortgage, which is non-interest bearing and there are no principal payments due unless the building is sold or there is a change in use without prior agreement. The mortgage will be reduced at a rate of 5% per year until fully forgiven in 20 years.

The Vancouver affiliate was provided with financial assistance in the amount of CAD $5,000,000 (US $3,804,420) in the form of a forgivable mortgage, registered on July 26, 2017. The Vancouver affiliate is required to continue developing and operating the property at 1302 Seymour Street, for the specific purpose under the mortgage. As long as the Vancouver affiliate is using the mortgage for the specific purpose, the mortgage will be forgiven equally over the term of the loan in the 11th year following the project completion date of 2021. As of June 30, 2019, the outstanding balance of the forgivable mortgage was CAD $5,000,000 (US $3,818,100).

In fiscal 2019, the Vancouver affiliate was provided with financial assistance in the amount of CAD $5,633,675 (US $4,301,987) in the form of a mortgage, repayable on demand. The mortgage is non-interest bearing prior to its maturity in April 2029, and the property at 1302 Seymour Street is provided as collateral. No principal repayments are required prior to maturity. Subsequent to April 2029, if the mortgage is not fully repaid, it bears interest at the prime interest rate plus 2% per annum.

The Washington, D.C. affiliate has a term loan with a principal amount of $397,742 that currently bears interest at 6% per annum, and is secured by a Deed of Trust on the underlying property located at New York Avenue, Washington, D.C. The outstanding balance was $277,822 and $297,083 as of June 30, 2019 and 2018. Future minimum payments are $36,804 per annum, including interest, through maturity in 2030.

During July 2018, the Washington, D.C. affiliate obtained a line of credit in the amount of $500,000. Interest only payments are due monthly at the prime rate plus .50% (6.5% at June 30, 2019). The line of credit is due on demand and secured by substantially all assets of the affiliate. As of June 30, 2019, the outstanding amount was $500,000.

Covenant House is a lessee of certain equipment acquired under capital leases expiring in various years through fiscal year 2023. Amortization of assets acquired under capital leases is included in depreciation and amortization expense on the consolidated statement of activities. Obligations under capital leases at June 30, 2019 and 2018 amounted to approximately $350,000 and $489,000

9. Line of Credit, Other Debt Obligations and Capital Leases *(continued)*

The following summarizes the scheduled line of credit, other debt obligations and capital lease obligation payments due in future years at June 30, 2019:

2020	$ 8,129,496
2021	15,157,300
2022	899,785
2023	3,947,903
2024	1,308,294
Thereafter	13,004,177
	42,446,955
Less: Amount representing interest	(60,813)
Less: Deferred financing costs	(247,691)
	$ 42,138,451

10. Deferred Revenue

Several affiliates have been awarded special-purpose grants/loans from federal, state and/or local agencies for the purpose of constructing and/or renovating their facilities. The unearned portions of these grants/loans are reflected as deferred revenue on the accompanying consolidated statement of financial position and are being amortized over the period of the respective grant/loan agreements.

The following grants/loans have been awarded to various Covenant House affiliates during current and prior fiscal years:

Covenant House ("CH") Affiliate	Awarding Agency/Other	Unamortized Balance at June 30, 2019	Unamortized Balance at June 30, 2018
CH California	State of California Department of Housing and Community Development	$ 439,145	$ 577,084
CH New Jersey	U.S. Department of Housing and Urban Development	800,000	800,000
CH New Jersey	State of New Jersey Department of Community Affairs	87,630	131,445
CH New Jersey	State of New Jersey Department of Human Services (Crisis Center)	7,586	8,670
CH Alaska	Cook Inlet Tribal Council	423,281	442,818
CH Pennsylvania/Under 21	Henkels and McCoy	198,150	-
Various	Various	528,574	659,610
		$ 2,484,366	$ 2,619,627

11. Split-Interest Agreements

Covenant House is the beneficiary of various split-interest agreements with donors. Covenant House may control donated assets and may share with the donor or the donor's designee income generated from those assets until such time as stated in the agreement (usually upon the death of the donor or the donor's designee(s)) at which time the remaining assets are available for Covenant House's use. Under Covenant House's charitable remainder trust and charitable gift annuities programs, where Covenant House is the trustee, Covenant House has elected the fair value reporting option under ASC 825 which requires the obligation due under split-interest agreements to be measured at fair value annually based upon changes in the life expectancy of the donor or beneficiary and the discount rate at the date of measurement. Covenant House believes that accounting for charitable remainder trusts and charitable gift annuities at fair value appropriately reflects Covenant House's obligations due under split-interest agreements.

