

Covenant House California

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

June 30, 2019

Covenant House California

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

June 30, 2019

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Independent Auditors' Report

Board of Directors Covenant House California

Report on the Financial Statements

We have audited the accompanying financial statements of Covenant House California (“CHC”), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House California as of June 30, 2019, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Covenant House California adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Covenant House California's June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 27, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on Page 23, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated __, 2019 on our consideration of CHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CHC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHC's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

November 20, 2019

Covenant House California

Statement of Financial Position
June 30, 2019
(with comparative amounts at June 30, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 1,218,588	\$ 1,466,762
Contributions receivable, net	759,132	299,001
Grants receivable	1,774,849	1,237,433
Due from Parent	357,201	185,863
Due from Affiliate	1,685,500	1,685,500
Inventory and prepaid expenses	130,892	63,467
Investments	2,384,586	1,932,391
Other assets	33,399	57,915
Contributed use of land	108,029	115,816
Property and equipment, net	<u>11,619,740</u>	<u>10,202,109</u>
	<u>\$ 20,071,916</u>	<u>\$ 17,246,257</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable, accrued expenses and refundable advances	\$ 1,264,757	\$ 1,059,092
Deferred revenue	439,145	577,084
Capital lease obligations	170,003	239,290
Notes payable	3,390,633	2,108,681
Annuities payable	2,029	1,002,899
Total Liabilities	<u>5,266,567</u>	<u>4,987,046</u>
Net Assets		
Without donor restrictions	14,025,821	12,143,111
With donor restrictions	<u>779,528</u>	<u>116,100</u>
Total Net Assets	<u>14,805,349</u>	<u>12,259,211</u>
	<u>\$ 20,071,916</u>	<u>\$ 17,246,257</u>

See notes to financial statements

Covenant House California

Statement of Activities Year Ended June 30, 2019 (with summarized totals for year ended June 30, 2018)

	2019		Total	2018 Total
	Without Donor Restrictions	With Donor Restrictions		
SUPPORT AND REVENUE				
Contributions from individuals, foundations and corporations, including legacies and bequests of \$1,638,784 and \$569,003 in 2019 and 2018	\$ 3,639,073	\$ 171,500	\$ 3,810,573	\$ 3,024,895
Contributed services and merchandise	1,202,587	-	1,202,587	1,655,066
Government grants and contracts	8,132,102	-	8,132,102	6,122,595
Support from Parent - Branding Dollars from Parent	1,886,000	-	1,886,000	2,140,000
Capital campaign	1,216,434	500,000	1,716,434	1,726,723
Grants from Parent Related to National Sleep Out Event	790,216	-	790,216	558,028
Special events revenue, net of direct benefit to donor costs of \$145,780 and \$157,051 in 2019 and 2018	400,093	-	400,093	642,675
Total Support and Revenue	<u>17,266,505</u>	<u>671,500</u>	<u>17,938,005</u>	<u>15,869,982</u>
INVESTMENT AND OTHER INCOME				
Investment Income				
Interest and dividends	65,476	-	65,476	53,618
Unrealized gains (losses)	7,972	-	7,972	(27,825)
Realized gains	9,880	-	9,880	4,129
Other income	1,132,358	-	1,132,358	80,096
Total Investment and Other Income	<u>1,215,686</u>	<u>-</u>	<u>1,215,686</u>	<u>110,018</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released	<u>18,482,191</u>	<u>671,500</u>	<u>19,153,691</u>	<u>15,980,000</u>
Net assets released from restrictions	8,072	(8,072)	-	-
Total Support and Revenue and Investment and Other Income	<u>18,490,263</u>	<u>663,428</u>	<u>19,153,691</u>	<u>15,980,000</u>
EXPENSES				
Program services	15,955,169	-	15,955,169	13,901,820
Supporting Services				
Management and general	264,038	-	264,038	252,945
Fundraising	388,346	-	388,346	517,412
Total Expenses	<u>16,607,553</u>	<u>-</u>	<u>16,607,553</u>	<u>14,672,177</u>
Change in Net Assets	1,882,710	663,428	2,546,138	1,307,823
NET ASSETS				
Beginning of year	12,143,111	116,100	12,259,211	10,951,388
End of year	<u>\$ 14,025,821</u>	<u>\$ 779,528</u>	<u>\$ 14,805,349</u>	<u>\$ 12,259,211</u>

See notes to financial statements

Covenant House California

Statement of Functional Expenses Year Ended June 30, 2019 (with summarized totals for year ended June 30, 2018)

