COVENANT COLLEGE and
SUPPORTING FOUNDATION

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2016 and 2015

COVENANT COLLEGE AND SUPPORTING FOUNDATION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Covenant College and Supporting Foundation
Lookout Mountain, Georgia

We have audited the accompanying consolidated financial statements of Covenant College (College) and Supporting Foundation (Foundation) (collectively referred to as the Organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Board of Trustees
Covenant College and Supporting Foundation
Lookout Mountain, Georgia

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Covenant College and Supporting Foundation as of June 30, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Atlanta, Georgia
September 7, 2016

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidated Statements of Financial Position

	June 30, 2016	June 30, 2015
ASSETS:		
Cash and cash equivalents	$ 1,419,891	$ 7,199,129
Cash restricted for Carter Hall	816,624	-
Student and other accounts receivable–net	1,241,946	1,218,361
Student loans receivable–net	2,192,809	2,190,081
Prepaid expenses and other assets	634,498	633,474
Property, plant, and equipment–net	56,485,967	43,887,876
Investments held for long–term purposes	34,135,905	35,879,650
Total Assets	$ 96,927,640	$ 91,008,571
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	$ 1,936,106	$ 2,121,159
Deferred revenue	1,267,444	522,443
Deposits and agency funds	416,309	390,699
Funds held in federal loan programs	1,973,830	1,973,830
Bonds payable	4,000,000	-
Total liabilities	9,593,689	5,008,131
Net assets:		
Unrestricted	37,930,360	36,980,521
Temporarily restricted	24,240,112	24,453,122
Permanently restricted	25,163,479	24,566,797
Total net assets	87,333,951	86,000,440
Total Liabilities and Net Assets	$ 96,927,640	$ 91,008,571

See notes to consolidated financial statements

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidated Statement of Activities

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	$ 31,436,581	$ -	$ -	$ 31,436,581
Less student aid:				
Funded from operations	(13,992,382)	-	-	(13,992,382)
Funded from endowment and restricted	(1,475,649)	-	-	(1,475,649)
Tuition and fees, net	15,968,550	-	-	15,968,550
Auxiliary enterprises	6,640,373	-	-	6,640,373
Private gifts	1,583,000	3,856,403	596,682	6,036,085
Tax credit sales revenue	567,681	-	-	567,681
Independent operations	749,619	-	-	749,619
Income on investments	178,424	-	-	178,424
Other income	705,538	-	-	705,538
Government and private grants	390,105	-	-	390,105
Total Revenues, Gains, and Other Support	26,783,290	3,856,403	596,682	31,236,375
RECLASSIFICATIONS:				
Net Assets Released from Restrictions:				
Satisfaction of purpose restrictions	3,121,251	(3,121,251)	-	-
Operating Revenues, Gains, and Other Support	29,904,541	735,152	596,682	31,236,375
EXPENSES:				
Program services:				
Instructional	10,215,425	-	-	10,215,425
Academic support	1,007,624	-	-	1,007,624
Student services	5,683,138	-	-	5,683,138
Library	981,098	-	-	981,098
Public service	224,477	-	-	224,477
Auxiliary enterprises	4,008,753	-	-	4,008,753
Independent operations	1,473,795	-	-	1,473,795
	23,594,310	-	-	23,594,310

(continued)

See notes to consolidated financial statements

Consolidated Statement of Activities
(continued)

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES, continued:				
Supporting activities:				
Institutional support	3,639,521	-	-	3,639,521
Advancement	1,344,799	-	-	1,344,799
	4,984,320	-	-	4,984,320
Operating expenses	28,578,630	-	-	28,578,630
Change in Net Assets from Operations	1,325,911			
NONOPERATING ACTIVITIES:				
Income on investments	(376,072)	(948,162)	-	(1,324,234)
Change in Net Assets from Nonoperating Activities	(376,072)	(948,162)	-	(1,324,234)
Change in Net Assets	949,839	(213,010)	596,682	1,333,511
Net Assets, Beginning of Year	36,980,521	24,453,122	24,566,797	86,000,440
Net Assets, End of Year	$ 37,930,360	$ 24,240,112	$ 25,163,479	$ 87,333,951

See notes to consolidated financial statements

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidated Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	$ 31,544,491	$ -	$ -	$ 31,544,491
Less student aid:				
Funded from operations	(13,882,913)	-	-	(13,882,913)
Funded from endowment and restricted	(1,361,730)	-	-	(1,361,730)
Tuition and fees, net	16,299,848	-	-	16,299,848
Auxiliary enterprises	6,974,549	-	-	6,974,549
Private gifts	1,270,774	2,160,447	5,744,748	9,175,969
Independent operations	992,880	-	-	992,880
Income on investments	175,872	-	-	175,872
Other income	621,165	-	-	621,165
Government and private grants	392,497	-	-	392,497
Total Revenues, Gains, and Other Support	26,727,585	2,160,447	5,744,748	34,632,780
RECLASSIFICATIONS:				
Net Assets Released from Restrictions:				
Satisfaction of purpose restrictions	2,812,440	(2,812,440)	-	-
Operating Revenues, Gains, and Other Support	29,540,025	(651,993)	5,744,748	34,632,780
EXPENSES:				
Program services:				
Instructional	9,728,466	-	-	9,728,466
Academic support	1,166,022	-	-	1,166,022
Student services	5,609,687	-	-	5,609,687
Library	996,038	-	-	996,038
Public service	245,645	-	-	245,645
Auxiliary enterprises	4,703,519	-	-	4,703,519
Independent operations	1,759,467	-	-	1,759,467
	24,208,844	-	-	24,208,844

(continued)

See notes to consolidated financial statements

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidated Statement of Activities
(continued)

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES, continued:				
Supporting activities:				
Institutional support	3,471,893	-	-	3,471,893
Advancement	1,331,855	-	-	1,331,855
	4,803,748	-	-	4,803,748
Operating expenses	29,012,592	-	-	29,012,592
Change in Net Assets from Operations	527,433			
NONOPERATING ACTIVITIES:				
Income on investments	(72,330)	159,546	-	87,216
Change in Net Assets from Nonoperating Activities	(72,330)	159,546	-	87,216
Change in Net Assets	455,103	(492,447)	5,744,748	5,707,404
Net Assets, Beginning of Year	36,525,418	24,945,569	18,822,049	80,293,036
Net Assets, End of Year	$ 36,980,521	$ 24,453,122	$ 24,566,797	$ 86,000,440

See notes to consolidated financial statements

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidated Statements of Cash Flows

