

Covenant House California

Financial Statements

June 30, 2018

Independent Auditors' Report

Board of Directors Covenant House California

We have audited the accompanying financial statements of Covenant House California ("CHC"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House California as of June 30, 2018, 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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

November 27, 2018

Covenant House California

Statement of Financial Position
June 30, 2018
(with comparative amounts at June 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,466,762	\$ 338,570
Contributions receivable, net	299,001	78,911
Grants receivable	1,237,433	747,712
Due from Parent	185,863	400,690
Due from Affiliate	838,799	-
Inventory and prepaid expenses	63,467	88,134
Investments	1,932,391	1,790,117
Other assets	57,915	121,344
Contributed use of land	115,816	123,320
Property and equipment, net	<u>11,048,810</u>	<u>10,681,829</u>
	<u>\$ 17,246,257</u>	<u>\$ 14,370,627</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 1,059,092	\$ 1,034,367
Deferred revenue	577,084	722,105
Capital lease obligations	239,290	302,198
Notes payable	2,108,681	1,357,235
Annuities payable	1,002,899	3,334
Total Liabilities	<u>4,987,046</u>	<u>3,419,239</u>
Net Assets		
Unrestricted	12,143,111	10,757,572
Temporarily restricted	116,100	193,816
Total Net Assets	<u>12,259,211</u>	<u>10,951,388</u>
	<u>\$ 17,246,257</u>	<u>\$ 14,370,627</u>

See notes to financial statements

Covenant House California

Statement of Activities Year Ended June 30, 2018 (with summarized totals for year ended June 30, 2017)

	2018			2017 Total
	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE				
Contributions from individuals, foundations and corporations, including legacies and bequests of \$569,003 and \$942,276 in 2018 and 2017	\$ 3,024,895	\$ -	\$ 3,024,895	\$ 3,091,805
Contributed services and merchandise	1,655,066	-	1,655,066	886,004
Contributed property	-	-	-	53,841
Government grants and contracts	6,122,595	-	6,122,595	3,315,661
Support from Parent - Branding Dollars from Parent	2,140,000	-	2,140,000	2,255,000
Contributions from YEAH (net assets)	-	-	-	55,555
Capital campaign	1,726,723	-	1,726,723	-
Grants from Parent Related to National Sleep Out Event	558,028	-	558,028	415,330
Special events revenue, net of direct benefit to donor costs of \$157,051 and \$117,722 in 2018 and 2017	<u>642,675</u>	<u>-</u>	<u>642,675</u>	<u>635,114</u>
Total Support and Revenue	<u>15,869,982</u>	<u>-</u>	<u>15,869,982</u>	<u>10,708,310</u>
INVESTMENT AND OTHER INCOME				
Investment Income				
Interest and dividends	53,618	-	53,618	40,150
Unrealized loss	(27,825)	-	(27,825)	(4,943)
Realized gains (losses)	4,129	-	4,129	(2,755)
Other income	<u>80,096</u>	<u>-</u>	<u>80,096</u>	<u>70,091</u>
Total Investment and Other Income	<u>110,018</u>	<u>-</u>	<u>110,018</u>	<u>102,543</u>
Total Support and Revenue and Investment and Other Income Before Net Asset Released	15,980,000	-	15,980,000	10,810,853
Net assets released from restrictions	<u>77,716</u>	<u>(77,716)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>16,057,716</u>	<u>(77,716)</u>	<u>15,980,000</u>	<u>10,810,853</u>
EXPENSES				
Program services	13,901,820	-	13,901,820	9,792,162
Supporting Services				
Management and general	252,945	-	252,945	321,287
Fundraising	<u>517,412</u>	<u>-</u>	<u>517,412</u>	<u>344,018</u>
Total Expenses	<u>14,672,177</u>	<u>-</u>	<u>14,672,177</u>	<u>10,457,467</u>
Change in Net Assets	1,385,539	(77,716)	1,307,823	353,386
NET ASSETS				
Beginning of year	<u>10,757,572</u>	<u>193,816</u>	<u>10,951,388</u>	<u>10,598,002</u>
End of year	<u>\$ 12,143,111</u>	<u>\$ 116,100</u>	<u>\$ 12,259,211</u>	<u>\$ 10,951,388</u>

