

# **Covenant House California**

Financial Statements

June 30, 2023

## 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, 2023, 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, 2023, 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. 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 is sufficient and appropriate to provide a basis for our audit opinion.

### ***Change in Accounting Policy***

As discussed in Note 2 to the financial statements, CHC adopted Financial Accounting Standards Board ("FASB") Topic 842, Leases, using the effective date method with July 1, 2022 as the date of initial adoption. Our opinion is not modified with respect to this matter.

### ***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.

***Auditors' Responsibilities for the Audit of the Financial Statements (continued)***

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 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, 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, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 12, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

January 12, 2024

## Covenant House California

Statement of Financial Position  
June 30, 2023  
(with comparative amounts at June 30, 2022)

	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 592,683	\$ 1,533,521
Contributions receivable, net	482,148	748,051
Grants receivable	3,600,918	2,266,334
Due from Parent	31,919	41,346
Due from Affiliate	1,685,500	1,685,500
Inventory and prepaid expenses	215,377	77,322
Investments	3,379,830	3,051,651
Other assets	239,618	264,219
Contributed use of land	73,782	82,830
Right of use assets - operating leases	745,968	-
Property and equipment, net	17,338,952	16,201,746
	\$ 28,386,695	\$ 25,952,520
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 2,428,478	\$ 2,160,783
Deferred revenue	323,637	397,637
Finance lease obligations	194,756	175,174
Lease liability, operating leases	747,027	-
Notes payable	2,565,869	2,678,785
Line of credit payable	500,000	-
Loan payable to Parent	1,000,000	-
Total Liabilities	7,759,767	5,412,379
Net Assets		
Without donor restrictions	19,312,567	19,919,297
With donor restrictions	1,314,361	620,844
Total Net Assets	20,626,928	20,540,141
	\$ 28,386,695	\$ 25,952,520

See notes to financial statements

## Covenant House California

### Statement of Activities Year Ended June 30, 2023 (with summarized totals for year ended June 30, 2022)

	2023		Total	2022 Total
	Without Donor Restrictions	With Donor Restrictions		
<b>SUPPORT AND REVENUE</b>				
Contributions from individuals, foundations and corporations, including legacies and bequests of \$623,947 and \$198,641 in 2023 and 2022	\$ 3,329,353	\$ 1,794,843	\$ 5,124,196	\$ 5,602,650
Contributed merchandise	1,614,296	-	1,614,296	641,082
Contributed services	374,879	432,091	806,970	160,487
Government grants and contracts	12,412,305	-	12,412,305	9,570,990
Branding dollars from Parent	1,269,986	-	1,269,986	2,543,578
Restricted Site Investment Fund from Parent	-	-	-	100,000
Capital campaign	-	550,500	550,500	460,000
Grants from Parent related to Sleep Out Events	713,013	-	713,013	1,040,506
Special events revenue, net of direct benefit to donor costs of \$28,221 in 2023 and \$0 in 2022	319,175	-	319,175	-
Total Support and Revenue	<u>20,033,007</u>	<u>2,777,434</u>	<u>22,810,441</u>	<u>20,119,293</u>
<b>INVESTMENT RETURN AND OTHER INCOME</b>				
Investment return	313,567	-	313,567	(226,254)
Other income	251,194	-	251,194	244,695
Total Investment Return and Other Income	<u>564,761</u>	<u>-</u>	<u>564,761</u>	<u>18,441</u>
Total Support and Revenue and Investment Return and Other Income Before Net Assets Released from Restrictions	20,597,768	2,777,434	23,375,202	20,137,734
Net assets released from restrictions	<u>2,083,917</u>	<u>(2,083,917)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>22,681,685</u>	<u>693,517</u>	<u>23,375,202</u>	<u>20,137,734</u>
<b>EXPENSES</b>				
Program services	22,117,435	-	22,117,435	20,045,817
Supporting Services				
Management and general	408,255	-	408,255	353,025
Fundraising	762,725	-	762,725	551,248
Total Expenses	<u>23,288,415</u>	<u>-</u>	<u>23,288,415</u>	<u>20,950,090</u>
Change in Net Assets	(606,730)	693,517	86,787	(812,356)
<b>NET ASSETS</b>				
Beginning of year	<u>19,919,297</u>	<u>620,844</u>	<u>20,540,141</u>	<u>21,352,497</u>
End of year	<u>\$ 19,312,567</u>	<u>\$ 1,314,361</u>	<u>\$ 20,626,928</u>	<u>\$ 20,540,141</u>