	Year Ended June 30, 2016	Year Ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,333,511	$ 5,707,404
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,572,335	2,446,557
Noncash contributions of property, plant, and equipment	(452,640)	-
Noncash contributions of securities	(26,074)	(367,274)
Contributions received for long–term purposes	(596,682)	(5,744,748)
Realized and unrealized losses on long–term investments	1,510,182	190,095
Proceeds from sales of noncash contributions	26,074	367,274
Gain on disposal of property, plant, and equipment	-	(84,154)
Change in:		
Student and other accounts receivable	(23,585)	(277,800)
Student loans receivable	(2,728)	82,019
Prepaid expenses and other assets	109,783	536,888
Accounts payable and accrued expenses	(745,258)	(78,125)
Deferred revenue	745,001	(51,288)
Deposits and agency funds	25,610	(21,674)
Net Cash Provided by Operating Activities	4,475,529	2,705,174
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(11,901,636)	(3,195,050)
Proceeds from sales of property, plant, and equipment	-	89,772
Purchases of long–term investments	(716,279)	(6,451,442)
Proceeds from sales and maturities of long–term investments	949,842	1,189,917
Net Cash Used by Investing Activities	(11,668,073)	(8,366,803)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for long–term purposes	596,682	5,744,748
Proceeds from bond issuance	816,624	-
Other decreases to federal student loan program	-	(48,306)
Net Cash Provided by Financing Activities	1,413,306	5,696,442
Change in Cash and Cash Equivalents	(5,779,238)	34,813
Cash and Cash Equivalents, Beginning of Year	7,199,129	7,164,316
Cash and Cash Equivalents, End of Year	$ 1,419,891	$ 7,199,129

(continued)

See notes to consolidated financial statements

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidated Statements of Cash Flows
(continued)

	Year Ended June 30, 2016	Year Ended June 30, 2015
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest (all capitalized)	$ 122,388	$ -
Property and equipment obtained through accounts payable	$ 560,205	$ 1,140,994
Property, plant, and equipment obtained through issuance of bonds payable	$ 3,072,569	$ -
Bond costs associated with issuance	$ 110,807	$ -

See notes to consolidated financial statements

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

1. NATURE OF ORGANIZATION:

Covenant College (the College) is a Christ–centered institution of higher education, emphasizing liberal arts, operated by a board of trustees elected by the General Assembly of the Presbyterian Church in America. The College is recognized as an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The College exists to provide educational services to that denomination and the wider public. The College is located on a 400–acre campus in Lookout Mountain, Georgia. The College has an enrollment of approximately 1,100 students predominately from the southeastern United States. The College is primarily supported by tuition, contributions from alumni, earnings from endowments, and certain independent operations.

Covenant College Foundation, Inc. (the Foundation) operates as a nonprofit corporation chartered in the State of Georgia. The Foundation is recognized as exempt from federal income tax under Section 501(c)(3) of the Code, and is not a private foundation. The Foundation was formed to engage in charitable, scientific, literary, or educational projects. More than one–half of the board of directors of the Foundation are members of the College's board of trustees. Resources for the Foundation's activities are primarily provided by contributions. The Foundation's stated purpose is to support the College's efforts to meet its mission.

Carter Hall Manager, LLC (CHM) is a Georgia for–profit limited liability company wholly owned by the College. CHM was organized on September 15, 2015, for the sole purpose to acquire a membership interest in Carter Hall Landlord, LLC (CHL).

CHL is a Georgia for–profit limited liability company wholly owned by CHM. CHL was organized on September 15, 2015, for the sole purpose of leasing, subleasing, managing, and operating certain real property known as Carter Hall (the Project), and to obtain federal rehabilitation credits for certified historic structures, as set forth in Section 47(a)(2) of the Code and operating the Project in compliance with the provisions of Section 47 of the Code (see Note 3).

ACADEMIC PROGRAM AND ACCREDITATION

The College offers 29 baccalaureate majors, as well as a master of arts in teaching and a master of education. The College is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award baccalaureate and masters degrees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The College, CHM, CHL, and the Foundation maintain their accounts and prepare their consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECLASSIFICATIONS
Certain items have been reclassified in the prior year consolidated statements to be consistent with the current year presentation.

PRINCIPLES OF CONSOLIDATION
These consolidated financial statements include the accounts of the College, CHM, CHL, and the Foundation (collectively referred to as the Organization). All significant intercompany transactions and balances have been eliminated from these consolidated statements.

OPERATING AND NONOPERATING ACTIVITIES
Nonoperating activities reflect amounts of a long–term nature, including amounts to be invested by the Organization to generate a return that will support future operations. Investment income (loss) classified as endowment spending are included as operating income (loss) in the accompanying consolidated statements of activities. All other gains and losses on endowment assets are classified as nonoperating activities in the accompanying consolidated statements of activities.

CASH AND CASH EQUIVALENTS
For purposes of the consolidated statements of cash flows, the Organization considers all unrestricted highly–liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains cash and cash equivalents in financial institutions which may, at times, exceed federally insured limits. The Organization has not experienced any losses on such accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

CASH RESTRICTED FOR CARTER HALL
Cash restricted for Carter Hall represents the remaining proceeds received from the bond issuance (see Note 10), which are required to be spent on the Project.

STUDENT AND OTHER ACCOUNTS RECEIVABLE–NET
Student accounts receivable are reported net of any estimated losses due to uncollectible accounts. The College's policy for determining when receivables are past due or delinquent is when a student's account is 90 days or more past due. The College assesses a monthly finance charge of 1.17% against student receivables that are past due. The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent from uncollectible receivables.

Other accounts receivable include receivables from independent operations, as well as receivables from federal and state agencies. Independent operations consist of summer camps held on the College campus, as well as the operations of the College bookstore. The College has not established any allowance for uncollectible accounts, because, based upon past experience, all amounts are collectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

STUDENT LOANS RECEIVABLE–NET
Student loans receivable consist of amounts due from the Federal Perkins Loan Program and administered by the College. Student loans receivable are recorded net of estimated uncollectible amounts. Interest income on institutional loans begins accruing six months after the student graduates or is no longer enrolled at the College. For all loan programs, the College only recognizes the income after the interest is received. Any associated fees and costs are expensed as they occur. Loans receivable are considered past due if full principal payments are not received in accordance with the contractual terms.

Student loans receivable also consist of amounts due from students who have outstanding balances through an internal College loan program.

Student loans receivable are due from current or former students at the College. The College requires each student and/or each student's parents to guarantee payment but does not require collateral. The College's student loans receivable do not represent significant concentrations of market risk inasmuch as the receivables are due from numerous students.

PREPAID EXPENSES AND OTHER ASSETS
Prepaid expenses and other assets consist of inventory, employee and staff advances, bond issuance costs, and miscellaneous prepaid expenses and other assets.

Inventories of supplies are stated at the lower of cost or market determined by the first–in, first–out method.

The College makes temporary cash advances to employees and staff for certain housing and relocation situations, the pursuit of further education, and various other measures. These advances are either paid back over time, with interest, or forgiven over time and included as compensation.

Bond issuance costs are recorded at cost and amortized on a straight–line basis over the term of the debt agreement (20 years), beginning in the fiscal year ending June 30, 2018. Debt issuance costs totaled $110,807 for year ended June 30, 2016, with no accumulated amortization recorded thereon.

