

Covenant House California

Financial Statements

June 30, 2016

Independent Auditors' Report

Board of Directors Covenant House California

We have audited the accompanying financial statements of Covenant House California ("CHC"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House California as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Covenant House California's June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 9, 2015. 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 financial statements from which it has been derived.

PKF O'Connor Davies, LLP

October 12, 2016

Covenant House California

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

	June 30,	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 396,271	\$ 200,644
Contributions receivable, net	322,672	361,044
Grants receivable	187,428	228,999
Due from Parent	62,709	-
Inventory and prepaid expenses	77,080	61,122
Investments	1,484,715	2,091,990
Other assets	6,166	7,892
Contributed use of land	130,547	137,510
Property and equipment, net	<u>11,097,702</u>	<u>11,263,690</u>
	<u>\$ 13,765,290</u>	<u>\$ 14,352,891</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 563,441	\$ 704,189
Due to Parent	-	9,311
Deferred revenue	841,026	1,067,260
Capital lease obligations	369,806	85,697
Note payable	<u>1,393,015</u>	<u>1,426,930</u>
Total Liabilities	<u>3,167,288</u>	<u>3,293,387</u>
Net Assets		
Unrestricted	10,311,454	10,886,149
Temporarily restricted	<u>286,548</u>	<u>173,355</u>
Total Net Assets	<u>10,598,002</u>	<u>11,059,504</u>
	<u>\$ 13,765,290</u>	<u>\$ 14,352,891</u>

See notes to financial statements

Covenant House California

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

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE				
Contributions from individuals, foundations and corporations, including legacies and bequests of \$796,313 and \$523,965 in 2016 and 2015	\$ 2,853,234	\$ 156,000	\$ 3,009,234	\$ 1,935,184
Contributed services and merchandise	717,999	-	717,999	535,140
Government grants and contracts	1,891,641	-	1,891,641	1,544,442
Support from Parent - Branding Dollars from Parent	2,270,000	-	2,270,000	2,345,000
Grants from Parent Related to National Sleep Out Event	153,234	-	153,234	136,037
Special events revenue, net of direct benefit to donor costs of \$100,801 and \$66,932 in 2016 and 2015	608,080	-	608,080	528,003
Total Support and Revenue	<u>8,494,188</u>	<u>156,000</u>	<u>8,650,188</u>	<u>7,023,806</u>
INVESTMENT AND OTHER INCOME				
Investment Income				
Interest and dividends	54,989	-	54,989	94,505
Unrealized loss	(32,383)	-	(32,383)	(65,144)
Realized gains	9,571	-	9,571	20,087
Other income	81,356	-	81,356	83,064
Total Investment and Other Income	<u>113,533</u>	<u>-</u>	<u>113,533</u>	<u>132,512</u>
Total Support, Revenue, Investment and Other Income Before Net Asset Released	8,607,721	156,000	8,763,721	7,156,318
Net assets released from restrictions	<u>42,807</u>	<u>(42,807)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, Investment and Other Income	<u>8,650,528</u>	<u>113,193</u>	<u>8,763,721</u>	<u>7,156,318</u>
EXPENSES				
Program services	8,636,897	-	8,636,897	8,322,369
Supporting Services				
Management and general	293,615	-	293,615	282,585
Fundraising	294,711	-	294,711	287,483
Total Expenses	<u>9,225,223</u>	<u>-</u>	<u>9,225,223</u>	<u>8,892,437</u>
Change in Net Assets	(574,695)	113,193	(461,502)	(1,736,119)
NET ASSETS				
Beginning of year	<u>10,886,149</u>	<u>173,355</u>	<u>11,059,504</u>	<u>12,795,623</u>
End of year	<u>\$ 10,311,454</u>	<u>\$ 286,548</u>	<u>\$ 10,598,002</u>	<u>\$ 11,059,504</u>