See notes to financial statements

Covenant House California

Statement of Functional Expenses Year Ended June 30, 2018 (with summarized totals for year ended June 30, 2017)

	2018												2017 Total Expenses
	Program Services						Supporting Services						
	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	
Salaries	\$ 3,293,180	\$ 500,503	\$ 188,494	\$ 436,967	\$ 83,351	\$ 1,560,807	\$ 6,063,302	\$ 117,740	\$ 153,887	\$ 271,627	\$ -	\$ 6,334,929	\$ 4,677,078
Payroll taxes	298,445	42,941	15,431	37,253	5,288	132,746	532,104	8,609	12,288	20,897	-	553,001	406,623
Employee benefits	<u>587,103</u>	<u>49,165</u>	<u>30,657</u>	<u>76,711</u>	<u>3,934</u>	<u>313,377</u>	<u>1,060,947</u>	<u>29,888</u>	<u>20,724</u>	<u>50,612</u>	-	<u>1,111,559</u>	<u>798,917</u>
Total Salaries and Related Expenses	4,178,728	592,609	234,582	550,931	92,573	2,006,930	7,656,353	156,237	186,899	343,136	-	7,999,489	5,882,618
Contributed legal services	204,153	34,319	25,519	181,276	-	127,596	572,863	25,519	-	25,519	-	598,382	162,489
Accounting fees	42,137	4,945	4,945	17,231	-	24,726	93,984	6,220	-	6,220	-	100,204	45,000
Legal fees	3,021	382	379	379	1,500	750	6,411	750	375	1,125	-	7,536	7,015
Consulting fees	178,148	3,510	2,479	115,466	2,919	9,138	311,660	1,460	3,600	5,060	-	316,720	266,837
Medical fees	-	-	13,860	-	-	-	13,860	-	-	-	-	13,860	15,540
Supplies	39,875	4,831	2,464	7,465	182	17,646	72,463	1,249	907	2,156	-	74,619	85,733
Telephone	48,518	5,102	1,801	6,347	184	19,314	81,266	680	722	1,402	-	82,668	40,576
Postage and printing	39,105	5,209	4,557	9,959	2,515	21,967	83,312	1,825	12,862	14,687	-	97,999	75,144
Occupancy													
Fuel and utilities	121,150	7,343	12,429	23,119	112	66,182	230,335	1,326	411	1,737	-	232,072	196,404
Repairs and maintenance	68,238	5,313	2,647	36,970	-	69,794	182,962	666	5,004	5,670	-	188,632	101,122
Contributed facilities	3,001	375	375	1,501	-	1,876	7,128	375	-	375	-	7,503	7,227
Rent and other	67,923	1,464	969	71,731	-	104,731	246,818	474	-	474	-	247,292	123,915
Equipment	128,373	13,523	6,034	24,952	379	51,224	224,485	5,228	1,798	7,026	-	231,511	175,551
Travel and transportation	63,702	7,136	4,475	5,702	7,506	26,220	114,741	5,152	4,988	10,140	-	124,881	77,293
Conferences, conventions and meetings	23,055	4,475	2,692	2,418	3,450	7,660	43,750	1,961	1,423	3,384	-	47,134	31,532
Special Assistance to Individuals													
Food	307,793	23,602	2,459	2,877	-	187,689	524,420	342	2	344	138,265	663,029	541,488
Medical	-	-	154,426	-	-	50	154,476	-	-	-	-	154,476	116,765
Clothing, allowance and other	120,293	25,658	3,832	46,853	21	258,281	454,938	13	5	18	-	454,956	245,053
Contributed clothing and merchandise	389,009	52,485	29,846	113,228	-	168,210	752,778	13,007	116,194	129,201	-	881,979	579,863
Temporary help	104,761	6,251	5,866	60,883	-	42,162	219,923	10,834	254	11,088	-	231,011	18,263
Other purchased services	362,745	15,330	10,132	27,938	372	146,661	563,178	3,078	171,002	174,080	18,786	756,044	622,572
Dues, licenses, and permits	11,634	2,066	1,792	2,177	1,537	3,773	22,979	1,253	1,198	2,451	-	25,430	22,889
Subscriptions and publications	12,747	1,588	1,588	2,207	-	7,858	25,988	151	5,931	6,082	-	32,070	1,322
Staff recruitment	32,324	2,429	1,837	2,466	-	19,086	58,142	956	20	976	-	59,118	27,002
Insurance	80,000	8,947	4,947	25,554	109	43,664	163,221	2,695	399	3,094	-	166,315	121,467
Contributed services - other	90,104	1,028	728	9,758	-	51,729	153,347	-	630	630	-	153,977	145,175
Miscellaneous, net	7,010	896	897	4,314	489	3,946	17,552	346	191	537	-	18,089	34,658
Bank charges and fees	26,490	2,776	2,776	3,939	16	14,064	50,061	6,339	36	6,375	-	56,436	24,261
Interest expense	15,631	7,294	1,911	70,398	-	9,553	104,787	2,257	-	2,257	-	107,044	104,721
Total Functional Expenses Before Depreciation and Amortization	6,769,668	840,886	543,244	1,428,039	113,864	3,512,480	13,208,181	250,393	514,851	765,244	157,051	14,130,476	9,899,495
Depreciation and amortization	<u>342,786</u>	<u>89,047</u>	<u>15,553</u>	<u>98,554</u>	<u>790</u>	<u>146,909</u>	<u>693,639</u>	<u>2,552</u>	<u>2,561</u>	<u>5,113</u>	-	<u>698,752</u>	<u>675,694</u>
Total Functional Expenses	7,112,454	929,933	558,797	1,526,593	114,654	3,659,389	13,901,820	252,945	517,412	770,357	157,051	14,829,228	10,575,189
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(157,051)	(157,051)	(117,722)
Total Expenses Reported by Function on Statement of Activities	<u>\$ 7,112,454</u>	<u>\$ 929,933</u>	<u>\$ 558,797</u>	<u>\$ 1,526,593</u>	<u>\$ 114,654</u>	<u>\$ 3,659,389</u>	<u>\$ 13,901,820</u>	<u>\$ 252,945</u>	<u>\$ 517,412</u>	<u>\$ 770,357</u>	<u>\$ -</u>	<u>\$ 14,672,177</u>	<u>\$ 10,457,467</u>