PROPERTY, PLANT, AND EQUIPMENT–NET
Property, plant, and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Purchases of property and equipment valued at $4,000 or more are capitalized, except for computer, academic, scientific, and music equipment. Purchases of computer equipment valued at $500 or more are capitalized and purchases of academic, scientific, and music equipment valued at $1,000 or more are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of assets are capitalized at cost. Depreciation is computed using the straight–line method over the estimated useful lives of the assets ranging from 5 to 50 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS HELD FOR LONG–TERM PURPOSES
Investments in marketable securities with readily determinable fair values and all debt securities are recorded at fair value based on the last reported sales price on the valuation date. Alternative investments consist of interests in limited partnerships whose purpose is to invest in a diversified group of investment entities, primarily in limited partnerships and limited liability company interests, that engage in a variety of investment strategies, managed by money managers. Donated investments are recorded at market value at the date of donation. Realized and unrealized gains and losses on marketable securities and other investments are included in income (loss) on investments in the accompanying consolidated statements of activities.

Alternative investments have been stated at fair values based on the Organization's share of net asset values derived from the values of the underlying investments as reported by the fund managers or general partners of the private limited partnerships. Management obtains and considers the most recent audited financial statements of such investments when evaluating the overall reasonableness of carrying value. Management believes this method provides a reasonable estimate of fair value. Due to the inherent uncertainty of valuation of investments in limited partnerships, the estimated values may differ significantly from the values that would have been used had a ready market for the limited partnerships existed.

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent))* which amends disclosure requirements of Accounting Standards Codification (ASC) topic 820, *Fair Value Measurements and Disclosure*, for reporting entities that measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and also remove the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The ASU is effective for the fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early application permitted. The Organization has elected to early adopt the updated disclosure requirements.

Investments do not represent significant concentrations of market risk inasmuch as the investment portfolio is adequately diversified among many issuers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS
The consolidated financial statements report amounts by class of net assets.

Unrestricted net assets are not subject to donor–imposed stipulations, may be designated for specific purposes by action of the College's board of trustees or by the Foundation's board of directors, may otherwise be limited by contractual agreements with outside parties, or equity in property and equipment.

Temporarily restricted net assets are subject to donor–imposed or legal stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Permanently restricted net assets are subject to donor–imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on these assets. Such assets primarily include permanent endowment funds.

REVENUE, GAINS, AND OTHER SUPPORT, RECLASSIFICATIONS, AND EXPENSES
Student tuition and fees are recorded as revenues during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Financial aid provided by the College for tuition and fees is reflected as a reduction of tuition and fees. Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Organization.

The Organization reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Gifts–in–kind consist of property, securities, and forgiveness of indebtedness recognized at fair value on the date of the gift.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long–lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long–lived assets are reported as restricted support. Absent explicit donor stipulations about how those long–lived assets must be maintained, the Organization reports expirations of donor restrictions when depreciation has been recorded for the donated or acquired assets.

The Organization generates revenue predominantly from tuition and fees, investment income, gifts, and contributions. In planning and budgeting during a fiscal year, significant reliance is placed on meeting tuition, gift, and contribution goals in order for the Organization to sustain successful operations. In the event that enrollment or gifts and contributions significantly decrease in any one year, operations could be affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUE, GAINS, AND OTHER SUPPORT, RECLASSIFICATIONS, AND EXPENSES, continued
For the year ended June 30, 2016, approximately 38% of total private gifts was received by four donors. For the year ended June 30, 2015, approximately 54% of total private gifts was received by one donor, from an estate gift.

Expenses, including advertising costs of $66,077 and $63,383 for the years ended June 30, 2016 and 2015, respectively, are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the program services and supporting activities of the Organization have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

STUDENT FINANCIAL ASSISTANCE PROGRAMS
The College participates in the delivery of student financial assistance programs under various programs administered by the Department of Education (DOE). The related activity is subject to audit both by independent certified public accountants and by representatives of the administering agency regarding compliance with applicable regulations. Any resultant findings of noncompliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties or the discontinuation of eligibility for participation.

UNCERTAIN TAX POSITIONS
The financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of June 30, 2016 and 2015, the Organization has analyzed its tax positions and believes that all are more likely than not to be sustained upon examination.

The Foundation is a shareholder in a sub–chapter S Corporation (see Note 8). Therefore, the Foundation will receive earnings from the corporation and will be obligated to pay federal income taxes on these earnings in the form of unrelated business income tax (UBIT).

The College and Foundation file information tax returns in the U.S. and various states. The College and Foundation are generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2013.

3. TAX CREDIT SALES REVENUE:

During the year ended June 30, 2014, the College began the process of rehabilitating Carter Hall, one of the prominent buildings on campus. Because Carter Hall has been deemed a certified historic structure by the Secretary of the Interior, eligible rehabilitation expenses generate a federal tax credit. During the year ended June 30, 2016, the College agreed to sell these federal tax credits to a third party. This agreement necessitated the formation of two limited liability companies (see Note 1), both of which are included in these consolidated financial statements, as the College exercises control over them.

3. TAX CREDIT SALES REVENUE, continued:

During the year ended June 30, 2016, the College sold tax credits to the third party in the amount of $567,681, net of related settlement fees of $252,488. This amount is reported in the consolidated statement of activities as tax credit sales revenue. As of June 30, 2016, the Organization had generated tax credits that it intends to sell to this same third party. Due to the uncertainty surrounding future sales (because these sales are dependent upon the third party's ability to use the tax credit), the College has not recorded a tax credit asset.

4. STUDENT AND OTHER ACCOUNTS RECEIVABLE–NET:

Student and other accounts receivable–net consist of:

	June 30, 2016	June 30, 2015
Student accounts receivable	$ 675,262	$ 550,248
Less allowance for doubtful accounts	(127,268)	(99,563)
	547,994	450,685
Other accounts receivable:		
Conferences	615,877	705,939
Federal and state grant receivables	39,182	34,499
Miscellaneous receivables	38,893	27,238
	693,952	767,676
	$ 1,241,946	$ 1,218,361

5. CREDIT QUALITY OF FINANCING RECEIVABLES:

The College's financing receivables consist of a revolving loan fund for Federal Perkins Loans for which the College acts as an agent for the federal government and an institutional loan fund created by the College to assist students in funding their education.

The College determined the allowance for estimated losses on these financing receivables by looking at historical default rates and analyzing the aging of the past due loans. All non performing loans are included in the allowance for estimated losses.

