Covenant House and Affiliates

Consolidated Financial Statements
Together with Independent Auditors' Report
June 30, 2016

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PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Directors
Covenant House and Affiliates

We have audited the accompanying consolidated financial statements of Covenant House and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2016, 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 13.39% of consolidated total assets as of June 30, 2016, and total revenues of 18.87% 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 report of, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America, performed by the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, and the additional audit procedures performed, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covenant House and Affiliates as of June 30, 2016, 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, 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Adjustments to Prior Period Financial Statements

As discussed in Note 17, the Organization has restated its 2015 consolidated financial statements to correct an error in accounting for a beneficial interest in a perpetual trust in accordance with accounting principles generally accepted in the United States of America.

PKF O'Connor Davies, LLP

April 14, 2017

Covenant House and Affiliates

Consolidated Statement of Financial Position
June 30, 2016
(with comparative amounts at June 30, 2015)

	2016	2015
ASSETS		
Cash and cash equivalents	$ 21,820,630	$ 21,093,362
Restricted cash	407,286	514,526
Contributions receivable, net (note 3)	10,938,335	9,202,479
Grants receivable (note 4)	5,509,591	4,294,690
Notes receivable (note 5)	12,813,000	12,813,000
Prepaid expenses and other assets (note 6)	6,972,291	6,471,804
Investments, other (note 7)	2,743,841	3,952,076
Investments (note 7)	52,239,069	50,964,914
Property, plant and equipment, net (note 8)	127,211,837	130,307,844
Property held for sale (note 8)	271,423	1,414,427
Beneficial interests in trusts (note 11)	5,834,530	5,983,418
Total Assets	$ 246,761,833	$ 247,012,540
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 15,400,615	$ 13,137,454
Deferred revenue (note 10)	2,546,825	2,565,600
Line of credit and other debt obligations, capital leases (note 9)	37,634,491	32,628,261
Deferred rent	1,696,523	1,936,956
Obligations due under split-interest agreements (note 11)	5,581,512	4,603,957
Conditional asset retirement obligation (note 2)	414,374	403,352
Pension benefits liability (note 12)	22,892,499	16,213,644
Other liabilities	218,414	304,770
Total Liabilities	86,385,253	71,793,994
Net Assets		
Unrestricted	132,015,578	154,180,409
Temporarily restricted (note 13)	19,230,810	11,654,964
Permanently restricted (note 14)	9,130,192	9,383,173
Total Net Assets	160,376,580	175,218,546
Total Liabilities and Net Assets	$ 246,761,833	$ 247,012,540

See notes to consolidated financial statements

Covenant House and Affiliates

Consolidated Statement of Activities
Year Ended June 30, 2016
(with summarized totals for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
CONTRIBUTIONS AND OTHER REVENUE					
Contributions from individuals, foundations and corporations, including legacies and bequests of $12,843,746 and $11,860,997 for 2016 and 2015	$ 91,788,201	$ 10,103,832	$ -	$ 101,892,033	$ 98,862,984
Government grants and contracts	27,859,625	1,903,581	-	29,763,206	27,154,348
Contributed goods and services	4,128,242	-	-	4,128,242	3,110,954
Special events revenue, net of costs of direct benefits to donors of $2,415,673 and $2,183,499 for 2016 and 2015	14,961,769	-	-	14,961,769	13,135,037
School management fees	7,739,382	-	-	7,739,382	9,148,273
Total Contributions and Other Revenue	146,477,219	12,007,413		158,484,632	151,411,596
INVESTMENT RETURN					
Interest and dividends	1,050,202	110,988	6,709	1,167,899	1,038,182
Net unrealized loss	(1,150,710)	(628,887)	-	(1,779,597)	(536,235)
Net realized gain	1,334,857	-	-	1,334,857	220,866
Change in value of split-interest agreements	(177,323)	(244,125)	-	(421,448)	(60,858)
Change in value of beneficial interest in trusts	-	177,411	(237,854)	(60,443)	(422,793)
Other	2,240,219	(18)	-	2,240,201	2,655,098
Total Investment Return	3,297,245	(584,631)	(231,145)	2,481,469	2,894,260
	149,774,464	11,422,782	(231,145)	160,966,101	154,305,856
Net assets released from restrictions	3,831,924	(3,810,088)	(21,836)	-	-
Total Contributions, Other Revenue and Investment Return	153,606,388	7,612,694	(252,981)	160,966,101	154,305,856
EXPENSES					
Program services	128,539,798	-	-	128,539,798	122,943,424
Supporting Services					
Management and general	18,058,847	-	-	18,058,847	16,367,904
Fundraising	22,409,914	-	-	22,409,914	21,573,268
Total Expenses	169,008,559	-	-	169,008,559	160,884,596
Change in Net Assets from Operations	(15,402,171)	7,612,694	(252,981)	(8,042,458)	(6,578,740)
Foreign currency translation adjustment	(1,796,216)	(36,848)	-	(1,833,064)	(5,595,320)
Pension related activity, other than net periodic pension cost	(4,866,444)	-	-	(4,866,444)	(3,867,922)
Impairment of property held for sale	(100,000)	-	-	(100,000)	-
Change in Net Assets	(22,164,831)	7,575,846	(252,981)	(14,841,966)	(16,041,982)
NET ASSETS					
Beginning of year, as restated	154,180,409	11,654,964	9,383,173	175,218,546	191,260,528
End of year	$ 132,015,578	$ 19,230,810	$ 9,130,192	$ 160,376,580	$ 175,218,546

