Covenant House and Affiliates

Consolidated Financial Statements
Together with Independent Auditors' Report
June 30, 2017

Covenant House and Affiliates

Consolidated Financial Statements
Together With Independent Auditors' Report

June 30, 2017

TABLE OF CONTENTS **Page**

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, 2017, 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 18.13% of consolidated total assets as of June 30, 2017, and total revenues of 19.90% 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.

PKF O'CONNOR DAVIES, LLP
665 Fifth Avenue, New York, NY 10022 I Tel: 212.867.8000 or 212.286.2600 I Fax: 212.286.4080 I www.pkfod.com

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, 2017, 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

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PKF O'Connor Davies, LLP

April 26, 2018

Covenant House and Affiliates

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

	2017	2016
ASSETS		
Cash and cash equivalents	$ 19,551,182	$ 21,820,630
Restricted cash	360,373	407,286
Contributions receivable, net (note 3)	12,318,771	10,938,335
Grants receivable (note 4)	5,260,654	5,509,591
Notes receivable (note 5)	12,813,000	12,813,000
Prepaid expenses and other assets (note 6)	8,254,556	6,972,291
Investments, other (note 7)	8,484,357	2,743,841
Investments (note 7)	56,915,635	52,239,069
Property, plant and equipment, net (note 8)	127,540,199	127,211,837
Property held for sale (note 8)	271,423	271,423
Beneficial interests in trusts (note 11)	6,062,329	5,834,530
Total Assets	$ 257,832,479	$ 246,761,833
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 14,657,891	$ 15,400,615
Deferred revenue (note 10)	2,593,097	2,546,825
Line of credit, other debt obligations and capital leases (note 9)	39,850,648	37,634,491
Deferred rent	1,456,089	1,696,523
Obligations due under split-interest agreements (note 11)	5,342,755	5,581,512
Conditional asset retirement obligation (note 2)	414,374	414,374
Pension benefits liability (note 12)	20,819,819	22,892,499
Other liabilities	220,406	218,414
Total Liabilities	85,355,079	86,385,253
Net Assets		
Unrestricted	131,721,515	132,015,578
Temporarily restricted (note 13)	31,426,846	19,230,810
Permanently restricted (note 14)	9,329,039	9,130,192
Total Net Assets	172,477,400	160,376,580
Total Liabilities and Net Assets	$ 257,832,479	$ 246,761,833

See notes to consolidated financial statements

Covenant House and Affiliates

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
CONTRIBUTIONS AND OTHER REVENUE					
Contributions from individuals, foundations and corporations, including legacies and bequests of $10,052,300 and $12,843,746 for 2017 and 2016	$ 90,426,164	$ 20,194,874	$ -	$ 110,621,038	$ 101,892,033
Government grants and contracts	31,152,297	806,426	-	31,958,723	29,763,206
Contributed goods and services	4,272,419	-	-	4,272,419	4,128,242
Special events revenue, net of costs of direct benefits to donors of $2,175,248 and $2,415,673 for 2017 and 2016	16,399,804	-	-	16,399,804	14,961,769
School management fees	8,414,286	-	-	8,414,286	7,739,382
Total Contributions and Other Revenue	150,664,970	21,001,300		171,666,270	158,484,632
INVESTMENT RETURN					
Interest and dividends, net	1,072,012	123,946	7,208	1,203,166	1,167,899
Net unrealized gain (loss)	2,227,277	543,759	-	2,771,036	(1,779,597)
Net realized gain	720,525	2,184	-	722,709	1,334,857
Change in value of split-interest agreements	35,071	274,054	-	309,125	(421,448)
Change in value of beneficial interest in trusts	-	103,999	211,048	315,047	(60,443)
Other	2,559,624			2,559,624	2,240,201
Total Investment Return	6,614,509	1,047,942	218,256	7,880,707	2,481,469
	157,279,479	22,049,242	218,256	179,546,977	160,966,101
Net assets released from restrictions	10,028,534	(10,009,125)	(19,409)	-	-
Total Contributions, Other Revenue and Investment Return	167,308,013	12,040,117	198,847	179,546,977	160,966,101
EXPENSES					
Program services	132,103,247	-	-	132,103,247	128,539,798
Supporting Services					
Management and general	18,602,492	-	-	18,602,492	18,058,847
Fundraising	21,054,075	-	-	21,054,075	22,409,914
Total Expenses	171,759,814	-	-	171,759,814	169,008,559
Change in Net Assets from Operations	(4,451,801)	12,040,117	198,847	7,787,163	(8,042,458)
Foreign currency translation adjustment	(30,982)	155,919	-	124,937	(1,833,064)
Pension related activity, other than net periodic pension cost	4,188,720	-	-	4,188,720	(4,866,444)
Impairment of property held for sale	-	-	-	-	(100,000)
Change in Net Assets	(294,063)	12,196,036	198,847	12,100,820	(14,841,966)
NET ASSETS					
Beginning of year	132,015,578	19,230,810	9,130,192	160,376,580	175,218,546
End of year	$ 131,721,515	$ 31,426,846	$ 9,329,039	$ 172,477,400	$ 160,376,580

