

Covenant House California

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

June 30, 2022

Covenant House California

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

June 30, 2022

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Independent Auditors' Report

Board of Directors
Covenant House California

Opinion

We have audited the accompanying financial statements of Covenant House California ("CHC"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis of Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CHC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CHC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CHC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CHC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited CHC's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 23, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 26, 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 schedule of expenditures of federal awards 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 January 12, 2023 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

January 12, 2023

Covenant House California

Statement of Financial Position
June 30, 2022
(with comparative amounts at June 30, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 1,533,521	\$ 1,826,265
Contributions receivable, net	748,051	1,487,592
Grants receivable	2,266,334	3,517,139
Due from Parent	41,346	4,343
Due from Affiliate	1,685,500	1,685,500
Inventory and prepaid expenses	77,322	279,066
Investments	3,051,651	3,104,048
Other assets	264,219	99,212
Contributed use of land	82,830	91,546
Property and equipment, net	<u>16,201,746</u>	<u>15,406,527</u>
	<u>\$ 25,952,520</u>	<u>\$ 27,501,238</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,160,783	\$ 1,937,262
Deferred revenue	397,637	637,722
Capital lease obligations	175,174	36,045
Notes payable	2,678,785	3,537,423
Annuities payable	-	289
Total Liabilities	<u>5,412,379</u>	<u>6,148,741</u>
Net Assets		
Without donor restrictions	19,919,297	19,678,369
With donor restrictions	<u>620,844</u>	<u>1,674,128</u>
Total Net Assets	<u>20,540,141</u>	<u>21,352,497</u>
	<u>\$ 25,952,520</u>	<u>\$ 27,501,238</u>

See notes to financial statements

Covenant House California

Statement of Activities Year Ended June 30, 2022 (with summarized totals for year ended June 30, 2021)

	2022		Total	2021 Total
	Without Donor Restrictions	With Donor Restrictions		
SUPPORT AND REVENUE				
Contributions from individuals, foundations and corporations, including legacies and bequests of \$198,641 and \$486,577 in 2022 and 2021	\$ 3,852,126	\$ 1,750,524	\$ 5,602,650	\$ 5,173,430
Contributed merchandise	641,082	-	641,082	1,449,195
Contributed property	-	-	-	942,743
Contributed services	160,487	-	160,487	186,792
Government grants and contracts	9,570,990	-	9,570,990	12,411,545
Branding dollars from Parent	2,543,578	-	2,543,578	1,863,531
Restricted Site Investment Fund from Parent	100,000	-	100,000	-
Capital campaign	-	460,000	460,000	671,300
Grants from Parent related to Sleep Out Events	1,040,506	-	1,040,506	979,050
Special events revenue, net of direct benefit to donor costs of \$4,244 in 2021	-	-	-	169,364
Total Support and Revenue	<u>17,908,769</u>	<u>2,210,524</u>	<u>20,119,293</u>	<u>23,846,950</u>
INVESTMENT RETURN AND OTHER INCOME				
Investment return	(226,254)	-	(226,254)	531,080
Other income	244,695	-	244,695	241,263
Total Investment Return and Other Income	<u>18,441</u>	<u>-</u>	<u>18,441</u>	<u>772,343</u>
Total Support and Revenue and Investment Return and Other Income (Loss) Before Net Assets Released from Restrictions	17,927,210	2,210,524	20,137,734	24,619,293
Net assets released from restrictions	<u>3,263,808</u>	<u>(3,263,808)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income (Loss)	<u>21,191,018</u>	<u>(1,053,284)</u>	<u>20,137,734</u>	<u>24,619,293</u>
EXPENSES				
Program services	20,045,817	-	20,045,817	18,894,136
Supporting Services				
Management and general	353,025	-	353,025	357,093
Fundraising	551,248	-	551,248	830,231
Total Expenses	<u>20,950,090</u>	<u>-</u>	<u>20,950,090</u>	<u>20,081,460</u>
Change in Net Assets	240,928	(1,053,284)	(812,356)	4,537,833
NET ASSETS				
Beginning of year	<u>19,678,369</u>	<u>1,674,128</u>	<u>21,352,497</u>	<u>16,814,664</u>
End of year	<u>\$ 19,919,297</u>	<u>\$ 620,844</u>	<u>\$ 20,540,141</u>	<u>\$ 21,352,497</u>