	2019											2018 Total Expenses	
	Program Services						Supporting Services			Direct Benefit to Donors	Total Expenses		
	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
Salaries	\$ 3,928,079	\$ 623,428	\$ 199,646	\$ 430,438	\$ 93,273	\$ 1,967,279	\$ 7,242,143	\$ 122,491	\$ 193,289	\$ 315,780	\$ -	\$ 7,557,923	\$ 6,334,929
Payroll taxes	350,590	54,247	16,944	36,379	5,932	168,914	633,006	9,069	14,321	23,390	-	656,396	553,001
Employee benefits	678,639	84,473	38,614	118,509	5,518	339,139	1,264,892	42,009	21,331	63,340	-	1,328,232	1,111,559
Total Salaries and Related Expenses	4,957,308	762,148	255,204	585,326	104,723	2,475,332	9,140,041	173,569	228,941	402,510	-	9,542,551	7,999,489
Contributed legal services	173,627	21,703	21,703	86,814	-	108,517	412,364	21,703	-	21,703	-	434,067	598,382
Accounting fees	28,221	3,196	3,196	7,475	-	15,979	58,067	5,850	-	5,850	-	63,917	100,204
Legal fees	21,275	2,633	2,253	10,228	7,489	3,745	47,623	3,745	1,872	5,617	-	53,240	7,536
Consulting fees	227,564	8,663	5,164	14,987	4,060	29,171	289,609	1,155	5,756	6,911	-	296,520	316,720
Medical fees	4,631	-	8,820	-	-	1,985	15,436	-	-	-	-	15,436	13,860
Supplies	53,535	5,579	3,283	10,629	947	21,699	95,672	2,549	999	3,548	-	99,220	74,619
Telephone	81,590	11,311	4,010	11,827	246	35,769	144,753	5,423	613	6,036	-	150,789	82,668
Postage and printing	32,415	4,269	3,947	17,527	270	19,895	78,323	1,238	11,270	12,508	-	90,831	97,999
Occupancy													
Fuel and utilities	147,934	13,696	5,031	27,054	626	75,723	270,064	1,335	1,561	2,896	-	272,960	232,072
Repairs and maintenance	76,049	8,934	3,580	9,917	128	32,911	131,519	1,265	191	1,456	-	132,975	188,632
Contributed facilities	3,111	389	389	1,565	-	1,944	7,398	389	-	389	-	7,787	7,503
Rent and other	68,116	485	485	88,621	-	117,022	274,729	643	-	643	-	275,372	247,292
Equipment	189,368	44,744	9,523	28,619	1,031	78,149	351,434	6,877	3,294	10,171	-	361,605	231,511
Travel and transportation	61,940	12,816	4,536	6,605	5,277	53,543	144,717	3,703	7,082	10,785	-	155,502	124,881
Conferences, conventions and meetings	24,770	3,514	2,056	2,311	3,732	16,241	52,624	2,252	2,136	4,388	-	57,012	47,134
Special Assistance to Individuals													
Food	418,220	23,584	5,165	5,525	-	312,195	764,689	7	-	7	134,530	899,226	663,029
Medical	3,838	480	147,585	1,919	-	2,399	156,221	480	-	480	-	156,701	154,476
Clothing, allowance and other	123,876	17,485	5,362	85,555	66	677,163	909,507	283	22	305	-	909,812	454,956
Contributed clothing and merchandise	287,133	29,088	24,817	30,208	-	128,326	499,572	375	108,413	108,788	-	608,360	881,979
Temporary help	29,555	990	931	61,256	-	33,452	126,184	1,668	-	1,668	-	127,852	231,011
Other purchased services	386,809	36,597	14,758	41,218	872	133,758	614,012	4,047	6,529	10,576	11,250	635,838	756,044
Dues, licenses, and permits	8,892	1,233	955	5,198	235	7,806	24,319	550	1,173	1,723	-	26,042	25,430
Subscriptions and publications	12,341	1,805	1,610	1,976	116	7,507	25,355	115	5,249	5,364	-	30,719	32,070
Staff recruitment	30,086	3,062	1,731	2,899	96	40,441	78,315	2,249	244	2,493	-	80,808	59,118
Insurance	93,781	8,959	4,353	13,482	163	47,767	168,505	2,474	543	3,017	-	171,522	166,315
Contributed services - other	128,440	461	365	3,725	-	26,105	159,096	-	1,077	1,077	-	160,173	153,977
Miscellaneous, net	46,001	1,922	1,888	3,561	790	13,609	67,771	3,648	295	3,943	-	71,714	18,089
Bank charges and fees	12,790	1,431	1,422	2,875	-	7,064	25,582	2,823	-	2,823	-	28,405	56,434
Interest expense	40,496	5,257	4,800	54,119	-	21,720	126,392	7,340	-	7,340	-	133,732	107,044
Total Functional Expenses Before Depreciation and Amortization	7,773,712	1,036,434	548,922	1,223,021	130,867	4,546,937	15,259,893	257,755	387,260	645,015	145,780	16,050,688	14,130,476
Depreciation and amortization	307,471	91,600	14,853	107,922	395	173,035	695,276	6,283	1,086	7,369	-	702,645	698,752
Total Functional Expenses	8,081,183	1,128,034	563,775	1,330,943	131,262	4,719,972	15,955,169	264,038	388,346	652,384	145,780	16,753,333	14,829,228
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(145,780)	(145,780)	(157,051)
Total Expenses Reported by Function on Statement of Activities	\$ 8,081,183	\$ 1,128,034	\$ 563,775	\$ 1,330,943	\$ 131,262	\$ 4,719,972	\$ 15,955,169	\$ 264,038	\$ 388,346	\$ 652,384	\$ -	\$ 16,607,553	\$ 14,672,177