See notes to consolidated financial statements

Covenant House and Affiliates

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

	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	Cost of Direct Benefits To Donors	2017 Total Expenses	2016 Total Expenses
Salaries and wages	$ 29,331,790	$ 2,915,908	$ 3,743,478	$ 3,388,799	$ 5,594,883	$ 4,910,073	$ 12,308,006	$ 4,359,609	$ 66,552,546	$ 8,070,936	$ 5,130,092	$ 13,201,028	$ -	$ 79,753,574	$ 76,703,131
Payroll taxes	2,694,785	267,743	345,736	335,987	492,159	428,454	1,114,290	262,386	5,941,540	690,455	430,541	1,120,996	-	7,062,536	6,906,717
Employee benefits	5,632,302	610,608	909,378	664,584	964,474	951,367	2,379,815	888,898	13,001,426	1,881,417	742,487	2,623,904	-	15,625,330	14,574,034
Total Salaries and Related Expenses	37,658,877	3,794,259	4,998,592	4,389,370	7,051,516	6,289,894	15,802,111	5,510,893	85,495,512	10,642,808	6,303,120	16,945,928	-	102,441,440	98,183,882
Faith Community costs	106,645	1,892	21,763	4,731	36,521	-	39,358	-	210,910	48	-	48	-	210,958	197,577
Contributed legal services	131,696	4,073	4,732	9,844	20,839	473	31,620	-	203,277	584,026	-	584,026	-	787,303	1,201,766
Accounting fees	88,608	15,398	13,699	31,869	56,576	39,854	56,226	85,500	387,730	535,068	5,373	540,441	-	928,171	1,088,961
Legal fees	41,260	2,178	2,255	2,124	13,138	3,649	13,126	1,196	78,926	35,821	3,513	39,334	-	118,260	246,228
Medical fees	62,297	257	3,409	219,394	6,994	-	50,290	-	342,641	20	-	20	-	342,661	326,724
Consulting fees	638,436	58,459	52,110	150,506	352,886	768,946	181,105	-	2,202,448	341,853	1,140,146	1,481,999	50,577	3,735,024	2,901,986
Supplies	651,878	31,491	58,829	192,248	119,838	33,212	217,424	167,873	1,472,793	199,371	128,391	327,762	23,371	1,823,926	2,077,832
Telephone	326,743	49,869	45,954	31,986	76,498	53,801	172,669	33,888	791,408	230,113	54,377	284,490	-	1,075,898	1,091,734
Postage and printing	250,807	23,063	34,573	13,666	48,719	4,366,614	80,904	7,667	4,826,013	283,257	9,857,601	10,140,858	15,881	14,982,752	18,554,697
Fuel and utilities	1,323,697	119,349	154,897	67,975	254,436	116,857	666,785	180,765	2,884,761	177,929	48,842	226,771	-	3,111,532	2,971,380
Repairs and maintenance	944,874	36,716	149,717	44,946	153,846	36,624	378,785	109,476	1,854,984	99,838	41,680	141,518	-	1,996,502	2,123,701
Rent and other	626,161	48,888	56,174	71,034	101,262	426,863	904,064	-	2,234,446	553,768	141,588	695,356	-	2,929,802	2,625,343
Equipment	532,725	79,408	41,873	85,786	123,251	112,368	201,504	27,156	1,204,071	185,161	57,733	242,894	-	1,446,965	1,452,357
Travel and transportation	591,571	89,974	62,753	27,956	197,129	90,945	159,946	92,235	1,312,509	193,290	79,847	273,137	-	1,585,646	1,425,366
Specific Assistance to Individuals															
Food	1,857,585	164,814	233,762	37,575	174,865	3,448	432,687	5	2,904,741	21,590	3,736	25,326	111,977	3,042,044	3,501,132
Medical	62,963	1,373	5,090	274,326	17,113	-	25,246	-	386,111	253	-	253	-	386,364	311,425
Contributed medical	-	-	-	94,343	9,045	-	1,079	-	104,467	-	-	-	-	104,467	166,989
Clothing, allowance and other	1,284,131	132,491	154,061	40,352	394,142	32,909	1,628,220	11,234	3,677,540	255,682	1,731	257,413	-	3,934,953	3,609,369
Contributed clothing and merchandise	1,316,872	50,762	99,433	56,714	199,217	26,672	460,798	-	2,210,468	41,817	8,509	50,326	152,203	2,412,997	1,393,435
Temporary help	434,961	15,519	80,040	91,055	66,316	1,839	108,004	202	797,936	98,202	47,682	145,884	-	943,820	1,030,306
Other purchased services	1,770,549	121,387	198,010	188,965	312,070	1,721,010	723,563	446,153	5,481,707	832,544	2,280,459	3,113,003	1,710,543	10,305,253	10,559,530
Dues, licenses, and permits	71,575	14,267	12,924	16,791	14,413	9,577	46,041	3,293	188,881	78,154	23,508	101,662	225	290,768	300,170
Subscriptions and publications	14,521	2,156	2,029	1,908	3,159	10,819	5,633	11	40,236	15,069	25,001	40,070	-	80,306	74,655
Staff recruitment	60,259	4,030	6,678	8,702	9,504	1,186	28,895	2,630	121,884	182,297	2,202	184,499	-	306,383	239,383
Insurance	706,754	65,483	119,916	72,425	120,971	21,741	363,792	104,754	1,575,836	215,408	34,965	250,373	-	1,826,209	1,851,880
Contributed services	191,358	2,610	9,817	149,062	509,887	2,000	150,396	-	1,015,130	56,390	3,597	59,987	-	1,075,117	1,290,257
Contributed goods	-	-	-	-	-	-	-	-	-	-	-	-	39,851	39,851	72,422
Miscellaneous, net	273,734	30,160	42,475	27,921	54,739	42,089	83,506	32,273	586,897	1,186,355	194,855	1,381,210	64,655	2,032,762	1,553,853
Bank charges and fees	345,069	20,187	58,384	21,057	58,550	19,283	106,784	5,251	634,565	237,250	186,095	423,345	5,965	1,063,875	839,695
Interest	314,909	44,278	26,117	19,271	26,002	24,977	59,712	31,265	546,531	168,029	21,903	189,932	-	736,463	584,471
Loss on foreign currency exchange	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,850
Total Before Depreciation and Amortization	52,681,515	5,024,791	6,750,066	6,443,902	10,583,442	14,257,650	23,180,273	6,853,720	125,775,359	17,451,411	20,696,454	38,147,865	2,175,248	166,098,472	163,887,356
Depreciation and amortization	2,900,331	281,563	191,863	106,084	650,537	842,151	1,160,537	194,822	6,327,888	1,151,081	357,621	1,508,702	-	7,836,590	7,536,876
Total Functional Expenses	55,581,846	5,306,354	6,941,929	6,549,986	11,233,979	15,099,801	24,340,810	7,048,542	132,103,247	18,602,492	21,054,075	39,656,567	2,175,248	173,935,062	171,424,232
Less direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	-	2,175,248	2,175,248	2,415,673
Total Expenses Reported by Function on Statement of Activities	$ 55,581,846	$ 5,306,354	$ 6,941,929	$ 6,549,986	$ 11,233,979	$ 15,099,801	$ 24,340,810	$ 7,048,542	$ 132,103,247	$ 18,602,492	$ 21,054,075	$ 39,656,567	$ -	$ 171,759,814	$ 169,008,559