See notes to financial statements

Covenant House California

Statement of Functional Expenses Year Ended June 30, 2022 (with summarized totals for year ended June 30, 2021)

	2022											2021 Total Expenses
	Program Services						Supporting Services					
	Immediate Housing	Outreach	Health and Well-Being	Drop-In Services	Public Education and Prevention	Transitional Living - Rights of Passage	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	
Salaries	\$ 5,257,687	\$ 726,706	\$ 229,550	\$ 598,195	\$ 129,603	\$ 2,157,677	\$ 9,099,418	\$ 145,384	\$ 260,509	\$ 405,893	\$ 9,505,311	\$ 8,727,045
Payroll taxes	367,489	51,492	14,553	39,063	7,320	149,147	629,064	5,893	19,361	25,254	654,318	692,729
Employee benefits	967,650	135,595	48,774	122,331	14,826	455,681	1,744,857	41,004	36,902	77,906	1,822,763	1,809,021
Total Salaries and Related Expenses	6,592,826	913,793	292,877	759,589	151,749	2,762,505	11,473,339	192,281	316,772	509,053	11,982,392	11,228,795
Contributed legal services	51,289	6,411	6,411	18,144	10,000	24,556	116,811	8,911	2,500	11,411	128,222	162,244
Accounting fees	29,832	3,676	3,676	4,102	13,000	8,629	62,915	7,352	3,250	10,602	73,517	36,400
Legal fees	4,722	503	503	853	-	2,164	8,745	700	611	1,311	10,056	23,341
Consulting fees	76,237	5,849	5,350	5,627	10,859	20,854	124,776	5,983	10,146	16,129	140,905	252,947
Medical fees	8,000	2,537	5,268	2,537	-	12,301	30,643	-	-	-	30,643	23,249
Supplies	97,720	2,860	2,316	21,160	637	27,154	151,847	1,662	1,964	3,626	155,473	138,234
Telephone	139,983	14,394	5,078	12,893	1,140	62,212	235,700	2,695	3,360	6,055	241,755	195,668
Postage and printing	32,566	3,281	2,814	3,365	122	17,991	60,139	190	11,208	11,398	71,537	59,783
Occupancy												
Fuel and utilities	172,591	10,564	4,180	14,319	3,265	66,382	271,301	2,491	2,193	4,684	275,985	252,606
Repairs and maintenance	266,731	6,939	3,659	6,274	347	64,112	348,062	843	87	930	348,992	438,235
Contributed facilities	474,858	436	436	1,743	-	2,179	479,652	436	-	436	480,088	126,239
Rent and other	108,075	7,297	7,022	66,950	-	5,027	194,371	258	59	317	194,688	130,985
Equipment	271,512	27,499	12,413	36,065	1,489	109,972	458,950	7,848	6,427	14,275	473,225	472,839
Travel and transportation	33,203	3,383	2,432	2,580	8,240	9,378	59,216	4,305	3,148	7,453	66,669	38,301
Conferences, conventions and meetings	23,009	2,183	1,798	3,234	3,578	6,299	40,101	2,046	1,776	3,822	43,923	17,731
Special Assistance to Individuals												
Food	590,949	29,097	3,051	4,038	-	344,017	971,152	-	-	-	971,152	855,479
Medical	-	-	177,638	-	-	-	177,638	-	-	-	177,638	134,152
Clothing, allowance and other	438,192	30,821	14,588	94,316	326	1,082,428	1,660,671	183	9,826	10,009	1,670,680	1,974,031
Contributed clothing and merchandise	327,517	35,113	20,609	34,968	-	116,678	534,885	-	117,752	117,752	652,637	1,450,532
Temporary help	446,957	6,079	5,179	73,012	-	23,414	554,641	2,257	2,250	4,507	559,148	97,903
Other purchased services	425,615	44,820	15,785	75,741	6,791	150,426	719,178	7,721	12,061	19,782	738,960	640,339
Dues, licenses, and permits	4,371	867	451	4,742	316	3,332	14,079	438	155	593	14,672	39,667
Subscriptions and publications	24,092	3,023	3,004	5,910	653	14,387	51,069	1,258	7,911	9,169	60,238	42,741
Staff recruitment	55,763	6,519	6,523	8,491	18,493	19,544	115,333	13,053	4,623	17,676	133,009	19,809
Insurance	145,555	18,082	5,143	21,404	361	70,297	260,842	2,577	1,864	4,441	265,283	233,774
Contributed services - other	24,078	980	490	490	-	6,227	32,265	-	-	-	32,265	24,548
Miscellaneous, net	22,940	4,585	1,377	9,986	-	31,157	70,045	-	-	-	70,045	123,912
Bank charges and fees	11,230	1,248	1,247	2,494	18	6,755	22,992	2,492	-	2,492	25,484	26,005
Interest expense	61,953	9,369	7,538	19,171	-	28,535	126,566	11,014	-	11,014	137,580	140,969
Total Functional Expenses Before Depreciation and Amortization	10,962,366	1,202,208	618,856	1,314,198	231,384	5,098,912	19,427,924	278,994	519,943	798,937	20,226,861	19,401,458
Depreciation and amortization	284,755	37,015	37,015	42,727	125,218	91,163	617,893	74,031	31,305	105,336	723,229	684,246
Total Functional Expenses	11,247,121	1,239,223	655,871	1,356,925	356,602	5,190,075	20,045,817	353,025	551,248	904,273	20,950,090	20,085,704
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	(4,244)
Total Expenses Reported by Function on Statement of Activities	\$ 11,247,121	\$ 1,239,223	\$ 655,871	\$ 1,356,925	\$ 356,602	\$ 5,190,075	\$ 20,045,817	\$ 353,025	\$ 551,248	\$ 904,273	\$ 20,950,090	\$ 20,081,460

