

Covenant House Alaska

Consolidated Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2016 and 2015

Covenant House Alaska

Consolidated Financial Statements and Uniform Guidance Schedules Together With Independent Auditors' Reports

June 30, 2016 and 2015

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Independent Auditors' Report

Board of Directors
Covenant House Alaska

Report on the Consolidated Financial Statements

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, 2016 and 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2016 and 2015, 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.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented on page 27 for purposes of additional analysis and is not required part of the 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

New York, New York
December 23, 2016

Covenant House Alaska
Consolidated Statements of Financial Position

	June 30,	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 955,732	\$ 1,149,726
Restricted cash	196,627	291,893
Investments	22,566	488,577
Grants receivable	822,466	512,407
Pledges and contributions receivable	346,797	336,158
Other receivables	28,737	8,055
Property held for sale	-	1,043,004
Prepaid expenses and other current assets	65,847	33,345
Total Current Assets	2,438,772	3,863,165
Pledges and contributions receivable, noncurrent	37,875	45,225
Restricted cash, noncurrent	90,000	120,000
Board designated fund	3,125,188	2,021,561
Note receivable	12,813,000	12,813,000
Property and equipment, net	18,890,983	19,078,711
Beneficial interest in assets held by the Alaska Community Foundation	96,671	98,733
Other assets, noncurrent	27,890	33,547
	\$ 37,520,379	\$ 38,073,942
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 401,369	\$ 435,417
Due to affiliates	248,227	26,167
Deferred realized gain, current	18,404	-
Total Current Liabilities	668,000	461,584
Deferred realized gain, net of current portion	472,356	-
Long-term debt	17,300,000	17,300,000
Total Liabilities	18,440,356	17,761,584
Net Assets		
Unrestricted		
Undesignated	12,262,241	15,275,955
Board designated	3,750,001	2,777,576
Investment in property and equipment	1,590,983	1,778,711
Total Unrestricted	17,603,225	19,832,242
Temporarily restricted	1,380,127	381,383
Permanently restricted	96,671	98,733
Total Net Assets	19,080,023	20,312,358
	\$ 37,520,379	\$ 38,073,942

See notes to consolidated financial statements

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT, REVENUES AND GAINS				
Public Support				
Branding dollars from Parent	\$ 636,000	\$ -	\$ -	\$ 636,000
Grants from Parent related to national sleepout event	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	<u>(198,527)</u>	<u>-</u>	<u>-</u>	<u>(198,527)</u>
Total Public Support	<u>3,208,220</u>	<u>-</u>	<u>-</u>	<u>3,208,220</u>
Revenues and Gains				
Grant income	978,682	1,223,984	-	2,202,666
Interest income	88,698	-	-	88,698
Realized and unrealized gain on investments	50,761	-	-	50,761
Change in value of beneficial interest in Alaska				
Community Foundation	-	-	(2,062)	(2,062)
Other income	<u>148,841</u>	<u>-</u>	<u>-</u>	<u>148,841</u>
Total Revenues and Gains	<u>1,266,982</u>	<u>1,223,984</u>	<u>(2,062)</u>	<u>2,488,904</u>
Net assets released from restrictions	<u>225,240</u>	<u>(225,240)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenues and Gains	<u>4,700,442</u>	<u>998,744</u>	<u>(2,062)</u>	<u>5,697,124</u>
EXPENSES				
Program Services				
Shelter	3,360,288	-	-	3,360,288
Transitional living - Rights to 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	<u>399,284</u>	<u>-</u>	<u>-</u>	<u>399,284</u>
Total Program Services	<u>5,480,143</u>	<u>-</u>	<u>-</u>	<u>5,480,143</u>
Supporting Services				
Management and general	758,517	-	-	758,517
Fundraising and special events	<u>690,799</u>	<u>-</u>	<u>-</u>	<u>690,799</u>
Total Supporting Services	<u>1,449,316</u>	<u>-</u>	<u>-</u>	<u>1,449,316</u>
Total Expenses	<u>6,929,459</u>	<u>-</u>	<u>-</u>	<u>6,929,459</u>
Change in Net Assets	(2,229,017)	998,744	(2,062)	(1,232,335)
NET ASSETS				
Beginning of year	<u>19,832,242</u>	<u>381,383</u>	<u>98,733</u>	<u>20,312,358</u>
End of year	<u>\$ 17,603,225</u>	<u>\$ 1,380,127</u>	<u>\$ 96,671</u>	<u>\$ 19,080,023</u>