See notes to consolidated financial statements

Covenant House and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2016
(with summarized totals for the year ended June 30, 2015)

	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	2016 Total Expenses	2015 Total Expenses
Salaries and wages	$ 27,054,314	$ 2,601,986	$ 3,454,099	$ 3,599,917	$ 5,590,864	$ 4,875,764	$ 11,915,835	$ 4,802,247	$ 63,895,026	$ 7,895,911	$ 4,912,194	$ 12,808,105	$ -	$ 76,703,131	$ 70,771,744
Payroll taxes	2,458,146	237,166	310,650	348,255	518,600	438,299	1,086,530	357,188	5,754,834	712,985	438,898	1,151,883	-	6,906,717	7,075,868
Employee benefits	4,952,259	499,724	749,157	675,817	910,969	872,479	2,243,792	987,428	11,891,625	1,947,919	734,490	2,682,409	-	14,574,034	13,672,724
Total Salaries and Related Expenses	34,464,719	3,338,876	4,513,906	4,623,989	7,020,433	6,186,542	15,246,157	6,146,863	81,541,485	10,556,815	6,085,582	16,642,397	-	98,183,882	91,520,336
Faith Community costs	101,075	3,478	20,062	4,361	31,402	1,155	36,044	-	197,577	-	-	-	-	197,577	179,889
Contributed legal services	139,467	13,969	5,065	9,870	33,476	10,461	41,572	-	253,880	947,886	-	947,886	-	1,201,766	329,221
Contributed public service announcement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	160,153
Accounting fees	66,242	11,182	6,460	26,780	34,825	5,628	52,314	136,479	339,910	747,367	1,684	749,051	-	1,088,961	1,022,423
Legal fees	70,434	9,498	3,313	8,913	38,843	2,960	43,191	29,693	206,845	33,551	5,832	39,383	-	246,228	490,139
Medical fees	43,660	485	5,018	203,083	14,786	44	59,603	-	326,679	36	9	45	-	326,724	324,850
Consulting fees	437,568	53,503	35,595	108,004	204,194	1,077,629	154,961	1,166	2,072,620	256,072	573,294	829,366	-	2,901,986	2,524,043
Supplies	553,305	29,841	52,584	303,671	110,081	42,377	227,250	391,837	1,710,946	206,365	138,106	344,471	22,415	2,077,832	1,938,343
Telephone	298,695	48,509	39,914	53,180	71,626	62,586	174,363	56,356	805,229	238,142	48,363	286,505	-	1,091,734	1,178,130
Postage and printing	283,625	26,833	40,813	16,865	52,307	5,649,690	93,380	5,488	6,169,001	320,337	12,042,340	12,362,677	23,019	18,554,697	18,656,179
Fuel and utilities	1,239,997	81,314	151,768	62,738	272,485	106,077	616,469	197,170	2,728,018	191,357	52,005	243,362	-	2,971,380	3,051,478
Repairs and maintenance	968,884	36,168	164,301	50,729	182,516	26,148	385,696	134,048	1,948,490	136,954	38,257	175,211	-	2,123,701	2,011,360
Rent and other	439,737	47,761	60,356	38,325	108,022	411,564	886,910	120	1,992,795	505,930	126,580	632,510	38	2,625,343	2,421,231
Equipment	569,545	45,676	50,100	64,108	138,919	74,517	210,578	51,650	1,205,093	196,638	45,786	242,424	4,840	1,452,357	1,360,298
Travel and transportation	483,353	82,064	63,472	22,552	190,490	75,385	162,569	93,613	1,173,498	180,331	71,503	251,834	34	1,425,366	1,170,188
Specific Assistance to Individuals															
Food	2,070,469	114,777	245,525	53,303	197,063	15,638	704,000	284	3,401,059	15,260	1,762	17,022	83,051	3,501,132	3,815,637
Medical	33,141	722	7,090	226,618	19,427	-	24,212	-	311,210	95	120	215	-	311,425	366,338
Contributed medical	-	-	-	129,417	37,572	-	-	-	166,989	-	-	-	-	166,989	24,890
Clothing, allowance and other	1,355,171	94,650	195,160	53,910	461,778	46,151	1,301,639	65,447	3,573,906	30,464	4,498	34,962	501	3,609,369	3,380,975
Contributed clothing and merchandise	584,143	35,324	54,609	59,555	94,473	8,019	186,082	1,913	1,024,118	22,450	63,878	86,328	282,989	1,393,435	1,302,052
Temporary help	425,113	18,847	69,066	60,598	69,617	8,119	108,133	502	759,995	134,237	57,522	191,759	78,552	1,030,306	969,743
Other purchased services	1,818,672	129,216	183,181	171,126	323,180	1,653,687	736,454	702,042	5,717,558	860,171	2,212,293	3,072,464	1,769,508	10,559,530	10,022,318
Dues, licenses, and permits	67,839	14,154	12,883	17,605	15,329	13,683	39,263	4,566	185,322	88,627	25,996	114,623	225	300,170	438,355
Subscriptions and publications	14,635	1,577	2,033	3,290	3,042	12,449	5,502	60	42,588	11,004	21,063	32,067	-	74,655	47,541
Staff recruitment	64,603	7,354	598	2,795	13,689	3,405	22,296	11,282	126,022	106,977	6,384	113,361	-	239,383	198,692
Insurance	717,053	61,466	107,525	72,845	120,095	18,103	352,598	148,220	1,597,905	220,100	33,875	253,975	-	1,851,880	1,738,819
Contributed services	167,836	5,616	1,331	187,121	694,505	510	136,643	61	1,193,623	38,121	41,833	79,954	16,680	1,290,257	1,598,127
Contributed goods	-	-	-	-	-	-	-	-	-	-	4,891	4,891	67,531	72,422	-
Miscellaneous, net	320,085	46,986	35,890	47,918	88,652	74,063	132,017	62,566	808,177	467,024	217,940	684,964	60,712	1,553,853	1,757,328
Bank charges and fees	287,810	21,052	38,672	15,189	35,739	17,278	67,919	228	483,887	198,157	152,073	350,230	5,578	839,695	730,381
Interest	152,300	19,528	14,229	15,509	23,222	5,611	56,836	7,439	294,674	263,267	26,530	289,797	-	584,471	514,703
Loss on foreign currency exchange	20,662	998	-	1,919	793	-	-	999	25,371	9,182	4,297	13,479	-	38,850	31,865
Total Before Depreciation and Amortization	48,259,838	4,401,424	6,180,519	6,715,886	10,702,581	15,609,479	22,264,651	8,250,092	122,384,470	16,982,917	22,104,296	39,087,213	2,415,673	163,887,356	155,276,025
Depreciation and amortization	2,804,732	274,707	174,521	113,637	687,925	738,681	1,168,829	192,296	6,155,328	1,075,930	305,618	1,381,548	-	7,536,876	7,792,070
Total Functional Expenses	51,064,570	4,676,131	6,355,040	6,829,523	11,390,506	16,348,160	23,433,480	8,442,388	128,539,798	18,058,847	22,409,914	40,468,761	2,415,673	171,424,232	163,068,095
Less direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	-	2,415,673	2,415,673	2,183,499
Total Expenses Reported by Function on Statement of Activities	$ 51,064,570	$ 4,676,131	$ 6,355,040	$ 6,829,523	$ 11,390,506	$ 16,348,160	$ 23,433,480	$ 8,442,388	$ 128,539,798	$ 18,058,847	$ 22,409,914	$ 40,468,761	$ -	$ 169,008,559	$ 160,884,596