See notes to financial statements

Covenant House California

Statement of Cash Flows Year Ended June 30, 2022 (with comparative amounts for year ended June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (812,356)	\$ 4,537,833
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(181,063)	(67,521)
Discount and reserve on contributions receivable	-	25,132
Net unrealized loss (gains) on investments	279,393	(470,521)
Amortization of deferred revenue	(240,085)	(308,783)
Contributed use of land	8,716	8,396
Depreciation and amortization	723,229	684,246
Changes in operating assets and liabilities		
Contributions receivable	739,541	(26,465)
Grants receivable	1,250,805	(2,141,068)
Due from Parent	(37,003)	(944)
Inventory and prepaid expenses	201,744	(101,022)
Other assets	(165,007)	32,868
Accounts payable and accrued expenses	209,951	169,309
Annuities payable	(289)	(435)
Paycheck Protection Program refundable advance	-	(1,528,316)
Net Cash from Operating Activities	1,977,576	812,709
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(45,933)	(53,585)
Purchases of property and equipment	(1,317,633)	(4,502,641)
Net Cash from Investing Activities	(1,363,566)	(4,556,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments) proceeds on notes payable	(858,638)	1,524,739
Payments on capital lease obligations	(48,116)	(29,785)
Net Cash from Financing Activities	(906,754)	1,494,954
Net Change in Cash and Cash Equivalents	(292,744)	(2,248,563)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,826,265	4,074,828
End of year	\$ 1,533,521	\$ 1,826,265
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 107,456	\$ 103,532
NON CASH OPERATING AND INVESTING ACTIVITY		
Construction in progress costs included within accounts payable and accrued expenses	13,570	71,435
Capital lease obligations	187,245	-

See notes to financial statements

Covenant House California

Notes to Financial Statements

June 30, 2022

1. Organization and Tax Status

Covenant House California (“CHC”) is a not-for-profit organization, which was incorporated in October 1986, provides shelter and crisis care and outreach services to youth in the Los Angeles and Oakland, California areas. Covenant House (the “Parent”) is a not-for-profit organization incorporated in 1972. The Parent and affiliates (collectively, “Covenant House”), provided shelter, food, clothing, medical and mental health care, crisis intervention, education and vocational services, public education and prevention and other programs that reached approximately 43,000 young people during fiscal year 2022. During fiscal 2022, the worldwide COVID-19 pandemic continued to impact the number of youth Covenant House reached, as affiliates prolonged measures to ensure social distancing, set aside isolation rooms for symptomatic youth, and modified street outreach. Nevertheless, in fiscal 2022, Covenant House provided a total of nearly 730,000 nights of housing and safety for, on average, 1,991 youth each night.