See notes to financial statements

# Covenant House California

## Statement of Functional Expenses Year Ended June 30, 2023 (with summarized totals for year ended June 30, 2022)

	2023						2022						
	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	Direct Benefit to Donors	Total Expenses	2022 Total Expenses
Salaries	\$ 5,703,382	\$ 865,959	\$ 280,546	\$ 820,921	\$ 96,746	\$ 1,940,945	\$ 9,708,499	\$ 145,088	\$ 249,480	\$ 394,568	\$ -	\$ 10,103,067	\$ 9,505,311
Payroll taxes	413,139	62,605	20,197	58,560	5,228	140,140	699,869	9,608	17,581	27,189	-	727,058	654,318
Employee benefits	1,003,625	147,926	60,028	172,042	13,360	388,758	1,785,739	53,889	34,443	88,332	-	1,874,071	1,822,763
Total Salaries and Related Expenses	7,120,146	1,076,490	360,771	1,051,523	115,334	2,469,843	12,194,107	208,585	301,504	510,089	-	12,704,196	11,982,392
Contributed legal services	135,081	16,885	16,885	67,540	-	84,426	320,817	16,885	-	16,885	-	337,702	128,222
Accounting fees	27,126	3,345	3,345	3,711	11,917	7,788	57,232	6,689	2,979	9,668	-	66,900	73,517
Legal fees	7,285	829	829	1,157	2,000	2,314	14,414	1,657	500	2,157	-	16,571	10,056
Consulting fees	208,905	23,324	34,573	23,181	43,705	84,512	418,200	21,567	61,084	82,651	-	500,851	140,905
Medical fees	1,475	8	4	4	-	470	1,961	-	-	-	-	1,961	30,643
Supplies	78,706	3,905	2,539	6,494	198	20,315	112,157	1,077	1,069	2,146	-	114,303	155,473
Telephone	122,102	12,480	5,642	11,048	708	48,451	200,431	1,846	2,564	4,410	-	204,841	241,755
Postage and printing	17,210	2,271	1,407	3,351	60	7,322	31,621	447	4,958	5,405	-	37,026	71,537
Occupancy													
Fuel and utilities	270,665	20,939	8,574	18,942	2,441	94,752	416,313	69	655	724	-	417,037	275,985
Repairs and maintenance	325,976	27,598	13,561	27,023	603	100,595	495,356	9,052	2,886	11,938	-	507,294	348,992
Contributed facilities	474,991	452	452	1,810	-	2,262	479,967	452	-	452	-	480,419	480,088
Rent and other	208,740	7,063	6,726	43,873	53	69,985	336,440	13,193	183	13,376	-	349,816	194,688
Equipment	35,414	2,863	1,587	2,742	194	6,832	49,632	490	62	552	-	50,184	473,225
Travel and transportation	68,442	3,355	3,388	3,256	7,671	20,832	106,944	3,935	4,828	8,763	-	115,707	66,669
Conferences, conventions and meetings	29,497	2,105	3,170	2,088	2,558	8,420	47,838	1,344	1,674	3,018	-	50,856	43,923
Special Assistance to Individuals													
Food	662,965	39,283	12,585	14,851	165	301,324	1,031,173	83	121	204	-	1,031,377	971,152
Medical	64,165	18,356	132,015	10,076	7,179	3,590	235,381	3,589	1,795	5,384	-	240,765	177,638
Clothing, allowance and other	630,969	60,209	29,478	105,085	335	861,305	1,687,381	417	9,061	9,478	-	1,696,859	1,670,680
Contributed clothing and merchandise	825,195	73,543	60,208	73,044	-	311,381	1,343,371	-	270,925	270,925	-	1,614,296	652,637
Temporary help	89,026	18,392	11,004	109,423	-	56,956	284,801	6,081	18,469	24,550	-	309,351	559,148
Other purchased services	455,138	54,975	17,208	120,638	7,524	141,483	796,966	192	12,692	12,884	28,221	838,071	738,960
Dues, licenses, and permits	7,628	1,491	590	1,888	462	4,561	16,620	342	804	1,146	-	17,766	14,672
Subscriptions and publications	23,743	2,638	2,649	2,746	279	13,643	45,698	208	10,055	10,263	-	55,961	60,238
Staff recruitment	22,549	2,542	2,542	4,478	402	12,581	45,094	3,623	2,796	6,419	-	51,513	133,009
Insurance	169,583	26,968	7,893	21,256	488	57,136	283,324	2,012	1,799	3,811	-	287,135	265,283
Contributed services - other	31,819	283	141	141	-	4,793	37,177	-	-	-	-	37,177	32,265
Miscellaneous, net	82,037	8,047	8,023	19,670	4,902	42,356	165,035	6,107	6,831	12,938	-	177,973	70,045
Bank charges and fees	9,282	1,032	1,032	2,052	30	5,136	18,564	2,055	24	2,079	-	20,643	25,484
Interest expense	58,404	7,986	6,876	12,938	-	28,828	115,032	11,382	-	11,382	-	126,414	137,580
Total Functional Expenses Before Depreciation and Amortization	12,264,264	1,519,657	755,697	1,766,029	209,208	4,874,192	21,389,047	323,379	720,318	1,043,697	28,221	22,460,965	20,226,861
Depreciation and amortization	346,448	42,438	42,438	42,469	169,626	84,969	728,388	84,876	42,407	127,283	-	855,671	723,229
Total Functional Expenses	12,610,712	1,562,095	798,135	1,808,498	378,834	4,959,161	22,117,435	408,255	762,725	1,170,980	28,221	23,316,636	20,950,090
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(28,221)	(28,221)	-
Total Expenses Reported by Function on Statement of Activities	\$ 12,610,712	\$ 1,562,095	\$ 798,135	\$ 1,808,498	\$ 378,834	\$ 4,959,161	\$ 22,117,435	\$ 408,255	\$ 762,725	\$ 1,170,980	\$ -	\$ 23,288,415	\$ 20,950,090