See notes to consolidated financial statements

Covenant House and Affiliates

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 12,100,820	$ (14,841,966)
Adjustments to reconcile change in net assets to net cash from operating activities		
Discount on contributions receivable	98,493	(1,886)
Amortization of customer lists	1,153,114	955,117
Realized and unrealized (gains) losses on investments	(3,493,745)	444,740
Contributed investments	(76,429)	(59,334)
Gain on property held for sale	-	(490,760)
(Gain) loss on disposal of property, plant and equipment	(2,980)	283
Impairment of property held for sale	-	100,000
Contributed property, plant, and equipment	(107,225)	(120,500)
Change in value of beneficial interest in trusts	(315,047)	60,443
Amortization of deferred revenue and loan discount	(163,820)	(271,132)
Deferred rent	(240,434)	(240,433)
Change in value of split interest agreements	(309,125)	421,448
Accretion of interest on conditional asset retirement obligation	-	11,022
Pension benefits liability adjustment	(2,072,680)	6,678,855
Depreciation and amortization	6,683,476	6,581,759
Amortization of deferred financing costs	78,787	13,424
Estimated deferred financing costs	(360,542)	-
Adjustment for excess accummulated depreciation	-	(46,552)
Bad debt expense	1,204,483	161,738
Foreign currency translation adjustment	(124,937)	1,833,064
Changes in operating assets and liabilities		
Contributions receivable	(2,706,527)	(1,895,708)
Grants receivable	272,611	(1,214,901)
Prepaid expenses and other assets	(994,203)	62,933
Accounts payable and accrued expenses	(742,724)	2,263,161
Deferred revenue	228,496	(238,403)
Other liabilities	1,992	(86,356)
Net Cash from Operating Activities	10,111,854	80,056
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	46,913	107,240
Transfer of net assets from YEAH!, net of cash received	3,747	-
Purchase of customer lists	(1,441,735)	(1,518,537)
Beneficial interests in trusts	87,248	88,445
Purchases of investments	(23,225,674)	(23,943,299)
Sales of investments	16,378,766	23,491,973
Proceeds from property held for sale	-	1,533,764
Capital expenditures	(6,740,836)	(4,683,720)
Proceeds from sale of property	11,863	4,150
Net Cash from Investing Activities	(14,879,708)	(4,919,984)

See notes to consolidated financial statements

Covenant House and Affiliates

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

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under line of credit and other debt obligations	$ 5,236,663	$ 20,160,439
Repayments of line of credit and other debt obligations	(2,569,207)	(15,425,748)
Principal payments under capital lease obligations	(221,014)	(214,362)
Payment of annuity obligations	(634,708)	(656,676)
Additions to gift annuity arrangements	705,076	1,212,783
Deferred gain on sale leaseback of the building	(18,404)	490,760
Net Cash from Financing Activities	2,498,406	5,567,196
Net Change in Cash and Cash Equivalents	(2,269,448)	727,268
CASH AND CASH EQUIVALENTS		
Beginning of year	21,820,630	21,093,362
End of year	$ 19,551,182	$ 21,820,630
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 600,833	$ 479,042
Assets acquired under capital lease obligations	51,470	472,477

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 80,000 young people during fiscal 2017.

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

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

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

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 active international not-for-profit affiliates:

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

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

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. Also classified as tax-exempt organizations, the U.S. affiliates of Covenant House (Parent) 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.

1. Organization and Tax Status *(continued)*

On March 19, 2016, the California Affiliate's Board of Directors authorized the affiliate to enter into a Letter of Intent to merge Covenant House California "CHCA" with another not-for-profit organization, YEAH!. YEAH!'s mission is consistent with that of CHCA: providing support to homeless young adults (18-25) in Berkeley, CA. YEAH! is a lower barrier access point for youth to transition from the street into the affiliate's Oakland program. On June 26, 2017, the merger was finalized and all of YEAH!'s assets were transferred to CHCA.

In September 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 Internal Revenue Code to fund the opening of the crisis center at 755 A Street, Anchorage, Alaska ("Center").

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.

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 programs 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 affiliates to provide youths in the programs with needed medical attention.

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Community Service Center
The community service center program provides comprehensive services to youths who have left affiliated 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/In-School 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.

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.

Cost of Direct Benefits to Donors
Cost 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 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.

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.

Net Asset Classification

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

Unrestricted - consist of resources available for the general support of Covenant House's operations. Unrestricted net assets may be used at the discretion of Covenant House's management and Board of Directors.

Temporarily restricted - represent amounts restricted by donors for specific activities of Covenant House or to be used at some future date. Covenant House records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions and investment return are met in the same reporting period, such amounts are reported as part of unrestricted net assets.

Permanently restricted - consist of funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

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

Contributions

Contributions, including unconditional promises to give, are reported as revenues in the period received. Contributions are considered available for unrestricted use, unless the donors restrict their use. 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 temporarily restricted. Covenant House reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time temporarily restricted net assets are reclassified to unrestricted net assets 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.