See notes to consolidated financial statements

Covenant House Alaska
Consolidated Statement of Activities
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT, REVENUES AND GAINS				
Public Support				
Branding dollars from Parent	\$ 696,000	\$ -	\$ -	\$ 696,000
Grants from Parent related to national sleepout event	91,560	-	-	91,560
Contributions	1,558,275	171,990	-	1,730,265
Special events revenue	785,302	-	-	785,302
Less: Cost of direct benefit to donors	<u>(242,783)</u>	<u>-</u>	<u>-</u>	<u>(242,783)</u>
Total Public Support	<u>2,888,354</u>	<u>171,990</u>	<u>-</u>	<u>3,060,344</u>
Revenues and Gains				
Grant income	1,793,427	-	-	1,793,427
Interest income	19,956	-	-	19,956
Unrealized loss on investments	<u>(57,349)</u>	<u>-</u>	<u>-</u>	<u>(57,349)</u>
Change in value of beneficial interest in Alaska				
Community Foundation	-	-	(1,267)	(1,267)
Other income	<u>230,277</u>	<u>-</u>	<u>-</u>	<u>230,277</u>
Total Revenues and Gains	<u>1,986,311</u>	<u>-</u>	<u>(1,267)</u>	<u>1,985,044</u>
Net assets released from restrictions	<u>256,915</u>	<u>(256,915)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenues and Gains	<u>5,131,580</u>	<u>(84,925)</u>	<u>(1,267)</u>	<u>5,045,388</u>
EXPENSES				
Program Services				
Shelter	3,304,130	-	-	3,304,130
Transitional living - Rights to Passage	816,381	-	-	816,381
Employment and Education	359,590	-	-	359,590
Transitional living - Mother/Child	505,517	-	-	505,517
Medical	120,709	-	-	120,709
Outreach	<u>288,351</u>	<u>-</u>	<u>-</u>	<u>288,351</u>
Total Program Services	<u>5,394,678</u>	<u>-</u>	<u>-</u>	<u>5,394,678</u>
Supporting Services				
Management and general	614,629	-	-	614,629
Fundraising and special events	<u>580,584</u>	<u>-</u>	<u>-</u>	<u>580,584</u>
Total Supporting Services	<u>1,195,213</u>	<u>-</u>	<u>-</u>	<u>1,195,213</u>
Total Expenses	<u>6,589,891</u>	<u>-</u>	<u>-</u>	<u>6,589,891</u>
Change in Net Assets	(1,458,311)	(84,925)	(1,267)	(1,544,503)
NET ASSETS				
Beginning of year	21,390,553	466,308	-	21,856,861
Transfer to the Alaska Community Foundation	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>	<u>-</u>
End of year	<u>\$ 19,832,242</u>	<u>\$ 381,383</u>	<u>\$ 98,733</u>	<u>\$ 20,312,358</u>