Covenant House (Parent) is the sole member of the following not-for-profit affiliates:

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

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

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

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.

Covenant House California

Notes to Financial Statements
June 30, 2022

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services

Program Services

Immediate Housing (formerly Shelter and Crisis Care)

The Immediate Housing program focuses on Crisis Care and provides emergency services; temporary, immediate housing; nutritious food; clothing; medical care; mental health services; and legal aid to young people ages 16-22 who are experiencing homelessness or human trafficking. CHC's high-quality programs and services meet youths' immediate needs, stabilize their situation, and help them consider their longer-term goals for education, employment, and career planning. CHC is expertly equipped to respond to the unique needs of young survivors of human trafficking, those who identify as LGBTQ+, and those who are pregnant or parenting.

Outreach

The Outreach program actively seeks out young people experiencing homelessness who may need help. In vans and on foot, CHC outreach workers go out to the neighborhoods, riverfronts, parks, and other places, where young people facing homelessness often seek refuge. CHC teams offer food, water, hygiene kits, clothing, blankets, counseling, and referrals. Through sustained contact, they build trust with the young people, the first step toward encouraging them to come into CHC shelters and connect with CHC services.

Health and Well-Being (formerly Medical)

Homelessness impacts young people's physical and mental well-being in many ways, and because youth are still developing cognitively, physically, psychologically, and emotionally, those impacts can have deep effects. CHC's trauma-informed Health and Well-being services range from medical care at on-site health centers at certain Covenant House affiliates, to yoga classes, art and music therapy, counseling, religious and spiritual services, and physical fitness. In these activities, young people heal from the harm done to them while living unhoused and take control of their lives, build on their strengths, and nourish their self-confidence.

Drop-In Services (formerly Community Service Center)

Drop-in services are another form of outreach at CHC. Youth in this program do not receive residential services, but receive access to nutritious meals, hot showers, hygiene products, laundry services, and new clothing and shoes. They can request and receive medical and mental health services, case management services, transitional and permanent housing assistance, and they may take part in our education and employment programs.

Covenant House California

Notes to Financial Statements
June 30, 2022

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Public Education and Prevention

Public Education and Prevention uses a variety of platforms to inform and educate the public, government officials, and young people about youth homelessness and human trafficking. CHC employs websites, social media, public service announcements, billboards, newsletters, school-based programs, community engagement and training, talks, lectures, and peer-to-peer events to raise awareness of the causes and impacts of youth homelessness and of the signs that a young person might be experiencing homelessness or human trafficking.

Transitional Living - Rights of Passage

CHC's Transitional Living programs, often referred to as "Rights of Passage" or ROP, are where young people take their boldest steps toward independence. Youth live in ROP for up to 24 months, where they tap their potential and plan for the future. Here they build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. CHC's staff support each young person on their journey toward sustainable independence and a hope-filled future.

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.

Covenant House California

Notes to Financial Statements

June 30, 2022

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 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 unless there are donor-imposed restrictions. Costs to generate revenues 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. Revenue from cost reimbursable grants is recorded to the extent of expenses incurred applicable to the grant.

Recognition of Contributions

As of June 30, 2022 and 2021, CHC 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, 2022 totaled \$2,430,830 and are expected to be received over the next year. Awards approved that have not been earned as of June 30, 2021 totaled \$1,310,619 and were earned during the year ended June 30, 2022.

Contributions to CHC 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.

Covenant House California

Notes to Financial Statements
June 30, 2022

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

Recognition of Contributions (continued)

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.

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.

In-Kind Contributions

As of July 1, 2021, CHC adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958). ASU 2020-07 brings more transparency and consistency to the presentation and disclosure of gifts in-kind. The standard does not change the accounting for gifts-in-kind, however, provides matters related to presentation and disclosure.