Contributed Services, Public Service Announcements and Materials

Covenant House recognizes contributions of public service announcements and materials at their estimated fair value at the date of the donation. During fiscal 2017 and 2016 Covenant House did not recognize contributed public service announcements as none were received.

Covenant House recognizes contributions of services received if the services create or enhance nonfinancial assets, or require specialized skills, and are provided by individuals possessing those skills and typically would need to be purchased if not otherwise provided by donation.

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

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. The fair value of the non-exchange traded alternative investments have been estimated using the net asset value (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.

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 unrestricted, 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.

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

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. Property held for sale is recorded at the lower of cost or fair value 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 was an impairment of $0 and $100,000 for the years ended June 30, 2017 and 2016.

Deferred Rent

U.S. GAAP requires that rent is expensed on a straight-line basis over the lifetime of the lease, 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.

Split-Interest Agreements

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.

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

Split-Interest Agreements (continued)

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 unrestricted 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 remaining liability related to such obligations totaled $414,374 at June 30, 2017 and 2016, and primarily relates to required future asbestos remediation expected to occur in the next 2 to 4 years. For the years ended June 30, 2017 and 2016, depreciation expense recorded on the related asset totaled $0 and $2,362. Accretion of interest related to these obligations in fiscal 2017 and 2016 totaled $0 and $11,022. Covenant House did not incur any payments for asbestos remediation in fiscal 2017 and 2016.

Functional Expense Allocation

The majority of expenses can generally be 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 and other bases as determined by management of Covenant House to be appropriate.

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

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 to 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, debt securities and alternative investments: The reported fair value of common stocks, mutual funds and debt securities is based on quoted market prices. 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.

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

Debt obligations: The fair value of debt obligations approximate their carrying value since the interest rates charged, as disclosed in Note 9, approximate Covenant House's current borrowing rate for instruments with similar credit qualities and maturity periods.

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.

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

Fair Value of Financial Instruments (continued)

Covenant House follows guidance that defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes the use of market-based information within the measurement of fair value over entity specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of the respective financial instrument as of the measurement date.

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent), which removes the requirement to categorize within the fair value hierarchy, all investments measured using net asset value as a practical expedient. ASU 2015-07 was adopted by the Parent in fiscal 2017 and requires retrospective application. The adoption has no effect on the reported values of these investments.

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, 2014.

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.

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

Concentration of Credit Risk (continued)

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.

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.

Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the current year presentation.

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 the Covenant House's consolidated financial statements as of and for the year ended June 30, 2016, 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 April 26, 2018.

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 1.37% to 6.75% in 2017 and 1.79% to 6.75% in 2016. At June 30, 2017 and 2016, net receivables are expected to be collected as follows:

	2017	2016
Unconditional Promises Expected to be Collected in:		
Less than one year	$ 7,668,865	$ 10,507,957
Within five years	4,278,233	-
Thereafter	620,685	624,086
	12,567,783	11,132,043
Less: discount to present value	(156,295)	(57,802)
Less: reserve for uncollectible accounts	(92,717)	(135,906)
	$ 12,318,771	$ 10,938,335

During fiscal 2017 and 2016, 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 $5,260,654 and $5,509,591 at June 30, 2017 and 2016 are expected to be collected within one year. As of June 30, 2017 and 2016, no allowance for doubtful accounts was determined to be necessary.

5. 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 CDEs then made two loans in the amount of $12,813,000 (Loan A) and $4,487,000 (Loan B) to Covenant House Holdings, LLC (“CHH”).

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, Investment Fund pledged its membership interest in the CDEs.

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, 2017 and 2016 the cost of the customer lists amounted to $7,205,083 and $5,763,348. Accumulated amortization at June 30, 2017 and 2016 amounted to $3,926,719 and $2,773,605. Amortization expense for fiscal year 2017 and 2016 amounted to $1,153,114 and $955,117.

Future amortization for Covenant House's customer lists are as follows at June 30:

2018	$ 1,073,641
2019	891,150
2020	693,351
2021	464,876
2022	155,346
	$ 3,278,364

7. Investments

Investments, at fair value, consist of the following at June 30:

	2017	2016
Cash and cash equivalents	$ 5,041,853	$ 4,153,452
Common stocks	2,274,264	3,673,930
U.S. government securities	1,296,470	1,495,392
Foreign government securities	1,293,081	1,459,946
Corporate debt securities	5,378,538	6,342,838
Mutual funds	41,425,066	34,748,077
Funds of funds	206,363	365,434
Total Investments	$ 56,915,635	$ 52,239,069

Investment management fees of approximately $73,000 and $82,000 are netted with interest and dividends income in the accompanying consolidated statement of activities for the years ended June 30, 2017 and 2016.

Covenant House's certificates of deposit of $8,484,357 and $2,743,841 as of June 30, 2017 and 2016, are classified as investments, other, on 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 provided.

7. Investments *(continued)*

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

	2017			
	Level 1	Level 2	Investments valued using NAV (*)	Total
Investments:				
Common stocks	$ 2,274,264	$ -	$ -	$ 2,274,264
U.S. government securities	1,296,470	-	-	1,296,470
Foreign government securities	1,293,081	-	-	1,293,081
Corporate debt securities	2,004,904	3,373,634	-	5,378,538
Mutual Funds:				
Stocks	32,676,390	-	-	32,676,390
Bonds	3,394,875	-	-	3,394,875
Combined	5,353,801	-	-	5,353,801
Funds of funds	-	-	206,363	206,363
Total Investments at Fair Value	$ 48,293,785	$ 3,373,634	$ 206,363	51,873,782
Cash and cash equivalents				5,041,853
Total Investments				$ 56,915,635

	2016			
	Level 1	Level 2	Investments valued using NAV (*)	Total
Investments:				
Common stocks	$ 3,673,930	$ -	$ -	$ 3,673,930
U.S. government securities	1,495,392	-	-	1,495,392
Foreign government securities	1,459,946	-	-	1,459,946
Corporate debt securities	2,749,792	3,593,046	-	6,342,838
Mutual Funds:				
Stocks	27,225,466	-	-	27,225,466
Bonds	3,292,324	-	-	3,292,324
Combined	4,230,287	-	-	4,230,287
Funds of funds	-	-	365,434	365,434
Total Investments at Fair Value	$ 44,127,137	$ 3,593,046	$ 365,434	48,085,617
Cash and cash equivalents				4,153,452
Total Investments				$ 52,239,069

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

7. Investments *(continued)*

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 2017 and 2016.