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

5. CREDIT QUALITY OF FINANCING RECEIVABLES, continued:

Changes in allowance for estimated losses on financing receivables in aggregate are presented as follows:

	June 30, 2016			
	Federal and State Agency Receivables	Institutional Loans	Student Loans Receivable	Total
Allowance for credit losses:				
Beginning balance	$ -	$ 2,699	$ 178,704	$ 181,403
Charge–offs	-	(718)	1,288	570
Ending balance	$ -	$ 1,981	$ 179,992	$ 181,973
Ending balance: collectively evaluated for impairment	$ -	$ 1,981	$ 179,992	$ 181,973

	June 30, 2015			
	Federal and State Agency Receivables	Institutional Loans	Student Loans Receivable	Total
Allowance for credit losses:				
Beginning balance	$ -	$ 3,334	$ 184,863	$ 188,197
Charge-offs	-	(635)	(6,159)	(6,794)
Ending balance	$ -	$ 2,699	$ 178,704	$ 181,403
Ending balance: collectively evaluated for impairment	$ -	$ 2,699	$ 178,704	$ 181,403

5. CREDIT QUALITY OF FINANCING RECEIVABLES, continued:

Balances of financing receivables are presented as follows:

	June 30, 2016			
	Federal and State Agency Receivables	Institutional Loans	Student Loans Receivable	Total
Financing receivables:				
Ending balance	$ 39,182	$ 24,763	$ 2,350,019	$ 2,413,964
Ending balance: individually evaluated for impairment	$ -	$ 24,763	$ -	$ 24,763
Ending balance: collectively evaluated for impairment	$ 39,182	$ -	$ 2,350,019	$ 2,389,201

	June 30, 2015			
	Federal and State Agency Receivables	Institutional Loans	Student Loans Receivable	Total
Financing receivables:				
Ending balance	$ 34,499	$ 34,368	$ 2,337,116	$ 2,405,983
Ending balance: individually evaluated for impairment	$ -	$ 34,368	$ -	$ 34,368
Ending balance: collectively evaluated for impairment	$ 34,499	$ -	$ 2,337,116	$ 2,371,615

For each class of financing receivables, the following tables present the recorded investment by credit quality indicator:

	June 30, 2016			
	Federal and State Agency Receivables	Institutional Loans	Student Loans Receivable	Total
Performing	$ 39,182	$ 24,763	$ 2,012,662	$ 2,076,607
Non–performing	-	-	337,357	337,357
	$ 39,182	$ 24,763	$ 2,350,019	$ 2,413,964

5. CREDIT QUALITY OF FINANCING RECEIVABLES, continued:

	June 30, 2015			
	Federal and State Agency Receivables	Institutional Loans	Student Loans Receivable	Total
Performing	$ 34,499	$ 34,368	$ 2,029,131	$ 2,097,998
Non–performing	-	-	307,985	307,985
	$ 34,499	$ 34,368	$ 2,337,116	$ 2,405,983

For student loans, the credit quality indicator is performance determined by delinquency status and, for Federal Perkins Loans, origination and servicing of the loan. Delinquency status is updated monthly by the College's loan servicer. Federal Perkins Loans that are originated and serviced properly under DOE regulations can be assigned to the DOE when deemed no longer collectible. The College is not aware of any material amount of loans not properly originated or serviced under DOE regulations.

Student loans receivable, as presented in the accompanying consolidated statements of financial position are as follows:

	June 30,	
	2016	2015
Gross balances	$ 2,374,782	$ 2,371,484
Less allowance for credit losses	(181,973)	(181,403)
	$ 2,192,809	$ 2,190,081

5. CREDIT QUALITY OF FINANCING RECEIVABLES, continued:

The aging of the student loan portfolio by classes of loans as of June 30, 2016, is presented as follows:

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total Financing Receivables	Recorded Investment >90 days and accruing
Federal and state agency receivables	$ -	$ -	$ -	$ -	$ 39,182	$ 39,182	$ -
Institutional loans	-	-	-	-	24,763	24,763	-
Student loans receivable	50,519	14,028	272,809	337,357	2,012,662	2,350,019	272,809
	$ 50,519	$ 14,028	$ 272,809	$ 337,357	$ 2,076,607	$ 2,413,964	$ 272,809

The impairment of the student loan portfolio as of June 30, 2016, is as follows:

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
With an allowance recorded:					
Federal and state agency receivables	$ -	$ -	$ -	$ -	$ -
Institutional loans	24,763	24,763	1,981	29,566	-
Student loans	2,350,019	2,350,019	179,992	2,343,568	-
	$ 2,374,782	$ 2,374,782	$ 181,973	$ 2,373,133	$ -

5. <u>CREDIT QUALITY OF FINANCING RECEIVABLES, continued:</u>

The aging of the student loan portfolio by classes of loans as of June 30, 2015, is presented as follows:

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total Financing Receivables	Recorded Investment >90 days and accruing
Federal and state agency receivables	$ -	$ -	$ -	$ -	$ 34,499	$ 34,499	$ -
Institutional loans	-	-	-	-	34,368	34,368	-
Student loans receivable	46,121	12,807	249,057	307,985	2,029,131	2,337,116	249,057
	$ 46,121	$ 12,807	$ 249,057	$ 307,985	$ 2,097,998	$ 2,405,983	$ 249,057

The impairment of the student loan portfolio as of June 30, 2015, is as follows:

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
With an allowance recorded:					
Federal and state agency receivables	$ -	$ -	$ -	$ -	$ -
Institutional loans	34,368	34,368	2,699	38,027	-
Student loans	2,337,116	2,337,116	178,704	2,377,864	-
	$ 2,371,484	$ 2,371,484	$ 181,403	$ 2,415,891	$ -

6. PREPAID EXPENSES AND OTHER ASSETS:
Prepaid expenses and other assets consist of:

	June 30, 2016	June 30, 2015
Miscellaneous prepaid expenses and other assets	$ 180,410	$ 240,477
Employee and staff advances	251,536	314,655
Bond issuance costs	110,807	-
Inventories	91,745	78,342
	$ 634,498	$ 633,474

7. PROPERTY, PLANT, AND EQUIPMENT–NET:
Property, plant, and equipment consist of:

	June 30, 2016	June 30, 2015
Land	$ 1,892,595	$ 1,892,595
Buildings and improvements	68,712,297	64,852,104
Equipment and library books	9,007,957	8,536,152
	79,612,849	75,280,851
Less accumulated depreciation	(36,688,468)	(34,116,131)
	42,924,381	41,164,720
Construction in progress	13,561,586	2,723,156
Property, plant and equipment–net	$ 56,485,967	$ 43,887,876

8. INVESTMENTS HELD FOR LONG–TERM PURPOSES:

Investments held for long–term purposes consist of:

		June 30, 2016	June 30, 2015
Carried at fair value:			
Money market funds		$ -	$ 2,878,082
Mutual funds		17,114,324	16,922,533
Exchange–traded funds		4,069,895	3,128,981
Alternative investments:	# of funds		
Hedge funds (fund of funds in various strategies)	4	3,618,413	3,667,055
Private equity	6	5,640,910	4,586,101
Real assets (real estate and natural resources)	3	1,659,359	1,477,543
		32,102,901	32,660,295
Carried at lower of cost or fair value:			
Cash and cash equivalents		1,486,004	2,672,355
Investment in bank (see Note 2)		297,000	297,000
Investment in senior residence center (see Note 16)		250,000	250,000
		$ 34,135,905	$ 35,879,650

Income (loss) on investments consists of:

	June 30, 2016	June 30, 2015
Interest and dividends	$ 446,313	$ 532,542
Realized and unrealized losses	(1,510,182)	(190,095)
Investment management fees	(81,941)	(79,359)
	$ (1,145,810)	$ 263,088