See notes to consolidated financial statements

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
Total Salaries and Related Expenses	2,159,025	644,357	202,743	368,199	63,211	267,531	3,705,066	385,534	354,038	-	739,572	4,444,638
Accounting fees	-	-	-	-	-	-	-	37,167	-	-	37,167	37,167
Legal fees	-	-	-	-	-	-	-	1,484	-	-	1,484	1,484
Supplies	18,416	2,146	650	1,676	600	1,371	24,859	7,016	74,403	-	81,419	106,278
Telephone	13,286	9,899	5,422	7,806	-	6,379	42,792	2,312	2,865	-	5,177	47,969
Postage and printing	1,377	35	282	258	-	627	2,579	3,371	24,147	-	27,518	30,097
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	-	3,745	63,687	-	-	-	-	63,687
Lease expense	147	31,036	2,316	10,107	-	1,158	44,764	6,301	4,544	-	10,845	55,609
Equipment	15,874	259	-	5,937	-	5,170	27,240	-	-	-	-	27,240
Transportation	6,584	557	5,286	1,991	768	3,979	19,165	23,827	9,882	-	33,709	52,874
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
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
Dues, licenses and permits	1,892	683	5,363	690	200	1,008	9,836	5,872	9,392	-	15,264	25,100
Subscriptions and publications	244	-	109	-	1,957	209	2,519	450	1,980	-	2,430	4,949
Staff recruitment	2,269	-	-	-	-	-	2,269	13,435	-	-	13,435	15,704
Insurance	60,548	22,562	5,418	13,806	2,005	9,345	113,684	543	13,776	-	14,319	128,003
Miscellaneous	14,267	1,369	8,916	3,726	454	2,113	30,844	160,402	71,532	-	231,934	262,778
Bank charges and fees	72,976	-	6,964	-	2,117	8,332	90,389	41,284	22,500	-	63,784	154,173
Total Functional Expenses before Depreciation	2,899,013	803,327	292,469	472,420	84,931	347,783	4,899,943	749,597	690,799	198,527	1,638,923	6,538,866
Depreciation	461,275	-	40,671	14,390	12,363	51,501	580,200	8,920	-	-	8,920	589,120
Total Functional Expenses	3,360,288	803,327	333,140	486,810	97,294	399,284	5,480,143	758,517	690,799	198,527	1,647,843	7,127,986
Less: Cost of direct benefits to donor	-	-	-	-	-	-	-	-	-	(198,527)	(198,527)	(198,527)
Total Expenses Reported by Function on the Statement of Activities	\$ 3,360,288	\$ 803,327	\$ 333,140	\$ 486,810	\$ 97,294	\$ 399,284	\$ 5,480,143	\$ 758,517	\$ 690,799	\$ -	\$ 1,449,316	\$ 6,929,459

Covenant House Alaska

Statement of Functional Expenses
Year Ended June 30, 2015

	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	\$ 1,448,318	\$ 347,272	\$ 172,498	\$ 272,474	\$ 77,812	\$ 144,172	\$ 2,462,546	\$ 205,114	\$ 233,387	\$ -	\$ 438,501	\$ 2,901,047
Employee benefits	564,693	162,222	80,529	85,960	702	57,926	952,032	26,893	53,353	-	80,246	1,032,278
Payroll taxes	131,237	32,022	16,471	25,529	6,728	13,638	225,625	17,889	20,890	-	38,779	264,404
Total Salaries and Related Expenses	2,144,248	541,516	269,498	383,963	85,242	215,736	3,640,203	249,896	307,630	-	557,526	4,197,729
Accounting fees	-	-	-	-	-	-	-	27,282	-	-	27,282	27,282
Legal fees	-	-	-	-	-	-	-	670	-	-	670	670
Supplies	26,152	1,298	1,488	1,165	607	1,191	31,901	10,128	71,370	-	81,498	113,399
Telephone	11,287	6,747	2,910	3,224	-	3,554	27,722	5,286	2,501	-	7,787	35,509
Postage and printing	1,317	238	245	329	-	1,802	3,931	4,426	22,333	-	26,759	30,690
Occupancy												
Fuel and utilities	74,263	36,423	28,336	6,592	-	19,132	164,746	-	-	-	-	164,746
Repairs and maintenance	20,447	3,543	2,142	5,999	-	2,192	34,323	-	-	-	-	34,323
Lease expense	14,173	5,988	2,421	6,237	-	2,421	31,240	4,981	4,266	-	9,247	40,487
Equipment	12,068	1,330	-	124	120	1,154	14,796	-	-	-	-	14,796
Transportation	12,438	1,041	-	2,644	-	4,447	20,570	19,099	5,041	-	24,140	44,710
Specific Assistance to Individuals												
Food	136,470	11,658	868	7,584	-	5,627	162,207	-	-	-	-	162,207
Medical	-	-	-	-	11,998	-	11,998	-	-	-	-	11,998
Clothing, allowance and other	64,549	4,546	17,385	8,710	-	3,184	98,374	-	-	-	-	98,374
Contributed clothing and merchandise	47,278	-	-	-	-	-	47,278	-	-	193,555	193,555	240,833
Other purchased services	205,162	47,031	10,743	28,314	3,552	8,382	303,184	98,454	93,563	49,228	241,245	544,429
Dues, licenses and permits	1,510	644	132	425	4,199	154	7,064	4,879	2,525	-	7,404	14,468
Subscriptions and publications	1,296	308	195	259	498	84	2,640	1,550	328	-	1,878	4,518
Staff recruitment	-	-	-	-	-	-	-	21,065	-	-	21,065	21,065
Insurance	59,875	17,220	7,867	16,879	2,488	8,973	113,302	4,556	18,397	-	22,953	136,255
Miscellaneous	9,051	3,025	3,357	5,030	51	1,166	21,680	90,128	35,207	-	125,335	147,015
Bank charges and fees	-	-	-	-	-	-	-	38,518	902	-	39,420	39,420
Total Functional Expenses Before Depreciation and Amortization	2,841,584	682,556	347,587	477,478	108,755	279,199	4,737,159	580,918	564,063	242,783	1,387,764	6,124,923
Depreciation and amortization	462,546	133,825	12,003	28,039	11,954	9,152	657,519	33,711	16,521	-	50,232	707,751
Total Functional Expenses	3,304,130	816,381	359,590	505,517	120,709	288,351	5,394,678	614,629	580,584	242,783	1,437,996	6,832,674
Less: Cost of direct benefits to donor	-	-	-	-	-	-	-	-	-	(242,783)	(242,783)	(242,783)
Total Expenses Reported by Function on the Statement of Activities	\$ 3,304,130	\$ 816,381	\$ 359,590	\$ 505,517	\$ 120,709	\$ 288,351	\$ 5,394,678	\$ 614,629	\$ 580,584	\$ -	\$ 1,195,213	\$ 6,589,891

