

# **Covenant House Alaska**

Consolidated Financial Statements

June 30, 2017 and 2016

## **Covenant House Alaska**

### **Consolidated Financial Statements June 30, 2017 and 2016**

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## Independent Auditors' Report

### **Board of Directors Covenant House Alaska**

We have audited the accompanying consolidated financial statements of Covenant House Alaska (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated 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 audits. We conducted our audits 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Covenant House Alaska as of June 30, 2017 and 2016, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Management has elected to supplement the financial statements by providing a Management's Discussion and Analysis ("MD&A"). We have applied certain limited procedures to the MD&A in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the MD&A because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The supplementary information on pages 29-32 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*PKF O'Connor Davies, LLP*

New York, New York  
March 28, 2018



## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Management's Discussion and Analysis (MD&A) is the section of Covenant House Alaska's (CHA) annual report in which management provides an overview of the important program activities and financial results for the previous year, as well as key trends for 2012 through 2017. The purpose of providing this report is to create a better understanding of CHA's financial situation, the strategic activities the board and management have implemented, and the outlook for the future.

### About Covenant House Alaska

CHA opened its doors in 1988 in Anchorage, Alaska and is a member of Covenant House International, which operates in 31 cities across six countries in North America. With a mission to "serve the suffering children of the street and to protect and safeguard all children," CHA is a faith-based organization that provides shelter to all homeless, at-risk and trafficked youth ages 13 to 21. All youth are welcomed day or night, without question or cost, and CHA offers a transformative system of care to help all at-risk youth transition to permanency. Over 30 years of operation, CHA has served more than 28,000 youth experiencing homelessness, and has grown from an emergency shelter to an organization that provides a comprehensive continuum of services. In FY17, 675 youth accessed over 16,000 wraparound services across all of our programs, and they stayed a total of 30,614 bed nights. Most programs and services are offered in CHA's new Youth Engagement Center (YEC), which opened in 2013.

### Structure of Organization

Covenant House Alaska utilizes an approach of progressive, relentless engagement to identify at-risk youth where they are, whether on the streets or in other unsafe situations and to build trusting relationships. After contact with our Street Outreach Team or Drop-In Services, youth are encouraged to do an intake at the emergency shelter in the YEC. Here youth receive more than a place to sleep: they receive a full continuum of services that lead up to family reunification or placement in stable housing.

**Safe Shelter:** On any given night, CHA provides homeless youth with a warm, safe place to lay their heads at the YEC shelter, which is open 24 hours a day, seven days a week. *In 2013, CHA expanded shelter bed capacity from 40 to 60 in the new YEC.*

**Employment and Education Services:** Programs that help youth complete their education and employment; an on-site Anchorage School District high school classroom; and evidence-based programs including Annie E. Casey's LEAP Initiative give youth the tools to be successful for a lifetime.

**Housing Services:** A Transition Coordinator helps youth find permanent affordable housing.

**Transitional Living Programs:** Youth can participate in either of the following transitional living programs for 18 months with up to 12 months of additional aftercare:

*Passage House* is 10-bed residential transitional living program for parenting and pregnant teens ages 17 through 20. The focus is on independent living skills and raising healthy children.

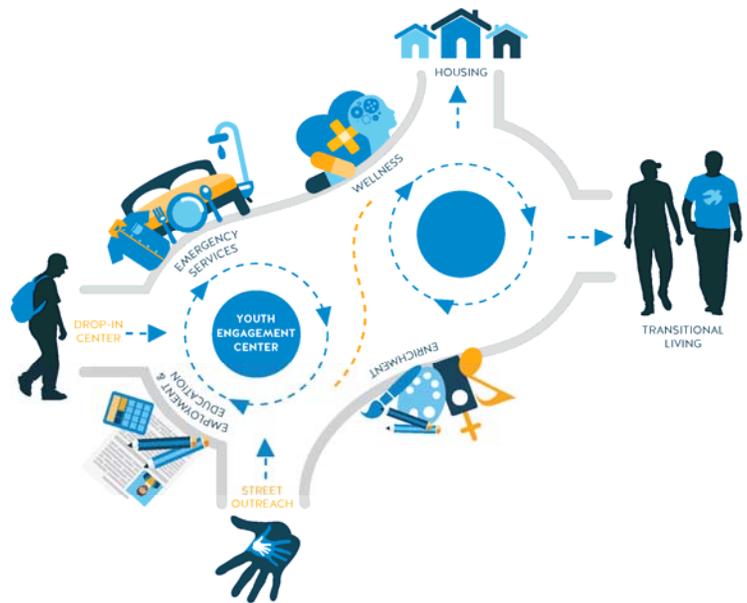
*Rights of Passage (ROP)* is a coed residential program for youth ages 18 to 22. Youth work, save money, and learn independent living skills during the 18-month program. *ROP* expanded from 14 to 25 beds in 2016.

**Wellness Center:** A new, innovative partnership with Southcentral Foundation began in 2017, which operates our on-site clinic, provides all health services, connects clients to benefits, provides behavioral health services, delivers cultural programming including suicide prevention, and develops comprehensive medical care plans for every youth.

**Youth Enrichment & Spirituality:** The YEC has dedicated space and staff/volunteer support for youth to participate in art, music, cultural activities, physical recreation, leadership training, volunteering, internship opportunities, and spiritual activities for youth who choose to participate.

**Street Outreach:** Often the first point of contact with vulnerable youth on the streets, this team builds relationships, offers food and basic supplies, and encourages them to access services at the YEC.

**Data-Driven Performance Management:** CHA utilizes a robust web-based data management software system that allows us to engage in rigorous data analysis and outcomes measurement with the goal of becoming a data-driven learning organization.



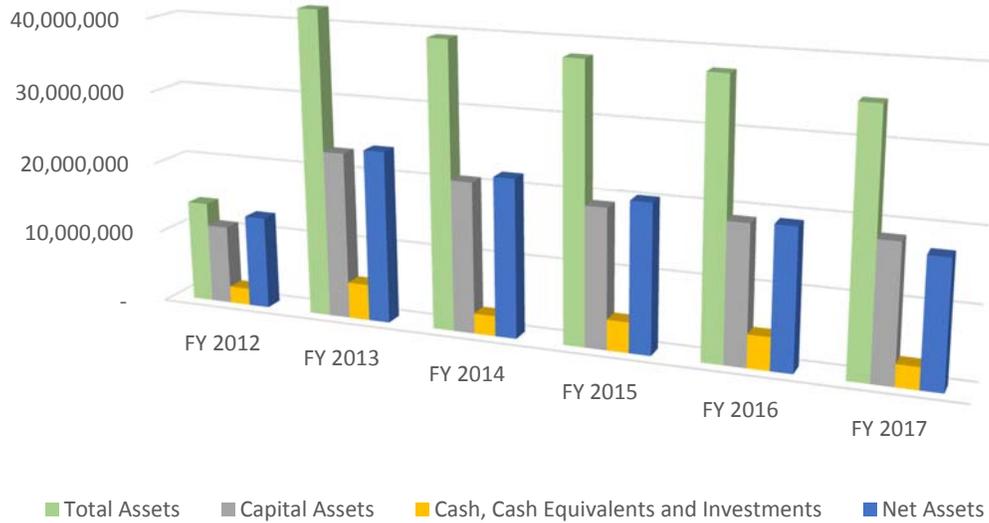
## Executive Summary

- CHA is the sole provider of youth shelter services in Anchorage, and is being recognized as a national leader in delivering evidence-based, outcome-driven youth services. CHA led community efforts to receive a U.S. Department of Housing and Urban Development (HUD) Youth Homelessness Demonstration Program (YHDP) award in which CHA was chosen to be a Lead Agency in implementing innovative models to end youth homelessness. This is discussed further below in the *Looking Ahead* section.
- CHA continues to engage with new funders to invest and implement best practice models with the ultimate goal of ending the youth homeless experience in our community.
- In 2013, when CHA moved into the new YEC, we anticipated several years of increased costs without new revenue sources to offset them. For that reason, in 2013, CHA raised an additional \$2.5 million to bridge that gap. In FY18 it is anticipated that CHA will be back to a zero-based budget with revenues covering all of our expenses excluding depreciation.
- CHA is meeting an increased community need by simultaneously expanding capacity while increasing efficiencies, which has decreased our total bed cost per night by 30%.
- CHA anticipates that in FY18, we will have a balanced budget and will not need to access the organization's reserves.

## Financial Analysis

With over \$35 million in total assets, CHA's financial picture remains strong. (The primary driver of change in total assets from FY12 to FY13 was construction of the YEC).