In-kind contributions for fiscal 2022 and 2021 consisted of the following:

	2022	2021	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Merchandise	\$ 641,082	\$ 1,449,195	Program and Administration	No associated donor restrictions	(a)
Property	-	942,743	Program and Administration	To be used for transitional housing program for a period of 2 years	(b)
Services	160,487	186,792	Program and Administration	No associated donor restrictions	(c)
	<u>\$ 801,569</u>	<u>\$ 2,578,730</u>			

- (a) CHC estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
- (b) In valuing the contributed building, which is located in Santa Clara, CHC estimated the fair value on the basis of recent comparable prices in Santa Clara's real estate market.
- (c) Contributed services are valued at the estimated fair value based on current rates for similar services.

Covenant House California

Notes to Financial Statements
June 30, 2022

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

In-Kind Contribution (continued)

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 \$82,830 and \$91,546 as of June 30, 2022 and 2021, 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%.

CHC occupied a location in Santa Clara, California at no charge under an agreement for donated occupancy, which commenced in April 2021 and expires in April 2023. Rent expense related to this donated occupancy was \$471,372 and \$117,843 for the years ended June 30, 2022 and 2021, which is included in the statement of functional expense under contributed facilities.

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, 2022 and 2021, as a due from affiliate (see Note 10).

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, 2022 and 2021, an allowance of \$82,750 was determined to be necessary as identified in Note 4.

Cash and Cash Equivalents

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

Covenant House California

Notes to Financial Statements
June 30, 2022

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

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, 2022 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 \$1,277,796, and is included 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.

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

CHC 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. Other 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, 2022

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, 2022 and 2021.

Fair Value of Financial Instruments

CHC 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

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

Prior Year Summarized Comparative Information

The statements of activities and functional expenses include certain prior year summarized comparative information in total but not by net asset class or functional class. 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 CHC's financial statements as of and for the year ended June 30, 2021, 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.

Covenant House California

Notes to Financial Statements
June 30, 2022

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

Accounting for Uncertainty in Income Taxes

CHC recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that CHC had no uncertain tax positions that would require financial statement recognition and/or disclosure. CHC is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2019.

Subsequent Events Evaluation by Management

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 January 12, 2023.

3. Concentrations of Credit Risk

Financial instruments that potentially subject CHC 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, 2022, all investments were maintained by large financial institutions. CHC maintains its cash with established commercial banks. At times, the cash balances exceed federally insured limits. CHC 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>2022</u>	<u>2021</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 830,801	\$ 1,216,813
Within five years	<u>-</u>	<u>353,529</u>
	830,801	1,570,342
Less: Reserve for uncollectible accounts	<u>(82,750)</u>	<u>(82,750)</u>
	<u>\$ 748,051</u>	<u>\$ 1,487,592</u>

Contributions receivable from donors that are due within one year are considered current. There was no present value discount rate applied as of June 30, 2022.

Covenant House California

Notes to Financial Statements
June 30, 2022

5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 6,369,350	\$ 6,369,350
Buildings and building improvements	6,261,065	3,589,192
Buildings and building improvements on leased land	13,770,409	13,563,750
Furniture and equipment	2,034,490	1,899,059
Vehicles	374,502	353,663
Equipment acquired under capital leases	759,390	572,145
Construction in progress	<u>252,699</u>	<u>1,956,298</u>
	29,821,905	28,303,457
Accumulated depreciation and amortization (including accumulated amortization on equipment acquired under capital leases of \$579,022 and \$523,856 in 2022 and 2021)	<u>(13,620,159)</u>	<u>(12,896,930)</u>
	<u>\$ 16,201,746</u>	<u>\$ 15,406,527</u>

During fiscal year 2021, CHC acquired property at 632 N East Street, Anaheim, California with a purchase price of \$1,356,686, of which \$601,800 was allocated to land and \$754,886 was allocated to building at the estimated fair value of the assets. During fiscal year 2021, CHC also acquired nine modular homes in Hayward, California with a purchase price of \$752,036.

Depreciation and amortization expense was \$723,229 and \$684,246 for the years ended June 30, 2022 and 2021.