See notes to financial statements

Covenant House California

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

	2016													2015 Total Expenses
	Program Services						Total Program Services	Supporting Services		Total Supporting Services	Direct Benefit to Donors	Total Expenses		
	Shelter and Crisis Care	Outreach	Medical Services	Community Service Center	Public Education	Rights of Passage		Management and General	Fundraising					
Salaries	\$ 1,709,261	\$ 280,331	\$ 191,025	\$ 392,648	\$ 51,056	\$ 1,373,509	\$ 3,997,830	\$ 77,973	\$ 131,897	\$ 209,870	\$ -	\$ 4,207,700	\$ 4,139,872	
Payroll taxes	147,656	22,387	15,585	33,811	2,693	117,829	339,961	5,392	10,529	15,921	-	355,882	357,034	
Employee benefits	273,536	61,478	28,067	67,485	1,622	331,125	763,313	5,851	11,140	16,991	-	780,304	853,471	
Total Salaries and Related Expenses	2,130,453	364,196	234,677	493,944	55,371	1,822,463	5,101,104	89,216	153,566	242,782	-	5,343,886	5,350,377	
Contributed legal services	115,868	3,600	3,600	14,400	-	18,000	155,468	3,600	-	3,600	-	159,068	161,152	
Accounting fees	20,250	2,250	2,250	4,500	-	11,250	40,500	4,500	-	4,500	-	45,000	68,665	
Legal fees	43,500	6,272	7,542	31,272	-	33,179	121,765	-	-	-	-	121,765	14,209	
Consulting fees	47,177	5,927	4,500	19,426	-	23,926	100,956	4,500	3,567	8,067	-	109,023	122,423	
Medical fees	-	-	15,750	-	-	-	15,750	-	-	-	-	15,750	18,690	
Supplies	18,531	1,894	1,642	7,262	237	12,569	42,135	1,428	14,962	16,390	-	58,525	55,436	
Telephone	10,121	2,422	1,077	4,428	-	12,990	31,038	1,017	-	1,017	-	32,055	32,409	
Postage and printing	21,266	2,954	2,526	5,138	188	12,903	44,975	765	22,613	23,378	-	68,353	84,728	
Occupancy														
Fuel and utilities	82,166	10,064	6,699	35,465	-	63,056	197,450	6,661	-	6,661	-	204,111	192,252	
Repairs and maintenance	41,584	5,944	6,779	12,431	-	27,265	94,003	1,724	-	1,724	-	95,727	68,371	
Contributed facilities	2,785	348	348	1,392	-	1,741	6,614	348	-	348	-	6,962	6,706	
Rent and other	5,288	266	266	1,064	-	113,373	120,257	264	-	264	-	120,521	105,341	
Equipment	49,958	5,208	5,135	19,975	-	33,214	113,490	5,002	3,504	8,506	-	121,996	138,879	
Travel and transportation	26,333	2,004	1,399	1,989	1,040	15,775	48,540	675	2,817	3,492	-	52,032	43,562	
Conferences, conventions and meetings	10,501	964	1,043	1,817	1,631	4,832	20,788	1,271	809	2,080	-	22,868	10,719	
Special Assistance to Individuals														
Food	155,930	52,141	13,408	38,872	-	147,265	407,616	-	-	-	83,051	490,667	460,599	
Medical	-	-	124,261	-	-	-	124,261	-	-	-	-	124,261	132,652	
Clothing, allowance and other	33,010	10,047	965	67,861	-	25,005	136,888	-	-	-	-	136,888	111,765	
Contributed clothing and merchandise	163,560	20,445	20,445	81,780	-	102,225	388,455	10,222	10,223	20,445	-	408,900	280,496	
Temporary help	13,157	1,486	1,526	2,933	-	7,331	26,433	2,893	-	2,893	-	29,326	121,370	
Other purchased services	141,642	18,730	13,063	55,854	57	89,105	318,451	12,710	72,885	85,595	17,750	421,796	413,856	
Dues, licenses, and permits	3,756	814	686	1,206	-	2,143	8,605	309	539	848	-	9,453	9,567	
Subscriptions and publications	1,228	171	153	199	-	754	2,505	-	564	564	-	3,069	891	
Staff recruitment	15,672	1,390	1,612	3,225	-	11,680	33,579	66	4,095	4,161	-	37,740	48,159	
Insurance	54,466	8,687	2,630	13,422	-	37,973	117,178	2,502	-	2,502	-	119,680	118,966	
Contributed services - other	80,621	1,503	1,503	7,215	-	53,420	144,262	692	3,222	3,914	-	148,176	94,950	
Miscellaneous, net	6,444	717	712	1,425	-	3,537	12,835	1,289	199	1,488	-	14,323	16,111	
Bank charges and fees	-	-	-	-	-	-	-	23,702	-	23,702	-	23,702	25,606	
Interest and loan closing cost	-	-	-	-	-	-	-	112,989	-	112,989	-	112,989	80,098	
Total Functional Expenses Before Depreciation and Amortization	3,295,267	530,444	476,197	928,495	58,524	2,686,974	7,975,901	288,345	293,565	581,910	100,801	8,658,612	8,389,005	
Depreciation and amortization	277,162	98,715	19,083	113,248	411	152,377	660,996	5,270	1,146	6,416	-	667,412	570,364	
Total Functional Expenses	3,572,429	629,159	495,280	1,041,743	58,935	2,839,351	8,636,897	293,615	294,711	588,326	100,801	9,326,024	8,959,369	
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(100,801)	(100,801)	(66,932)	
Total Expenses Reported by Function on Statement of Activities	\$ 3,572,429	\$ 629,159	\$ 495,280	\$ 1,041,743	\$ 58,935	\$ 2,839,351	\$ 8,636,897	\$ 293,615	\$ 294,711	\$ 588,326	\$ -	\$ 9,225,223	\$ 8,892,437	