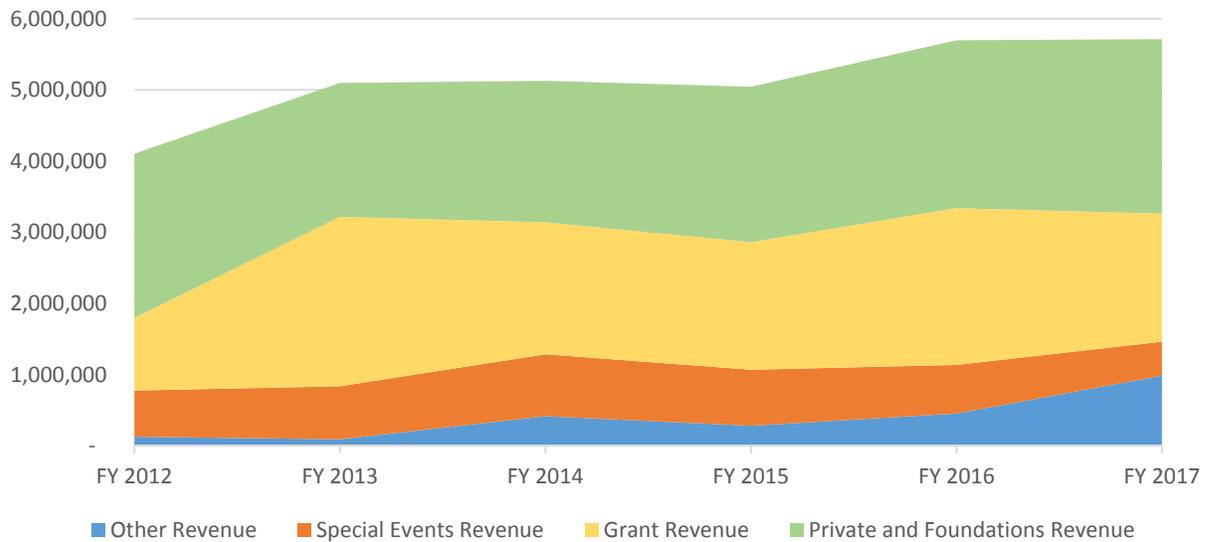
### Major Assets and Net Assets



## Operating Revenue

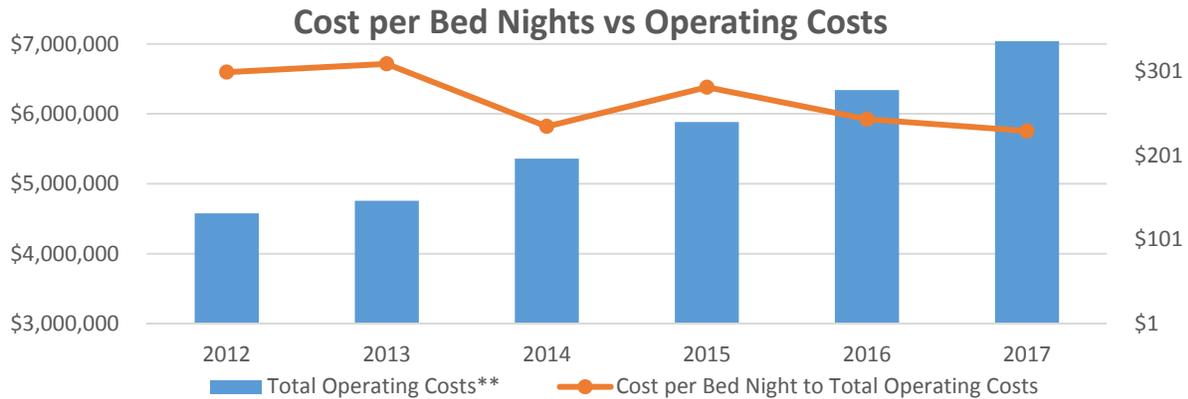
CHA continued to show growth and diversity in operating support and revenue.

### Total Operating Revenue by Type



## Operating Expenses

CHA responded to the increased community need through building efficiencies and economies of scale so that we could serve more youth with comparatively lower expenditures on program growth. CHA was able to reduce the agency-wide *cost per bed night* (shelter and transitional living programs) **by 30%**.



### Facility Operating Costs

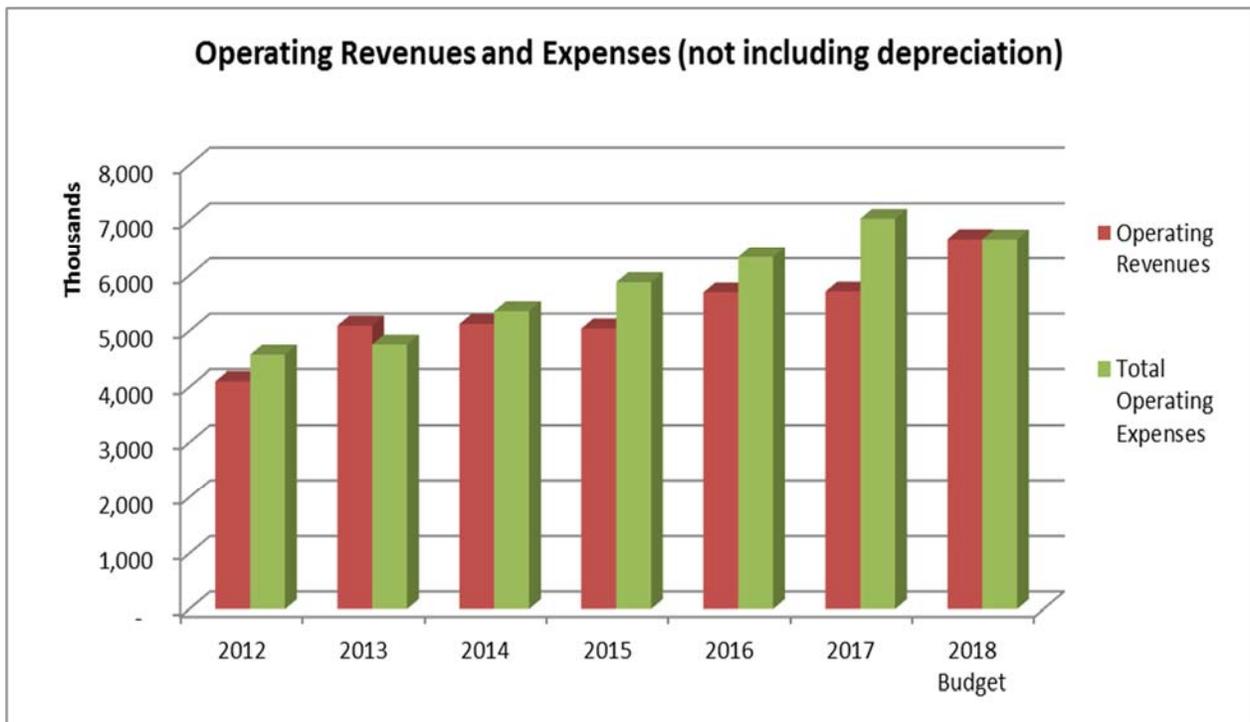
CHA tripled its footprint to serve community needs and improve service delivery. Current facility costs remain relatively low as a percentage of total YEC costs: 4.8% in FY17, compared to 4.2% in FY12.

### Personnel Costs

CHA continued its systemic changes to optimize staff deployment and maximize community impact. Through these efforts, CHA was able to meet the demands of an average daily census that increased over the last five years from 25 to 49 youth and meet the demands of an increased average length of stay which also doubled (13 to 26 days).

## Looking Ahead: Strategies for Sustainability

The FY18 budget projects sufficient revenues to meet operating expenses. Management believes the FY18 budgeted operating expenses reflect the “new norm” of total costs of administering the programs, based on our experience now being in the YEC for five years. The trend of expenses exceeding revenues since 2014 was anticipated by management and was strategically funded by reserves established in 2013.