The discount rates used in the calculation of all obligations due to annuitants under split-interest agreements at June 30, 2019 and was 2.8% and in 2018 ranged from 1.58% to 6%. At June 30, 2019, obligations due under split-interest agreements relating to charitable remainder trusts and charitable gift annuities were approximately $1,763,000 and $2,581,000. At June 30, 2018, obligations due under split-interest agreements relating to charitable remainder trusts and charitable gift annuities were approximately $3,351,000 and $2,588,000. As of June 30, 2019 and 2018, $8,176,785 and $8,161,767 of investments relate to such agreements. State-mandated insurance reserves related to charitable gift annuity agreements are maintained at the required level.

Covenant House further maintains beneficial interests in certain trusts administered by third parties. Those trusts of a perpetual nature were valued at approximately $4,113,000 and $3,989,000 at June 30, 2019 and 2018. Other trusts with a defined time frame (term trusts) were valued at approximately $2,068,000 and $2,115,000 at June 30, 2019 and 2018. As these trusts are controlled and invested by independent third parties, Covenant House records a beneficial interest and contribution revenue for its ratable share of the assets based on the fair value of the trusts' underlying assets.

11. Split-Interest Agreements (*continued)*

The following tables prioritize the inputs used to measure and report the fair value of Covenant House's beneficial interests in trusts and obligations under split-interest agreements at June 30:

	2019		
	Level 2	Level 3	Total
Obligations due under split-interest agreements	$4,343,778	$ -	$4,343,778
Beneficial interests in trusts	$ -	$6,181,741	$6,181,741

	2018		
	Level 2	Level 3	Total
Obligations due under split-interest agreements	$5,939,337	$ -	$5,939,337
Beneficial interests in trusts	$ -	$6,104,507	$6,104,507

The following tables summarize the changes in fair value associated with Covenant House's Level 3 beneficial interests in trusts for the years ended June 30:

	2019				
	Beginning Balance at July 1, 2018	Additions of Trusts	Change in Fair Value	Distribution from Termination of Trusts	Ending Balance at June 30, 2019
Beneficial interests in trusts	$ 6,104,507	$ 2,468	$ 184,762	$ (109,996)	$ 6,181,741

	2018				
	Beginning Balance at July 1, 2017	Additions of Trusts	Change in Fair Value	Distribution from Termination of Trusts	Ending Balance at June 30, 2018
Beneficial interests in trusts	$ 6,062,329	$ 19,650	$ 108,905	$ (86,377)	$ 6,104,507

12. Construction Loans Payable

In October 2018, a financial institution and Covenant House (Parent) executed a loan agreement in an amount of up to $57,000,000. In April 2019, an amendment was fully executed to increase the total loan commitment to $61,000,000. Covenant House (Parent) granted fee title for the loan proceeds to HDFC, and HDFC entered into a Nominee Agreement with the LLC. The loan proceeds will be used to fund the demolition and construction of the Property. The total commitment consists of two loan components, which are comprised of a building loan in the amount of $54,595,517 and a project loan in the amount of $6,404,483.

In 2019, the LLC drew down $2,768,694 on the building loan and $543,518 on the project loan. Any outstanding principal balance of the loans shall be due and payable on April 15, 2022. The loans bear interest at the current LIBOR rate at the time of the draw plus 275 basis points. The LLC incurred an additional $2,569,629 worth of construction costs on the building loan, which is included in construction loans payable on the consolidated statement of financial position, but did not draw on the funds available for these costs, prior to June 30, 2019.

13. Pension Plans

Covenant House has a defined benefit pension plan (the “Plan”) covering employees of Covenant House. Benefits are generally based on years of service and average salary, as defined under the Plan. Covenant House’s policy is for Covenant House (Parent) to contribute to the Plan the amount necessary to satisfy IRS funding requirements as calculated by its actuary.

The assets of the Plan, which are held by the Prudential Retirement Insurance and Annuity Company, consist primarily of mutual funds that are invested in equity and fixed income securities, which are reported at fair value based on quoted market values as of the reporting date. On July 1, 2019, the Covenant House (Parent) changed trustees of the Plan to Transamerica Retirement Solutions, LLC.