See notes to financial statements

Covenant House California

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

	Year Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (461,502)	\$ (1,736,119)
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(59,334)	(40,162)
Discount on contributions receivables	(1,886)	(4,367)
Net realized and unrealized loss on investments	22,812	45,057
Amortization of deferred revenue	(226,234)	803,622
Contributed use of land	6,963	6,706
Depreciation and amortization	667,412	570,364
Changes in operating assets and liabilities		
Contributions receivable	40,258	150,670
Grants receivable	41,571	4,727
Inventory and prepaid expenses	(15,958)	(39,046)
Due to/from Parent	(72,020)	(397,136)
Other assets	1,726	2,190
Accounts payable, accrued expenses and refundable advances	(140,748)	169,995
Net Cash from Operating Activities	(196,940)	(463,499)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(550,036)	(521,069)
Proceeds from sales and maturities of investments, net	1,193,833	1,678,513
Purchases of property and equipment	(130,476)	(947,786)
Net Cash from Investing Activities	513,321	209,658
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease obligations	(86,839)	-
Proceeds from capital lease obligations	-	31,607
Payment of debt obligations	(33,915)	(32,495)
Net Cash from Financing Activities	(120,754)	(888)
Net Change in Cash and Cash Equivalents	195,627	(254,729)
CASH AND CASH EQUIVALENTS		
Beginning of year	200,644	455,373
End of year	\$ 396,271	\$ 200,644
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 80,975	\$ 74,097
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired under capital leases	\$ 370,948	\$ 58,669

See notes to financial statements

Covenant House California

Notes to Financial Statements
June 30, 2016

1. Organization and Tax Status

Covenant House California (“CHC” or the “Organization”), a not-for-profit member organization which was incorporated in October 1986, is an affiliate of Covenant House (the “Parent”), providing shelter and crisis care and outreach services to youth in the Los Angeles and Oakland, California areas. The Parent is the sole member of CHC and is itself a private, not-for-profit agency, which, through its affiliates, offers shelter, food, clothing, counseling, medical attention, crisis intervention and other services to over 46,183 (unaudited) and 51,173 (unaudited) runaway and homeless youths during fiscal years ended June 30, 2016 and 2015.

CHC is affiliated with the following additional not-for-profit organizations through common control by the Parent:

- Covenant House Holdings LLC
- Covenant House Alaska
- Covenant House Florida
- Covenant House Georgia
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Toronto
- Covenant House Vancouver
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Testamentum
- Covenant House New York/Under 21
- Covenant International Foundation
- Asociacion Casa Alianza (Guatemala)
- Casa Alianza De Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Fundacion Casa Alianza Mexico, I.A.P.