- The **HUD Youth Homelessness Demonstration Program** will be a true game-changer in the ability of CHA to deliver high-quality services to youth. CHA will apply for YHDP funds on a yearly, renewable basis to support mobile case management and rapid, subsidized housing for youth. The project is anticipated to bring up to \$500,000 in new, annually renewable revenue to CHA, while leveraging additional partnerships and building community momentum.
- **Embedded partnerships** (value of services \$1.5 million per year, at no cost to CHA)
  - *Southcentral Foundation*: Wellness Clinic, Behavioral Health, and cultural programming;
  - *Volunteers of America*: on-site drug and alcohol counselor (40 hours per week);
  - *The Anchorage School District*: operates an Alternative School Transition Classroom on-site and an afterschool credit recovery program;
  - *Nine Star Enterprises*: Provides educational opportunities and internships.
- **Increasing volunteer engagement**
  - Last year 660 volunteers gave 14,204 hours of service to CHA;
  - AmeriCorps has agreed to place five VISTA workers at CHA for years of service on an annual basis starting in August, 2018. These VISTA workers will enhance the administration, development and fundraising capacities of the organization.
- **Adapting to the changing need**  
 CHA is continuing to see youth with more complex issues stemming from mental illness, sex trafficking, sexual abuse, and drug abuse. In order to provide more holistic services, CHA is continuing to optimize staffing patterns and agency resources to address this ever-changing need, while leveraging new funding sources and partnerships in our relentless efforts to end the experience of homelessness for youth in our community.

**Covenant House Alaska**  
Consolidated Statements of Financial Position

	June 30,	
	2017	2016
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 104,686	\$ 955,732
Restricted cash	168,875	196,627
Investments	-	22,566
Grants receivable	708,656	822,466
Pledges and contributions receivable	108,572	346,797
Other receivables	31,495	28,737
Prepaid expenses and other current assets	56,509	65,847
Total Current Assets	1,178,793	2,438,772
Pledges and contributions receivable, noncurrent	37,875	37,875
Restricted cash, noncurrent	60,000	90,000
Board designated fund	2,548,048	3,125,188
Note receivable	12,813,000	12,813,000
Property and equipment, net	18,470,941	18,890,983
Beneficial interest in assets held by the Alaska Community Foundation	105,631	96,671
	<b>\$ 35,214,288</b>	<b>\$ 37,492,489</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 574,746	\$ 401,369
Due to affiliates	61,080	248,227
Deferred realized gain, current	24,538	18,404
Total Current Liabilities	660,364	668,000
Deferred realized gain, net of current portion	447,818	472,356
Long-term debt, net of debt issuance costs	16,976,931	17,272,110
Total Liabilities	18,085,113	18,412,466
Net Assets		
Unrestricted		
Undesignated	12,483,966	12,262,241
Board designated	2,686,923	3,750,001
Investment in property and equipment	1,494,010	1,590,983
Total Unrestricted	16,664,899	17,603,225
Temporarily restricted	358,645	1,380,127
Permanently restricted	105,631	96,671
Total Net Assets	17,129,175	19,080,023
	<b>\$ 35,214,288</b>	<b>\$ 37,492,489</b>

See notes to consolidated financial statements

**Covenant House Alaska**  
Consolidated Statement of Activities  
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>PUBLIC SUPPORT, REVENUES AND GAINS</b>				
Public Support				
Branding dollars from Parent	\$ 606,000	\$ -	\$ -	\$ 606,000
Grants from Parent related to sleepout events	200,728	-	-	200,728
Contributions	1,907,550	141,159	-	2,048,709
Special events revenue	475,385	-	-	475,385
Less: Cost of direct benefit to donors	<u>(202,780)</u>	<u>-</u>	<u>-</u>	<u>(202,780)</u>
Total Public Support	<u>2,986,883</u>	<u>141,159</u>	<u>-</u>	<u>3,128,042</u>
Revenues and Gains				
Grant income	1,608,985	190,000	-	1,798,985
Interest income	1,333	-	-	1,333
Investment income	204,753	-	-	204,753
Change in value of beneficial interest in Alaska Community Foundation	-	-	8,960	8,960
Other income	<u>570,828</u>	<u>-</u>	<u>-</u>	<u>570,828</u>
Total Revenues and Gains	<u>2,385,899</u>	<u>190,000</u>	<u>8,960</u>	<u>2,584,859</u>
Net assets released from restrictions	<u>1,352,641</u>	<u>(1,352,641)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenues and Gains	<u>6,725,423</u>	<u>(1,021,482)</u>	<u>8,960</u>	<u>5,712,901</u>
<b>EXPENSES</b>				
Program Services				
Shelter	3,476,789	-	-	3,476,789
Transitional living - Rights of Passage	1,048,305	-	-	1,048,305
Employment and Education	595,277	-	-	595,277
Transitional living - Mother/Child	523,074	-	-	523,074
Medical	77,653	-	-	77,653
Outreach	<u>683,418</u>	<u>-</u>	<u>-</u>	<u>683,418</u>
Total Program Services	<u>6,404,516</u>	<u>-</u>	<u>-</u>	<u>6,404,516</u>
Supporting Services				
Management and general	598,448	-	-	598,448
Fundraising and special events	<u>660,785</u>	<u>-</u>	<u>-</u>	<u>660,785</u>
Total Supporting Services	<u>1,259,233</u>	<u>-</u>	<u>-</u>	<u>1,259,233</u>
Total Expenses	<u>7,663,749</u>	<u>-</u>	<u>-</u>	<u>7,663,749</u>
Change in Net Assets	(938,326)	(1,021,482)	8,960	(1,950,848)
<b>NET ASSETS</b>				
Beginning of year	<u>17,603,225</u>	<u>1,380,127</u>	<u>96,671</u>	<u>19,080,023</u>
End of year	<u>\$ 16,664,899</u>	<u>\$ 358,645</u>	<u>\$ 105,631</u>	<u>\$ 17,129,175</u>

See notes to consolidated financial statements

**Covenant House Alaska**  
Consolidated Statement of Activities  
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT, REVENUES AND GAINS</b>				
Public Support				
Branding dollars from Parent	\$ 636,000	\$ -	\$ -	\$ 636,000
Grants from Parent related to sleepout events	167,248	-	-	167,248
Contributions	1,920,857	-	-	1,920,857
Special events revenue	682,642	-	-	682,642
Less: Cost of direct benefit to donors	(198,527)	-	-	(198,527)
Total Public Support	3,208,220	-	-	3,208,220
Revenues and Gains				
Grant income	978,682	1,223,984	-	2,202,666
Interest income	1,843	-	-	1,843
Investment income	137,616	-	-	137,616
Change in value of beneficial interest in Alaska				
Community Foundation	-	-	(2,062)	(2,062)
Other income	148,841	-	-	148,841
Total Revenues and Gains	1,266,982	1,223,984	(2,062)	2,488,904
Net assets released from restrictions	225,240	(225,240)	-	-
Total Public Support, Revenues and Gains	4,700,442	998,744	(2,062)	5,697,124
<b>EXPENSES</b>				
Program Services				
Shelter	3,360,288	-	-	3,360,288
Transitional living - Rights of Passage	803,327	-	-	803,327
Employment and Education	333,140	-	-	333,140
Transitional living - Mother/Child	486,810	-	-	486,810
Medical	97,294	-	-	97,294
Outreach	399,284	-	-	399,284
Total Program Services	5,480,143	-	-	5,480,143
Supporting Services				
Management and general	758,517	-	-	758,517
Fundraising and special events	690,799	-	-	690,799
Total Supporting Services	1,449,316	-	-	1,449,316
Total Expenses	6,929,459	-	-	6,929,459
Change in Net Assets	(2,229,017)	998,744	(2,062)	(1,232,335)
<b>NET ASSETS</b>				
Beginning of year	19,832,242	381,383	98,733	20,312,358
End of year	\$ 17,603,225	\$ 1,380,127	\$ 96,671	\$ 19,080,023