See notes to financial statements

Covenant House California

Statement of Cash Flows Year Ended June 30, 2019 (with comparative amounts for year ended June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,546,138	\$ 1,307,823
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(147,485)	(147,485)
Discount on contributions receivables	7,618	(1,089)
Net realized and unrealized (gains) loss on investments	(17,852)	23,696
Amortization of deferred revenue	(137,939)	(145,021)
Contributed use of land	7,787	7,504
Depreciation and amortization	702,645	698,752
Changes in operating assets and liabilities		
Contributions receivable	(467,749)	(219,001)
Grants receivable	(537,416)	(489,721)
Inventory and prepaid expenses	(67,425)	24,667
Due from Parent	(171,338)	214,827
Due from Affiliate	-	(1,685,500)
Other assets	24,516	63,429
Accounts payable, accrued expenses, annuities payable and refundable advances	(795,205)	1,024,290
Net Cash from Operating Activities	946,295	677,171
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(385,219)	(385,219)
Proceeds from sales and maturities of investments	98,361	366,734
Purchases of property and equipment	(2,105,493)	(186,819)
Net Cash from Investing Activities	(2,392,351)	(205,304)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on notes payable	1,281,952	2,125,000
Payment on capital lease obligations	(84,070)	(95,121)
Payment of notes payable	-	(1,373,554)
Net Cash from Financing Activities	1,197,882	656,325
Net Change in Cash and Cash Equivalents	(248,174)	1,128,192
CASH AND CASH EQUIVALENTS		
Beginning of year	1,466,762	338,570
End of year	\$ 1,218,588	\$ 1,466,762
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 69,550	\$ 70,712
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired under capital leases	14,783	-

See notes to financial statements

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

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 74,000 and 89,000 young people during fiscal 2019 and 2018.

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
- CH Housing Development Fund Corporation
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44th Corporation
- 460 West 41st Street, LLC

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.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization and Tax Status (*continued*)

During Fiscal Year 2019, CHC acquired the DreamCatcher Youth Services (“DreamCatcher”) program which included a property acquisition, 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 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, 2019 and 2018

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Rights of Passage

Rights of Passage provides 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.

Change in Accounting Principle

On July 1, 2018, CHC adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires CHC to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires CHC to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for unrestricted net assets are now presented as net assets without donor restriction and temporarily restricted net assets are now presented as net assets with donor restriction.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

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

Net Asset Presentation

CHC reports information regarding financial position and activities according to two classes of net assets: without and with donor restrictions.

Without donor restrictions – consist of resources available for the general support of CHC's operations. Net assets without donor restrictions may be used at the discretion of CHC's management and Board of Directors.

With donor restrictions – represent amounts restricted by donors to be used for specific activities or at some future date, or which require CHC to maintain in perpetuity, including funds that are subject to restrictions or gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Income and gains earned on endowment fund investments are available to be used in the "without donor restrictions" or "with donor restrictions" net asset classes based upon stipulations by the donors.