Covenant House California

Notes to Financial Statements
June 30, 2022

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:

	2022		Total
	Level 1	Level 2	
Mutual funds	\$ 1,722,105	\$ -	\$ 1,722,105
U.S. Government agencies	381,420	-	381,420
Corporate bonds	-	217,548	217,548
Mortgage backed securities	-	17,282	17,282
Total Investments at Fair Value	\$ 2,103,525	\$ 234,830	2,338,355
Cash and cash equivalents, at cost			713,296
Total Investments			\$ 3,051,651
	2021		Total
	Level 1	Level 2	
Mutual funds	\$ 1,969,809	\$ -	\$ 1,969,809
U.S. Government agencies	387,549	-	387,549
Corporate bonds	-	207,164	207,164
Mortgage backed securities	-	34,431	34,431
Total Investments at Fair Value	\$ 2,357,358	\$ 241,595	2,598,953
Cash and cash equivalents, at cost			505,095
Total Investments			\$ 3,104,048

7. Notes Payable

On January 30, 2018, CHC 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. The total amount of interest expense relating to this loan totaled \$51,287 and \$53,677 for the years ended June 30, 2022 and 2021.

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, entered into for the CHWA property. The principal balance and accrued interest were repaid in full on November 12, 2021.

Covenant House California

Notes to Financial Statements
June 30, 2022

7. Notes Payable (continued)

The total amount of interest expense relating to this note totaled \$5,208 and \$15,000 for the years ended June 30, 2022 and 2021.

On January 15, 2021, CHC entered into a separate \$1,600,000 term loan with Bank of America, with an interest rate of 3.45% and maturity date of January 15, 2031. The total amount of interest expense relating to this loan totaled \$53,901 and \$22,793 for the years ended June 30, 2022 and 2021.

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 \$110,396 and \$91,470 for the years ended June 30, 2022 and 2021.

The term loan and unsecured note repayments over the next five years and thereafter are as follows for the years ending June 30:

2023	\$ 112,734
2024	116,924
2025	121,816
2026	126,637
2027	131,651
Thereafter	<u>2,069,023</u>
	<u>\$ 2,678,785</u>

8. Paycheck Protection Program Refundable Advance

CHC elected to report the Paycheck Protection Program ("PPP") loan as a conditional grant under ASC 958-605 *Revenue Recognition-Contributions* and will recognize the funds when the related costs are incurred. For the year ended June 30, 2021, CHC recognized \$1,528,316 in government grants and contracts on the accompanying statement of activities as conditions were substantially met. The PPP loan was forgiven in full by the United States Small Business Administration on July 1, 2021.

9. 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 which 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 CHC 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 reports 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.

Covenant House California

Notes to Financial Statements
June 30, 2022

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

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 CHC in the normal course of operations, the conditions for forgiveness are expected to be met. As such, CHC 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 CHC 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, 2022, the forgivable loan was fully amortized. At June 30, 2021, the total unamortized balance of the remaining forgivable loan was \$150,729, which is included in deferred revenue in the accompanying statement of financial position. The amount of grant revenue recognized from these loans was \$249,728 and \$226,936 for the years ended June 30, 2022 and 2021.

In fiscal 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. The grant is structured as a loan to CHC, to be forgiven at the end of the grant period and secured by a deed of trust on the DreamCatcher property and bears interest at the rate of 3% simple interest per annum. The forgiveness is amortized over the grant period. At June 30, 2022 and 2021, the total unamortized balance of the remaining forgivable loan was \$370,000 and \$444,000, which is included in deferred revenue in the accompanying statement of financial position.

10. Related Party Transactions

In fiscal 2022 and 2021, 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 CHC and other Covenant House Affiliates. It also includes a subsidy or contribution from the Parent to help support the program activities of CHC. 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 \$89 million and \$84 million for the Parent in the years ended June 30, 2022 and 2021.

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 \$38 million and \$36 million in fiscal 2022 and 2021. For the years ended June 30, 2022 and 2021, CHC received \$2,543,578 and \$1,863,531 in support received from Parent. For the years ended June 30, 2022 and 2021, the Parent granted funds related to Sleep Out events to CHC totaling \$633,207 and \$979,050.