**Covenant House Alaska**

Statement of Functional Expenses  
Year Ended June 30, 2017

	Program Services						Supporting Services					Total Expenses
	Shelter	Transitional Living - Rights of Passage	Employment and Education	Transitional Living-Mother/Child	Medical	Outreach	Total	Management and General	Fundraising and Special Events	Cost of Direct Benefits to Donors	Total	
Salaries	\$ 1,723,367	\$ 537,647	\$ 257,279	\$ 290,090	\$ 31,129	\$ 338,573	\$ 3,178,085	\$ 330,995	\$ 267,930	\$ -	\$ 598,925	\$ 3,777,010
Employee benefits	397,320	138,590	72,575	85,591	23,312	118,508	835,896	72,425	71,012	-	143,437	979,333
Payroll taxes	141,950	44,913	19,448	23,833	2,016	27,557	259,717	21,952	21,634	-	43,586	303,303
Total Salaries and Related Expenses	2,262,637	721,150	349,302	399,514	56,457	484,638	4,273,698	425,372	360,576	-	785,948	5,059,646
Contracted services	127,080	51,814	68,337	18,239	518	20,230	286,218	7,809	87,494	50,577	145,880	432,098
Specific Assistance to Individuals												
Food	154,077	15,269	-	5,937	-	16,764	192,047	-	-	-	-	192,047
Medical	-	-	-	-	7,451	-	7,451	-	-	-	-	7,451
Clothing, allowance and other	105,079	26,320	11,152	9,199	-	4,665	156,415	-	920	-	920	157,335
Contributed clothing and merchandise	43,821	-	3,161	-	-	-	46,982	-	-	152,203	152,203	199,185
Occupancy												
Fuel and utilities	87,770	36,603	43,063	13,198	-	28,697	209,331	-	-	-	-	209,331
Repairs and maintenance	40,571	17,188	4,011	4,436	3	5,190	71,399	20	22	-	42	71,441
Interest expense	110,925	-	18,973	-	2,483	21,786	154,167	18,759	21,068	-	39,827	193,994
Supplies	35,344	8,994	5,310	3,601	624	3,928	57,801	1,809	52,963	-	54,772	112,573
Insurance	56,091	19,233	4,630	17,867	656	8,687	107,164	1,436	5,643	-	7,079	114,243
Travel	26,732	5,676	13,302	4,506	18	9,073	59,307	35,751	15,995	-	51,746	111,053
Miscellaneous	18,476	4,857	4,981	3,296	173	2,951	34,734	18,319	10,341	-	28,660	63,394
Lease expense	10,815	46,383	6,514	4,400	54	3,040	71,206	1,190	16,975	-	18,165	89,371
Accounting fees	21,153	7,163	3,629	3,581	478	4,154	40,158	13,581	4,011	-	17,592	57,750
Telephone	17,784	8,898	6,868	10,287	20	7,801	51,658	2,119	2,127	-	4,246	55,904
Bank charges and fees	12,607	4,270	2,162	2,134	254	2,477	23,904	2,107	7,986	-	10,093	33,997
Postage and printing	4,837	1,474	971	783	25	855	8,945	1,160	14,094	-	15,254	24,199
Dues, licenses and permits	6,721	1,977	1,181	1,168	491	1,249	12,787	3,492	5,110	-	8,602	21,389
Staff recruitment	201	68	186	34	-	40	529	13,888	881	-	14,769	15,298
Equipment	5,231	1,246	561	852	843	84	8,817	73	81	-	154	8,971
Subscriptions and publications	676	124	50	103	1,013	253	2,219	605	724	-	1,329	3,548
Advertising	640	131	319	319	-	76	1,485	-	1,692	-	1,692	3,177
Legal fees	410	139	70	69	-	81	769	946	-	-	946	1,715
Total Functional Expenses Before Depreciation and Amortization	3,149,678	978,977	548,733	503,523	71,561	626,719	5,879,191	548,436	608,703	202,780	1,359,919	7,239,110
Depreciation and amortization	327,111	69,328	46,544	19,551	6,092	56,699	525,325	50,012	52,082	-	102,094	627,419
Total Functional Expenses	3,476,789	1,048,305	595,277	523,074	77,653	683,418	6,404,516	598,448	660,785	202,780	1,462,013	7,866,529
Less: Cost of direct benefits to donor	-	-	-	-	-	-	-	-	-	(202,780)	(202,780)	(202,780)
Total Expenses Reported by Function on the Statement of Activities	\$ 3,476,789	\$ 1,048,305	\$ 595,277	\$ 523,074	\$ 77,653	\$ 683,418	\$ 6,404,516	\$ 598,448	\$ 660,785	\$ -	\$ 1,259,233	\$ 7,663,749

**Covenant House Alaska**

Statement of Functional Expenses  
Year Ended June 30, 2016

	Program Services						Supporting Services				Total Expenses	
	Shelter	Transitional Living - Rights of Passage	Employment and Education	Transitional Living - Mother/Child	Medical	Outreach	Total	Management and General	Fundraising and Special Events	Cost of Direct Benefits to Donors		Total
Salaries	\$ 1,572,690	\$ 464,233	\$ 155,833	\$ 278,352	\$ 53,388	\$ 189,078	\$ 2,713,574	\$ 292,705	\$ 267,154	\$ -	\$ 559,859	\$ 3,273,433
Employee benefits	450,031	138,236	32,792	65,434	5,461	60,937	752,891	68,333	62,038	-	130,371	883,262
Payroll taxes	136,304	41,888	14,118	24,413	4,362	17,516	238,601	24,496	24,846	-	49,342	287,943
<b>Total Salaries and Related Expenses</b>	<b>2,159,025</b>	<b>644,357</b>	<b>202,743</b>	<b>368,199</b>	<b>63,211</b>	<b>267,531</b>	<b>3,705,066</b>	<b>385,534</b>	<b>354,038</b>	<b>-</b>	<b>739,572</b>	<b>4,444,638</b>
Other purchased services	194,295	29,330	9,210	23,126	1,110	12,052	269,123	60,599	101,740	50,248	212,587	481,710
Specific Assistance to Individuals												
Food	147,817	20,593	73	7,041	-	2,405	177,929	-	-	-	-	177,929
Medical	-	-	-	-	12,509	-	12,509	-	-	-	-	12,509
Clothing, allowance and other	55,537	9,836	8,839	12,153	-	4,460	90,825	-	-	-	-	90,825
Contributed clothing and merchandise	36,730	-	-	560	-	-	37,290	-	-	148,279	148,279	185,569
Occupancy												
Fuel and utilities	52,620	26,721	25,336	9,997	-	17,900	132,574	-	-	-	-	132,574
Repairs and maintenance	45,109	3,944	5,542	5,347	-	3,744	63,686	-	-	-	-	63,686
Miscellaneous	14,267	1,369	8,916	3,726	454	2,113	30,845	160,402	71,532	-	231,934	262,779
Interest expense	76,181	-	7,270	-	2,210	8,698	94,359	18,974	21,147	-	40,121	134,480
Insurance	60,548	22,562	5,418	13,806	2,005	9,345	113,684	543	13,776	-	14,319	128,003
Supplies	18,416	2,146	650	1,676	600	1,371	24,859	7,016	74,403	-	81,419	106,278
Lease expense	147	31,036	2,316	10,107	-	1,158	44,764	6,301	4,544	-	10,845	55,609
Travel	6,584	557	5,286	1,991	768	3,979	19,165	23,827	9,882	-	33,709	52,874
Telephone	13,286	9,899	5,422	7,806	-	6,379	42,792	2,312	2,865	-	5,177	47,969
Accounting fees	-	-	-	-	-	-	-	37,167	-	-	37,167	37,167
Postage and printing	1,377	35	282	258	-	627	2,579	3,371	24,147	-	27,518	30,097
Equipment	15,874	259	-	5,937	-	5,170	27,240	-	-	-	-	27,240
Bank charges and fees	-	-	-	-	-	-	-	23,997	1,353	-	25,350	25,350
Dues, licenses and permits	1,892	683	5,363	690	200	1,008	9,836	5,872	9,392	-	15,264	25,100
Staff recruitment	2,269	-	-	-	-	-	2,269	13,435	-	-	13,435	15,704
Subscriptions and publications	244	-	109	-	1,957	209	2,519	450	1,980	-	2,430	4,949
Legal fees	-	-	-	-	-	-	-	1,484	-	-	1,484	1,484
<b>Total Functional Expenses before Depreciation and amortization</b>	<b>2,902,218</b>	<b>803,327</b>	<b>292,775</b>	<b>472,420</b>	<b>85,024</b>	<b>348,149</b>	<b>4,903,913</b>	<b>751,284</b>	<b>690,799</b>	<b>198,527</b>	<b>1,640,610</b>	<b>6,544,523</b>
Depreciation and amortization	458,070	-	40,365	14,390	12,270	51,135	576,230	7,233	-	-	7,233	583,463
<b>Total Functional Expenses</b>	<b>3,360,288</b>	<b>803,327</b>	<b>333,140</b>	<b>486,810</b>	<b>97,294</b>	<b>399,284</b>	<b>5,480,143</b>	<b>758,517</b>	<b>690,799</b>	<b>198,527</b>	<b>1,647,843</b>	<b>7,127,986</b>
Less: Cost of direct benefits to donor	-	-	-	-	-	-	-	-	-	(198,527)	(198,527)	(198,527)
<b>Total Expenses Reported by Function on the Statement of Activities</b>	<b>\$ 3,360,288</b>	<b>\$ 803,327</b>	<b>\$ 333,140</b>	<b>\$ 486,810</b>	<b>\$ 97,294</b>	<b>\$ 399,284</b>	<b>\$ 5,480,143</b>	<b>\$ 758,517</b>	<b>\$ 690,799</b>	<b>\$ -</b>	<b>\$ 1,449,316</b>	<b>\$ 6,929,459</b>