Covenant House (Parent) invests in an alternative investment classified as "fund of funds" 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:

2017

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Fund of funds	Invests in partnerships, derivatives, private investment companies, and hedge funds	$ 206,363	1	The fund is currently in the process of an orderly liquidation	$ -	The fund is quarterly with 90 days notice	The fund has suspended redemptions due upon approval of an orderly liquidation

2016

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Funds of funds	Invests in partnerships, derivatives, private investment companies, and hedge funds	$ 365,434	2	Both funds are currently in the process of an orderly liquidation	$ -	Both funds are quarterly with 90 days notice	Both funds have suspended redemptions due 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 consists of the following at June 30:

	2017	2016
Buildings	$ 108,737,278	$ 107,123,599
Building improvements	44,201,073	43,220,221
Equipment, furniture and vehicles	26,704,103	24,623,494
Equipment acquired under capital lease obligations	1,258,289	1,502,775
Leasehold improvements	15,892,922	15,538,585
	196,793,665	192,008,674
Less: accumulated depreciation and amortization	(97,440,000)	(91,083,503)
	99,353,665	100,925,171
Land	24,887,038	24,806,581
Construction in progress	3,299,496	1,480,085
Property, plant and equipment, net	$ 127,540,199	$ 127,211,837
Property held for sale	$ 271,423	$ 271,423

Accumulated depreciation and amortization on equipment acquired under capital lease obligations amounted to $766,833 and $676,727 at June 30, 2017 and 2016.

Depreciation and amortization expense amounted to $6,683,476 and $6,581,759 for the years ended June 30, 2017 and 2016.

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 temporarily 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.

9. Line Of Credit and Other Debt Obligations

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

Covenant House ("CH") Affiliate	Lender	Debt Obligation at June 30, 2017	Maturity Date	Interest Rate (per annum) at June 30, 2017	Debt Obligation at June 30, 2016
CH Parent Entity	CIT/Avaya Financial Services	$ 29,203	4/24/2020	1.35%	$ 40,053
CH Parent Entity	JPMorgan Chase Bank	14,500,000	3/31/2018	2.21%	12,000,000
CH Parent Entity	Production Mail Solutions Financing Lease	28,806	3/31/2018	3.41%	64,188
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	48,714	2/28/2021	5.90%	61,046
CH California	Bank of the West	1,357,235	9/23/2023	4.77%	1,393,015
CH California	Great American Leasing Co.	214,712	6/30/2020	1.94%	246,006
CH California	De Lage Financial Services	30,037	4/30/2019	3.00%	43,588
CH California	Super Laundry	6,566	2/28/2018	3.00%	16,172
CH California	Mail Finance	2,169	10/19/2017	5.99%	2,994
CH Florida	Great American Leasing Co.	33,706	3/9/2019	6.00%	51,440
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				195,000
CH New York/Under 21	CIT/Avaya Financial Services	45,685	12/3/2019	2.90%	64,164
CH New York/Under 21	Pitney Bowes Global Financial Services LLC	2,248	11/17/2017	2.90%	7,869
CH New York/Under 21	Konica Minolta Business Solutions	89,236	6/7/2020	2.90%	103,106
CH Pennsylvania/Under 21	Citizens Bank	2,339,200	4/1/2021	30 day LIBOR +2%	2,389,600
CH Washington, D.C.	PNC Bank	315,209	1/27/2030	6.00%	332,236
CH Vancouver	BC Housing/Proposal Development Funding	915,956	Payable on demand	1.00%	422,403
		40,255,913			37,730,111
Less: Deferred financing costs		(405,265)			(95,620)
		$ 39,850,648			$ 37,634,491

9. Line Of Credit and Debt Obligations *(continued)*

Covenant House (Parent) has an unsecured line of credit agreement with JPMorgan Chase Bank ("Chase") to borrow up to an aggregate amount of $15 million. This agreement matured on August 30, 2016 and was extended through June 30, 2018. Interest on outstanding borrowings is payable at the one-month LIBOR rate plus additional percentage points as defined in the agreement, which were 2.21% and 1.65% at June 30, 2017 and 2016. Amounts drawn down from this credit facility are payable on or before June 30, 2018.

Total drawdowns under the unsecured line of credit agreement with Chase totaled $3.75 million and $17.75 million during the years ended June 30, 2017 and 2016. Total repayments on the line of credit were $1.25 million and $13.25 million in fiscal 2017 and 2016.

The following table summarizes the total amounts outstanding under the line of credit agreement attributed to Covenant House as of June 30:

	2017	2016
Covenant House (Parent)	$ 13,827,809	$ 11,227,809
Under 21 Covenant House New York	522,191	522,191
Covenant House Georgia	150,000	250,000
	$ 14,500,000	$ 12,000,000

In September 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.

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.

The California affiliate has a $1,483,000 term loan with the Bank of the West with an interest rate of 4.77% and maturing on September 23, 2023.

9. Line Of Credit and Debt Obligations *(continued)*

On July 18, 2012, the Georgia affiliate purchased property that was formerly used as a residential treatment program for teenagers for $2,258,980. This property includes seven acres of land and five buildings. The purchase was financed with a $1,997,500 promissory note. The interest rate on this note was 5.625%. During the year ended June 30, 2016, the affiliate made two lump sum principal reduction payments totaling $199,026 to fully repay the debt in addition to normal payments.