8. INVESTMENTS HELD FOR LONG–TERM PURPOSES, continued:

Investments held for long–term purposes consist of:

	June 30, 2016	June 30, 2015
Permanently restricted endowment corpus	$ 25,163,479	$ 24,566,797
Temporarily restricted–unexpended endowment earnings	2,837,198	4,740,489
Unrestricted:		
Board–designated quasi–endowment funds	6,135,228	6,572,364
	$ 34,135,905	$ 35,879,650

9. LINES OF CREDIT:

Through June 30, 2015, the College had a $1,000,000 revolving working capital line of credit (the Facility) that was due on demand, subject to renewal in December 2015, and bore interest at the 1–month LIBOR rate plus 1.50%. Subsequent to June 30, 2015, due to the issuance of a new bonds payable agreement (see Note 10), the borrowing capacity under this Facility was increased to $3,000,000, subject to renewal in October 2016, and bears interest at the 1–month LIBOR rate plus 1.50% (1.96% at June 30, 2016). The Facility shall contain the same financial covenants used in the $11,000,000 bond payable agreement (see Note 10). There were no outstanding borrowings under this line of credit at June 30, 2016 and 2015.

Through June 30, 2015, the College had an additional $7,000,000 revolving marginal line of credit that was due on demand and bore interest at LIBOR plus 1.75% (1.94% at June 30, 2015). Borrowings under this line of credit were secured by certain investments owned by the College. There were no outstanding borrowings under this line of credit at June 30, 2015. The marginal line of credit had no stated expiration date. The available balance on the marginal line was dependent upon the value of the collateralized assets. Subsequent to June 30, 2015, the line of credit was closed due to the issuance of a new note payable agreement (see Note 10).

10. BONDS PAYABLE:

Effective August 1, 2015, the College entered into a loan agreement (the Agreement) in the amount of $11,000,000 with the Dade County Industrial Development Authority for the issuance of Educational Facilities Revenue Bonds (Covenant College Project) Series 2015A ($7,000,000) (Series A Loan) and Series 2015B ($4,000,000) (Series B Loan) (collectively referred to as the Bonds). The proceeds from the Bonds will be used to fund the renovations for the Project, including its synthetic stucco exterior, windows, roof, and central tower. Per the Agreement, the College has the ability to borrow in phases.

10. BONDS PAYABLE, continued:

Per the Agreement, the College may receive proceeds from the Series A Loan from time to time on a line of credit basis as construction progresses. The outstanding principal balance of the Series A Loan shall bear interest at a variable rate of interest equal to the LIBOR rate plus 2.50% per annum; provided, however, within sixty (60) days following the termination date (the Optional Conversion Date), the College shall have the option to convert the interest rate on the Series A Loan to a fixed rate of interest until the maturity date calculated as the sum of the prevailing H.15 swap rate in effect on the Optional Conversation Date plus 2.50% annum. Accrued interest on the outstanding principal amount of the Series A Loan shall be payable monthly in arrears on the first day of each month, commencing after initial advance of a Series A Loan. Commencing September 1, 2017, the College shall make principal payments on the Series A Loan through maturity in September 2035, at which time all unpaid principal and accrued interest shall be due. At June 30, 2016, there were not outstanding borrowings on the Series A Loan. Subsequent to June 30, 2016, the College borrowed $756,606 on the Series A Loan.

Per the Agreement, proceeds from the Series B Loan were provided on the closing date (August 1, 2015). The outstanding balance of the Series B Loan shall bear interest at a fixed rate of interest equal to 4.43% per annum. Accrued interest on the outstanding principal amount of the Series B Loan shall be payable monthly in arrears on the first day of each calendar month, commencing September 1, 2015. Commencing September 1, 2017, the College shall make principal payments on the Series B Loan through maturity in September 2035, at which time all unpaid principal and accrued interest shall be due. At June 30, 2016, outstanding borrowings on the Series B Loan amounted to $4,000,000.

The Agreement requires the College to execute an interest rate cap of 5% for a notional amount of $1,500,000 of the Series A bonds, for a term of at least five (5) years. The Bonds are secured by certain real estate comprising the College’s main campus and the College is required to maintain certain financial covenants, to be applied to the annual audited consolidated financial statements of the Organization. As of June 30, 2016, all financial covenants have been met and/or waived. The Bonds are unconditionally guaranteed in an unlimited amount by the Foundation.

As part of the Agreement, the College was required to close the $7,000,000 revolving marginal line of credit (see Note 9). In addition, the College’s borrowing capacity under the $1,000,000 revolving working capital line of credit was increased to $3,000,000 (see Note 9).

10. BONDS PAYABLE, continued:

Principal maturities of long–term debt are as follows:

Years Ending June 30,	
2017	$ 160,000
2018	169,091
2019	178,182
2020	178,182
2021	187,273
Thereafter	3,127,272
	$ 4,000,000

11. NET ASSETS:

Net assets consist of:

	June 30, 2016	June 30, 2015
Unrestricted:		
Undesignated	$ (4,772,837)	$ (910,153)
Equity in property, plant, and equipment	36,567,973	31,318,310
Board–designated quasi–endowment fund:		
Faculty development	821,632	873,025
General institutional support	978,586	1,040,955
Scholarships	2,465,731	2,615,905
Foundation board designations	1,869,275	2,042,479
	6,135,224	6,572,364
Total unrestricted net assets	$ 37,930,360	$ 36,980,521

11. NET ASSETS, continued:

Net assets consist of, continued:

	June 30, 2016	June 30, 2015
Temporarily restricted:		
Related to property, plant, and equipment:		
Equity in property, plant, and equipment	$ 19,917,994	$ 12,569,566
Contributions received but not yet used	-	5,871,054
	19,917,994	18,440,620
Scholarships	2,207,671	3,592,183
Salaries, wages, and ongoing operations	2,114,447	2,420,319
Total temporarily restricted net assets	$ 24,240,112	$ 24,453,122
Permanently restricted–endowment funds	$ 25,163,479	$ 24,566,797

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12. OPERATING EXPENSES:

Operating expenses, by natural classification, consist of:

	Year ended June 30, 2016			
	Program Services	Institutional Support	Advancement	Total
Salaries and benefits	$ 14,565,801	$ 1,887,883	$ 944,130	$ 17,397,814
Conference and travel	855,829	89,254	127,092	1,072,175
Insurance	154,744	119,391	-	274,135
Depreciation	2,427,612	130,065	14,658	2,572,335
Utilities and telephone	1,256,178	60,560	1,048	1,317,786
Contract services	694,674	431,798	78,602	1,205,074
Contract services–food service and events	2,240,309	46,337	17,003	2,303,649
Contributions to other organizations	5,000	8,875	-	13,875
Office expenses	1,394,163	865,358	162,266	2,421,788
	$ 23,594,310	$ 3,639,521	$ 1,344,799	$ 28,578,630

	Year ended June 30, 2015			
	Program Services	Institutional Support	Advancement	Total
Salaries and benefits	$ 14,599,448	$ 1,764,881	$ 1,067,637	$ 17,431,966
Conference and travel	827,265	111,460	77,717	1,016,442
Insurance	239,431	114,121	-	353,552
Depreciation	2,306,910	125,503	14,144	2,446,557
Utilities and telephone	1,276,940	61,468	663	1,339,071
Contract services	861,234	397,611	53,972	1,312,817
Contract services–food service and events	2,515,789	44,465	19,183	2,579,437
Contributions to other organizations	833	12,634	333	13,800
Other operating expenses	1,580,994	839,750	98,206	2,518,950
	$ 24,208,844	$ 3,471,893	$ 1,331,855	$ 29,012,592

13. EMPLOYEE BENEFIT PLANS:

Employees of the College meeting minimum age and service requirements are eligible to participate in defined contribution 403(b) plans through the Teachers Insurance and Annuity Association (TIAA) or The Variable Annuity Life Insurance Company (VALIC). College contributions to the plans totaled $494,760 and $491,596 for the years ended June 30, 2016 and 2015, respectively.