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 without donor restrictions since such funds can be used for general operations unless there are donor-imposed restrictions. Costs to generate with and without donor restricted funds 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, 2019 and 2018, 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, 2019 totaled \$4,980,833 and are expected to be received over the next year. Awards approved that have not been earned as of June 30, 2018 totaled \$2,459,873 and were received during the year ended June 30, 2019. Revenue from cost reimbursable grants is recorded to the extent of expenses incurred applicable to the grant.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

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

Recognition of Contributions

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge or of cash or other assets. Contributions are considered without donor restriction, 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 with donor restrictions 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, with donor restricted net assets are reclassified to without donor restricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Organization's policy to record with donor restricted contributions received for which the related restrictions are met in the same accounting period in the without donor restricted 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 with donor restriction. 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 donor restricted net assets are released from restrictions.

Contributed Services, Merchandise, and Use of Land

Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, 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 \$108,029 and \$115,816 as of June 30, 2019 and 2018, 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%.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Due from Affiliate

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 entered into an agreement with CHWA to lease the property for 25 years. CHC is responsible for all related taxes, repairs and maintenance and utility costs. The property is restricted to accommodate facilities and operations which achieve CHC's mission. CHC has recorded both the land and building value of \$1,685,500 as of June 30, 2019 and 2018, as a due from affiliate.

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, 2019 and 2018, an allowance of \$50,000 and \$3,073 were determined to be necessary as identified in Note 4.

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, 2019 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 \$1,044,895 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 without donor restricted net assets unless its use is restricted by donors to a specified purpose or for a future period.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Functional Expense Allocation

The costs of providing the various program and supporting services have been summarized on a functional basis. Therefore, expenses require allocation on a reasonable basis that is consistently applied. CHC allocated direct costs to program services. Supporting services include management and general and fundraising. Allocated expenses among program services and management and general and fundraising include salaries and related expenses, staff travel, consulting and professional fees, rent and occupancy, and other expenses which are allocated based on time and costs where efforts are made.

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.

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, 2019 and 2018.

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.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

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

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, 2018 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, 2018, from which the summarized comparative information was derived.

Advertising Costs

Advertising costs are expensed as incurred.

Reclassifications

Certain information in the prior year's financial statements has been reclassified to conform to current year's presentation.

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, 2016.

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 20, 2019.

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, 2019, 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.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

4. Contributions Receivable

Contributions receivable at June 30, are summarized as follows:

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	\$ 716,750	\$ 302,074
Within five years	100,000	-
	816,750	302,074
Less: Reserve for uncollectible accounts	(50,000)	(3,073)
Discount to present value	(7,618)	-
	\$ 759,132	\$ 299,001

Contributions receivable from donors that are due within one year are considered current. Contributions receivable as of June 30, 2019 with payments to be received after June 30, 2020 are discounted to their present value using an interest rate of 3.43%. The interest rate has been calculated using discount factors that approximate the risk and expected timing of future contribution payments.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2019	2018
Land	\$ 4,260,628	\$ 4,148,032
Buildings and building improvements	5,386,767	5,272,905
Buildings and building improvements on leased land	10,746,415	8,969,081
Furniture and equipment	1,784,159	1,750,951
Vehicles	331,233	324,497
Equipment acquired under capital leases	572,145	557,362
	23,081,347	21,022,828
Accumulated depreciation and amortization (including accumulated amortization on equipment acquired under capital leases of \$73,459 and \$110,562 in 2019 and 2018)	(11,461,607)	(10,820,719)
	\$ 11,619,740	\$ 10,202,109

Depreciation and amortization expense was \$702,645 and \$698,752 for the years ended June 30, 2019 and 2018.

During Fiscal Year 2019, CHC acquired the DreamCatcher program which included a property acquisition, from its' parent agency, AFS. The total value of the acquired land was \$112,596 and the building was for \$1,366,884.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

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:

	2019		Total
	Level 1	Level 2	
Mutual funds	\$ 1,507,867	\$ -	\$ 1,507,867
U.S. Government agencies	263,907	-	263,907
Corporate bonds	-	254,772	254,772
Mortgage backed securities	-	78,548	78,548
Total Investments at Fair Value	\$ 1,771,774	\$ 333,320	2,105,094
Cash and cash equivalents, at cost			279,492
Total Investments			\$ 2,384,586

	2018		Total
	Level 1	Level 2	
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

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.

On December 20, 2017 (the "agreement date"), 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). All principal and accrued interest on this note was due and payable within one year from the agreement date. The total amount of interest expense relating to this note totaled \$30,000 for the year ended June 30, 2019.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

7. Notes Payable (continued)

On November 5, 2018 (the “disbursement date”), CHC obtained through financing an unsecured note payable of \$750,000 with an interest rate at 2% from an unrelated foundation, with the condition that the note be used to repay the secured note of \$750,000 (see above), entered into for the CHWA property. The repayment of the principal balance and accrued interest will be due and payable three years from the disbursement date. The total amount of interest expense relating to this note totaled \$9,833 for the year ended June 30, 2019.