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. The loan bears interest at a rate of 5% per annum due at the maturity date along with the full principal balance. 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 twenty-five (25%) percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement, which totaled $266,370 and $262,842 at June 30, 2017 and 2016. 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 2017 and 2016, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the loan.

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, which totaled $149,158 and $147,062 at June 30, 2017 and 2016. 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 2017 and 2016, the project ran a deficit; as such no principal payments were made. The property serves as collateral for the mortgage.

9. Line Of Credit and Debt Obligations *(continued)*

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, 2017 and 2016. 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% 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, 2017 and 2016, the escrow amount held with the trustee totaled $98,578 and $95,984. 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 2017 and 2016, 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 twenty-five (25%) percent of the project's available cash flows after payment of operating expenses and funding of all required escrows, pursuant to the loan agreement, which totaled $18,580 and $17,644 at June 30, 2017 and 2016. 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 2017 and 2016, 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.

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, 2017 and 2016. 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, 2015. 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 fifty (50%) percent of the project's cash flows after payment of expenses and debt service. To the extent that principal and interest payments are not covered by the project's cash flows, payment is deferred until the end of the mortgage term. In fiscal 2017 and 2016, the project ran a deficit; as such no principal or interest payments were made. The property serves as collateral for the mortgage. The property serves as collateral for the mortgage. Interest expense on this mortgage amounted to $6,540 and $6,501 in fiscal 2017 and 2016, while accrued interest payable at June 30, 2017 and 2016 amounted to $25,114 and $18,574.

9. Line Of Credit and Debt Obligations *(continued)*

The Georgia affiliate has a $300,000 line of credit agreement with a financial institution which has a maturity date of December 15, 2018. There was no borrowing against the line as of June 30, 2017 and 2016. The line bears interest at the bank's prime lending rate, not to exceed 18%. The line is reviewed annually and is due on demand. Under terms of the line of credit, the affiliate is required to maintain a specified debt service coverage ratio and debt to tangible net worth ratio, as those terms are defined.

The New Jersey affiliate has an available $1 million dollar line of credit agreement with Bank of America, N.A. which matured on February 28, 2018 and was subsequently renewed through February 28, 2019. Interest on amounts borrowed accrued at a rate of British Bankers' Association LIBOR plus 3.50%. The balance of outstanding borrowings on this line of credit facility were $0 and $195,000 at June 30, 2017 and 2016. Interest expense for fiscal 2017 and 2016 amounted to $3,826 and $18,443.

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% (approximately 3.1% and 2.4% at June 30, 2017 and 2016). 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. The outstanding loan balance at June 30, 2017 and 2016 was $2,339,200 and $2,389,600.

On March 31, 2017 and effective March 12, 2018, the Pennsylvania affiliate renegotiated its loan terms with the financial institution which effectively converted the variable interest rate to the fixed rate of 2.31% per annum. The maturity date and principal payment terms remain unchanged.

The Toronto affiliate has an unsecured line of credit, maturing on demand, to borrow up to CAD $500,000. Interest is payable at the bank's prime rate. During fiscal years 2017 and 2016, there were no drawings against this line of credit.

In June 2015 and April 2016, the Vancouver affiliate entered into a Proposal Development Funding ("PDF"), whereby a loan of up to CAD $1,533,000 will be made available to further the development of property. The loan amount to be advanced will be due and payable on demand and will bear interest at a floating rate approximating 1% per annum. In the event that the development of the property located 530 Drake Street is not complete, the third party has agreed to forgive the loan. As of June 30, 2017 and 2016, the outstanding balance of the loan was CAD $1,189,232 (US $915,956) and CAD $547,380 (US $422,403).

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 $315,209 and $332,236 as of June 30, 2017 and 2016. Future minimum payments are $36,804 per annum, including interest through maturity in 2030.

9. Line Of Credit and Debt Obligations *(continued)*

Covenant House is a lessee of certain equipment acquired under capital leases expiring in various years through fiscal year 2021. 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, 2017 and 2016 amounted to approximately $531,000 and $701,000

The following summarizes the scheduled loan and capital lease obligation payments due in future years at June 30, 2017:

2018	$ 14,836,895
2019	290,739
2020	13,053,423
2021	3,182,502
2022	72,450
Thereafter	8,845,013
	40,281,022
Less: Amount representing interest	(25,109)
Less: Deferred financing costs	(405,265)
	$ 39,850,648

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 certain of 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, 2017	Unamortized Balance at June 30, 2016
CH California	State of California Department of Housing and Community Development	$ 722,105	$ 841,026
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	175,260	219,075
CH New Jersey	State of New Jersey Department of Human Services	9,754	10,838
Various	Various	885,978	675,886
		$ 2,593,097	$ 2,546,825

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 generally unrestricted 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 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 designee(s) 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, 2017 and 2016 ranged from 1.66% to 2.44% and 1.49% to 2.00%. At June 30, 2017, obligations due under split-interest agreements relating to charitable remainder trusts and charitable gift annuities were approximately $2,355,000 and $2,988,000. At June 30, 2016, obligations due under split-interest agreements relating to charitable remainder trusts and charitable gift annuities were approximately $2,265,000 and $3,316,000. As of June 30, 2017 and 2016, approximately $8,320,978 and $8,054,000 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 $4,082,000 and $2,988,000 at June 30, 2017 and 2016. Other trusts with a defined time frame (term trusts) were valued at approximately $1,980,000 and $1,951,000 at June 30, 2017 and 2016. 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.