Covenant House California

Notes to Financial Statements
June 30, 2022

10. Related Party Transactions (*continued*)

The Parent provided a Site Investment Fund (“SIF”) to Covenant House affiliates during fiscal 2022. The SIF is to encourage innovative programming at CHC by implementing a new program or pilot program, build program capacity, make a material change in site-related program work, or introduce an innovative approach to current programs, support the range of site Workforce Development and Vocational Training activities, support young families in the adoption and implementation of the parenting curriculum/parenting programs and parenting skills assessment tool. The Parent provided to CHC a total of \$100,000 for the year ended June 30, 2022, towards the SIF.

Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due from the Parent was \$41,346 and \$4,343 at June 30, 2022 and 2021.

Contribution revenue from board members, including donations of common stock and special events revenue, totaled \$336,604 and \$324,827 for the years ended June 30, 2022 and 2021. The outstanding balances of amounts receivable from board members was \$14,000 as of June 30, 2022 and 2021.

CHC obtained through financing, a secured note payable of \$750,000 with an interest rate at 2% from an unrelated 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 (see Note 2).

11. 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 plan will be 100% vested after three years of service. CHC's expense related to the 403(b) plan was \$253,291 and \$214,348 for the years ended June 30, 2022 and 2021.

Covenant House California

Notes to Financial Statements
June 30, 2022

11. 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. For the years ended June 30, 2022 and 2021, CHC contributed \$237,965 and \$219,915 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expense.

12. Net Assets Without Donor Restrictions

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

	2022	2021
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	16,201,746	15,406,527
Undesignated	3,103,180	3,657,471
	\$ 19,919,297	\$ 19,678,369

Board designated funds are included in investments.

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

	2022	2021
Purpose restrictions:		
Program core support	\$ 159,486	\$ 707,682
Time restrictions:		
Other time restrictions	461,358	966,446
	\$ 620,844	\$ 1,674,128

Covenant House California

Notes to Financial Statements
June 30, 2022

12. Net Assets Without Donor Restrictions *(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:

	2022	2021
Purpose restrictions:		
Program core support	\$ 2,758,720	\$ 2,642,820
Time restrictions:		
Other time restrictions	505,088	126,238
	\$ 3,263,808	\$ 2,769,058

13. Lease Commitments

CHC is a lessee of certain equipment acquired under capital leases expiring in various years through 2027. Amortization of assets acquired under capital leases is included in depreciation and amortization expense. Obligations under capital leases at June 30, 2022 and 2021 amounted to \$175,174 and \$36,045. The amount of imputed interest necessary to reduce the net minimum lease payments under capital lease obligations to present value totaled \$2,267 and \$2,765 at June 30, 2022 and 2021.

During November 2020, CHC entered into a 10-year agreement subject to escalation to lease land space to construct temporary housing in the City of Hayward. The monthly expense under this agreement is \$8,333 per month. In addition, CHC has the right of first refusal if the landlord decides to sell the land.

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

2023	\$ 154,684
2024	154,684
2025	129,197
2026	126,768
2027	121,326
Thereafter	430,000
	1,116,659
Less amounts representing interest	(2,267)
	\$ 1,114,392

In addition, CHC entered into several month-to-month operating lease agreements. Rent expense for these agreements was \$196,796 and \$110,182 for the years ended June 30, 2022 and 2021. CHC occupied a location in Santa Clara, California at no charge under an agreement for donated occupancy, which commenced in April 2021 and expires in April 2023. Rent expense related to this donated occupancy was \$471,372 and \$117,843 for the years ended June 30, 2022 and 2021, which is included in the statement of functional expense under contributed facilities.

Covenant House California

Notes to Financial Statements
June 30, 2022

14. Government Grants and Contracts

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

15. Liquidity and Availability of Financial Assets

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

	<u>2022</u>	<u>2021</u>
Financial Assets:		
Cash and cash equivalents	\$ 1,533,521	\$ 1,826,265
Contributions receivable, net	748,051	1,487,592
Grants receivable	2,266,334	3,517,139
Due from Parent	41,346	4,343
Investments	<u>3,051,651</u>	<u>3,104,048</u>
Total Financial Assets	<u>7,640,903</u>	<u>9,939,387</u>
Less: Contractual or donor imposed restrictions amounts		
Investments held for charitable remainder annuity trusts	1,277,796	1,474,493
Restricted by donor with time or purpose restrictions	184,486	639,839
Board designated funds	<u>614,371</u>	<u>614,371</u>
	<u>2,076,653</u>	<u>2,728,703</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 5,564,250</u>	<u>\$ 7,210,684</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.