The Plan’s investment objectives seek to obtain the highest total rate of return in keeping with a moderate level of risk while preserving principal in real terms and focusing on long-term returns over near-term current yield. To develop the expected long-term rate of return on assets assumption, Covenant House considers historical returns and future expectations of returns for its fixed income securities.

Effective December 31, 2006, Covenant House froze service credits in the Plan. Compensation increases continued to apply within the Plan structure for those participants who exceeded certain thresholds of age and years of service to protect the benefits of older and longer tenured employees. Covenant House further amended the Plan effective August 1, 2009 to cease adjustments in the accrued benefit due to salary increases so that no further benefits would accrue under the Plan after that date.

As set forth in the provisions of the Employee Retirement income Security Act of 1974 (“ERISA”), Covenant House (Parent) is responsible for maintaining an annual minimum funding requirement. However, beginning in 2018, Covenant House (Parent) began charging affiliates their pro rata share of the minimum funding requirement.

13. Pension Plans *(continued)*

The following table presents the Plan's required pension disclosures as of and for the years ended June 30:

	2019	2018
Change in benefit obligation:		
Projected benefit obligation, beginning of year	$ 42,723,874	$ 48,718,943
Service cost	861,804	782,400
Interest cost	2,087,389	2,036,408
Actuarial gain (loss)	3,648,379	(4,733,440)
Benefits paid	(4,253,358)	(4,080,437)
Projected benefit obligation, end of year	$ 45,068,088	$ 42,723,874
Change in Plan assets:		
Fair value of plan assets, beginning of year	$ 28,530,243	$ 30,397,791
Actual return on Plan assets	2,405,590	621,053
Employer contributions	2,076,897	1,591,836
Benefits paid	(4,253,358)	(4,080,437)
Fair value of Plan assets, end of year	$ 28,759,372	$ 28,530,243
Funded status, end of year	$ (16,308,716)	$ (14,193,631)
Accumulated benefit obligation	$ 45,068,088	$ 42,723,874
Amounts included in unrestricted net assets:		
Unrecognized actuarial loss	$ 12,214,477	$ 10,049,454
Components of the net periodic pension cost (benefit):		
Service cost	$ 861,804	$ 782,400
Interest cost	2,087,389	2,036,408
Expected return on plan assets	(1,723,295)	(2,063,234)
Amortization of actuarial loss	801,061	1,382,375
Net periodic pension cost	$ 2,026,959	$ 2,137,949
Other changes recognized in without donor restrictions net assets:		
Actuarial loss (gain) incurred during the year	$ 2,966,084	$ (3,291,259)
Amortization of actuarial loss	(801,061)	(1,382,375)
Pension related activity, other than net periodic pension cost	$ 2,165,023	$ (4,673,634)
Amounts in without donor restrictions net assets expected to be recognized as components of net periodic pension cost in the next fiscal year:		
Amortization of actuarial loss	$ 1,125,807	$ 795,739
Weighted-average Assumptions:		
Discount rate - benefit obligation	4.40%	4.97%
Discount rate - net periodic pension cost	4.97%	4.32%
Expected long-term rate of return on Plan assets	6.00%	7.00%
Average rate of increase in compensation levels	N/A	N/A

13. Pension Plans *(continued)*

Covenant House (Parent) expects to contribute $2,221,000 to the Plan in 2020.

Employer contributions to the Plan for the years ended June 30, 2019 and 2018 were $2,076,897 and $1,591,836. Plan benefits expected to be paid in the following fiscal years are as follows:

2020	$ 1,563,905
2021	2,513,995
2022	2,064,155
2023	2,021,306
2024	2,412,453
2025-2029	12,875,732

The following table prioritizes the inputs used to measure and report the fair value of the Plan's assets at June 30:

	2019		
	Level 1	Level 2	Total
Fixed income mutual funds	$ 23,716,141	$ -	$ 23,716,141
Equity mutual funds	4,550,939	-	4,550,939
Pooled separate accounts	-	492,292	492,292
Total Plan Assets	$ 28,267,080	$ 492,292	$ 28,759,372

	2018		
	Level 1	Level 2	Total
Fixed income mutual funds	$ 21,549,364	$ -	$ 21,549,364
Equity mutual funds	6,872,698	-	6,872,698
Pooled separate accounts	-	108,181	108,181
Total Plan Assets	$ 28,422,062	$ 108,181	$ 28,530,243