See notes to financial statements

Covenant House California

Statement of Cash Flows Year Ended June 30, 2018 (with comparative amounts for year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,307,823	\$ 353,386
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(147,485)	(74,444)
Discount on contributions receivables	(1,089)	(1,809)
Net realized and unrealized loss on investments	23,696	7,698
Amortization of deferred revenue	(145,021)	(118,921)
Contributed use of land	7,504	7,227
Depreciation and amortization	698,752	675,694
Changes in operating assets and liabilities		
Contributions receivable	(219,001)	245,570
Grants receivable	(489,721)	(508,411)
Inventory and prepaid expenses	24,667	(11,054)
Due from Parent	214,827	(337,981)
Deu from Affiliate	(838,799)	-
Other assets	63,429	(115,178)
Accounts payable, accrued expenses, annuities payable and refundable advances	<u>1,024,290</u>	<u>418,640</u>
Net Cash from Operating Activities	<u>1,523,872</u>	<u>540,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfer of net assets from YEAH! net of cash received	-	3,747
Purchase of investments	(385,219)	(854,518)
Proceeds from sales and maturities of investments	366,734	615,862
Purchases of property and equipment	<u>(1,033,520)</u>	<u>(226,054)</u>
Net Cash from Investing Activities	<u>(1,052,005)</u>	<u>(460,963)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on notes payable	2,125,000	-
Payment on capital lease obligations	(95,121)	(101,375)
Payment of notes payable	<u>(1,373,554)</u>	<u>(35,780)</u>
Net Cash from Financing Activities	<u>656,325</u>	<u>(137,155)</u>
Net Change in Cash and Cash Equivalents	1,128,192	(57,701)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>338,570</u>	<u>396,271</u>
End of year	<u>\$ 1,466,762</u>	<u>\$ 338,570</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 70,712	\$ 79,490
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired under capital leases	32,213	33,767