Covenant House Alaska
Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,232,335)	\$ (1,544,503)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	589,120	707,751
Gain on disposal of property and equipment	(490,760)	(18,515)
Realized and unrealized (gain) loss on investments	(50,761)	57,349
Unrealized loss on beneficial interest in the Alaska Community Foundation	2,062	1,267
Net change in operating assets and liabilities		
Grants receivable	(310,059)	(126,085)
Pledges and contributions receivable	(3,289)	84,925
Other receivables	(20,682)	(5,055)
Prepaid expenses and other current assets	(32,502)	(18,956)
Other assets	5,657	-
Accounts payable and accrued liabilities	(34,048)	127,390
Net Cash from Operating Activities	(1,577,597)	(734,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(401,392)	(9,094)
Proceeds from sale of property and equipment	1,533,764	2,156,015
Purchase of investments	(1,086,855)	(2,567,487)
Proceeds from sale of investments	500,000	-
Net Cash from Investing Activities	545,517	(420,566)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in amounts due to affiliates	222,060	39,909
Endowment investment in the Alaska Community Foundation	-	(100,000)
Deferred gain on sale leaseback of the building	490,760	-
Change in restricted cash	125,266	533,631
Net Cash from Financing Activities	838,086	473,540
Change in Cash and Cash Equivalents	(193,994)	(681,458)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,149,726	1,831,184
End of year	\$ 955,732	\$ 1,149,726
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 118,097	\$ 128,667
See notes to consolidated financial statements		

Covenant House Alaska

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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. The Parent is the sole member of the Organization and is itself a private not-for-profit organization which, through its affiliates, provides shelter, food, clothing, counseling, medical attention, crisis intervention, public education, and other services to approximately 47,000 (unaudited) and 51,000 (unaudited) runaway and homeless youths during the fiscal years ended June 30, 2016 and 2015.

The Organization is affiliated with the following not-for-profit organizations through common control.

- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- 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.
- Under 21 Boston, Inc.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House New York/Under 21
- Covenant International Foundation
- Asociacion Casa Alianza (Guatemala)
- Casa Alianza De Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Rights of Passage, Inc.
- 268 West 44th Corporation
- Fundacion Casa Alianza Mexico, I.A.P.