**Covenant House Alaska**  
Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,950,848)	\$ (1,232,335)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	627,419	583,463
Amortization of debt issuance costs	65,363	5,657
Estimated debt issuance costs	(360,542)	-
Gain on disposal of property and equipment	-	(490,760)
Realized and unrealized gain on investments	(120,827)	(50,761)
Deferred gain on sale leaseback of the building	(18,404)	490,760
Unrealized (gain) loss on beneficial interest in the Alaska Community Foundation	(8,960)	2,062
Net change in operating assets and liabilities		
Grants receivable	113,810	(310,059)
Pledges and contributions receivable	238,225	(3,289)
Other receivables	(2,758)	(20,682)
Prepaid expenses and other current assets	9,338	(32,502)
Other assets	-	5,657
Accounts payable and accrued liabilities	173,377	(34,048)
Net Cash from Operating Activities	(1,234,807)	(1,086,837)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(207,377)	(401,392)
Proceeds from sale of property and equipment	-	1,533,764
Purchase of investments	(382,809)	(1,086,855)
Proceeds from sale of investments	1,103,342	500,000
Net Cash from Investing Activities	513,156	545,517
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in amounts due to affiliates	(187,147)	222,060
Change in restricted cash	57,752	125,266
Net Cash from Financing Activities	(129,395)	347,326
Change in Cash and Cash Equivalents	(851,046)	(193,994)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	955,732	1,149,726
End of year	\$ 104,686	\$ 955,732
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 117,905	\$ 118,097

See notes to consolidated financial statements

## Covenant House Alaska

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### 1. Organization and Nature of Activities

Covenant House Alaska (the "Organization"), a not-for-profit organization incorporated in 1988, is an operating affiliate of Covenant House (the "Parent"), a New York-based organization. The Organization provides shelter, residential services, community services, and outreach services to youth in the Anchorage, Alaska metropolitan area.

Covenant House (Parent) is the sole member of the Organization and is itself is a not-for-profit organization founded in 1968 and incorporated in 1972. Covenant House (Parent) and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical attention, crisis intervention, public education and prevention, and other services that reached approximately 80,000 young people during fiscal 2017.

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

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

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

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

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

The Organization has been determined to be a not-for-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code.

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.

## Covenant House Alaska

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### 1. Organization and Nature of Activities (*continued*)

#### ***Components of Program and Supporting Services***

##### ***Program Services***

###### *Shelter*

Shelter Services provides a 60-bed shelter for youth ages 13-20, open 24 hours a day, 7 days a week to handle youth/family problems. Shelter Services provides a safe place for the basic needs to be met and the tools for youth to work toward independence and prevent homelessness in the future. Information and referrals are available for any individual calling into the center for help with youth, families, and homelessness

###### *Transitional Living – Rights of Passage*

Rights of Passage is a 26 bed coed residential program that provides supportive housing for youth ages 18 to 20 seeking independent living. Youth learn budgeting, employment skills, nutrition, decision making, and other independent living skills. Rights of Passage serves males and females, ages 18 to 21 for up to 18 months in residence and 12 months of aftercare. 14 of the 26 beds are designated for youth who meet the HUD definition of homeless.

###### *Transitional Living – Mother/Child*

Mother/Child is a supportive housing program for parenting and pregnant teens ages 17 through 21 and their children for up to 18 months in residence and 12 months of aftercare. The focus is on vocational and independent living skills, as well as raising healthy children. Mary's Place offers independent living for three mothers and their children for up to 18 months that includes case management.

###### *Employment and Education Services*

Youth can access the support and resources they need to complete their education, gain employment skills and find sustainable jobs. The Organization offers daily workshops, job coaching, and paid internships to all youth accessing services. The Organization's staff, in partnership with the Anchorage School District, provides educational guidance, structure and support to school age youth in a positive learning environment. Through services such as after-school tutoring, remedial education groups, and General Equivalency Diploma preparation classes, youth receive the essential tools they need to achieve academic success.

###### *Medical*

The Organization offers free health services through the wellness center. The wellness center is staffed by a Physicians Assistance, in partnership with Southcentral Foundation, who is available to provide non-emergency medical services to youth five days a week. All programs have access to a wide range of health services including mental health and substance abuse assessment.

## **Covenant House Alaska**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### **1. Organization and Nature of Activities (continued)**

#### ***Components of Program and Supporting Services (continued)***

##### *Outreach*

The Organization's street outreach team finds the youth where they are at. The Organization's team begins the process of building trust and develops relationships with youth. Through these relationships the Organization is able to assist Alaska's suffering youth on the streets in choosing to walk through the Organization's doors and accept the many services it offers to assist youth in getting on the path to self-sufficiency. The Drop-In Center program offers walk-in services to young people in need of support. Services include: counseling and referral; help with job searching, resume writing, and other employment support; educational support; use of telephone for local calls; sack lunches and hot/cold drinks; mail and phone message services.

##### ***Supporting Services***

###### *Management and General*

Management and general services include administration, finance and general support activities. Certain administrative costs that relate to specific programs have been allocated to those programs.

###### *Fundraising*

Fundraising services relate to the activities of the development program in raising general and specific contributions.

###### *Direct Benefit to Donors*

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

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Presentation and Use of Estimates***

The accompanying consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

## **Covenant House Alaska**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

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

#### ***Net Asset Presentation***

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

- 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 the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received.
- Permanently restrict net assets contain beneficial interests in assets held by a community foundation.

#### ***Cash and Cash Equivalents***

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

#### ***Restricted Cash***

At June 30, 2017 and 2016, CHH held cash deposits totaling \$90,000 and \$120,000 which are restricted to pay fees and expense reimbursements to certain entities with continuing involvement in the NMTC transaction. At June 30, 2017 and 2016, the restricted cash totaling \$138,875 and \$166,627 is part of the board designated fund.

#### ***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.

#### ***Investment Valuation and Income Recognition***

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

## Covenant House Alaska

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

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

#### ***Property and Equipment***

Property and equipment is recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. The Organization's policy is to capitalize all purchases of \$5,000 or greater except for furniture and fixtures, which is \$2,500 or greater, and a useful life of one year or more at the time of purchase.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	40 years
Building improvements	39 years
Equipment	12 years

#### ***Asset Recoverability***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There is no such impairment for the years ended June 30, 2017 and 2016.

#### ***Contributions and Pledges Receivable***

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. An allowance for uncollectible pledges receivable is provided, using management's judgment of potential defaults, which considers factors such as prior collection history, type of contribution and the nature of fundraising activity. Contribution revenue is recognized based on the present value of the estimated future payments to be made to the Organization.

#### ***Deferred Revenue***

Deposits received for program services not yet provided are recorded as deferred revenue and recognized as program service revenue in the period to which they pertain.

#### ***Revenue Recognition***

Revenue is recognized as services are performed or expenditures are incurred under the Organization's contracts with its clients and funders.

## **Covenant House Alaska**

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

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

#### ***Functional Allocation of Expenses***

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

#### ***Donated Goods and Services***

Donated goods consist of items received by the Organization and awarded as prizes during the auctions held in relation to special events. These amounts are recorded as both revenue and expense at their estimated fair values at the date of receipt. The Organization recognizes the fair value of donated services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Contributed services which do not meet these criteria are not recognized as revenue and are not reported in the accompanying consolidated financial statements.

#### ***Debt Issuance Costs***

In 2017, the Organization adopted new U.S. 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 the face amount of the debt. Previously, such costs were shown as other assets. The debt issuance costs are being amortized over the term of the debt on a method that approximates the effective interest method. The Organization reflects amortization of debt issuance costs within interest expense, in accordance with the new guidance. This change had no effect on previously reported changed in net assets.

#### ***Advertising Costs***

Advertising costs are expensed as incurred.

#### ***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, 2014.

#### ***Reclassification of Prior Year Presentation***

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is March 28, 2018.

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 3. Change in Accounting Estimate

In fiscal year 2017, the Organization revised its original estimate of ground lease costs, building lease costs and loan financing fees associated with the New Market Tax Credit. The revised estimate decreased the ground lease and building lease costs, which were previously eliminated in the consolidation and increased the financing fees. The Organization also revised the estimated useful lives associated with the amortization of these deferred costs. The amount of adjustment to increase the financing fees net of accumulated amortization for the prior periods was approximately \$361,000 and is recorded as other income in the 2017 consolidated statement of activities. Amortization expense will increase approximately \$60,000 per year for future periods.