The following tables prioritize the inputs used to measure and report the fair value of Covenant House's beneficial interests in trusts and annuities payable at June 30:

	2017		
	Level 2	Level 3	Total
Obligations due under split-interest agreements	$ 5,342,755	$ -	$ 5,342,755
Beneficial interests in trusts	$ -	$ 6,062,329	$ 6,062,329

	2016		
	Level 2	Level 3	Total
Obligations due under split-interest agreements	$ 5,581,512	$ -	$ 5,581,512
Beneficial interests in trusts	$ -	$ 5,834,530	$ 5,834,530

11. Split-Interest Agreements *(continued)*

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:

	2017				
	Beginning Balance at July 1, 2016	Additions of Trusts	Change in Fair Value	Distribution from Termination of Trusts	Ending Balance at June 30, 2017
Beneficial interests in trusts	$ 5,834,530	$ 136,022	$ 315,047	$ (223,270)	$ 6,062,329

	2016				
	Beginning Balance at July 1, 2015	Additions of Trusts	Change in Fair Value	Distribution from Termination of Trusts	Ending Balance at June 30, 2016
Beneficial interests in trusts	$ 5,983,418	$ -	$ (60,443)	$ (88,445)	$ 5,834,530

12. Pension Plans

Covenant House (Parent) has a defined benefit pension plan (the "Plan") covering employees of Covenant House (Parent) and U.S. affiliates. Benefits are generally based on years of service and average salary, as defined under the Plan. Covenant House (Parent)'s policy is to contribute to the Plan the amount 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 fixed income securities, and are reported at fair value based on quoted market values as of the reporting date.

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 (Parent) considers historical returns and future expectations of returns for its fixed income securities.

Effective December 31, 2006, Covenant House (Parent) 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 (Parent) 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.

12. Pension Plans *(continued)*

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

	2017	2016
Change in benefit obligation:		
Projected benefit obligation, beginning of year	$ 51,707,441	$ 45,829,635
Service cost	561,708	303,630
Interest cost	2,029,215	2,162,899
Actuarial loss/gain	(3,257,515)	6,684,893
Benefits paid	(2,321,906)	(3,273,616)
Projected benefit obligation, end of year	$ 48,718,943	$ 51,707,441
Change in Plan assets:		
Fair value of Plan assets, beginning of year	$ 30,932,858	$ 31,732,323
Actual return on Plan assets	1,131,851	2,474,151
Employer contributions	654,988	-
Benefits paid	(2,321,906)	(3,273,616)
Fair value of Plan assets, end of year	$ 30,397,791	$ 30,932,858
Funded status, end of year	$ (18,321,152)	$ (20,774,583)
Accumulated benefit obligation	$ 48,718,943	$ 51,707,441
Amounts included in unrestricted net assets:		
Unrecognized actuarial loss	$ 14,723,088	$ 18,911,808
Components of the net periodic pension cost (benefit):		
Service cost	$ 561,708	$ 303,630
Interest cost	2,029,215	2,162,899
Expected return on plan assets	(2,102,096)	(2,135,116)
Amortization of actuarial loss	1,901,450	1,479,414
Net periodic pension cost	$ 2,390,277	$ 1,810,827
Other changes recognized in unrestricted net assets:		
Actuarial (gain) loss incurred during the year	$ (2,287,270)	$ 6,345,858
Amortization of actuarial loss	(1,901,450)	(1,479,414)
Pension related activity, other than net periodic pension cost	$ (4,188,720)	$ 4,866,444
Amounts in unrestricted net assets expected to be recognized as components of net periodic pension cost in the next fiscal year:		
Amortization of actuarial loss	$ 1,360,000	$ 1,900,562
Weighted-average Assumptions:		
Discount rate - benefit obligation	4.32%	4.02%
Discount rate - net periodic pension cost	4.02%	4.70%
Expected long-term rate of return on Plan assets	7.00%	7.00%
Average rate of increase in compensation levels	N/A	N/A

Covenant House (Parent) expects to contribute $1,592,000 to its pension plan in 2018.

12. Pension Plans *(continued)*

Employer contributions to the Plan for the years ended June 30, 2017 and 2016 were $654,988 and $0. Plan benefits expected to be paid in the following fiscal years are as follows:

2018	$ 1,474,002
2019	1,464,723
2020	1,931,157
2021	2,702,355
2022	2,060,811
2023-2027	12,290,154

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

	2017		
	Level 1	Level 2	Total
Fixed income mutual funds	$ 24,125,237	$ -	$ 24,125,237
Equity mutual funds	5,893,356	-	5,893,356
Pooled separate accounts	-	379,198	379,198
Total Plan Assets	$ 30,018,593	$ 379,198	$ 30,397,791

	2016		
	Level 1	Level 2	Total
Fixed income mutual funds	$ 25,872,424	$ -	$ 25,872,424
Equity mutual funds	4,960,401	-	4,960,401
Pooled separate accounts	-	100,033	100,033
Total Plan Assets	$ 30,832,825	$ 100,033	$ 30,932,858

Covenant House (Parent) uses NAV per share, or its equivalent, to determine and report the fair value of all the underlying investments which do not have a readily determinable fair value. The following table lists such investments by major category:

2017

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Pooled separate accounts	Long-term growth	$379,198	1	Subject to the determination of the respective fund manager	$ -	Daily upon notice	None

2016

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Pooled separate accounts	Long-term growth	$100,033	1	Subject to the determination of the respective fund manager	$ -	Daily upon notice	None

12. Pension Plans *(continued)*

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

	2017	2016
Fixed income mutual funds	81 %	84 %
Equity mutual funds	18 %	15 %
Pooled separate accounts	1 %	1 %
	100 %	100 %

Effective January 1, 2007, Covenant House (Parent) adopted a 403(b) defined contribution pension plan for all employees with one year of service. As of January 1, 2012, Covenant House (Parent) 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 (Parent)'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 $2,175,000 and $2,088,000 for the years ended June 30, 2017 and 2016. Total employer contributions due to the 403(b) plan are approximately $2,125,000 and $1,899,000 at June 30, 2017 and 2016, and are included in pension benefits liability on the accompanying consolidated statement of financial position.