16. Risk and Uncertainties

Given the uncertainty around the extent and timing of the potential future spread or mitigation of the Coronavirus and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact to future results of operations, cash flows, or financial condition.

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Covenant House California

Uniform Guidance Schedules and Reports

June 30, 2022

Covenant House California

Schedule of Expenditures of Federal Awards Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Assistance Listing Number	Provided to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Pass-Through City of Oakland				
Continuum of Care Program	CA00106L9T022013	14.267	\$ -	\$ 397,070
Continuum of Care Program	CA1465L9T022005	14.267	-	162,268
Continuum of Care Program	CA1465L9T021904	14.267	-	145,677
Total U.S. Department of Housing and Urban Development			-	705,015
<u>U.S. Department of Health and Human Services</u>				
Pass-Through City of Oakland- Alameda County-Oakland Community Action Partnership				
CSBG Cluster				
Community Services Block Grant	20F-3641	93.569	-	67,321
Community Services Block Grant	21F-4002	93.569	-	27,740
Total CSBG Cluster			-	95,061
Pass-Through ACF/ACYF - Family and Youth Services Bureau				
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90YO2348-02-00	93.557	-	4,531
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90YO2348-03-00	93.557	-	130,774
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90YO2349-02-00	93.557	-	27,155
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90YO2349-03-00	93.557	-	120,273
Basic Center Grant	90CY7209-01-00	93.623	-	18,410
Basic Center Grant	90CY7209-02-00	93.623	-	151,988
Total U.S. Department of Health and Human Services			-	548,192
<u>U.S. Department of Justice</u>				
Direct Programs				
Services for Trafficking Victims		16.320	-	299,257
Services for Trafficking Victims		16.320	-	69,702
Services for Trafficking Victims		16.320	-	46,158
Pass-Through Alameda County District Attorney's Office				
Services for Trafficking Victims	2020-VM-BX-0005	16.320	-	111,256
Pass-Through California Governor's Office of Emergency Services				
Crime Victim Assistance	XH20 03 1027	16.575	-	77,449
Crime Victim Assistance	XH21 04 1027	16.575	-	123,833
Crime Victim Assistance	KE20 03 1027	16.575	-	10,658
Crime Victim Assistance	KE21 04 1027	16.575	-	155,425
Crime Victim Assistance	KE20 A3 1027	16.575	-	64,561
Crime Victim Assistance	KE21 A4 1027	16.575	-	189,778
Crime Victim Assistance	KI20 03 1027	16.575	-	111,404
Crime Victim Assistance	KI21 04 1027	16.575	-	52,369
Total U.S. Department of Justice			-	1,311,850
Total Expenditures of Federal Awards			\$ -	\$ 2,565,057

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, 2022

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Covenant House California ("CHC") under programs of the federal government for the year ended June 30, 2022. 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 CHC, it is not intended to and does not present the financial position, changes in net assets or cash flows of CHC.

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 expenditure 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, 2022, CHC 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

CHC 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 (“CHC”), which comprise the statement of financial position as of June 30, 2022, 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 January 12, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CHC’s internal control over financial reporting (internal control) as a basis for designing 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 CHC’s internal control. Accordingly, we do not express an opinion on the effectiveness of CHC’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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHC'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 financial statements. 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

January 12, 2023

**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

Opinion on Each Major Federal Program

We have audited Covenant House California's ("CHC") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of CHC's major federal programs for the year ended June 30, 2022. CHC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CHC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of CHC's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to CHC's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CHC's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CHC's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding CHC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of CHC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 CHC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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.

Report on Internal Control Over Compliance (*continued*)

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

January 12, 2023

Covenant House California

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major federal programs:

<u>Federal Assistance Listing Number</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? X yes ___ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2022.

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.