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 \$39,833 and \$64,885 for the years ended June 30, 2019 and 2018.

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

2020	\$ 46,968
2021	49,183
2022	51,347
2023	53,604
2024	55,829
Thereafter	<u>1,054,520</u>
	<u>\$ 1,311,451</u>

8. Hollywood, California, Crisis Shelter Renovations and DreamCatcher Acquisition

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.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

8. Hollywood, California, Crisis Shelter Renovations and DreamCatcher Acquisition (continued)

As CHC's central mission is to provide emergency shelter and transitional housing for homeless youths and the loans do not impose additional conditions other than those ordinarily performed by the Organization in the normal course of operations, the conditions for forgiveness are expected to be met. As such, the Organization has recorded the capital assets acquired as property and equipment at actual cost and the state funds received as deferred revenue. The deferred revenue is amortized as without donor restriction 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, 2019 and 2018, the total unamortized balance of the remaining forgivable loan was \$439,145 and \$577,084, which is included in deferred revenue in the accompanying statement of financial position. The amount of grant revenue recognized from these loans was \$137,939 and \$155,252 for the years ended June 30, 2019 and 2018.

In fiscal year 2019, CHC was awarded an additional EHAP grant through DHCD of \$740,000 in order to secure funding on the purchase of the DreamCatcher property for a total value of \$1,479,480. The difference between the EHAP fund and the property value was contributed to CHC for \$850,801 and recorded as other income in the statement of activities. The grant is structured as a loan to CHC, secured by a deed of trust on the DreamCatcher property and bears interest at the rate of 3% simple interest per annum.

9. Related Party Transactions

In fiscal 2019 and 2018, 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".

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 \$67 million and \$64 million for the Parent in the years ended June 30, 2019 and 2018.

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 \$34 million and \$31 million in fiscal 2019 and 2018. For the years ended June 30, 2019 and 2018, the Organization received \$1,886,000 and \$2,140,000 in support received from Parent.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

9. Related Party Transactions (*continued*)

Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due from the Parent was \$357,201 and \$185,863 at June 30, 2019 and 2018.

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, 2019 and 2018. 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.

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 \$188,677 and \$185,313 for the years ended June 30, 2019 and 2018.

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, 2019, CHC contributed \$186,921 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expense.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

11. Net Assets Without Donor Restrictions

At June 30, net assets without donor restrictions consisted of the following:

	2019	2018
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	11,619,740	10,202,109
Undesignated	1,791,710	1,326,631
	\$ 14,025,821	\$ 12,143,111

Board designated funds are included in investments.

12. Net Assets With Donor Restrictions

Net Assets with donor restrictions consist of time and purpose restricted contributions as follows:

	2019	2018
Purpose restrictions:		
Program core support	\$ 571,500	\$ -
Time restrictions:		
Other time restrictions	208,028	116,100
	\$ 779,528	\$ 116,100

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:

	2019	2018
Purpose restrictions:		
Program core support	\$ -	\$ 70,496
Time restrictions:		
Other time restrictions	8,072	7,220
	\$ 8,072	\$ 77,716

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

13. Lease Commitments

CHC is a lessee of certain equipment acquired under capital leases expiring in various years through 2025. Amortization of assets acquired under capital leases is included in depreciation and amortization expense. Obligations under capital leases at June 30, 2019 and 2018 amounted to \$170,003 and \$239,290. The amount of imputed interest necessary to reduce the net minimum lease payments under capital lease obligations to present value totaled \$9,862 and \$9,962 at June 30, 2019 and 2018.

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

2020	\$ 110,057
2021	34,908
2022	24,900
2023	4,800
2024	4,800
Thereafter	<u>400</u>
	179,865
Less amounts representing interest	<u>(9,862)</u>
	<u>\$ 170,003</u>

In addition, CHC entered into several month to month operating lease agreements. Rent expense for these agreements was \$243,278 and \$218,601 for the years ended June 30, 2019 and 2018.

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.

Covenant House California

Notes to Financial Statements
June 30, 2019 and 2018

15. Liquidity and Availability of Financial Assets

The following reflects CHC's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year of that date because of contractual or donor-imposed restrictions.