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, 2016 and 2015

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 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 offer's 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 of our 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, 2016 and 2015

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 introduce 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 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, 2016 and 2015

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 contains beneficial interests in assets held by a community foundation.

Revenue Recognition

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

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.

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, 2016 and 2015, CHH held cash deposits totaling \$120,000 and \$150,000 which are restricted to pay fees and expense reimbursements to certain entities with continuing involvement in the NMTC transaction. At June 30, 2016 and 2015, the restricted cash totaling \$166,627 and \$261,893 is part of the board designated fund.

Covenant House Alaska

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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

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.

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
Furniture and fixtures	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, 2016 and 2015.

Covenant House Alaska

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

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.

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.

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, 2013.

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 December 23, 2016.

Covenant House Alaska

Notes to Consolidated Financial Statements June 30, 2016 and 2015

3. Investments

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

	Level 1	Level 3	Total
Equities			
Large CAP	\$ 524,574	\$ -	\$ 524,574
Mid CAP	97,296	-	97,296
Foreign	364,188	-	364,188
Bonds			
High - Yeild Corporate Bond	208,774	-	208,774
Intermediate	1,717,754	-	1,717,754
REIT	235,168	-	235,168
Total Investments	<u>\$3,147,754</u>	<u>\$ -</u>	<u>\$ 3,147,754</u>
Unrestricted Investments	\$ 22,566	\$ -	\$ 22,566
Board designated fund-investments	3,125,188	-	3,125,188
	<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>

The following are major categories of investments grouped by the fair value hierarchy at June 30, 2015:

	Level 1	Level 3	Total
Equities			
Large CAP	\$ 504,629	\$ -	\$ 504,629
Mid CAP	102,863	-	102,863
Foreign	401,879	-	401,879
Bonds			
High - Yeild Corporate Bond	203,727	-	203,727
Intermediate	1,107,286	-	1,107,286
REIT	189,754	-	189,754
Total Investments	<u>\$2,510,138</u>	<u>\$ -</u>	<u>\$ 2,510,138</u>
Unrestricted Investments	\$ 488,577	\$ -	\$ 488,577
Board designated fund-investments	2,021,561	-	2,021,561
	<u>\$2,510,138</u>	<u>\$ -</u>	<u>\$ 2,510,138</u>
Beneficial interest in assets held by the Alaska Community Foundation	<u>\$ -</u>	<u>\$ 98,733</u>	<u>\$ 98,733</u>

Covenant House Alaska

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

3. Investments (continued)

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 includes 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.

4. Grants Receivable

Grants receivable of \$822,466 and \$512,407 at June 30, 2016 and 2015, represent the amounts due from various governmental agencies for the Organization's programs. All grants receivable as of June 30, 2016 are expected to be collected within one year.

5. Pledges and Contributions Receivable

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

	<u>2016</u>	<u>2015</u>
Within one year	\$ 346,797	\$ 336,158
Between one and five years	<u>37,875</u>	<u>45,225</u>
	<u>\$ 384,672</u>	<u>\$ 381,383</u>

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

6. Note Receivable

In connection with the NMTC transaction (Note 8), 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, 2016 and 2015

7. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Buildings	\$ 15,605,020	\$ 15,599,837
Building improvements	1,239,764	1,090,846
Equipment	<u>1,088,845</u>	<u>857,525</u>
	17,933,629	17,548,208
Accumulated depreciation	<u>(1,827,657)</u>	<u>(1,254,508)</u>
	16,105,972	16,293,700
Land	<u>2,785,011</u>	<u>2,785,011</u>
	<u>\$ 18,890,983</u>	<u>\$ 19,078,711</u>

8. Long-Term Debt

On September 6, 2012, CHH entered into a loan agreement (the "Loan Agreement") with the CDEs. Pursuant to the Loan Agreement, Wells Fargo made a loan to CHH in the amount of \$5,277,000, Brownfield made a loan to CHH in the amount of \$ 4,521,600 and Consortium made a loan to CHH in the amount of \$3,014,400 (collectively, the "A Notes"). 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.