On March 19, 2016, the Board of Directors of CHC authorized the CEO to enter into a Letter of Intent to merge CHC with another not-for-profit organization, YEAH!. YEAH!’s mission is consistent with that of CHC; providing support homeless young adults (18-25) in Berkeley, CA. YEAH! is a lower barrier access point for youth to transition from the street into Covenant House California’s Oakland program”. CHC would be the surviving entity after the merger. As of October 12, 2016, this merger has not yet been finalized.

CHC operates as a not-for-profit organization and has been recognized by the Internal Revenue Service as an organization exempt from income taxation pursuant to Internal Revenue Code Section 501 (c)(3) on its income other than unrelated business income and has also been recognized by the Franchise Tax Board as exempt from state franchise or income tax pursuant to California Revenue and Taxation Code Section 23701(d) on its income other than unrelated business income.

Components of Program and Supporting Services

Program Services

Shelter and Crisis Care

The Shelter and Crisis Care program provides crisis care, shelter, food, clothing and counseling to abandoned and runaway youths in the Los Angeles and Oakland areas.

Covenant House California

Notes to Financial Statements
June 30, 2016

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Outreach

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

Medical

The *Medical Services* center provides on-site comprehensive emergency medical services to both shelter and outreach youths including medical exams, physical exams, routine laboratory testing, pharmacy services, health education, psychological assessment, HIV/AIDS counseling and testing.

Community Service Center

The *Community Service Center* program provides comprehensive services to youths who left the Covenant House Crisis Center and other youths in the community who need support to maintain themselves in stable living situations. Services provided include substance abuse counseling and employment skills training.

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 help these families to improve their home environment.

Rights of Passage

Rights of Passage/Supportive Apartments provide transitional home services for up to 18 months for youths, which include education, job placement, and housing.

Fundraising

Fundraising services are related to the activities of the development department in raising general and specific contributions.

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.

Direct Benefit to Donors

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

Covenant House California

Notes to Financial Statements
June 30, 2016

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

The Organization maintains its net assets under the following two classes:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain time and donor-imposed restrictions that permit CHC to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of CHC.

There are no permanently restricted net assets.

Revenue Recognition

CHC records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, CHC records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), grants receivable, certain contributed services and gifts of other assets. Multi-year pledges receivable are recorded at present value based on the expected collection date using a risk-adjusted discount rate. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. CHC also raises funds through special events, such as galas. Event revenues, net of related costs with a direct-benefit to donors, are recorded as unrestricted contributions since such funds can be used for general operations unless there are donor-imposed restrictions. Costs to generate restricted and unrestricted donations and grants are expensed as incurred.

As of June 30, 2016 and 2015, the Organization had been approved for a number of government cost reimbursable grants, some of which have conditions stipulated in the grant agreements that have not yet been met. Awards approved that have not been earned as of June 30, 2016 totaled \$2,016,403 and are expected to be received over the next year. Awards approved that have not been earned as of June 30, 2015 totaled \$1,659,289 and were received during the year ended June 30, 2016. Revenue from cost reimbursable grants is recorded to the extent of expenses incurred applicable to the grant.

Covenant House California

Notes to Financial Statements

June 30, 2016

2. Summary of Significant Accounting Policies (continued)

Recognition of Contributions

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge or of cash or other assets. Contributions are considered available for unrestricted use, unless the donors restrict their use. Contributions to be received after one year are discounted at an interest rate commensurate with the risk involved.

Recognition of Contributions (continued)

CHC records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, 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 statements of activities as net assets released from restrictions. It is the Organization's policy to record temporarily restricted contributions received for which the related restrictions are met in the same accounting period in the unrestricted net asset class activity.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and 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. Absent explicit donor restrictions on how long those long-lived assets must be maintained, CHC reflects the expiration of the donor-imposed restriction when the donated or acquired long-lived assets have been placed in service, at which time temporarily restricted net assets are released from restrictions.

Contributed Services, Merchandise, and Use of Land

Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

Contributions of clothing and merchandise are recorded at their estimated fair value at the date of receipt and recognized as inventory and revenue when received and, expensed when the inventory is used.