Financial Assets:	
Cash and cash equivalents	\$ 1,218,588
Contributions receivable, net	759,132
Grants receivable	1,774,849
Investments	<u>2,384,586</u>
Total Financial Assets	<u>6,137,155</u>
Less: Contractual or donor imposed restrictions amounts	
Investments held for charitable remainder annuity trusts	1,044,895
Contributions and grants receivable - Due in future years	100,000
Restricted by donor with time or purpose restrictions	679,528
Board designated funds	<u>614,371</u>
	<u>2,438,794</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 3,698,361</u>

As part of CHC's liquidity management strategy, CHC structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. CHC's working capital and cash flows have cyclical variations during the year attributable to the cash receipts of contributions and grants.

* * * * *

Covenant House California

Uniform Guidance
Reports and Schedules

June 30, 2019

Covenant House California

Schedule of Expenditures of Federal Awards Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
<u>Department of Housing and Urban Development</u>				
Pass-Through Los Angeles Homeless Service Authority Continuum of Care Program	CA0482L9D001609	14.267	\$ -	\$ 23,608
Pass-Through City of Oakland Continuum of Care Program	CA0106L9T021609	14.267	-	9,322
Continuum of Care Program	CA0106L9T021710	14.267	-	323,703
Continuum of Care Program	CA1465L9T021601	14.267	-	73,061
Continuum of Care Program	CA1465L9T021702	14.267	-	<u>103,892</u>
Total Department of Housing and Urban Development, Pass-Through Programs			-	<u>533,586</u>
Total Department of Housing and Urban Development			-	<u>533,586</u>
<u>Department of Health and Human Services</u>				
Pass-Through John Wesley Community Health Institute (JWCH) Substance Abuse and Mental Health Services Projects of Regional and National Significance	MOU SP 021278	93.243 93.243	- -	30,000 15,000
Pass-Through ACF/ACYF - Family and Youth Services Bureau Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90Y02265-02-00	93.557	-	41,827
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90Y02265-03-00	93.557	-	190,087
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90Y02239-02-00	93.557	-	36,774
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90Y02239-03-00	93.557	-	152,984
Basic Center Grant	90CY6992-01-00	93.623	-	46,474
Basic Center Grant	90CY6992-02-00	93.623	-	<u>155,723</u>
Total Department of Health and Human Services			-	<u>668,869</u>
<u>Department of Homeland Security</u>				
Pass-Through EFSP United Way Los Angeles - Phase 35 Emergency Food and Shelter National Board Program	LRO 069500-163	97.024	-	31,640
Pass-Through Alameda County EFSP - San Francisco/Oakland - Phase 36 Emergency Food and Shelter National Board Program	LRO 064600-054	97.024	-	35,000
Pass-Through EFSP United Way Los Angeles - Phase 36 Emergency Food and Shelter National Board Program	LRO 069500-163	97.024	-	<u>37,700</u>
Total Department of Homeland Security			-	<u>104,340</u>
<u>Department of Justice</u>				
Direct Programs Services for Trafficking Victims		16.320	-	449,746
Pass-Through California Governor's Office of Emergency Services Crime Victim Assistance	XH16 01 1027	16.575	-	340,106
Crime Victim Assistance	KU16 01 1027	16.575	-	50,000
Crime Victim Assistance	KE17 01 1027	16.575	-	315,511
Crime Victim Assistance	KE17 A1 1027	16.575	-	369,013
Crime Victim Assistance	KI18 01 1027	16.575	-	<u>105,875</u>
Total Department of Justice			-	<u>1,630,251</u>
Total Expenditures of Federal Awards			\$ -	<u>\$ 2,937,046</u>

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

Covenant House California

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2019

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Covenant House California (the "Organization") under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Non-Cash Awards

For the year ended June 30, 2019, the Organization did not have any non-cash awards, mortgages, or loan funds that should be included in the federal expenditures presented in this Schedule.

4. Indirect Cost Rate

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

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

Independent Auditors' Report

**Board of Directors
Covenant House California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Covenant House California which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PKF O'Connor Davies, LLP

November 20, 2019

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

Independent Auditors' Report

**Board of Directors
Covenant House California**

Report on Compliance for Each Major Federal Program

We have audited Covenant House California's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Covenant House California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

PKF O'Connor Davies, LLP

November 20, 2019

Covenant House California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported
Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported
Type of auditors' report issued on compliance for major federal programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
16.575	Crime Victim Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2019.

Section III – Federal Award Findings and Questioned Costs

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

Section IV – Prior Year Audit Findings

There were no prior year audit findings.