See notes to financial statements

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status

Covenant House California (“CHC” or the “Organization”), a not-for-profit member organization which was incorporated in October 1986, providing shelter and crisis care and outreach services to youth in the Los Angeles and Oakland, California areas. Covenant House (Parent), is a not-for-profit organization founded in 1968 and incorporated in 1972. Covenant House (Parent) and affiliates (collectively “Covenant House”), provided shelter, food, clothing, medical attention, crisis intervention, public education, prevention, and other services that reached approximately 89,000 and 80,000 young people during fiscal 2018 and 2017.

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

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

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

- Asociacion La Alianza (Guatemala)
- Casa Alianza De Honduras
- Casa Alianza Internacional
- Casa Alianza Nicaragua
- Covenant House Toronto
- Covenant House Vancouver
- Fundación Casa Alianza Mexico, I.A.P.

Covenant House is the founder of Fundación Casa Alianza México, I.A.P.

In 2016, the Board of Directors of CHC authorized CHC to enter into a Letter of Intent to merge with CHC with another not-for-profit organization, YEAH!. YEAH!’s mission is consistent with that of CHC; providing support for 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. In 2017, the merger was finalized and all of YEAH!’s assets were transferred to CHC.

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status (*continued*)

On June 15, 2017, the Board of Directors of CHC authorized CHC to enter into a Letter of Intent to acquire the DreamCatcher Youth Services (“DreamCatcher”) program, from its’ parent agency, Alameda Family Services (AFS). DreamCatcher’s mission is consistent with that of CHC; providing support and housing for homeless and trafficked youth, in Oakland, CA. DreamCatcher specializes in working with youth ages, 13-18, and has been a long-time access point for youth to transition from homelessness into CHC’s Oakland program. CHC would be the surviving entity after the asset acquisition, which includes a property acquisition. As of November 27, 2018, this acquisition 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.

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 Services

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.

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

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.

Supporting Services

Management and General

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

Fundraising

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

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.

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 Asset 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.

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

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

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. Grant revenue is recognized as services are performed or expenditures are incurred under CHC's contracts with its clients and funders.

As of June 30, 2018 and 2017, 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, 2018 totaled \$2,459,873 and are expected to be received over the next year. Awards approved that have not been earned as of June 30, 2017 totaled \$3,690,485 and were received during the year ended June 30, 2018. Revenue from cost reimbursable grants is recorded to the extent of expenses incurred applicable to the grant.

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.

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 statement 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.

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

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

Contributed Services, Merchandise, and Use of Land

Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, or 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 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 Western Avenue ("CHWA") is a separate 501(c)(3) 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 this land is restricted to accommodate facilities and operations which achieve CHC's mission. CHC has recorded \$115,816 and \$123,320 as of June 30, 2018 and 2017, 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%.

On December 20, 2017, CHWA entered into a separate agreement to hold additional property for CHC for the purpose of CHC's programs in Los Angeles, California. CHC will enter into an agreement with CHWA to lease the property for 25 years when renovations are completed. CHC will be responsible for all related taxes, repairs and maintenance and utility costs. The use of this property will be restricted to accommodate facilities and operations which achieve CHC's mission.

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. As of June 30, 2018 and 2017, no allowance for doubtful accounts was determined to be necessary, except as identified in Note 4.

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

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.