Effective January 1, 2012, Covenant House (Parent) 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 $59,000 and $46,000 for the years ended June 30, 2017 and 2016. Covenant House (Parent) obligations under the 457(b) plan are approximately $398,000 and $287,000 at June 30, 2017 and 2016, and are included in pension benefits liability on the accompanying consolidated statements of financial position.

During the year ended June 30, 2012, a deferred compensation agreement was entered into with the Michigan affiliate's Youth Vision Solutions ("YVS") current Chief Executive Officer. Under the agreement, deferred compensation of the applicable dollar amount was accrued for the plan through the plan year ended December 31, 2014. The deferred compensation was paid to the former employee during 2016 and the plan was terminated.

The Toronto affiliate maintains a Group Registered Retirement Savings Plan ("RRSP"). During fiscal years 2017 and 2016, the expense for the Group RRSP totaled approximately CAD $444,000 and CAD $431,000. Total employer contributions due to the Toronto affiliate's Group RRSP amounted to approximately CAD $0 and CAD $29,000 at June 30, 2017 and 2016 and are included in pension benefits liability on the accompanying consolidated statement of financial position.

12. Pension Plans *(continued)*

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 2017 and 2016 totaled approximately CAD $238,000 and CAD $228,000. There are no employer contributions due to the Vancouver affiliate's defined contribution pension plan at June 30, 2017 and 2016.

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.

13. Temporarily Restricted Net Assets

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

	2017	2016
Purpose Restrictions:		
Program	$ 6,315,811	$ 6,724,217
Capital	14,195,233	2,304,074
Total Program Restrictions	20,511,044	9,028,291
Time Restrictions:		
Beneficial interest in trusts	1,711,152	1,618,526
Other split-interest agreements	2,347,743	2,073,983
Other time restrictions	6,856,907	6,510,010
Total Time Restrictions	10,915,802	10,202,519
	$ 31,426,846	$ 19,230,810

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

	2017	2016
Purpose restrictions	$ 6,998,056	$ 2,986,438
Time restrictions	3,011,069	823,650
	$ 10,009,125	$ 3,810,088

14. Permanently Restricted Net Assets/Endowment

Permanently restricted net assets are restricted to investment in perpetuity. Except for changes in unrealized gains (losses) on the fair value of perpetual trusts administered by third parties which are reflected in the permanently restricted net asset class, but not part of the endowment, the income from Covenant House's permanent endowment has not been donor-restricted for specific programs and is expendable for unrestricted purposes, following board appropriation, subject to a standard of prudence.

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 permanently 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. 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 permanently restricted net assets, 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 permanently restricted net assets is classified as temporarily 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.

14. Permanently Restricted Net Assets/Endowment *(continued)*

The following details endowment net asset composition, excluding third-party perpetual trusts of approximately $4,082,000 and $3,883,000 as of June 30, 2017 and 2016.

	2017			
Composition of Endowment Net Assets by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment fund	$ 5,181,890	$ -	$ -	$ 5,181,890
Donor-restricted endowment funds	-	2,642,425	5,247,064	7,889,489
	$ 5,181,890	$ 2,642,425	$ 5,247,064	$ 13,071,379
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 5,763,759	$ 1,978,116	$ 5,247,064	$ 12,988,939
Investment return:				
Investment income	105,483	123,946	-	229,429
Net appreciation (realized and unrealized)	313,923	540,363	-	854,286
Appropriation of endowment assets for expenditure	(1,575,904)	-	-	(1,575,904)
Transfers in	574,629	-	-	574,629
Endowment net assets, end of year	$ 5,181,890	$ 2,642,425	$ 5,247,064	$ 13,071,379

	2016			
Composition of Endowment Net Assets by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment fund	$ 5,767,155	$ -	$ -	$ 5,767,155
Donor-restricted endowment funds	(3,396)	1,978,116	5,247,064	7,221,784
	$ 5,763,759	$ 1,978,116	$ 5,247,064	$ 12,988,939
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 4,570,719	$ 2,502,625	$ 5,247,064	$ 12,320,408
Investment return:				
Investment income	95,636	104,378	-	200,014
Net depreciation (realized and unrealized)	(59,344)	(628,887)	-	(688,231)
Appropriation of endowment assets for expenditure	(143,252)	-	-	(143,252)
Transfers in	1,300,000	-	-	1,300,000
Endowment net assets, end of year	$ 5,763,759	$ 1,978,116	$ 5,247,064	$ 12,988,939

15. 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. Of the total joint costs of approximately $945,000 and $3,168,000 incurred during fiscal 2017 and 2016, approximately $325,000 and $2,400,000 were allocated to public education.

16. 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, 2017 are as follows:

2018	$ 3,241,633
2019	2,100,835
2020	1,923,364
2021	1,747,607
2022	1,323,918
Thereafter	208,875
	$ 10,546,232

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 temporarily restricted net assets 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 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 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 temporarily restricted contribution and is released from restrictions over the term of the lease. The balance of the long term other asset of $285,685 and $289,086, is reported in prepaid expenses and other assets on the accompanying consolidated statement of financial position at June 30, 2017 and 2016. 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. 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 Covenant House's opinion, none of these claims and lawsuits will have a material adverse effect on the consolidated financial statements of Covenant House.

16. Commitments and Contingencies *(continued)*

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, Covenant House believes that the amount of costs disallowed, if any, would not be material to its consolidated financial statements.

17. Merger of Net Assets

As discussed in Note 1, YEAH! was acquired by the California affiliate on June 26, 2017. Activities from YEAH! as of this date are included in the accompanying consolidated statement of activities and the assets and liabilities received assumed from the acquisition were recorded at their carrying amounts (which approximated fair value) at the date of acquisition as follows:

Cash	$ 59,302
Grants receivable	51,873
Accounts payable	(55,620)
	$ 55,555

* * * * *