Covenant House California

Notes to Financial Statements

June 30, 2016

2. Summary of Significant Accounting Policies (continued)

Contributed Services, Merchandise, and Use of Land (continued)

Covenant House Western Avenue ("CHWA") is a separate corporation and an affiliate of CHC. It was established for the purpose to hold land upon which a building for CHC's programs in Los Angeles, California, was constructed. CHC originally entered into an agreement with CHWA to lease the land for twenty years beginning January 1, 2004 at \$1 per year. On September 26, 2011, the agreement was extended, with an effective date of January 1, 2011 (the "effective date") for twenty years beginning on the effective date. All other terms of the agreement remained unchanged. CHC is responsible for all related taxes, repairs and maintenance and utility costs. The use of the land is restricted to accommodate facilities and operations which achieve the Parent's mission. CHC has recorded \$130,547 and \$137,510 as of June 30, 2016 and 2015, as a contribution receivable (contributed use of land) which represents the present value of the remaining lease term using a discount rate of 3.75%.

Allowance for Doubtful Accounts

CHC maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make required payments. Such allowances are estimated based upon several factors including, but not limited to, historical experience and the financial condition of the donor. Uncollectible accounts are written off based upon the amount of time they have been outstanding and management's expected collectability.

Cash and Cash Equivalents

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

Investments and Investment Income

Investments, other than temporary cash investments, are carried at fair value and determined in accordance with the fair value hierarchy.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the change in net assets. Investment income is included as increases and decreases in unrestricted net assets unless its use is temporarily restricted by donors to a specified purpose or for a future period.

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Covenant House California

Notes to Financial Statements
June 30, 2016

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

The Organization follows the practice of capitalizing all expenditures for property, building and equipment with a cost in excess of \$5,000. Property and equipment are recorded at cost if purchased or, if donated, at fair value at the date of gift, less accumulated depreciation and amortization. Furniture and equipment is depreciated on a straight-line basis over the estimated useful life of five years. Buildings and building improvements on lease land are amortized on a straight-line basis over the lesser of the term of the lease or their estimated useful lives. Buildings and building improvements are depreciated on a straight-line basis over 10-30 years. Vehicles are depreciated on a straight-line basis over the estimated useful life of five years. Capital leases, if the lease has an ownership transfer or bargain purchase option at the end of the lease, are to be depreciated over its economic life, otherwise it will be depreciated over the lease term. Repair and maintenance costs are expensed in the period incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an 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 discounted cash flows models, quoted fair values and third-party independent appraisals, as considered necessary. There is no such impairment for the fiscal years ended June 30, 2016 and 2015.

Fair Value of Financial Instruments

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

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2015 is presented for comparative purposes only. The notes to the financial statements and certain activity by net asset classification are not included in these financial statements. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended June 30, 2015, from which the summarized comparative information was derived.

Advertising Costs

Advertising costs are expensed as incurred.

Covenant House California

Notes to Financial Statements
June 30, 2016

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

Reclassifications

Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2013.

Subsequent Events

Management evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 12, 2016.

3. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of investments, cash and cash equivalents and receivables. Investments and cash and cash equivalents are managed within guidelines established by the Board of Directors. As of June 30, 2016, all investments were maintained by large financial institutions. The Organization maintains its cash with established commercial banks. At times, the cash balances exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents. Concentrations of credit risk with respect to receivables are limited due to the fact that receivables are due from a number of donors and grant agencies.

4. Contributions Receivable

Contributions receivable at June 30, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Contributions receivable, gross	\$ 324,558	\$ 363,353
Discount factor of 1.79% to 5.12%	(1,886)	(2,309)
	<u>\$ 322,672</u>	<u>\$ 361,044</u>

Covenant House California

Notes to Financial Statements
June 30, 2016

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2016	2015
Land	\$ 4,139,532	\$ 4,139,532
Buildings and building improvements	5,238,600	5,148,600
Buildings and building improvements on leased land	8,869,141	8,830,920
Furniture and equipment	1,688,137	1,685,882
Vehicles	177,383	177,383
Equipment acquired under capital leases	491,383	120,435
	20,604,176	20,102,752
Accumulated depreciation and amortization (including accumulated amortization on equipment acquired under capital leases of \$89,702 and \$27,151 in 2016 and 2015)	(9,506,474)	(8,839,062)
	\$ 11,097,702	\$ 11,263,690

Depreciation and amortization expense was \$667,412 and \$570,364 for the years ended June 30, 2016 and 2015.