#### 4. Investments

The following are major categories of investments grouped by the fair value hierarchy at June 30, 2017:

	Level 1	Level 3	Total
Equities			
Large CAP	\$ 618,224	\$ -	\$ 618,224
Mid CAP	118,320	-	118,320
Foreign	437,568	-	437,568
Bonds			
High - Yield Corporate Bond	230,347	-	230,347
Intermediate	912,955	-	912,955
REIT	230,634	-	230,634
Total	\$ 2,548,048	\$ -	\$ 2,548,048
Board designated fund-investments	\$ 2,548,048	\$ -	\$ 2,548,048
Beneficial interest in assets held by the Alaska Community Foundation	\$ -	\$ 105,631	\$ 105,631

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 4. Investments (continued)

The following are major categories of investments grouped by the fair value hierarchy at June 30, 2016:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Equities			
Large CAP	\$ 524,574	\$ -	\$ 524,574
Mid CAP	97,296	-	97,296
Foreign	364,188	-	364,188
Bonds			
High - Yield Corporate Bond	208,774	-	208,774
Intermediate	1,717,754	-	1,717,754
REIT	<u>235,168</u>	<u>-</u>	<u>235,168</u>
Total	<u>\$ 3,147,754</u>	<u>\$ -</u>	<u>\$ 3,147,754</u>
Unrestricted investments	\$ 22,566	\$ -	\$ 22,566
Board designated fund-investments	<u>3,125,188</u>	<u>-</u>	<u>3,125,188</u>
	<u>\$ 3,147,754</u>	<u>\$ -</u>	<u>\$ 3,147,754</u>
Beneficial interest in assets held by the Alaska Community Foundation	<u>\$ -</u>	<u>\$ 96,671</u>	<u>\$ 96,671</u>

Investment income for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 83,926	\$ 86,855
Realized gain	7,611	7,485
Change in unrealized gain	<u>113,216</u>	<u>43,276</u>
	<u>\$ 204,753</u>	<u>\$ 137,616</u>

The beneficial interest in assets held by the Alaska Community Foundation (the "Foundation") has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of the measurement date. The Foundation values securities and other financial instruments on a fair value basis. The estimated fair values of certain investments of the Foundation, which include closely held stocks for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The beneficial interest in assets held by the Alaska Community Foundation is not redeemable by the Organization.

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 4. Investments (continued)

The table below presents information about fair value measurements that use significant unobservable inputs (Level 3):

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 96,671	\$ 98,733
Net gain (realized/unrealized)	<u>8,960</u>	<u>(2,062)</u>
Ending balance	<u>\$ 105,631</u>	<u>\$ 96,671</u>

#### 5. Grants Receivable

Grants receivable of \$708,656 and \$822,466 at June 30, 2017 and 2016, represent the amounts due from various governmental agencies for the Organization's programs. All grants receivable as of June 30, 2017 are expected to be collected within one year.

#### 6. Pledges and Contributions Receivable

Pledges and contributions receivable are expected to be received as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Within one year	\$ 108,572	\$ 346,797
Between one and five years	<u>37,875</u>	<u>37,875</u>
	<u>\$ 146,447</u>	<u>\$ 384,672</u>

A discount to reflect multi-year pledges receivables has not been recorded, as the amount is immaterial.

#### 7. Note Receivable

In connection with the NMTC transaction (Note 9), in September 2012, the Organization 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 XXXIX, LLC ("Consortium"), (collectively, the "CDEs"). CDEs then made two loans in the amount of \$12,813,000 (Note A) and \$4,487,000 (Note B) to CHH.

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

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 8. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 15,605,020	\$ 15,605,020
Building improvements	1,317,555	1,239,764
Equipment	<u>1,218,431</u>	<u>1,088,845</u>
	18,141,006	17,933,629
Accumulated depreciation and amortization	<u>(2,455,076)</u>	<u>(1,827,657)</u>
	15,685,930	16,105,972
Land	<u>2,785,011</u>	<u>2,785,011</u>
	<u>\$ 18,470,941</u>	<u>\$ 18,890,983</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$627,419 and \$583,463, respectively.

#### 9. Long-Term Debt

In September 2012, Covenant House Holdings, LLC (“CHH”) was formed for the purpose of participation in a New Markets Tax Credit (“NMTC”) financing transaction to assist in the building of a new Youth Engagement Center Facility pursuant to Section 45D of the Internal Revenue Code. The NMTC program is administered by the Community Development Financial Institutions Fund (“CDFI Fund”), a division of the U.S. Treasury Department, attracts private investment by awarding federal income tax credits to investors in return for their equity investments in qualified projects. A Community Development Entity (CDE) administers these qualified equity investments. These credits, equal to 39% of the investment made, are a dollar-for-dollar reduction in an investor’s tax liability, and are claimed over a seven year period. The seven year compliance period will end in June 2020. 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 and thereby forgive the loans.

On September 6, 2012, CHH received mortgage loans from three CDE’s. The loans were comprised of Loan A amounts totaling \$12,813,000 and Loan B amounts totaling \$4,487,000. Each of the A Notes is secured by the mortgage with respect to the Center. A Notes are interest only until June 5, 2020 at an interest rate of 0.744% per annum and are payable monthly. Any accrued but unpaid interest and unpaid principal on the A Notes is due in full on June 6, 2020. Each of the B Notes is secured by the mortgage with respect to the Center. Interest accrues on the B Notes at 0.744% per annum and is payable monthly through June 6, 2020, at which time monthly payments of interest and principal sufficient to fully repay the B Notes by October 1, 2042 are required.

The total amount of interest expense related to the credit arrangement described above totaled \$193,994 and \$134,480 for the years ended June 30, 2017 and 2016.

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 9. Long-Term Debt *(continued)*

At June 30, long-term debt consisted of the following:

	2017	2016
<u>Note A</u>		
Wells Fargo Note A	\$ 5,277,000	\$ 5,277,000
Brownfield Note A	4,521,600	4,521,600
Consortium Note A	3,014,400	3,014,400
Total Note A	12,813,000	12,813,000
<u>Note B</u>		
Wells Fargo Note B	2,223,000	2,223,000
Brownfield Note B	1,358,400	1,358,400
Consortium Note B	905,600	905,600
Total Note B	4,487,000	4,487,000
Long-Term Debt	\$ 17,300,000	\$ 17,300,000
Less: Unamortized debt issuance costs	(323,069)	(27,890)
Long-Term Debt, net	\$ 16,976,931	\$ 17,272,110

#### 10. Deferred Realized Gain

In September 2015, the Organization sold a property to Cook Inlet Tribal Council (“CITC”) for \$1,533,764. Immediately before the transaction, the property was carried at a cost of \$1,043,004. CITC agreed to expend \$2.1 million to refurbish the property to expand the capacity of the transitional living program. At the same time, the Organization entered into a lease with CITC for the right to use the property for 10 years, with monthly payments of \$2,500 and with two 5 year renewal options at a rent amount to be determined at the time of each renewal. Accordingly, the Organization accounted for the transaction as a sale and leaseback.

As result of this sale-leaseback transaction a realized gain on sale in amount of \$490,760 was realized. Since the lease with CITC is an operating lease, the gain is amortized to income in proportion to rent expense over the remaining lease term, on a straight-line basis. For the years ended June 30, 2017 and 2016, gain amortized to income was \$18,404 and \$0. At June 30, 2017 and 2016, deferred realized gain was as follows:

	2017	2016
Deferred realized gain	\$ 472,356	\$ 490,760
Current portion of deferred realized gain	(24,538)	(18,404)
Deferred realized gain, net of current portion	\$ 447,818	\$ 472,356

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 11. Leases

As described in Note 9, the Organization entered into a lease with CITC for the right to use the property for 10 years, with monthly payments of \$2,500 and with two 5 year renewal options at a rent amount to be determined at the time of each renewal. Beginning July 2017, monthly rental payments were increased up to \$3,708 to cover the cost of improvements above \$2.1 million permitted in the purchase and sale agreement.

In addition, the Organization entered into a lease with CITC for the right to use a program space under non-cancellable operating lease, with monthly payments of \$1,450. Lease term commenced on July 1, 2015 and shall continue until June 30, 2020.

The Organization leases its office equipment under non-cancellable operating leases.

Future minimum annual lease payments at June 30, 2017 for the years ending June 30 are payable as follows:

2018	\$ 78,533
2019	79,652
2020	74,286
2021	45,618
2022	44,499
Thereafter	<u>189,120</u>
	<u>\$ 511,708</u>

Rent expense under these leases was \$47,702 and \$22,132 for the years ended June 30, 2017 and 2016.