On September 6, 2012, CHH entered into a second loan agreement (the "Second Loan Agreement") with the CDEs. Pursuant to the Second Loan Agreement, Wells Fargo made a loan to CHH in the amount of \$2,223,000, Brownfield made a loan to CHH in the amount of \$1,358,400 and Consortium made a loan to CHH in the amount of \$905,600 (collectively, the "B Notes"). 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 \$128,823 and \$128,677 for the years ended June 30, 2016 and 2015.

Covenant House Alaska

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

8. Long-Term Debt (*continued*)

At June 30, 2016 and 2015 long-term debt consists of the following:

Note A

Wells Fargo Note A	\$ 5,277,000
Brownfield Note A	4,521,600
Consortium Note A	<u>3,014,400</u>
Total Note A	<u>12,813,000</u>

Note B

Wells Fargo Note B	2,223,000
Brownfield Note B	1,358,400
Consortium Note B	<u>905,600</u>
Total Note B	<u>4,487,000</u>
	<u>\$ 17,300,000</u>

9. 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.

The Organization leases its office equipment and a program space under non-cancellable operating leases.

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 option 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.

Covenant House Alaska

Notes to Consolidated Financial Statements June 30, 2016 and 2015

9. Commitments and Contingencies *(continued)*

Future minimum annual lease payments at June 30, 2016 for the years ending June 30 are payable as follows:

2017	\$ 37,003
2018	41,038
2019	41,038
2020	35,765
2021	30,000
Thereafter	<u>157,500</u>
	<u>\$342,344</u>

Rent expense under these leases was \$22,132 and \$23,745 for the years ended June 30, 2016 and 2015.

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.

10. Net Assets

Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Time-restricted contributions	\$ 156,143	\$ 381,383
Purpose-restricted contributions	<u>1,223,984</u>	<u>-</u>
	<u>\$ 1,380,127</u>	<u>\$ 381,383</u>

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

	<u>2016</u>	<u>2015</u>
Time-restricted contributions	<u>\$ 225,240</u>	<u>\$ 256,915</u>

Covenant House Alaska

Notes to Consolidated Financial Statements June 30, 2016 and 2015

11. 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:

	<u>2016</u>	<u>2015</u>
Social enterprise fund	\$ 485,938	\$ 500,000
New building maintenance fund	138,875	156,015
Grant to affiliate in Latin America	-	100,000
Income and growth	<u>3,125,188</u>	<u>2,021,561</u>
	<u>\$3,750,001</u>	<u>\$2,777,576</u>

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 2015. Once four years of investment returns are achieved, the policy will be to transfer the average annual observed return over the trailing sixteen quarters.

On June 30, 2016, the Board did not elect to disburse any board designated funds for general operations.

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

	<u>2016</u>	<u>2015</u>
Board designated funds, beginning of year	\$2,777,576	\$ 750,000
Interest and dividend income	77,825	17,487
Net gain (loss) (realized and unrealized)	25,802	(45,926)
Transfers in	1,000,000	2,056,015
Transfers out	<u>(131,202)</u>	<u>-</u>
Board designated funds, end of year	<u>\$3,750,001</u>	<u>\$2,777,576</u>

Covenant House Alaska

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

12. 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 \$64.3 million and \$60.8 million for the Parent in the years ended June 30, 2016 and 2015. 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 \$33.6 million and \$31.3 million for the years ended June 30, 2016 and 2015. In 2016 and 2015, the Organization received \$636,000 and \$696,000 in "Branding Dollars" and \$167,248 and \$91,560 related to national sleep out event from the parent.

13. 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 \$71,103 and \$76,753 for the years ended June 30, 2016 and 2015.

14. 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 contracts. 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. At June 30, 2015, the Organization had grants receivable of \$327,129 from the U.S. Department of Health and Human Services. These amounts represented approximately 63% of the total outstanding grants receivable as of June 30, 2015. No such concentration exists at June 30, 2016.