The percentages of the fair value of total Plan assets by asset category are as follows at June 30:

	2019	2018
Fixed income mutual funds	82 %	76 %
Equity mutual funds	16 %	23 %
Pooled separate accounts	2 %	1 %
	100 %	100 %

13. Pension Plans *(continued)*

Effective January 1, 2007, Covenant House adopted a 403(b) defined contribution pension plan for all employees with one year of service. As of January 1, 2012, Covenant House matches 100% of employee contributions to the 403(b) plan up to 3% of employee contributions, except for the highly compensated employees as defined below. New hires become eligible to receive the employer match contribution once the employee has reached age 21 and completed one year of service. Along with the matching provision, there is an additional annual employer contribution to the retirement account for all employees who worked 1,000 hours in a year. Covenant House's contributions range from 1% to 9% of each eligible employee's salary based on points, provided that the respective employee worked 1,000 hours annually. Points are defined as the sum of age and years of service. The 403(b) plan is 100% vested (cliff vesting) after three years of service. Total expense related to the 403(b) plan was approximately $2,262,000 and $2,383,000 for the years ended June 30, 2019 and 2018. Total employer contributions due to the 403(b) plan are approximately $2,376,000 and $2,657,000 at June 30, 2019 and 2018, and are included in pension benefits liability on the accompanying consolidated statement of financial position. On May 31, 2019, Covenant House changed the trustee of the 403(b) plan to Transamerica Retirements Solutions, LLC.

Effective January 1, 2012, Covenant House implemented a 457(b) plan for those highly compensated employees who have reached the IRS maximum 403(b) contribution for the year. These employees have the option of continuing their contributions and will be matched by the employer 100% of up to 3% of employee contributions. All other criteria for eligibility follows the same guidelines as the 403(b) plan. Total employer expense related to the 457(b) plan approximated $79,000 and $73,000 for the years ended June 30, 2019 and 2018. Covenant House obligations under the 457(b) plan are approximately $563,000 and $444,000 at June 30, 2019 and 2018, and are included in pension benefits liability on the accompanying consolidated statement of financial position.

The Toronto affiliate maintains a Group Registered Retirement Savings Plan ("RRSP"). During fiscal years 2019 and 2018, the expense for the RRSP totaled approximately CAD $494,000 (US $374,000) and $444,000 (US $338,000). There are no employer contributions due to the Toronto affiliate's RRSP at June 30, 2019 and 2018.

The Vancouver affiliate maintains a defined contribution pension plan that provides retirement benefits to its employees. Employees are eligible to join after one year of continuous service. Pension contributions vest with the employee after two years of participation in the plan. Funding contributions are made by employees and are matched by the Vancouver affiliate in the amount of 3%, 5% or 7% of employee compensation based on the number of completed years of service. The expense related to the defined contribution plan for fiscal years 2019 and 2018 totaled approximately CAD $252,000 (US $190,000) and CAD $247,000 (US $188,000). There are no employer contributions due to the Vancouver affiliate's defined contribution pension plan at June 30, 2019 and 2018.

In addition, the labor laws of affiliates in Central America provide for severance pay if an employee is dismissed without just cause. Accrued expenses related to such potential payments are determined in accordance with local statutes and are reflected in the accompanying consolidated financial statements.

14. Board Designated Net Assets

The Vancouver, Toronto and Mexico affiliate's Board of Directors designated a portion of their net assets without donor restrictions to be used for strategic purposes, building renovations and/or capital expenditures. These board designated net assets totaled $27,084,922 and $26,736,619 as of June 30, 2019 and 2018.

