

Covenant House California

Financial Statements and
Uniform Guidance Financial Report
Together With Independent Auditors' Reports

June 30, 2016

Covenant House California

Financial Statements and Uniform Guidance Financial Report Together With Independent Auditors' Reports

June 30, 2016

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Independent Auditors' Report

**Board of Directors
Covenant House California**

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free from material misstatement.

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

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

Opinion

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

Report on Summarized Comparative Information

We have previously audited Covenant House California's June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on Page 20, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a 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 financial statements. The information has been subjected to the auditing procedures applied in the audit 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 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 October 12, 2016 on our consideration of CHC'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 CHC's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

October 12, 2016

Covenant House California

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

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

See notes to financial statements

Covenant House California

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

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

See notes to financial statements

Covenant House California

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

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

See notes to financial statements

Covenant House California

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

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

See notes to financial statements

Covenant House California

Notes to Financial Statements June 30, 2016

1. Organization and Tax Status

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

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

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

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

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

Components of Program and Supporting Services

Program Services

Shelter and Crisis Care

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

Covenant House California

Notes to Financial Statements
June 30, 2016

1. Organization and Tax Status (*continued*)

Components of Program and Supporting Services (continued)

Program Services (continued)

Outreach

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

Medical

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

Community Service Center

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

Public Education

The *Public Education* program informs and educates the public on how to identify potential "runaway" and "throwaway" adolescents, the public and private resources available to help such adolescents before they leave home and the public support services available to help these families to improve their home environment.

Rights of Passage

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

Fundraising

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

Management and General

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

Direct Benefit to Donors

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

Covenant House California

Notes to Financial Statements
June 30, 2016

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

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

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

There are no permanently restricted net assets.

Revenue Recognition

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

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

Covenant House California

Notes to Financial Statements
June 30, 2016

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

Recognition of Contributions

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

Recognition of Contributions (continued)

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

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Absent explicit donor restrictions on how long those long-lived assets must be maintained, CHC reflects the expiration of the donor-imposed restriction when the donated or acquired long-lived assets have been placed in service, at which time temporarily restricted net assets are released from restrictions.

Contributed Services, Merchandise, and Use of Land

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

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

Covenant House California

Notes to Financial Statements
June 30, 2016

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

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

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

Allowance for Doubtful Accounts

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

Cash and Cash Equivalents

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

Investments and Investment Income

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

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

Functional Expense Allocation

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

Covenant House California

Notes to Financial Statements
June 30, 2016

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

Property and Equipment

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

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flows models, quoted fair values and third-party independent appraisals, as considered necessary. There is no such impairment for the fiscal years ended June 30, 2016 and 2015.

Fair Value of Financial Instruments

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

Prior Year Summarized Comparative Information

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

Advertising Costs

Advertising costs are expensed as incurred.

Covenant House California

Notes to Financial Statements

June 30, 2016

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

Reclassifications

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

Accounting for Uncertainty in Income Taxes

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

Subsequent Events

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

3. Concentrations of Credit Risk

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

4. Contributions Receivable

Contributions receivable at June 30, are summarized as follows:

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

Covenant House California

Notes to Financial Statements June 30, 2016

5. Property and Equipment

Property and equipment consist of the following at June 30:

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

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

6. Investments

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

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

Covenant House California

Notes to Financial Statements June 30, 2016

6. Investments *(continued)*

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

7. Note Payable

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

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

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

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

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

Covenant House California

Notes to Financial Statements
June 30, 2016

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

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

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

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

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

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

Covenant House California

Notes to Financial Statements

June 30, 2016

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

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

9. Related Party Transactions

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

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

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

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

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

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

Covenant House California

Notes to Financial Statements June 30, 2016

10. Pension Plan

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

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

11. Unrestricted Net Assets

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

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

Board designated funds are included in investments.

Covenant House California

Notes to Financial Statements June 30, 2016

12. Temporarily Restricted Net Assets

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

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

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

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

13. Lease Commitments

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

Covenant House California

Notes to Financial Statements June 30, 2016

13. Lease Commitments (*continued*)

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

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

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

14. Government Grants and Contracts

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

15. Litigation

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

* * * * *

Covenant House California

Uniform Guidance
Reports and Schedules

June 30, 2016

Covenant House California

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

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>Department of Housing and Urban Development</u>				
Direct Programs				
Continuum of Care Program		14.267	\$ -	\$ 136,440
Pass-Through Los Angeles Homeless Service Authority				
Continuum of Care Program	CA0456L9D001407	14.267	-	393,294
Pass-Through City of Oakland				
Continuum of Care Program	CA0106L9T021306	14.267	-	9,841
Continuum of Care Program	CA0106L9T021407	14.267	-	323,551
Total Department of Housing and Urban Development, Pass-Through Programs			-	726,686
Total Department of Housing and Urban Development			-	863,126
<u>Department of Health and Human Services</u>				
Pass-Through City of Oakland Community Action Partnership (OCAP)				
Community Services Block Grant	15F-2002	93.569	-	22,127
Community Services Block Grant	16F-5002	93.569	-	29,806
Pass-Through ACF/ACYF - Family and Youth Services Bureau				
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90Y02109-03-00	93.557	-	20,576
Total Department of Health and Human Services			-	72,509
<u>Department of Homeland Security</u>				
Pass-Through John Wesley Community Health Institute (JWCH)				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	SP 021278	93.243	-	3,750
Pass-Through Alameda County EFSP - San Francisco - Phase 33				
Emergency Food and Shelter National Board Program	LRO 064600-054	97.024	-	20,000
Total Department of Homeland Security			-	23,750
<u>Department of Labor</u>				
Pass-Through Archdiocesan Youth Employment Services of Catholic Charities of Los Angeles				
WIA/WIOA Youth Activities	PY15-16	17.259	-	16,000
Total Expenditures of Federal Awards			\$ -	\$ 975,385

Covenant House California

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

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Covenant House California, (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* (CFR) 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. Certain grants included on the Schedule were awarded by federal agencies prior to December 26, 2014 and such related expenditures are recognized following the cost principles contained in the pre-Uniform Guidance circulars, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Those grants awarded after December 26, 2014 follow the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented when available.

3. Indirect Cost Rate

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

4. Nonmonetary Assistance

For the year ended June 30, 2016, the Organization received no nonmonetary assistance.

5. Subrecipients

For the year ended June 30, 2016, the Organization provided no funds to subrecipients.

**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 California**

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 financial statements of Covenant House California which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Covenant House California'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Covenant House California's internal control. Accordingly, we do not express an opinion on the effectiveness of Covenant House California'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 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 weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covenant House California's 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 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

October 12, 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 California**

Report on Compliance for Each Major Federal Program

We have audited Covenant House California'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 the requirements of laws, regulations, contracts, and grants 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* (CFR) 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, Covenant House California 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

October 12, 2016

Covenant House California

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 the 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:

CFDA Number(s)

14.267

Name of Federal Program or Cluster

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 material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior Year Audit Findings

There were no prior year audit findings.