See notes to consolidated financial statements

Covenant House and Affiliates

Consolidated Statements of Cash Flows
Year Ended June 30, 2016
(with comparative amounts for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (14,841,966)	$ (16,041,982)
Adjustments to reconcile change in net assets to net cash from operating activities		
Discount on contributions receivable	(1,886)	(4,367)
Amortization of customer lists	955,117	823,035
Contributed inventory, net	-	134
Realized and unrealized losses on investments	444,740	315,369
Contributed investments	(59,334)	(27,893)
Gain on property held for sale	(490,760)	-
Loss on disposal of property, plant and equipment	283	2,150,899
Impairment of property held for sale	100,000	-
Contributed property, plant, and equipment	(120,500)	(41,057)
Change in value of beneficial interest in trusts	48,980	422,793
Amortization of deferred revenue and loan discount	(271,132)	758,723
Deferred rent	(240,433)	(240,433)
Change in value of split interest agreements	421,448	60,858
Accretion of interest on conditional asset retirement obligation	11,022	10,715
Pension benefits liability adjustment	6,678,855	4,317,233
Depreciation and amortization	6,581,759	6,955,611
Amortization of deferred financing costs	13,424	13,424
Adjustment for excess accummulated depreciation	(46,552)	-
Bad debt expense	161,738	368,068
Foreign currency translation adjustment	1,833,064	5,595,320
Changes in operating assets and liabilities		
Contributions receivable	(1,895,708)	(2,150,558)
Grants receivable	(1,214,901)	677,205
Prepaid expenses and other assets	62,933	50,931
Beneficial interests in trusts	99,908	28,753
Accounts payable and accrued expenses	2,263,161	1,752,774
Deferred revenue	(238,403)	(117,019)
Other liabilities	(86,356)	(272,974)
Net Cash from Operating Activities	168,501	5,405,562
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	107,240	545,585
Repayment of note receivable	-	52,400
Purchase of customer lists	(1,518,537)	(1,103,263)
Purchases of investments	(23,943,299)	(21,143,314)
Sales of investments	23,491,973	19,681,921
Proceeds from property held for sale	1,533,764	-
Capital expenditures	(4,683,720)	(6,187,762)
Proceeds from sale of property	4,150	-
Net Cash from Investing Activities	(5,008,429)	(8,154,433)