14. COMMITMENTS AND CONTINGENCIES:

The Organization may be subject to various legal proceedings and claims, which arise in the ordinary course of its business. Management of the Organization believes that the amount, if any, of potential liability with respect to legal actions will be immaterial.

The Organization is obligated under certain investment fund agreements to periodically advance funding up to certain levels specified in each agreement upon the request of the general partner. At June 30, 2016 and 2015, the Organization had unfunded commitments of $1,693,250 and $1,995,000, respectively.

As part of a food service contract, Compass Group USA, Inc. has made available approximately $3,075,000 for food service campus facility improvements. These amounts are then amortized as a contribution over a six– to fifteen year period from the time the funds are drawn. In the event the agreement expires or is terminated prior to full amortization, unamortized amounts must be repaid to Compass Group USA, Inc. The unamortized balance of this unearned revenue at June 30, 2016, was $745,437, and is included in deferred revenue in the accompanying consolidated statements of financial position. For the year ended June 30, 2016, approximately $1,032,000 of the $3,075,000 has been expended for food service campus facility improvements.

CONSTRUCTION COMMITMENTS

The College has entered into an architectural and general construction services contract related to the historical restoration of the Project, which has an estimated cost of approximately $19,889,000, and includes conceptual and schematic design, design development, and construction documentation. As of June 30, 2016, approximately $12,722,000 of the estimated cost of the Carter Hall Project has been completed, with a remaining construction commitment of approximately $7,167,000 expected to be incurred subsequent to June 30, 2016.

15. FEDERAL FINANCIAL ASSISTANCE:

The federal government awards the College various monies restricted for student financial aid. The monies are awarded through three federal programs: Direct Student Loan Program (FDL), Pell Grant (PELL), Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work Study (FWS).

FDL provides eligible students with loans to assist in paying for post–secondary education. Because the loans are classified as pass–through payments in the amounts of $4,367,284 and $4,781,442 for the 2016 and 2015 academic years, respectively, they are excluded from income and expense on these statements.

15. FEDERAL FINANCIAL ASSISTANCE, continued:

Pell provides eligible students a foundation of financial aid to assist with defraying the costs of post–secondary education. Because the grants are classified as pass–through grants in the amount of $1,072,382 and $1,191,948 for the 2016 and 2015 academic years, respectively, they are excluded from income and expense on these statements.

The FSEOG provides eligible students with additional financial assistance in the form of grants. The College received and disbursed $161,146 and $149,634 of the FSEOG awards during the years ended June 30, 2016 and 2015, respectively.

The FWS program provides part–time employment to students who need the earnings to help meet their post–secondary education costs. The program is intended to broaden the range of worthwhile job opportunities to qualified students. The College received and disbursed $231,083 of the FWS awards during both years ended June 30, 2016 and 2015.

16. RELATED PARTY TRANSACTIONS:

A certain board member of the Foundation also serves on the board of an entity that the College has made a loan to for development. As of June 30, 2016 and 2015, the outstanding principal on the loan amounted to $34,945 and $60,263, respectively.

A certain board member of the Foundation is also a general partner/investor of a senior residence center (the Center), which the Foundation has invested in. As of June 30, 2016 and 2015, the Foundation's investment in the Center amounted to $250,000 for both years ended (see Note 8). In addition, the College's chief financial officer serves as the president of the Center.

Effective June 2015, the College entered into an agreement with a marketing company, owned by a certain board member of the College, to create a comprehensive campaign plan for strategic messaging, campaign content development and distribution planning, and management of the campaign after its launch, for the duration of the three–year giving cycle for the Carter Hall renovation project. The agreement requires an initial payment of $12,000, with ongoing monthly payments in the amount of $3,000 for the duration of the agreement. Total projected marketing costs are estimated at $150,000 to $250,000.

17. FAIR VALUE MEASUREMENTS:

The *Fair Value Measurements and Disclosure* topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

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17. FAIR VALUE MEASUREMENTS, continued:

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

	Fair Value Measurements at June 30, 2016			
	Total	Level 1	Level 2	Level 3
Long–term investments, at fair value:				
Endowment funds:				
Mutual funds:				
Foreign–large blend	$ 4,600,969	$ 4,600,969	$ -	$ -
Diversified emerging markets	2,686,794	2,686,794	-	-
Bond funds	3,665,632	3,665,632	-	-
Equity–large value	2,162,694	2,162,694	-	-
Equity–small value	1,358,824	1,358,824	-	-
Foreign–small value	1,735,522	1,735,522	-	-
World allocation	154,094	154,094	-	-
World stock	293,574	293,574	-	-
Large growth	456,221	456,221	-	-
Total mutual funds	17,114,324	17,114,324	-	-
Exchange–traded funds:				
Large blend	2,756,708	2,756,708	-	-
Small blend	1,313,187	1,313,187	-	-
Total exchange–traded funds	4,069,895	4,069,895	-	-
		$ 21,184,219	$ -	$ -
Alternative investments, measured at net asset value:				
Hedge funds	3,618,413			
Private equity	5,640,910			
Real assets	1,659,359			
Total alternative investments	10,918,682			
Total long–term investments, at fair value	$ 32,102,901			

17. FAIR VALUE MEASUREMENTS, continued:

	Fair Value Measurements at June 30, 2015			
	Total	Level 1	Level 2	Level 3
Long–term investments, at fair value:				
Endowment funds:				
Money market funds	$ 2,878,082	$ 2,878,082	$ -	$ -
Mutual funds:				
Foreign–large blend	4,261,735	4,261,735	-	-
Diversified emerging markets	2,484,466	2,484,466	-	-
Bond funds	4,322,739	4,322,739	-	-
Equity–large blend	2,477,407	2,477,407	-	-
Equity–small value	1,175,405	1,175,405	-	-
Foreign–small value	1,295,983	1,295,983	-	-
Other	904,798	904,798	-	-
Total mutual funds	16,922,533	16,922,533	-	-
Exchange–traded funds:				
Large blend	2,305,530	2,305,530	-	-
Small blend	823,451	823,451	-	-
Total exchange–traded funds	3,128,981	3,128,981	-	-
		$ 22,929,596	$ -	$ -
Alternative investments, measured at net asset value:				
Hedge funds	3,667,055			
Private equity	4,586,101			
Real assets	1,477,543			
Total alternative investments	9,730,699			
Total long–term investments, at fair value	$ 32,660,295			

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Money market funds: Valued at cost, which approximates fair value.