6. Investments

The following are major categories of investments measured at fair value on a recurring basis as of June 30, grouped by the fair value hierarchy for those investments subject to categorization within such hierarchy:

	2016		Total
	Level 1	Level 2	
Mutual funds	\$ 429,649	\$ -	\$ 429,649
Mortgage backed securities	-	228,087	228,087
U.S. Government agencies	359,355	-	359,355
Corporate bonds	-	382,474	382,474
Total Investments at Fair Value	\$ 789,004	\$ 610,561	1,399,565
Cash and cash equivalents, at cost			85,150
Total Investments			\$ 1,484,715

Covenant House California

Notes to Financial Statements
June 30, 2016

6. Investments *(continued)*

	2015		
	Level 1	Level 2	Total
Mutual funds	\$ 608,270	\$ -	\$ 608,270
Mortgage backed securities	-	325,008	325,008
U.S. Government agencies	577,057	-	577,057
Corporate bonds	-	521,065	521,065
Total Investments at Fair Value	\$ 1,185,327	\$ 846,073	2,031,400
Cash and cash equivalents, at cost			60,590
Total Investments			\$ 2,091,990

7. Note Payable

On December 15, 2010, the Organization entered into a \$1,515,000 term loan agreement with Bank of the West, due in monthly aggregate principal and interest payments of \$9,608, with the remaining balance due on December 15, 2020. The note bears interest at a fixed rate of 5.75%. The note is collateralized by a Deed of Trust on the Organization's real property located in Los Angeles, California.

On September 23, 2013, the Organization refinanced its outstanding debt and entered into a \$1,483,000 term loan with the Bank of the West, reducing the interest rate to 4.77% and extending the maturity date to September 23, 2023.

The total amount of interest expense related to the credit arrangement described above is included in management and general expenses in the accompanying statement of activities and totaled \$68,419 and \$69,839 for the years ended June 30, 2016 and 2015.

The term loan matures over the next five years and thereafter as follows for the years ending June 30:

2017	\$ 35,778
2018	37,548
2019	39,404
2020	42,126
2021	43,389
Thereafter	1,194,770
	\$ 1,393,015

Covenant House California

Notes to Financial Statements
June 30, 2016

8. Oakland, California, Property Purchase and Hollywood, California, Crisis Shelter Renovations

In October 2005 and December 2006, CHC was awarded two Emergency Housing Assistance Program ("EHAP") grants of \$1,000,000 and \$480,000, from the state of California through the Department of Housing and Community Development ("DHCD"). The \$1,000,000 grant was received and was used towards the acquisition of a \$3.5 million facility in October 2005 to provide emergency shelter, transitional housing and Rights of Passage ("ROP") programs in Oakland, California. The \$480,000 was awarded for the rehabilitation of the crisis shelter and ROP programs at the Hollywood, California facility.

Pursuant to the facility-use restrictions clause and other terms of the DHCD agreements, the grants are structured as loans to CHC, secured by a deed of trust on the properties and bear interest at the rate of 3% simple interest per annum. The loans will be forgiven after a ten-year period (in the case of the \$1,000,000 grant) and a seven-year period (in the case of the \$480,000 grant) if the Organization maintains the facilities for the stipulated purpose throughout the loan term. The DHCD agreements also contain customary requirements, such as maintaining adequate controls over grant funds, record-keeping and submission of semiannual and annual reports on project status. In the event CHC ceases utilization of the facilities for its program activities, the State of California shall terminate the loans and require the immediate repayment including all outstanding principal and accrued interest.

CHC fulfilled the terms of the \$480,000 grant and the full amount was forgiven by December 31, 2013. On October 18, 2015 CHC fulfilled the terms of the \$1,000,000 grant and the full amount was forgiven.