See notes to consolidated financial statements

Covenant House and Affiliates

Consolidated Statements of Cash Flows
(continued)
Year Ended June 30, 2016
(with comparative amounts for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in deposits held with bond trustee	$ -	$ (9,120)
Borrowings under line of credit and other obligations	20,160,439	7,550,000
Repayments of line of credit and other obligations	(15,425,748)	(5,962,092)
Principal payments under capital lease obligations	(214,362)	(164,088)
Payment of annuity obligations	(656,676)	(572,277)
Additions to gift annuity arrangements	1,212,783	284,189
Deferred gain on sale leaseback of the Building	490,760	-
Net Cash from Financing Activities	5,567,196	1,126,612
Net Change in Cash and Cash Equivalents	727,268	(1,622,259)
CASH AND CASH EQUIVALENTS		
Beginning of year	21,093,362	22,715,621
End of year	$ 21,820,630	$ 21,093,362
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 479,042	$ 506,155
Assets acquired under capital lease obligations	472,477	218,718

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, counseling, medical attention, crisis intervention, public education and other services to approximately 47,000 and 51,000 runaway and homeless youths during fiscal 2016 and 2015.

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:

Alianza de Honduras
Asociación La Alianza (Guatemala)
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.

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"). The activities of CHH are included in the consolidated financial statements of the Organization. All significant inter-company balances and transactions have been eliminated.

1. Organization and Tax Status *(continued)*

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 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 of Covenant House (Parent) to provide youths in the programs with needed medical attention.

Community Service Center
The community service center program provides comprehensive services to youths who have left affiliated crisis centers of Covenant House (Parent), 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.

1. Organization and Tax Status *(continued)*

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.

Components of Program and Supporting Services (continued)

Program Services (continued)

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.

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

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.

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.

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

Contributions (continued)

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.

Loans Receivable

Loans receivable consist solely of amounts loaned to Covenant House affiliates for working capital and capital improvements and are carried at net realizable value. These loans may or may not bear interest. Interest-bearing loans accrue interest based upon rates stated in the respective promissory note or based on the rates in effect on the JPMorgan Chase Bank ("Chase") line of credit, which ranged from 1.35% to 1.62% during fiscal 2016 and 1.31% to 1.35% during fiscal 2015.

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 2016 and 2015 Covenant House recognized $0 and $160,153 of contributed public service announcements.

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.

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.

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

School Management Fees

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

Marketable equity securities and debt obligations are carried at fair value based on quoted market values. Non-exchange traded alternative investments are based on valuations provided by the respective external investment manager or general partner. 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 original maturities greater than three months that are not debt securities and are carried at amortized cost.

Allowance for Loan Losses

Due to the uncertainty surrounding collection, management provides an allowance for doubtful accounts based on the consideration of the type of receivable, responsible party, the known financial condition of the respective party, historical collection patterns and comparative aging. These allowances are maintained at a level management considers adequate to provide for potential uncollectible accounts. These estimates are reviewed periodically and, if the financial condition of a party changes significantly, management will evaluate the recoverability of any receivables from that organization/individual and write-off any amounts that are no longer considered to be recoverable. Any payments subsequently collected on such receivables are recorded as income in the period received. As of June 30, 2016 and 2015, no allowance for loan losses was determined to be necessary.

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 $100,000 and $0 for the years ended June 30, 2016 and 2015.

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.

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

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

Split-Interest Agreements (continued)

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 and $403,352 at June 30, 2016 and 2015, and primarily relates to required future asbestos remediation expected to occur in the next 3 to 5 years. For the years ended June 30, 2016 and 2015, depreciation expense recorded on the related asset totaled $2,362 for both years. Accretion of interest related to these obligations in fiscal 2016 and 2015 totaled $11,022 and $10,715. Covenant House did not incur any payments for asbestos remediation in fiscal 2016 and 2015.

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.

Fair Value of Financial Instruments

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.

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

Fair Value of Financial Instruments (continued)

Beneficial interests in trusts: The fair value of beneficial interests in trusts is 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.

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.

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. Also included in Level 2 are investments measured using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at NAV at the statement of financial position date or in the near term, which Covenant House has determined to be within 90 days.

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. Also included in Level 3 are investments measured using NAV, or its equivalent, that can never be redeemed at NAV at the statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

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

Fair Value of Financial Instruments (continued)

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.

Foreign Currency Translation

Covenant House has determined that the functional currency of certain of its foreign affiliates is the United States dollar and the functional currency of the remaining foreign affiliates is the respective local currency. 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.

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, 2013.

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.

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

In 2016, Covenant House adopted a new GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the statement of financial position as a direct deduction from line of credit and other debt obligations, capital leases. Previously, such costs were included in prepaid expenses and other assets. 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, in accordance with the new guidance.

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

Reclassifications

Certain accounts in the 2015 consolidated financial statements have been reclassified to conform to the current year consolidated financial statement presentation.

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 14, 2017

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 1.79% to 6.75% in 2016 and 2015. At June 30, 2016 and 2015, net receivables are expected to be collected as follows:

	2016	2015
Unconditional Promises Expected to be Collected in:		
Less than one year	$10,507,957	$8,719,927
Within five years	-	45,225
Thereafter	624,086	625,748
	11,132,043	9,390,900
Less: discount to present value	(57,802)	(59,468)
Less: reserve for uncollectible accounts	(135,906)	(128,953)
	$10,938,335	$9,202,479

During fiscal 2016 and 2015, 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. Government Grants Receivable

Government grants receivable of $5,509,591 and $4,294,690 at June 30, 2016 and 2015 are expected to be collected within one year. As of June 30, 2016 and 2015, no allowance for doubtful discounts 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”).