Mutual funds: Valued at quoted market prices or dealer quotes in an active market.

17. FAIR VALUE MEASUREMENTS, continued:

Exchange–traded funds: Valued at the closing price reported on the active market in which the individual funds are traded.

Alternative investments: Based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over–the–counter markets, and quoted market prices are not available. These investments include hedge funds, private equity funds, and real assets. Management uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The Organization's investments in limited partnerships are valued using NAV per share and management estimates the fair values of these investments based on a review of all available information provided by fund managers and general partners. The Organization also takes into consideration audited financial information to determine overall reasonableness of the recorded value. These fair value estimates are evaluated on a regular basis by management and are susceptible to revisions as more information becomes available. Because of these factors, it is reasonably possible that the estimated fair values of these investments may change materially in the near term.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model–based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the period. For the years ended June 30, 2016 and 2015, there were no transfers in or out of Levels 1, 2, or 3.

18. ENDOWMENT FUNDS:

The Organization's endowments consist of approximately one hundred individual funds established for a variety of purposes. Its endowments include both donor–restricted endowment funds and funds designated by the respective boards to function as endowments. As required by United States generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the boards to function as endowments, are classified and reported based on the existence or absence of donor–imposed restrictions.

Interpretation of relevant law:

The boards have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor–restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

18. ENDOWMENT FUNDS, continued:

The remaining portion of the donor–restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund.
(2) The purposes of the Organization and the donor–restricted endowment fund.
(3) General economic conditions.
(4) The possible effect of inflation and deflation.
(5) The expected total return from income and the appreciation of investments.
(6) Other resources of the Organization.
(7) The investment policies of the Organization.

Endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor–restricted endowment funds	$ -	$ 2,837,198	$ 25,163,479	$ 28,000,677
Board–designated funds	6,135,228	-	-	6,135,228
	$ 6,135,228	$ 2,837,198	$ 25,163,479	$ 34,135,905

Changes in endowment net assets for year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2015	$ 6,572,364	$ 4,740,489	$ 24,566,797	$ 35,879,650
Investment return:				
Interest and dividends	-	446,313	-	446,313
Net losses (realized and unrealized)	(197,648)	(1,394,475)	-	(1,592,123)
Total investment return	(197,648)	(948,162)	-	(1,145,810)
Contributions, transfers, and designations	-	-	596,682	596,682
Amounts appropriated for expenditure	(239,488)	(955,129)	-	(1,194,617)
	(239,488)	(955,129)	596,682	(597,935)
Endowment net assets, June 30, 2016	$ 6,135,228	$ 2,837,198	$ 25,163,479	$ 34,135,905

18. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor–restricted endowment funds	$ -	$ 4,740,489	$ 24,566,797	$ 29,307,286
Board–designated funds	6,572,364	-	-	6,572,364
	$ 6,572,364	$ 4,740,489	$ 24,566,797	$ 35,879,650

Changes in endowment net assets for year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2014	$ 6,731,448	$ 5,254,723	$ 18,822,049	$ 30,808,220
Investment return:				
Interest and dividends	-	532,542	-	532,542
Net gains (losses) (realized and unrealized)	103,542	(372,996)	-	(269,454)
Total investment return	103,542	159,546	-	263,088
Contributions, transfers, and designations	-	-	5,744,748	5,744,748
Amounts appropriated for expenditure	(262,626)	(673,780)	-	(936,406)
	(262,626)	(673,780)	5,744,748	4,808,342
Endowment net assets, June 30, 2015	$ 6,572,364	$ 4,740,489	$ 24,566,797	$ 35,879,650

At June 30, 2016 and 2015, permanently restricted net assets consist of the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA. Temporarily restricted net assets consist of the portion of perpetual endowment funds subject to a time restriction under SPMIFA. The temporarily restricted net assets also have purpose restrictions.

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. As of June 30, 2016 and 2015, there were no deficiencies of this nature.

18. ENDOWMENT FUNDS, continued:

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor–restricted funds that the Organization must hold in perpetuity or for a donor–specified period(s) as well as board–designated funds. Under the policies approved by the respective boards, the endowment assets are invested in a manner that is intended to exceed a benchmark of 5% on an inflation adjusted (real) basis over a full market cycle. The index used to reflect inflation is the Higher Education Price Index (HEPI). The Foundation expects its endowment funds, over time, to provide an average rate of return that approximates the HEPI plus the payout rate. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives:

To satisfy its long–term rate–of–return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long–term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution each year up to five percent of the three-year moving average of the endowment fund’s year–end market value. Additions to the endowment fund in the most recent two years will be weighted more heavily in the moving average to allow the distribution to partially reflect recent gifts. New endowment accounts will not be used for payout purposes until the account equals 115 percent of the total gift amount, unless donor restrictions require immediate payout.

In establishing this policy, the Organization considers the long–term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow at an average rate of 4.0 to 5.5 percent annually. This is consistent with the Organization’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

19. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY DATA

Board of Trustees
Covenant College and Supporting Foundation
Lookout Mountain, Georgia

We have audited the consolidated financial statements of Covenant College and Supporting Foundation (collectively referred to as the Organization) as of and for the years ended June 30, 2016 and 2015, and our report thereon dated September 7, 2016, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the 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

CHM and CHL are included with Covenant College, Inc. in the accompanying supplementary data.

Capin Crouse LLP

Atlanta, Georgia
September 7, 2016

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COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidating Statement of Financial Position

June 30, 2016

	Covenant College, Inc.	Covenant College Foundation, Inc.	Eliminations	Total
ASSETS:				
Cash and cash equivalents	$ 474,241	$ 945,650	$ -	$ 1,419,891
Restricted cash for Carter Hall	816,624	-	-	816,624
Student and other accounts receivable–net	3,596,120	-	(2,354,174)	1,241,946
Student loans receivable–net	2,192,809	-	-	2,192,809
Prepaid expenses and other assets	631,998	2,500	-	634,498
Property and equipment–net	56,485,967	-	-	56,485,967
Investments held for long–term purposes	25,431,013	8,704,892	-	34,135,905
Total Assets	$ 89,628,772	$ 9,653,042	$ (2,354,174)	$ 96,927,640
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued expenses	$ 4,278,913	$ 11,367	$ (2,354,174)	$ 1,936,106
Deferred revenue	1,267,444	-	-	1,267,444
Deposits and agency funds	416,309	-	-	416,309
Funds held in federal loan programs	1,973,830	-	-	1,973,830
Bonds payable	4,000,000	-	-	4,000,000
Total liabilities	11,936,496	11,367	(2,354,174)	9,593,689
Net assets:				
Unrestricted	35,634,496	2,295,864	-	37,930,360
Temporarily restricted	23,169,730	1,070,382	-	24,240,112
Permanently restricted	18,888,050	6,275,429	-	25,163,479
Total net assets	77,692,276	9,641,675	-	87,333,951
Total Liabilities and Net Assets	$ 89,628,772	$ 9,653,042	$ (2,354,174)	$ 96,927,640