#### ***Lease Between the Organization and CHH***

On September 6, 2012, the Organization entered into a lease (the "Ground Lease") with CHH, whereby the Organization leased the property to CHH. Pursuant to the Ground Lease, CHH agreed to pay the Organization a one time lump sum rental payment of \$100. The term of the Ground Lease is 65 years from September 6, 2012 through September 30, 2077.

On September 6, 2012, CHH entered into the lease with the Organization (the "Lease"), whereby CHH subleased the Center to the Organization. The Lease expires on September 30, 2042. Pursuant to the Lease, the Organization pays a base monthly rent to CHH, commencing on February 1, 2014 and continuing through September 30, 2042. The Organization has an option to extend the lease for an additional term of five years commencing October 1, 2042.

Lease expenses between the Organization and CHH are eliminated in consolidation.

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 12. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, are available for the following:

	2017	2016
Time-restricted contributions	\$ 116,447	\$ 156,143
Purpose-restricted contributions	242,198	1,223,984
	\$ 358,645	\$ 1,380,127

Amounts released from restrictions in the years ended June 30, are as follows:

	2017	2016
Time-restricted contributions	\$ 150,855	\$ 225,240
Purpose-restricted contributions	1,201,786	-
	\$ 1,352,641	\$ 225,240

#### 13. Board Designated Funds

In May 2014, Board approved the establishment of a Board designated fund. The purpose of the fund is to segregate funds for social enterprise project, building maintenance fund and for income and growth. On April 16, 2015, the Board approved \$2,056,015 to the board designated fund from the sale of the property located at 609 F Street. On December 8, 2015, the Board approved additional \$1 million to the board designated fund from the sale of the property located at 750 West 5th Ave. Interest and dividends from the investment designated to the fund are transferred to the fund each year.

Board designated funds consisted of the following at June 30:

	2017	2016
Social enterprise fund	\$ -	\$ 485,938
New building maintenance fund	138,875	138,875
Income and growth	2,548,048	3,125,188
	\$ 2,686,923	\$ 3,750,001

The Board designated fund is invested in accordance with the Organization's investment policy. Investments are placed in a diversified balanced portfolio consisting of equity securities, fixed income securities, alternative investments and cash equivalents. The Organization expects its portfolio to achieve returns comparable to nationally recognized market indices. In addition, the Organization will conduct performance comparisons against nationally recognized balanced fund managers and market indices.

In accordance with the Board's directive, spending will be limited to 4 percent of the average assets for unrestricted use beginning fiscal year 2016. Once four years of investment returns are achieved, the policy will be to transfer the average annual observed return over the trailing sixteen quarters.

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 13. Board Designated Funds *(continued)*

The Board approved to disburse \$1,566,714 and \$0 in board designated funds for general operations for fiscal year 2017 and 2016. In 2016, \$100,000 was granted to an affiliate in Latin America and \$17,140 and \$14,062 were transferred from the building maintenance fund and social enterprise funds.

The following table is an analysis of the changes in the Board designated fund for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Board designated funds, beginning of year	\$ 3,750,001	\$ 2,777,576
Interest and dividend income	82,607	77,825
Net gain (realized and unrealized)	121,029	25,802
Transfers in	300,000	1,000,000
Transfers out	<u>(1,566,714)</u>	<u>(131,202)</u>
Board designated funds, end of year	<u>\$ 2,686,923</u>	<u>\$ 3,750,001</u>

#### 14. Commitments and Contingencies

Expenses incurred pursuant to the grants and contracts are subject to audit by governmental agencies or their representatives. Amounts reflected in the consolidated financial statements and expenses in prior periods have generally not been audited by the grantor agencies. Accordingly, adjustments to amounts received could result if the grants and contracts are audited by such agencies.

#### 15. Employee Benefit Plan

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan. Employees are immediately eligible to participate in the plan. Employees who work at least 1,000 hours per year are eligible to receive an employer contribution. The Organization makes annual contributions into the plan on behalf of employees ranging from 1% to 9% of employee compensation determined using a formula based on points, which equal the sum of age and years of service. Employer contributions to the plan are 100% vested after employees have completed three years of service. Total expense related to the 403(b) plan was \$80,013 and \$71,103 for the years ended June 30, 2017 and 2016.

#### 16. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash, cash equivalents and receivables from grants. The Organization maintains its cash in bank deposit accounts which generally exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization does not have a material concentration of credit risk with respect to program service receivables, due to generally short payment terms and the dispersion of its customers throughout the United States.

## Covenant House Alaska

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### 17. Donated Goods and Services

##### *Contributed Services*

Volunteers in the community provided approximately 6,642 and 5,600 hours of contributed services to the Organization for the years ended June 30, 2017 and 2016. The value of these services performed and the expenses associated with these volunteers were estimated to be approximately \$184,660 and \$160,000 for the years ended June 30, 2017 and 2016. The value of these services is not recorded in the accompanying consolidated financial statements as the criteria for recording such services was not met.

##### *Contributed Goods and Services*

The Organization received goods and services from unrelated organizations with an estimated fair value of \$202,780 and \$198,527, during the years ended June 30, 2017 and 2016.

#### 18. Related Party Transactions (*not disclosed elsewhere*)

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of the affiliates. Contributions and promises to give totaled approximately \$66 million and \$64.3 million for the Parent in the years ended June 30, 2017 and 2016. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

The Parent combines contributions received from individuals, corporations and foundations plus a Parent subsidy and appropriates funds classified as "Branding Dollars" or "Contributions Received from Parent" to each Covenant House affiliate. Total funds allocated to affiliates, based on the Parent's policy, approximated \$36 million and \$33.6 million for the years ended June 30, 2017 and 2016. In 2017 and 2016, the Organization received \$606,000 and \$636,000 in "Branding Dollars" and \$200,728 and \$167,248 related to national sleep out event from the Parent.

\* \* \* \* \*

**Covenant House Alaska**

Supplementary Information  
June 30, 2017 and 2016

**Covenant House Alaska**  
Consolidating Schedule of Financial Position  
June 30, 2017

<b>ASSETS</b>	<u>Covenant House Alaska</u>	<u>Covenant House Holdings</u>	<u>Eliminations</u>	<u>Total Consolidated</u>
Current Assets				
Cash and cash equivalents	\$ 89,019	\$ 15,667	\$ -	\$ 104,686
Restricted cash	138,875	30,000	-	168,875
Grants receivable	708,656	-	-	708,656
Pledges and contributions receivable	108,572	-	-	108,572
Other receivables	31,495	4,178,472	(4,178,472)	31,495
Prepaid expenses and other current assets	<u>56,509</u>	<u>-</u>	<u>-</u>	<u>56,509</u>
Total Current Assets	1,133,126	4,224,139	(4,178,472)	1,178,793
Pledges and contributions receivable, non-current	37,875	-	-	37,875
Restricted cash, non-current	-	60,000	-	60,000
Board designated fund	2,548,048	-	-	2,548,048
Note receivable	12,813,000	-	-	12,813,000
Property and equipment, net	4,280,612	14,190,329	-	18,470,941
Beneficial interest in assets held by the Alaska Community Foundation	105,631	-	-	105,631
Other assets	-	69,869	(69,869)	-
Total Assets	<u>\$ 20,918,292</u>	<u>\$ 18,544,337</u>	<u>\$ (4,248,341)</u>	<u>\$ 35,214,288</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities				
Accounts payable and accrued expenses	\$ 564,019	\$ 10,727	\$ -	\$ 574,746
Due to affiliates	4,239,552	-	(4,178,472)	61,080
Deferred realized gain, current	<u>24,538</u>	<u>-</u>	<u>-</u>	<u>24,538</u>
Total Current Liabilities	4,828,109	10,727	(4,178,472)	660,364
Deferred realized gain, net of current portion	447,818	-	-	447,818
Long-term debt, net of debt issuance costs	<u>-</u>	<u>16,976,931</u>	<u>-</u>	<u>16,976,931</u>
Total Liabilities	<u>5,275,927</u>	<u>16,987,658</u>	<u>(4,178,472)</u>	<u>18,085,113</u>
Net Assets				
Unrestricted				
Undesignated	10,997,156	1,556,679	(69,869)	12,483,966
Board designated	2,686,923	-	-	2,686,923
Investment in property and equipment	<u>1,494,010</u>	<u>-</u>	<u>-</u>	<u>1,494,010</u>
Total Unrestricted	15,178,089	1,556,679	(69,869)	16,664,899
Temporarily restricted	358,645	-	-	358,645
Permanently restricted	<u>105,631</u>	<u>-</u>	<u>-</u>	<u>105,631</u>
Total Net Assets	<u>15,642,365</u>	<u>1,556,679</u>	<u>(69,869)</u>	<u>17,129,175</u>
Total Liabilities and Net Assets	<u>\$ 20,918,292</u>	<u>\$ 18,544,337</u>	<u>\$ (4,248,341)</u>	<u>\$ 35,214,288</u>