5. Notes Receivable *(continued)*

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 purchased for purposes of generating fundraising contributions. At June 30, 2016 and 2015 the cost of the customer lists amounted to $5,763,348 and $4,244,811. Accumulated amortization at June 30, 2016 and 2015 amounted to $2,773,605 and $1,818,488.

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

2017	$ 987,705
2018	793,706
2019	606,454
2020	411,785
2021	190,093
	$ 2,989,743

7. Investments

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

	2016	2015
Cash and cash equivalents	$ 4,153,452	$ 4,316,388
Common stocks	3,673,930	3,467,195
U.S. government securities	1,495,392	1,699,319
Foreign government securities	1,459,946	2,020,903
Corporate debt securities	6,342,838	5,972,186
Mutual funds	34,748,077	32,914,751
Funds of funds	365,434	574,172
Total Investments	$ 52,239,069	$ 50,964,914

Investment management fees of approximately $82,000 and $85,000 are netted with interest and dividends income in the accompanying consolidated statement of activities for the years ended June 30, 2016 and 2015.

Covenant House's certificates of deposit of $2,743,841 and $3,952,076 as of June 30, 2016 and 2015, are classified as investments, other in the accompanying consolidated statement of financial position. These do not qualify as securities as defined by the guidance, and as such, fair value disclosures are not provided.

7. Investments *(continued)*

Covenant House (Parent) invests in certain alternative investments classified as "funds of funds." Through these investments, 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. Terms and conditions of these investments, including liquidity provisions, are different for each fund. Certain alternative investments are not readily marketable as they are not exchange traded investments. The estimated fair value of these alternative investments is subject to uncertainty and, therefore, may differ from the value that would have been reflected had a ready market for such investments existed.

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

	2016			
	Level 1	Level 2	Level 3	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

	2015			
Investments:				
Common stocks	$ 3,467,195	$ -	$ -	$ 3,467,195
U.S. government securities	1,699,319	-	-	1,699,319
Foreign government securities	2,020,903	-	-	2,020,903
Corporate debt securities	2,124,992	3,847,194	-	5,972,186
Mutual Funds:				
Stocks	25,082,507	-	-	25,082,507
Bonds	2,617,472	-	-	2,617,472
Combined	5,214,772	-	-	5,214,772
Funds of funds	-	-	574,172	574,172
Total Investments at Fair Value	$ 42,227,160	$ 3,847,194	$ 574,172	46,648,526
Cash and cash equivalents				4,316,388
Total Investments				$ 50,964,914

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.

7. Investments (*continued)*

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

	2016			
	Beginning Balance at July 1, 2015	Net Realized and Unrealized Losses	Redemptions throughout Fiscal 2016	Ending Balance at June 30, 2016
Funds of funds	$ 574,172	$ (47,622)	$ (161,116)	$ 365,434

	2015			
	Beginning Balance at July 1, 2014	Net Realized and Unrealized Gains	Redemptions throughout Fiscal 2015	Ending Balance at June 30, 2015
Funds of funds	$ 682,927	$ 42,203	$ (150,958)	$ 574,172

Covenant House's policy is to recognize transfers in and transfers out at the end of the reporting period.

Covenant House (Parent) is in the process of liquidating its interests in its funds of funds. The proceeds will be reinvested according to a revised investment strategy adopted by Covenant House's Board of Directors. As of the date these consolidated financial statements were available to be issued, amounts redeemed by Covenant House pertaining to these funds of funds during fiscal 2017 amounted to $20,381.

Covenant House uses the 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:

2016							
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	$ 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

2015							
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	$ 574,172	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:

	2016	2015
Buildings	$ 107,123,599	$ 131,346,229
Building improvements	43,220,221	19,071,731
Equipment, furniture and vehicles	24,623,494	23,280,288
Equipment acquired under capital lease obligations	1,502,775	1,113,572
Leasehold improvements	15,538,585	15,180,674
Construction in progress	1,480,085	624,153
	193,488,759	190,616,647
Less: accumulated depreciation and amortization	(91,083,503)	(85,259,413)
	102,405,256	105,357,234
Land	24,806,581	24,950,610
Property, plant and equipment, net	$ 127,211,837	$ 130,307,844
Property held for sale	$ 271,423	$ 1,414,427

Accumulated depreciation and amortization on equipment acquired under capital lease obligations amounted to $676,727 and $755,394 at June 30, 2016 and 2015.

Depreciation and amortization expense amounted to $6,581,759 and $6,955,611 for the years ended June 30, 2016 and 2015.