15. Net Assets with Donor Restrictions

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

	2019	2018
Various donor-imposed purpose restrictions:		
Program	$ 6,392,125	$ 7,060,153
Capital campaign	35,013,129	23,714,176
Time Restriction:		
Beneficial interest in trusts	1,689,738	1,628,689
Other split-interest agreements	3,090,077	2,581,688
Other time restrictions	2,129,425	4,503,151
Unappropriated endowment earnings	3,899,502	3,528,934
Beneficial interest in perpetual trusts	4,011,668	3,988,760
Endowment held in perpetuity	5,247,064	5,247,064
	$ 61,472,728	$ 52,252,615

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

	2019	2018
Purpose restriction	$ 14,184,337	$ 7,756,214
Time restriction	3,352,977	5,673,013
	$ 17,537,314	$ 13,429,227

16. Endowments

Covenant House's endowment includes both donor-restricted (gifted) endowment funds and funds designated by the Board of Directors to function as an endowment (quasi-endowment). Covenant House's donor-restricted endowment consists of various individual funds established principally in support of Covenant House's mission; it excludes donor restricted beneficial interests in trusts administered by third parties. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

16. Endowments *(continued)*

On September 17, 2010, the State of New York 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. Covenant House classifies as donor restricted endowment funds, unless otherwise stipulated by the donor: (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment and (c) accumulations to its 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 as donor restricted net assets held in perpetuity is classified as donor restricted net assets until such amounts are appropriated for expenditure by Covenant House 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, Covenant House 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 on endowment investments; general economic conditions; the possible effects of inflation and deflation; other resources of Covenant House; and, the investment policy of Covenant House.

Covenant House has adopted investment management and spending policies for endowment assets that support the objective of providing a sustainable and increasing level of endowment income distribution to support Covenant House's activities while seeking to maintain the purchasing power of the endowment assets. Covenant House'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.

To satisfy its long-term rate-of-return objectives, Covenant House relies on a total return strategy, the objective of which is to achieve a return consisting of a combination of current income and capital appreciation, without regard to an emphasis on either, recognizing that changes in market conditions and interest rates will result in varying strategies in an attempt to optimize results. The endowment portfolio is diversified among various investment classes and strategies to help reduce risk.

16. Endowments *(continued)*

The following details endowment net asset composition, excluding third-party perpetual trusts of approximately $4,112,000 and $3,989,000 as of June 30, 2019 and 2018.

	2019			
	Without Donor Restrictions	With Donor Restrictions		
Composition of Endowment Net Assets by Type of Fund	Board Designated	Cumulative Earnings	Original Gift Amount	Total
Board-designated endowment fund	$ 4,919,848	$ -	$ -	$ 4,919,848
Donor-restricted endowment funds	-	3,899,502	5,247,064	9,146,566
	$ 4,919,848	$ 3,899,502	$ 5,247,064	$ 14,066,414
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 4,859,044	$ 3,528,934	$ 5,247,064	$ 13,635,042
Investment return:				
Investment income	124,990	166,578	-	291,568
Net appreciation (realized and unrealized)	117,303	209,758	-	327,061
Appropriation of endowment assets for expenditure	(175,858)	-	-	(175,858)
Transfers in	100,000	-	-	100,000
Other changes	(105,631)	(5,768)	-	(111,399)
Endowment net assets, end of year	$ 4,919,848	$ 3,899,502	$ 5,247,064	$ 14,066,414

	2018			
	Without Donor Restrictions	With Donor Restrictions		
Composition of Endowment Net Assets by Type of Fund	Board Designated	Cumulative Earnings	Original Gift Amount	Total
Board-designated endowment fund	$ 4,859,044	$ -	$ -	$ 4,859,044
Donor-restricted endowment funds	-	3,528,934	5,247,064	8,775,998
	$ 4,859,044	$ 3,528,934	$ 5,247,064	$ 13,635,042
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 5,181,890	$ 2,642,425	$ 5,247,064	$ 13,071,379
Investment return:				
Investment income	84,057	129,072	-	213,129
Net appreciation (realized and unrealized)	192,531	757,437	-	949,968
Appropriation of endowment assets for expenditure	(1,002,995)	-	-	(1,002,995)
Transfers in	403,561	-	-	403,561
Endowment net assets, end of year	$ 4,859,044	$ 3,528,934	$ 5,247,064	$ 13,635,042

17. Allocation of Joint Costs

Covenant House has allocated joint costs incurred associated with certain informational mailings that contain an appeal for funds between the public education program and fundraising expense categories on the accompanying consolidated statement of activities. Total joint costs of approximately $441,000 and $620,000 were incurred during fiscal 2019 and 2018, and approximately $404,000 and $568,000 were allocated to public education and approximately $37,000 and $52,000 were allocated to fundraising.