**Covenant House Alaska**  
Consolidating Schedule of Financial Position  
June 30, 2016

	Covenant House Alaska	Covenant House Holdings	Eliminations	Total Consolidated
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 946,235	\$ 9,497	\$ -	\$ 955,732
Restricted cash	166,627	30,000	-	196,627
Investments	22,566	-	-	22,566
Grants receivable	822,466	-	-	822,466
Pledges and contributions receivable	346,797	-	-	346,797
Other receivables	28,737	3,356,916	(3,356,916)	28,737
Prepaid expenses and other current assets	65,847	-	-	65,847
Total Current Assets	2,399,275	3,396,413	(3,356,916)	2,438,772
Pledges and contributions receivable, non-current	37,875	-	-	37,875
Restricted cash, non-current	-	90,000	-	90,000
Board designated fund	3,125,188	-	-	3,125,188
Note receivable	12,813,000	-	-	12,813,000
Property and equipment, net	4,224,747	14,666,236	-	18,890,983
Beneficial interest in assets held by the Alaska Community Foundation	96,671	-	-	96,671
Other assets	-	616,064	(616,064)	-
Total Assets	\$ 22,696,756	\$ 18,768,713	\$ (3,972,980)	\$ 37,492,489
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities				
Accounts payable and accrued expenses	\$ 390,643	\$ 10,726	\$ -	\$ 401,369
Due to affiliates	3,605,143	-	(3,356,916)	248,227
Deferred realized gain, current	18,404	-	-	18,404
Total Current Liabilities	4,014,190	10,726	(3,356,916)	668,000
Deferred realized gain, net of current portion	472,356	-	-	472,356
Long-term debt, net of debt issuance costs	-	17,272,110	-	17,272,110
Total Liabilities	4,486,546	17,282,836	(3,356,916)	18,412,466
Net Assets				
Unrestricted				
Undesignated	11,392,428	1,485,877	(616,064)	12,262,241
Board designated	3,750,001	-	-	3,750,001
Investment in property and equipment	1,590,983	-	-	1,590,983
Total Unrestricted	16,733,412	1,485,877	(616,064)	17,603,225
Temporarily restricted	1,380,127	-	-	1,380,127
Permanently restricted	96,671	-	-	96,671
Total Net Assets	18,210,210	1,485,877	(616,064)	19,080,023
Total Liabilities and Net Assets	\$ 22,696,756	\$ 18,768,713	\$ (3,972,980)	\$ 37,492,489

**Covenant House Alaska**  
Consolidating Schedule of Activities  
Year Ended June 30, 2017

	<u>Covenant House Alaska</u>	<u>Covenant House Holdings</u>	<u>Eliminations</u>	<u>Total</u>
<b>PUBLIC SUPPORT, REVENUES AND GAINS</b>				
Public Support				
Branding dollars from Parent	\$ 606,000	\$ -	\$ -	\$ 606,000
Grants from Parent related to sleepout events	200,728	-	-	200,728
Contributions	2,048,709	-	-	2,048,709
Special events revenue	475,385	-	-	475,385
Less: Cost of direct benefit to donors	<u>(202,780)</u>	<u>-</u>	<u>-</u>	<u>(202,780)</u>
Total Public Support	<u>3,128,042</u>	<u>-</u>	<u>-</u>	<u>3,128,042</u>
Revenues and Gains				
Grant income	1,798,985	-	-	1,798,985
Interest income	1,333	-	-	1,333
Investment income	204,753	-	-	204,753
Change in value of beneficial interest in Alaska Community Foundation	8,960	-	-	8,960
Other income	<u>210,288</u>	<u>1,398,894</u>	<u>(1,038,354)</u>	<u>570,828</u>
Total Revenues and Gains	<u>2,224,319</u>	<u>1,398,894</u>	<u>(1,038,354)</u>	<u>2,584,859</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenues and Gains	<u>5,352,361</u>	<u>1,398,894</u>	<u>(1,038,354)</u>	<u>5,712,901</u>
<b>EXPENSES</b>				
Program Services				
Shelter	3,733,246	712,028	(968,485)	3,476,789
Transitional living - Rights of Passage	1,048,305	-	-	1,048,305
Employment and Education	595,277	-	-	595,277
Transitional living - Mother/Child	523,074	-	-	523,074
Medical	77,653	-	-	77,653
Outreach	<u>683,418</u>	<u>-</u>	<u>-</u>	<u>683,418</u>
Total Program Services	<u>6,660,973</u>	<u>712,028</u>	<u>(968,485)</u>	<u>6,404,516</u>
Supporting Services				
Management and general	598,448	-	-	598,448
Fundraising and special events	<u>660,785</u>	<u>-</u>	<u>-</u>	<u>660,785</u>
Total Supporting Services	<u>1,259,233</u>	<u>-</u>	<u>-</u>	<u>1,259,233</u>
Total Expenses	<u>7,920,206</u>	<u>712,028</u>	<u>(968,485)</u>	<u>7,663,749</u>
Change in Net Assets	(2,567,845)	686,866	(69,869)	(1,950,848)
<b>NET ASSETS</b>				
Beginning of year	<u>18,210,210</u>	<u>869,813</u>	<u>-</u>	<u>19,080,023</u>
End of year	<u>\$ 15,642,365</u>	<u>\$ 1,556,679</u>	<u>\$ (69,869)</u>	<u>\$ 17,129,175</u>

See independent auditors' report

**Covenant House Alaska**  
Consolidating Schedule of Activities  
Year Ended June 30, 2016

	Covenant House Alaska	Covenant House Holdings	Eliminations	Total
<b>PUBLIC SUPPORT, REVENUES AND GAINS</b>				
Public Support				
Branding dollars from Parent	\$ 636,000	\$ -	\$ -	\$ 636,000
Grants from Parent related to sleepout events	167,248	-	-	167,248
Contributions	1,920,857	-	-	1,920,857
Special events revenue	682,642	-	-	682,642
Less: Cost of direct benefit to donors	(198,527)	-	-	(198,527)
Total Public Support	<u>3,208,220</u>	<u>-</u>	<u>-</u>	<u>3,208,220</u>
Revenues and Gains				
Grant income	2,202,666	-	-	2,202,666
Interest income	1,843	-	-	1,843
Investment income	137,616	-	-	137,616
Change in value of beneficial interest in Alaska Community Foundation	(2,062)	-	-	(2,062)
Other income	148,841	966,556	(966,556)	148,841
Total Revenues and Gains	<u>2,488,904</u>	<u>966,556</u>	<u>(966,556)</u>	<u>2,488,904</u>
Net assets released from restrictions	-	-	-	-
Total Public Support, Revenues and Gains	<u>5,697,124</u>	<u>966,556</u>	<u>(966,556)</u>	<u>5,697,124</u>
<b>EXPENSES</b>				
Program Services				
Shelter	3,633,948	692,896	(966,556)	3,360,288
Transitional living - Rights of Passage	803,327	-	-	803,327
Employment and Education	333,140	-	-	333,140
Transitional living - Mother/Child	486,810	-	-	486,810
Medical	97,294	-	-	97,294
Outreach	399,284	-	-	399,284
Total Program Services	<u>5,753,803</u>	<u>692,896</u>	<u>(966,556)</u>	<u>5,480,143</u>
Supporting Services				
Management and general	737,905	20,612	-	758,517
Fundraising and special events	690,799	-	-	690,799
Total Supporting Services	<u>1,428,704</u>	<u>20,612</u>	<u>-</u>	<u>1,449,316</u>
Total Expenses	<u>7,182,507</u>	<u>713,508</u>	<u>(966,556)</u>	<u>6,929,459</u>
Change in Net Assets	(1,485,383)	253,048	-	(1,232,335)
<b>NET ASSETS</b>				
Beginning of year	<u>19,079,529</u>	<u>616,765</u>	<u>616,064</u>	<u>20,312,358</u>
End of year	<u>\$ 17,594,146</u>	<u>\$ 869,813</u>	<u>\$ 616,064</u>	<u>\$ 19,080,023</u>

See independent auditors' report