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, 2016	Maturity Date	Interest Rate (per annum) at June 30, 2016	Debt Obligation at June 30, 2015
CH Parent Entity	CIT/Avaya Financial Services	$ 40,053	4/24/2020	1.35%	$ 49,155
CH Parent Entity	JPMorgan Chase Bank	12,000,000	8/31/2017	1.50%	7,500,000
CH Parent Entity	Production Mail Solutions Financing Lease	64,188	3/31/2018	3.41%	99,186
CH Parent Entity	GE Capital Corp	-	4/30/2016	1.33%	8,240
CH Alaska/CH Holdings LLC	Wells Fargo Community Development Enterprise Round 8 Subsidiary 7, LLC (Loan A)	5,277,000	6/6/2020	.744% per annum	5,277,000
CH Alaska/CH Holdings LLC	Brownfield Revitalization (Loan A)	4,521,600	6/6/2020	.744% per annum	4,521,600
CH Alaska/CH Holdings LLC	Consortium America (Loan A)	3,014,400	6/6/2020	.744% per annum	3,014,400
CH Alaska/CH Holdings LLC	Wells Fargo Community Development Enterprise Round 8 Subsidiary 7, LLC (Loan B)	2,223,000	10/1/2042	.744% per annum	2,223,000
CH Alaska/CH Holdings LLC	Brownfield Revitalization (Loan B)	1,358,400	10/1/2042	.744% per annum	1,358,400
CH Alaska/CH Holdings LLC	Consortium America (Loan B)	905,600	10/1/2042	.744% per annum	905,600
CH California	NEC	61,046	2/28/2021	5.90%	-
CH California	Bank of the West	1,393,015	9/23/2023	4.77%	1,426,930
CH California	Great American Leasing Co.	246,006	6/30/2020	1.94%	-
CH California	De Lage Financial Services	43,588	4/30/2019	3.00%	56,606
CH California	Super Laundry	16,172	2/28/2018	3.00%	25,495
CH California	Mail Finance	2,994	10/19/2017	5.99%	3,596
CH Florida	Great American Leasing Co.	51,440	3/9/2019	6.00%	68,144
CH Georgia	Private Bank of Buckhead	-	7/20/2017	5.63%	278,960
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	0.00%	654,400
CH New Jersey	Bank of America	195,000	2/28/2017	Libor + 3.5%	-
CH New York/Under 21	CIT/Avaya Financial Services	-	12/9/2015	0.00%	7,439
CH New York/Under 21	CIT/Avaya Financial Services	64,164	12/3/2019	2.90%	-
CH New York/Under 21	Konica Minolta Business Solutions	-	2/6/2016	2.87%	1,818
CH New York/Under 21	Pitney Bowes Global Financial Services LLC	7,869	11/17/2017	2.90%	13,575
CH New York/Under 21	Konica Minolta Business Solutions	103,106	6/7/2020	2.90%	109,257
CH Pennsylvania/Under 21	Citizens Bank	2,389,600	4/1/2021	30 day Libor +2%	2,440,000
CH Washington, D.C.	PNC Bank	332,236	1/27/2030	6.00%	351,673
CH Vancouver	BC Housing/Proposal Development Funding	422,403	Payable on demand	1% per annum	-
		37,730,111			32,737,305
Less: Deferred financing costs		(95,620)			(109,044)
		$ 37,634,491			$ 32,628,261

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

Covenant House (Parent) has an unsecured line of credit agreement with JPMorgan Chase Bank to borrow up to an aggregate amount of $15 million. Interest on outstanding borrowings is payable at the one-month LIBOR rate plus additional percentage points as defined in the agreement, which were 1.65% and 1.35% at June 30, 2016 and 2015. Amounts drawn down from this credit facility are payable on or before August 31, 2017.

Total drawdowns under the unsecured line of credit agreement with Chase totaled $17.75 million and $7.55 million during the years ended June 30, 2016 and 2015. Total repayments on the line of credit were $13.25 million and $5.2 million in fiscal 2016 and 2015.

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

	2016	2015
The Parent	$ 11,227,809	$ 6,727,809
Under 21 Covenant House New York	522,191	522,191
Covenant House Georgia	250,000	250,000
	$ 12,000,000	$ 7,500,000

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 interests 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 broadly in the accompanying consolidated statement of financial position. Interest accrues on the Loan A 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. 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 maturing on September 23, 2023.

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.

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

The monthly payment of principal and interest was adjusted so that the payment will be equal to monthly installments of principal and interest computed on the revised outstanding principal balance. This note was collateralized by the property purchased. The full and prompt payment of this note was guaranteed by Covenant House (Parent).

The Michigan affiliate maintains a revolving line of credit with a bank, maturing on demand, to borrow up to an aggregate amount of $250,000. This debt is secured by assets of the Michigan affiliate. There were no borrowings during fiscal years 2016 and 2015.

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 $262,842 and $259,319 at June 30, 2016 and 2015. 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 2016 and 2015, the project ran a deficit; as such principal will be deferred until the end of the mortgage term. 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 $147,062 and $144,970 at June 30, 2016 and 2015. 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 2016 and 2015, 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, 2016 and 2015. 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 and capitalized as deferred financing costs on the accompanying consolidated statement of financial position, and the balance of $182,261 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, 2016 and 2015, the escrow amount held with the trustee totaled $95,984 and $93,395. 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 2016 and 2015, the project ran a deficit; as such no principal payments were made. 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, 2016 and 2015. 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 2016 and 2015, the project ran a deficit; as such no principal or interest 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 New Jersey Housing and Mortgage Finance Agency ("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 $17,644 and $16,711 at June 30, 2016 and 2015. 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 2016 and 2015, the project ran a deficit: as such no principal payments were made. If it is determined at the maturity of the mortgage that the New Jersey affiliate cannot repay and if all mortgage terms and conditions have been met, NJMFA may extend or refinance the mortgage. The property serves as collateral for the mortgage.