Charitable Remainder Annuity Trusts

CHC is the beneficiary of a charitable remainder annuity trust for which it serves as the trustee. The trust instrument provides that for the time preceding the death of the donor or the term of 10 years, whichever is earlier, CHC has the obligation to make quarterly installment payments of annuity trust amounts at the end of the selected period during each taxable year of the trust. At June 30, 2018 the present value of the future benefits to be received by CHC when the trust terminates and the trust assets are distributed has been recorded in the amount \$509,215 in investments.

Investments Valuation 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.

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 leased 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.

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

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 undiscounted 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, 2018 and 2017.

Annuity Payable

The Organization is also the beneficiary of another charitable remainder trust for which it serves as the trustee and received the total trust corpus from the donor of \$1,000,000 during the fiscal year. Trust payments to the donor did not commence until after June 30, 2018 and is recorded as an annuity payable on the statement of financial position.

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.

Inventory

The Organization values its inventories at the lower of weighted average cost or net realizable value.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2017 is presented for comparative purposes only. Certain activity by net asset classification is 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, 2017, 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, 2018 and 2017

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

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, 2015.

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 November 27, 2018.

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, 2018, 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>2018</u>	<u>2017</u>
Contributions receivable, gross	\$ 302,074	\$ 83,073
Allowance for doubtful accounts	(3,073)	(3,073)
Discount factor of 1.38%	-	(1,089)
	<u>\$ 299,001</u>	<u>\$ 78,911</u>

All receivables are due within the next year. No discount deemed necessary

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Land	\$ 4,148,032	\$ 4,148,032
Buildings and building improvements	5,272,905	5,272,905
Buildings and building improvements on leased land	9,815,782	8,919,141
Furniture and equipment	1,750,951	1,741,543
Vehicles	324,497	257,224
Equipment acquired under capital leases	557,362	525,149
	21,869,529	20,863,994
Accumulated depreciation and amortization (including accumulated amortization on equipment acquired under capital leases of \$110,562 and \$89,702 in 2018 and 2017)	(10,820,719)	(10,182,165)
	\$ 11,048,810	\$ 10,681,829

Depreciation and amortization expense was \$698,752 and \$675,694 for the years ended June 30, 2018 and 2017.

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:

	2018		
	Level 1	Level 2	Total
Mutual funds	\$ 977,261	\$ -	\$ 977,261
U.S. Government agencies	256,732	-	256,732
Corporate bonds	-	305,380	305,380
Mortgage backed securities	-	61,652	61,652
Total Investments at Fair Value	\$ 1,233,993	\$ 367,032	1,601,025
Cash and cash equivalents, at cost			331,366
Total Investments			\$ 1,932,391

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

6. Investments *(continued)*

	2017		
	Level 1	Level 2	Total
Mutual funds	\$ 607,275	\$ -	\$ 607,275
U.S. Government agencies	404,878	-	404,878
Corporate bonds	-	366,116	366,116
Mortgage backed securities	-	83,521	83,521
Total Investments at Fair Value	\$ 1,012,153	\$ 449,637	1,461,790
Cash and cash equivalents, at cost			328,327
Total Investments			\$ 1,790,117

7. Notes Payable

On January 30, 2018, the Organization refinanced its outstanding debt and entered into a \$1,375,000 term loan with Bank of America, with an interest rate of 4.25% and maturity date of January 28, 2028.

CHC obtained through financing a secured note payable of \$750,000 with an interest rate at 4% from a related party of CHC, with the condition that the note be used for CHWA property (see note 2). The total amount of interest expense relating to this note totaled \$15,000 for the year ended June 30, 2018.

The total amount of interest expense related to the credit arrangements described above is included in program services and management and general expenses in the accompanying statement of activities and totaled \$64,885 and \$68,419 for the years ended June 30, 2018 and 2017.

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

2019	\$ 795,134
2020	46,968
2021	49,182
2022	51,346
2023	53,603
Thereafter	1,112,448
	\$ 2,108,681

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

8. Hollywood, California, Crisis Shelter Renovations

In January 2012, CHC was awarded an Emergency Housing and Assistance Program Operating Facility ("EHAP") grant of \$967,260 from the state of California through the Department of Housing and Community Development ("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 RFDs approved by DHCD.