15. Donated Goods and Services

Contributed Services

Volunteers in the community provided approximately 5,600 and 5,000 hours of contributed services to the Organization for the years ended June 30, 2016 and 2015. The value of these services performed and the expenses associated with these volunteers were estimated to be approximately \$160,000 and \$101,000 for the years ended June 30, 2016 and 2015. The value of these services is not recorded in the accompanying consolidated financial statements as the criteria for recording such services was not met.

Covenant House Alaska

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

15. Donated Goods and Services (*continued*)

Contributed Goods and Services

The Organization received goods and services from unrelated organizations with an estimated fair value of \$185,569 and \$240,833, during the years ended June 30, 2016 and 2015.

* * * * *

Covenant House Alaska

Uniform Guidance Reports and Schedules

June 30, 2016

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Independent Auditors' Report

**Board of Directors
Covenant House Alaska**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Covenant House Alaska (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

New York, New York
December 23, 2016



Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditors' Report

Board of Directors Covenant House Alaska

Report on Compliance for Each Major Federal Program

We have audited Covenant House Alaska's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

New York, New York
December 23, 2016

Covenant House Alaska

Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed- Through to Subrecipients	Total Federal Expenditures
Department of Health and Human Services:				
Basic Center Grant	93.623		\$ -	\$ 107,121
Transitional Living for Homeless Youth	93.550		-	148,215
Pass-through Alaska Dept of Health and Social Services Office of Children's Services:				
Chafee Foster Care Independence Program	93.674	603-244-1601	-	24,000
Total Department of Health and Human Services			-	279,336
Department of Housing and Urban Development:				
Continuum of Care Program	14.267		-	248,518
Pass-through Cook Inlet Housing Authority: Indian Housing Block Grants	14.867	16-11IH0203200-229	-	26,443
Total Department of Housing and Urban Development			-	274,961
Departure of Agriculture:				
Pass-through State of Alaska Dept of Education: National School Lunch Program	10.555	AK16921-251	-	160,045
Department of Homeland Security:				
Pass-through United Way: Emergency Food and Shelter National Board Program	97.024	023200-007	-	7,000
Department of Justice:				
Pass-through State of Alaska Dept of Health and Social Services: Juvenile Justice and Delinquency Prevention_ Allocation to States	16.540	609-236-1602	-	33,260
Corporation for National and Community Service:				
Pass-through Annie Casey Foundation: Social Innovation Fund	94.019	216.7503	-	5,662
Total Expenditures of Federal Awards			\$ -	\$ 760,264

See independent auditors' report and notes to schedule of expenditures of federal awards

Covenant House Alaska

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Covenant House Alaska (the "Organization") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Non-Cash Awards

For the year ended June 30, 2016, the Organization did not have any non-cash awards, mortgage, or loan funds that should be included in the federal expenditures presented in this Schedule.

4. Indirect Cost Rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Covenant House Alaska

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?

_____ yes X no

Identification of major federal programs:

<u>CFDA</u>	
<u>Number (s)</u>	<u>Name of Federal Program or Cluster</u>
14.267	Continuum of Care Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes _____ no

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2016.

Section III- Federal Award Findings and Questioned Costs

During our audit, we noted no instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Covenant House Alaska

Schedule of Findings and Questioned Costs Year Ended June 30, 2016

Section IV- Prior-Year Financial Statement Findings

2015-001 – General Ledger Analysis

Condition

In fiscal year 2015, the Organization experienced employee turnover in its finance department including such key positions as the Chief Financial Officer and Grant accountant. Because of this employee turnover, we noted that significant accounts were not routinely analyzed or reviewed timely during fiscal year 2015 and required significant post-closing adjustments by management. These significant accounts included accounts receivable, grant revenue, fixed assets, investments, accounts payable and intercompany balances.

Current year status

This condition has been corrected.

Section V- Prior-Year Findings and Question Costs Related to Federal Awards

2015-002 – Transitional Living for Homeless Youth

CFDA #93.550

Condition

During our internal control testing over payroll process, we noted one instance in which an employee timesheet did not have the required supervisor signature.

Current year status

The condition has been corrected.