See independent auditors’ report on supplementary data

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidating Statement of Financial Position

June 30, 2015

	Covenant College, Inc.	Covenant College Foundation, Inc.	Eliminations	Total
ASSETS:				
Cash and cash equivalents	$ 6,385,419	$ 813,710	$ -	$ 7,199,129
Student and other accounts receivable–net	1,218,361	-	-	1,218,361
Student loans receivable–net	2,190,081	-	-	2,190,081
Prepaid expenses and other assets	632,097	1,377	-	633,474
Property and equipment–net	43,887,876	-	-	43,887,876
Investments held for long–term purposes	26,484,290	9,395,360	-	35,879,650
Total Assets	$ 80,798,124	$ 10,210,447	$ -	$ 91,008,571
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued expenses	$ 2,116,229	$ 4,930	$ -	$ 2,121,159
Deferred revenue	522,443	-	-	522,443
Deposits and agency funds	390,699	-	-	390,699
Funds held in federal loan programs	1,973,830	-	-	1,973,830
Total liabilities	5,003,201	4,930	-	5,008,131
Net assets:				
Unrestricted	34,618,203	2,362,318	-	36,980,521
Temporarily restricted	22,739,622	1,713,500	-	24,453,122
Permanently restricted	18,437,098	6,129,699	-	24,566,797
Total net assets	75,794,923	10,205,517	-	86,000,440
Total Liabilities and Net Assets	$ 80,798,124	$ 10,210,447	$ -	$ 91,008,571

See independent auditors' report on supplementary data

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidating Statement of Activities

Year Ended June 30, 2016

	Covenant College, Inc.	Covenant College Foundation, Inc.	Eliminations	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	$ 31,436,581	$ -	$ -	$ 31,436,581
Less student aid:				
Funded from operations	(13,992,382)	-	-	(13,992,382)
Funded from endowment and restricted	(1,475,649)	-	-	(1,475,649)
Tuition and fees, net	15,968,550	-	-	15,968,550
Auxiliary enterprises	6,640,373	-	-	6,640,373
Private gifts	6,080,575	355,989	(400,479)	6,036,085
Tax credit sales revenue	567,681	-	-	567,681
Independent operations	749,619	-	-	749,619
Income on investments	178,424	-	-	178,424
Other income	639,946	65,592	-	705,538
Government and private grants	390,105	-	-	390,105
	15,246,723	421,581	(400,479)	15,267,825
Operating Revenues, Gains, and Other Support	31,215,273	421,581	(400,479)	31,236,375
EXPENSES:				
Program services:				
Instructional	10,215,425	-	-	10,215,425
Academic support	1,007,624	400,479	(400,479)	1,007,624
Student services	5,683,138	-	-	5,683,138
Library	981,098	-	-	981,098
Public service	224,477	-	-	224,477
Auxiliary enterprises	4,008,753	-	-	4,008,753
Independent operations	1,473,795	-	-	1,473,795
	23,594,310	400,479	(400,479)	23,594,310

(continued)

See independent auditors' report on supplementary data

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidating Statement of Activities
(continued)

Year Ended June 30, 2016

	Covenant College, Inc.	Covenant College Foundation, Inc.	Eliminations	Total
EXPENSES, continued:				
Supporting activities:				
Institutional support	3,626,055	13,466	-	3,639,521
Advancement	1,270,986	73,813	-	1,344,799
	4,897,041	87,279	-	4,984,320
Operating expenses	28,491,351	487,758	(400,479)	28,578,630
Change in Net Assets from Operations	2,723,922	(66,177)	-	2,657,745
NONOPERATING ACTIVITIES:				
Loss on investments	(826,569)	(497,665)	-	(1,324,234)
Change in Net Assets from Nonoperating Activities	(826,569)	(497,665)	-	(1,324,234)
Change in Net Assets	1,897,353	(563,842)	-	1,333,511
Net Assets, Beginning of Year	75,794,923	10,205,517	-	86,000,440
Net Assets, End of Year	$ 77,692,276	$ 9,641,675	$ -	$ 87,333,951

See independent auditors' report on supplementary data

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidating Statement of Activities

Year Ended June 30, 2015

	Covenant College, Inc.	Covenant College Foundation, Inc.	Eliminations	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Tuition and fees	$ 31,544,491	$ -	$ -	$ 31,544,491
Less student aid:				
Funded from operations	(13,882,913)	-	-	(13,882,913)
Funded from endowment and restricted	(1,361,730)	-	-	(1,361,730)
Tuition and fees, net	16,299,848	-	-	16,299,848
Auxiliary enterprises	6,974,549	-	-	6,974,549
Private gifts	9,060,213	477,928	(362,172)	9,175,969
Independent operations	992,880	-	-	992,880
Income on investments	175,872	-	-	175,872
Other income	576,462	44,703	-	621,165
Government and private grants	392,497	-	-	392,497
	18,172,473	522,631	(362,172)	18,332,932
Operating Revenues, Gains, and Other Support	34,472,321	522,631	(362,172)	34,632,780
EXPENSES:				
Program services:				
Instructional	9,728,466	-	-	9,728,466
Academic support	1,166,022	362,172	(362,172)	1,166,022
Student services	5,609,687	-	-	5,609,687
Library	996,038	-	-	996,038
Public service	245,645	-	-	245,645
Auxiliary enterprises	4,703,519	-	-	4,703,519
Independent operations	1,759,467	-	-	1,759,467
	24,208,844	362,172	(362,172)	24,208,844

(continued)

See independent auditors’ report on supplementary data

COVENANT COLLEGE AND SUPPORTING FOUNDATION

Consolidating Statement of Activities
(continued)

Year Ended June 30, 2015

	Covenant College, Inc.	Covenant College Foundation, Inc.	Eliminations	Total
EXPENSES, continued:				
Supporting activities:				
Institutional support	3,449,710	22,183	-	3,471,893
Advancement	1,243,881	87,974	-	1,331,855
	4,693,591	110,157	-	4,803,748
Operating expenses	28,902,435	472,329	(362,172)	29,012,592
Change in Net Assets from Operations	5,569,886	50,302	-	5,620,188
NONOPERATING ACTIVITIES:				
Income (loss) on investments	168,136	(80,920)	-	87,216
Change in Net Assets from Nonoperating Activities	168,136	(80,920)	-	87,216
Change in Net Assets	5,738,022	(30,618)	-	5,707,404
Net Assets, Beginning of Year	70,056,901	10,236,135	-	80,293,036
Net Assets, End of Year	$ 75,794,923	$ 10,205,517	$ -	$ 86,000,440

See independent auditors' report on supplementary data