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

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, 2017. 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 $195,000 and $0 at June 30, 2016 and 2015. Interest expense for fiscal 2016 and 2015 amounted to $18,443 and $22,464.

In October 2010, the Pennsylvania affiliate refinanced its loan payable due to Covenant House (Parent) with a term loan from Citizens Bank. 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 2.4% and 1.9% at June 30, 2016 and 2015). 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, 2016 and 2015 was $2,389,600 and $2,440,000.

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 2016 and 2015, 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, 2016, the outstanding balance of the loan was CAD $547,380 (US $422,403).

The Washington, D.C. affiliate has a term loan with a principal amount of $397,742, which is secured by a Deed of Trust on the underlying property located at New York Avenue, Washington, D.C. The outstanding balance was $332,236 and $351,673 as of June 30, 2016 and 2015.

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, 2016 and 2015 amounted to approximately $701,000 and $443,000.

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

The following summarizes the scheduled loan and capital lease obligation payments due in future years at June 30, 2016:

2017	$ 12,534,656
2018	318,747
2019	274,165
2020	13,467,825
2021	2,263,632
Thereafter	8,913,984
	37,773,009
Less: amount representing interest	(42,898)
Less: deferred financing costs	(95,620)
	$ 37,634,491

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, 2016	Unamortized Balance at June 30, 2015
CH California	State of California Department of Housing and Community Development	$ 841,026	$ 1,067,260
CH New Jersey	U.S. Department of Housing and Urban Development passed through the State of New Jersey Department of Community Affairs	800,000	800,000
CH New Jersey	New Jersey Department of Community Affairs Department of Human Services	219,075	262,890
CH New Jersey	State of New Jersey Department of Human Services	10,838	11,921
Various	Various	675,886	423,529
		$ 2,546,825	$ 2,565,600

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, 2016 and 2015 ranged from 1.49% to 2.00%. 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. At June 30, 2015, obligations due under split-interest agreements relating to charitable remainder trusts and charitable gift annuities were approximately $1,137,000 and $3,467,000. As of June 30, 2016 and 2015, approximately $8,054,000 and $6,121,000 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 $3,883,000 and $4,136,000 at June 30, 2016 and 2015. Other trusts with a defined time frame (term trusts) were valued at approximately $1,951,000 and $1,847,000 at June 30, 2016 and 2015. 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:

	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

	2015		
	Level 2	Level 3	Total
Obligations due under split-interest agreements	$ 4,603,957	$ -	$ 4,603,957
Beneficial interests in trusts	$ -	$ 5,983,418	$ 5,983,418

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:

	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	$ (5,675)	$ (60,443)	$ (82,770)	$ 5,834,530

	2015				
	Beginning Balance at July 1, 2014	Additions of Trusts	Change in Fair Value	Distribution from Termination of Trusts	Ending Balance at June 30, 2015
Beneficial interests in trusts	$ 6,434,964	$ 93,734	$ (422,793)	$ (122,487)	$ 5,983,418

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's policy was 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 defined benefit 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:

	2016	2015
Change in benefit obligation:		
Projected benefit obligation, beginning of year	$ 45,829,635	$ 42,977,351
Service cost	303,630	210,166
Interest cost	2,162,899	1,869,262
Actuarial loss	6,684,893	3,001,185
Benefits paid	(3,273,616)	(2,228,329)
Projected benefit obligation, end of year	$ 51,707,441	$ 45,829,635
Change in Plan assets:		
Fair value of Plan assets, beginning of year	$ 31,732,323	$ 33,291,967
Actual return on Plan assets	2,474,151	668,685
Benefits paid	(3,273,616)	(2,228,329)
Fair value of Plan assets, end of year	$ 30,932,858	$ 31,732,323
Funded status, end of year	$ (20,774,583)	$ (14,097,312)
Accumulated benefit obligation	$ 51,707,441	$ 45,829,635
Amounts included in unrestricted net assets:		
Unrecognized actuarial loss	$ 18,911,808	$ 14,045,364
Components of the net periodic pension cost (benefit):		
Service cost	$ 303,630	$ 210,166
Interest cost	2,162,899	1,869,262
Expected return on plan assets	(2,135,116)	(2,245,947)
Amortization of actuarial loss	1,479,414	710,525
Net periodic pension cost	$ 1,810,827	$ 544,006
Other changes recognized in unrestricted net assets:		
Actuarial loss incurred during the year	$ 6,345,858	$ 4,578,447
Amortization of actuarial loss	(1,479,414)	(710,525)
Pension related activity, other than net periodic pension cost	$ 4,866,444	$ 3,867,922
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	$ 1,900,562	$ 1,290,914
Weighted-average Assumptions:		
Discount rate - benefit obligation	4.02%	4.70%
Discount rate - net periodic pension cost	4.70%	4.56%
Expected long-term rate of return on Plan assets	7.00%	7.00%
Average rate of increase in compensation levels	N/A	N/A

12. Pension Plans *(continued)*

Employer contributions to the Plan for the years ended June 30, 2016 and 2015 were $0. Plan benefits expected to be paid in the following fiscal years are as follows:

2017	$ 1,894,878
2018	1,614,462
2019	1,478,949
2020	1,943,722
2021	2,842,869
2022-2025	12,346,887

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

	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

	2015		
	Level 1	Level 2	Total
Fixed income mutual funds	$ 26,637,831	$ -	$ 26,637,831
Equity mutual funds	4,998,692	-	4,998,692
Pooled separate accounts	-	95,800	95,800
Total Plan Assets	$ 31,636,523	$ 95,800	$ 31,732,323

12. Pension Plans *(continued)*

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:

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	N/A

2015

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Pooled separate accounts	Long-term growth	$ 95,800	1	Subject to the determination of the respective fund manager	$ -	Daily upon notice	N/A

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

	2016	2015
Fixed income mutual funds	84 %	84 %
Equity mutual funds	15 %	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. Prior to January 1, 2012, Covenant House (Parent) matched 50% of employee contributions to the 403(b) plan up to the first 6% of employee contributions. 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's (Parent) 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 $2,088,000 and $2,142,000 for the years ended June 30, 2016 and 2015. Total employer contributions due to the 403(b) plan are approximately $1,899,000 and $1,921,000 at June 30, 2016 and 2015, and are included in pension benefits liability in the accompanying consolidated statement of financial position.

12. Pension Plans *(continued)*

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 $46,000 and $21,000 for the years ended June 30, 2016 and 2015. Covenant House (Parent) obligations under the 457(b) plan are approximately $287,000 and $196,000 at June 30, 2016 and 2015, and are included in pension benefits liability in 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 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. Long-term investments designated for the deferred compensation plan was $101,998 at June 30, 2015. 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 2016 and 2015, the expense for the Group RRSP totaled approximately CAD $431,000 and CAD $424,000. Total employer contributions due to the Toronto affiliate's Group RRSP amounted to approximately CAD $29,000 and $23,000 at June 30, 2016 and 2015 and are included in pension benefits liability in the accompanying consolidated statements of financial position.

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 2016 and 2015 totaled approximately CAD $228,000 and CAD $235,000. There are no employer contributions due to the Vancouver affiliate's defined contribution pension plan at June 30, 2016 and 2015.

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:

	2016	2015
Purpose Restrictions:		
Program	$ 6,724,217	$ 3,024,173
Capital	2,304,074	158,420
Total Program Restrictions	9,028,291	3,182,593
Time Restrictions:		
Beneficial interest in trusts	1,618,526	1,509,082
Other split-interest agreements	2,073,983	1,113,376
Other time restrictions	6,510,010	5,849,913
Total Time Restrictions	10,202,519	8,472,371
	$ 19,230,810	$ 11,654,964

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:

	2016	2015
Purpose restrictions	$ 2,986,438	$ 1,602,285
Time restrictions	823,650	888,913
	$ 3,810,088	$ 2,491,198

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.

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

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.

The following details endowment net asset composition, excluding third-party perpetual trusts of approximately $3,883,000 and $4,136,000 as of June 30, 2016 and 2015.

	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

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

	2015			
Composition of Endowment Net Assets by Type of Fund	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment fund	$4,570,719	$ -	$ -	$ 4,570,719
Donor-restricted endowment funds	-	2,502,625	5,247,064	7,749,689
	$4,570,719	$2,502,625	$5,247,064	$12,320,408
Changes in Endowment Net Assets				
Endowment Net Assets, Beginning of Year	$1,829,792	$2,356,991	$5,247,064	$ 9,433,847
Investment Return:				
Investment income	34,587	136,611	-	171,198
Net appreciation (depreciation) (realized and unrealized)	(44,528)	9,023	-	(35,505)
Appropriation of endowment assets for expenditure	(10,993)	-	-	(10,993)
Contributions	2,761,861	-	-	2,761,861
Endowment Net Assets, End of Year	$4,570,719	$2,502,625	$5,247,064	$12,320,408

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 $3,168,000 and $3,017,000 incurred during fiscal 2016 and 2015, approximately $2,400,000 and $2,327,000 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, 2016 are as follows:

2017	$ 3,016,247
2018	1,868,890
2019	1,731,624
2020	1,701,206
2021	1,680,800
Thereafter	1,402,501
	$ 11,401,268

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.

16. Commitments and Contingencies *(continued)*

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 $289,086 and $292,487, is reported in prepaid expenses and other assets on the accompanying consolidated statement of financial position at June 30, 2016 and 2015. 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.

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. Restatement

In 2016, the New York affiliate corrected the reporting on its financial statements for a beneficial interest in a perpetual trust (the "Trust"), which was previously not reported. As a result, previously reported permanently restricted net assets at July 1, 2014 increased by $2,495,233. At June 30, 2015 the value of the trust decreased to $2,274,977. The consolidated statement of activities for the year ended June 30, 2015 was corrected to report a decrease in permanently restricted net assets of $220,256.

18. Subsequent Events

On August 13, 2016, the Toronto affiliate signed a 21 year lease for a house with Toronto Community Housing Corporation. The lease has a one renewal period for a five year term commencing August 13, 2037. The lease is provided to the affiliate as a contribution in kind with a fair value of approximately CAD $1.2 million.

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