18. Commitments and Contingencies

Covenant House is party to a number of operating leases for office space and equipment. Aggregate future minimum lease payments due under operating leases that have remaining terms in excess of one year as of June 30, 2019 are as follows:

2020	$ 2,927,202
2021	2,561,182
2022	2,022,584
2023	533,970
2024	216,175
Thereafter	261,351
	$ 8,522,464

During July 1999, the Michigan affiliate entered into a dollar-a-year lease for its main campus with the Archdiocese of Detroit for a period of 99 years. The fair value of the property at the time of the lease signing was recorded as net assets with donor restrictions and is released from restriction over the period of the lease. As the asset is amortized over the 99 year life of the lease, $1,869 of rent expense and amortization is recorded. The Michigan affiliate uses this property for administrative purposes, the crisis center, rights of passage, charter school and future programs.

The Washington, D.C. affiliate's Community Service Center resides on a parcel of land along Mississippi Ave., SE, in Washington, D.C., which is part of a larger Building Bridges Across the River, Inc. (BBAR) development project. The Washington, D.C. affiliate has negotiated a ground sublease with BBAR that was finalized on November 11, 2005. Based on the sublease agreement, the lease commencement date was determined retroactively to be January 20, 2003 with a termination date of July 18, 2100. The lease has an annual rent of $25 per year and the Washington, D.C. affiliate is responsible for all operating expenses and utilities. The fair value of the land at the time of the lease agreement signing was recorded as a contribution receivable and restricted contribution and is released from restrictions over the term of the lease. The balance of the long term other asset of $278,883 and $282,284, is reported in prepaid expenses and other assets on the accompanying consolidated statement of financial position at June 30, 2019 and 2018. The Washington, D.C. affiliate built a free-standing, two-story building on the premises, referred to as the Nancy Dickerson Whitehead Community Service Center, which the Washington, D.C. affiliate owns and can sell, assign, or sublet after 15 years, assuming that the purchaser, assignee, or sub-lessee agrees to certain use restrictions, will perform a needed service at the facility, and is financially capable.

18. Commitments and Contingencies *(continued)*

If the Washington, D.C. affiliate sells the building, then BBAR will be entitled to 19% of the proceeds. The Washington, D.C. affiliate uses the building and land to provide recreational, educational, social, cultural and support services to homeless and at-risk youths.

Covenant House is contingently liable under various claims and lawsuits, many of which are covered in whole or in part by insurance. In management's opinion, none of these claims and lawsuits will have a material adverse effect on the consolidated financial statements of Covenant House.

Covenant House receives funding under grants and contracts from various federal, state and local government agencies. In accordance with the terms of certain government contracts, the records of certain affiliates are subject to audit for varying periods after the date of final payment of the contracts. Covenant House is liable for any disallowed costs; however, management believes that the amount of costs disallowed, if any, would not be material to its consolidated financial statements.

19. Liquidity and Availability of Financial Assets

The following reflects Covenant House's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year of that date because of donor imposed restrictions.

Financial Assets:	
Cash and cash equivalents	$ 24,651,824
Restricted cash	255,263
Contributions receivable, net	19,491,848
Grants receivable	8,241,733
Other assets	2,678,370
Investments	62,575,353
Investments, other	16,613,823
	134,508,214
Less amount unavailable for general expenditure:	
Amounts restricted by donors with time or purpose restrictions and internal designations	(46,229,888)
Board designated funds	(32,004,770)
Investments held for charitable remainder annuity trusts	(1,044,895)
Beneficial interest in perpetual trusts	(1,929,537)
Guarantee for affiliate term loan	(2,238,400)
Investments held in perpetuity	(5,247,064)
	(88,694,554)
Financial Assets at Year-end Available to Meet Cash Needs for General Expenditures Within One Year	$ 45,813,660

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

As part of Covenant House's liquidity management, Covenant House monitors the status and collectability of receivables on a regular basis. Contributions and special events revenue are solicited on a regular basis to increase support and revenue. In addition, Covenant House (Parent) has a $15 million line of credit with a financial institution which can be used to finance short-term working capital needs of the affiliates.

20. Subsequent Events

Subsequent to year end, the COVID-19 pandemic has resulted in substantial volatility in the global financial markets. As a result, Covenant House's investment portfolio has incurred a significant decline in its fair value since June 30, 2019. Because the value of Covenant House's individual investments has and will fluctuate in response to changing market conditions, the amount of losses, if any, that will be recognized in subsequent periods, cannot be determined.

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

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