In January 2012, CHC was awarded an EHAP grant of \$967,260 from the DHCD for additional rehabilitations of the Hollywood, California facility. In January 2014, DCHD deposited the grant amount of \$967,260 in an escrow account chosen by DHCD and will be disbursed to CHC by the escrow company based on Request for Disbursement ("RFD") approved by DHCD. The grant is structured as a loan to CHC, secured by a deed of trust on the 1325 North Western Avenue, Los Angeles California property and bears interest at the rate of 3% simple interest per annum. The loan will be forgiven after a seven-year period from the date of the Certificate of Occupancy or the date the Notice of Completion is recorded if the Organization provides the services for the full loan term, based on approved activities. The DHCD agreement also contains customary requirements such as maintaining adequate controls over grant funds, record-keeping and submission of semiannual and annual report on project status. In the event CHC ceases utilization of the facilities based on its approved activities, the State of California shall terminate the loan and require immediate repayment including all outstanding principal and accrued interest.

On February 25, 2015, the rehabilitation was completed and CHC received a Certificate of Occupancy from the County of Los Angeles. CHC received a total of \$967,260 from the escrow company from the RFD's approved by DHCD.

Covenant House California

Notes to Financial Statements
June 30, 2016

8. Oakland, California, Property Purchase and Hollywood, California, Crisis Shelter Renovations (*continued*)

As CHC's central mission is to provide emergency shelter and transitional housing for homeless youths and the loans do not impose additional conditions other than those ordinarily performed by the Organization in the normal course of operations, the conditions for forgiveness are expected to be met. As such, the Organization has recorded the capital assets acquired as property and equipment at actual cost and the state funds received as deferred revenue. The deferred revenue is amortized as unrestricted revenue on a straight-line basis over the respective loan terms. No interest expense is accrued since the Organization does not anticipate that repayment will be required. Annual in-kind interest expense and a corresponding grant revenue from the state agency is recognized. At June 30, 2016 and 2015, the total unamortized balance of the remaining forgivable loans was \$841,026 and \$1,067,260, which is included in deferred revenue in the accompanying statement of financial position. The amount of grant revenue recognized from these loans was \$258,251 and \$103,000 for the years ended June 30, 2016 and 2015.

9. Related Party Transactions

In fiscal 2016 and 2015, support received from Parent includes contributions received from individuals, corporations and foundations as a result of fundraising activities conducted by the Parent on behalf of the Organization and other Covenant House Affiliates. It also includes a subsidy or contribution from the Parent to help support the program activities of the Organization. The Parent refers to this as "Branding Dollars".

The Parent provides financial support as well as management and organizational support for its affiliated organizations. It also conducts fundraising activities for its own programs and the programs of its affiliates. Contributions and promises to give totaled approximately \$64.3 million and \$60.8 million for the Parent in the years ended June 30, 2016 and 2015.

Contributions received by the Parent are generally not specifically restricted by donors to specific affiliates.

Branding Dollars allocated to affiliates, based on the Parent's policy, approximated \$33.6 million and \$31.3 million in fiscal 2016 and 2015. For the years ended June 30, 2016 and 2015, the Organization received \$2,270,000 and \$2,345,000 in support received from Parent.

The Parent also allocates costs of other shared services to the Organization, including insurance and telecommunications expenses. Such amounts totaled \$154,681 and \$133,914 for the years ended June 30, 2016 and 2015. Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due from the Parent at June 30, 2016 was \$62,709 and the amount due to Parent at June 30, 2015 was \$9,311.

Contribution revenue from board members, including donations of common stock and special events revenue, totaled \$215,840 and \$217,794 for the years ended June 30, 2016 and 2015. The balance of amounts receivable from board members totaled \$0 and \$32,500 as of June 30, 2016 and 2015 and are included on contributions receivable, net in the accompanying statement of financial position.