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, 2018 and 2017, the total unamortized balance of the remaining forgivable loan was \$577,084 and \$711,005, which is included in deferred revenue in the accompanying statement of financial position. The amount of grant revenue recognized from these loans was \$155,252 for each of the years ended June 30, 2018 and 2017.

9. Related Party Transactions

In fiscal 2018 and 2017, 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 contribution as "Branding Dollars".

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

9. Related Party Transactions *(continued)*

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 \$60 million and \$66 million for the Parent in the years ended June 30, 2018 and 2017.

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 \$31 million and \$36 million in fiscal 2018 and 2017. For the years ended June 30, 2018 and 2017, the Organization received \$2,140,000 and \$2,255,000 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 \$149,518 and \$136,207 for the years ended June 30, 2018 and 2017. Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due from the Parent was \$185,863 and \$400,690 at June 30, 2018 and 2017.

Contribution revenue from board members, including donations of common stock and special events revenue, totaled \$2,312,647 and \$207,473 for the years ended June 30, 2018 and 2017. The outstanding balances of amounts receivable from board members was \$368,000 and \$0 as of June 30, 2018 and 2017.

The Organization obtained through financing, a secured note payable of \$750,000 with an interest rate at 4% from a related party with the condition that this noted be used for property (see notes 2 and 7). In fiscal 2018, CHWA entered into a separate agreement to hold this property for CHC for the purpose of CHC's programs in Los Angeles, California. CHC has recorded \$838,799, as of June 30, 2018, as due from affiliate.

10. Pension Plan

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 eligible part-time employees 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 \$185,313 and \$183,781 for the years ended June 30, 2018 and 2017.

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

10. Pension Plan *(continued)*

CHC participates in a noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, 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. Effective August 1, 2009, the Board of Directors of the Parent approved to freeze the future benefit accruals of all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent. Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. Beginning in the year ended June 30, 2018, CHC contributed \$143,372 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expense.

11. Unrestricted Net Assets

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

	2018	2017
Board Designated:		
Building/parking lot	\$ 494,000	\$ 494,000
Computer upgrades	54,000	54,000
Program development	66,371	66,371
Subtotal Board Designated	614,371	614,371
Designated - property and equipment	11,048,810	10,681,829
Undesignated	479,930	(538,628)
	\$ 12,143,111	\$ 10,757,572

Board designated funds are included in investments.

12. Temporarily Restricted Net Assets

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

	2018	2017
Purpose restrictions:		
Program core support	\$ -	\$ 70,496
Time restrictions:		
Other time restrictions	116,100	123,320
	\$ 116,100	\$ 193,816

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

12. Temporarily Restricted Net Assets *(continued)*

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:

	2018	2017
Purpose restrictions:		
Program core support	\$ 70,496	\$ 121,000
Other programs	-	10,000
Time restrictions:		
Other time restrictions	7,220	32,228
	\$ 77,716	\$ 163,228

13. Lease Commitments

CHC is a lessee of certain equipment acquired under capital leases expiring in various years through 2024. Amortization of assets acquired under capital leases is included in depreciation and amortization expense. Obligations under capital leases at June 30, 2018 and 2017 amounted to \$239,290 and \$302,198. The amount of imputed interest necessary to reduce the net minimum lease payments under capital lease obligations to present value totaled \$9,962 and \$12,935 at June 30, 2018 and 2017.

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

2019	\$ 120,354
2020	89,958
2021	14,808
2022	14,132
2023	4,800
Thereafter	5,200
	249,252
Less amounts representing interest	(9,962)
	\$ 239,290

In addition, CHC entered into several month to month operating lease agreements. Rent expense for these agreements was \$218,601 and \$107,169 for the years ended June 30, 2018 and 2017.

Covenant House California

Notes to Financial Statements
June 30, 2018 and 2017

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.

* * * * *