Covenant House California

Notes to Financial Statements

June 30, 2016

10. Pension Plan

CHC participates in a defined benefit pension plan sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. CHC did not contribute to the defined benefit pension plan during the years ended June 30, 2016 and 2015. Effective December 31, 2006, the Parent froze service credits in the Plan. Compensation increases will continue to apply within the plan structure for those participants who have at least 45 points (age plus years of service). CHC has further amended the plan effective August 1, 2009 to cease adjustments in the accrued benefit due to salary increases so that no further benefits will accrue under the plan after that date.

In addition, the Parent adopted a new defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees are immediately eligible to enter the 403(b) savings plan. CHC will match 50 cents for every dollar contributed up to 6.0% of compensation. All full-time and part-time employees with benefits employed with CHC as of December 31, 2006 immediately received the employer match. Per diem employees who worked more than 1,000 hours in 2006 were immediately eligible for the match. In addition, CHC adds employer contributions to the retirement account for all employees who work 1,000 hours in a year. The rate of contribution (percent of compensation) is based upon points. The employer contribution percentage ranges are from 1.0% to 9.0% based on points. Employer contributions for the Savings and Retirement Account will be 100% vested after three years of service. CHC's expense related to the 403(b) plan was \$124,928 and \$165,055 for the years ended June 30, 2016 and 2015.

11. Unrestricted Net Assets

At June 30, unrestricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Board Designated:		
Building/parking lot	\$ 494,000	\$ 494,000
Computer upgrades	54,000	54,000
Program development	<u>66,372</u>	<u>66,372</u>
Subtotal Board Designated	614,372	614,372
Designated - property and equipment	11,097,702	11,263,690
Undesignated	<u>(1,400,620)</u>	<u>(991,913)</u>
	<u>\$ 10,311,454</u>	<u>\$ 10,886,149</u>

Board designated funds are included in investments.

Covenant House California

Notes to Financial Statements
June 30, 2016

12. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of time and purpose restricted contributions as follows:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Program core support	\$ 121,000	\$ 34,445
Other programs	10,000	1,400
Time restrictions:		
Other time restrictions	<u>155,548</u>	<u>137,510</u>
	<u>\$ 286,548</u>	<u>\$ 173,355</u>

Net assets released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specific by donors during the years ended June 30, are as follows:

	<u>2016</u>	<u>2015</u>
Purpose restrictions:		
Building improvements	\$ -	\$ 37,170
Program core support	34,445	-
Other programs	1,400	1,500
Time restrictions:		
Other time restrictions	<u>6,962</u>	<u>6,706</u>
	<u>\$ 42,807</u>	<u>\$ 45,376</u>

13. Lease Commitments

CHC is a lessee of certain equipment acquired under capital leases expiring in various years through 2021. Amortization of assets acquired under capital leases is included in depreciation and amortization expense. Obligations under capital leases at June 30, 2016 and 2015 amounted to \$369,806 and \$85,697. The amount of imputed interest necessary to reduce the net minimum lease payments under capital lease obligations to present value totaled \$12,556 and \$4,258 at June 30, 2016 and 2015.

Covenant House California

Notes to Financial Statements
June 30, 2016

13. Lease Commitments (continued)

Future minimum lease payments due under these obligations are as follows for the years ending June 30:

	Operating Leases	Capital Leases	Total
2017	\$ 350	\$ 108,135	\$ 108,485
2018	-	105,553	105,553
2019	-	93,476	93,476
2020	-	78,980	78,980
2021	-	10,010	10,010
	<u>350</u>	<u>396,154</u>	<u>396,504</u>
Less amounts representing interest	<u>-</u>	<u>(26,348)</u>	<u>(26,348)</u>
	<u>\$ 350</u>	<u>\$ 369,806</u>	<u>\$ 370,156</u>

Rent expense was \$109,936 and \$94,850 for the years ended June 30, 2016 and 2015.

14. Government Grants and Contracts

In accordance with the terms of certain government grants, the records of CHC are subject to audit after the date of final payment of the contracts. CHC is liable for any disallowed costs; however, management of CHC believes that the amount of costs disallowed, if any, would not be significant.

15. Litigation

During the fiscal year ended June 30, 2016, the Organization was named in a lawsuit filed by a former employee. Discovery has been completed and the Organization settled subsequent to year end and all amounts were paid for by the Organization's insurance carrier.

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