See notes to financial statements

## Covenant House California

### Statement of Cash Flows Year Ended June 30, 2023 (with comparative amounts for year ended June 30, 2022)

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 86,787	\$ (812,356)
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(202,378)	(181,063)
Net unrealized (gains) loss on investments	(222,841)	279,393
Amortization of deferred revenue	(74,000)	(240,085)
Contributed use of land	9,048	8,716
Amortization of right of use assets - operating leases	103,933	-
Depreciation and amortization	855,671	723,229
Loss on disposal of property and equipment	3,649	-
Changes in operating assets and liabilities		
Contributions receivable	265,903	739,541
Grants receivable	(1,334,584)	1,250,805
Due from Parent	9,427	(37,003)
Inventory and prepaid expenses	(138,055)	201,744
Other assets	24,601	(165,007)
Accounts payable and accrued expenses	254,156	209,951
Annuities payable	-	(289)
Lease liabilities	(110,172)	-
Net Cash from Operating Activities	(468,855)	1,977,576
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(90,726)	(45,933)
Proceeds from sales and maturities of investments	187,766	-
Purchases of property and equipment	(1,975,689)	(1,317,633)
Net Cash from Investing Activities	(1,878,649)	(1,363,566)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on loan payable from Parent	1,000,000	-
Proceeds on line of credit	500,000	-
Payments on notes payable	(112,916)	(858,638)
Principal payments under finance lease obligations	19,582	(48,116)
Net Cash from Financing Activities	1,406,666	(906,754)
Net Change in Cash and Cash Equivalents	(940,838)	(292,744)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	1,533,521	1,826,265
End of year	\$ 592,683	\$ 1,533,521
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 115,117	\$ 107,456
Construction in progress costs included within accounts payable and accrued expenses	13,539	13,570
Finance lease obligations	78,254	187,245

See notes to financial statements

## Covenant House California

### Notes to Financial Statements

June 30, 2023

#### 1. Organization and Tax Status

Covenant House California (“CHC”) is a not-for-profit organization, which has been serving youth in California for over 35 years. CHC operates youth-centered housing programs and supportive services in five different communities across the state, including Alameda County, Los Angeles, Orange County, Santa Clara and Santa Cruz, for young people between the ages of 12-24 that are experiencing homelessness and human trafficking. CHC’s full continuum of services is provided through a trauma-informed lens that meets the physical, emotional, educational, vocational, and well-being of young people. In the past three decades, CHC has been a fierce advocate for those who have been impacted by homelessness, systems of care and family trauma that has forced them into housing instability. CHC does this through various interventions to meet young people where they are. Throughout fiscal 2023, CHC provided a total of more than 83,770 nights of care, for, on average, 1,799 youth each night.

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 58,000 young people during fiscal 2023. Throughout fiscal 2023, Covenant House provided a total of more than 790,000 nights of housing and safety for, on average, 2,165 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.



## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 1. Organization and Tax Status *(continued)*

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***

###### *Immediate Housing (formerly Shelter and Crisis Care)*

The Immediate and Short-term Housing program focuses on crisis care and provides emergency services: temporary, immediate housing; nutritious meals; clothing; medical care; mental health services; and legal aid to all 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, youth who identify as LGBTQ+, and youth who are pregnant or parenting. CHC's shelter doors are always open, 24/7, and we have provided uninterrupted service to children and youth for more than 50 years.

###### *Outreach*

The Outreach program actively seeks out young people experiencing homelessness who may need help. CHC assists with critical safety needs by providing transportation to a safe shelter. 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. Youth experiencing housing instability can receive food, water, hygiene kits, warm clothing, blankets, counseling, and referrals to needed services such as medical care and employment and education services. Most importantly, our Outreach Programs show young people that they are cared for, and worth being pursued. Through sustained contact, our teams build trust with the young people they encounter, encouraging them to come into CHC's shelters and connect with CHC's 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. This is even more the case for young people of color and those who identify as LGBTQ+, as they face unique challenges associated with racism and prejudice, and for survivors of human trafficking. Half of all Covenant House youth indicate to us they are dealing with a mental health challenge, and our data shows that LGBTQ+ youth are more likely to face these challenges than their peers. CHC welcomes all young people with unconditional love and absolute respect.

## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 1. Organization and Tax Status *(continued)*

#### ***Components of Program and Supporting Services (continued)***

##### ***Program Services (continued)***

###### *Health and Well-Being (formerly Medical) (continued)*

Many of CHC's campuses include an onsite clinic space for youth to access medical and mental healthcare services, and sites that do not have a physical clinic have agreements with community partners who visit the campus to ensure youth has easy access to meet all of their medical and mental health needs. Medical care includes primary care, urgent care, immunizations and health education. Mental Healthcare services are provided by licensed professionals and include both individual and group therapy as well as other interventions youth may need.

###### *Drop-In Services (formerly Community Service Center)*

There are not enough beds in the community to house all young people who experience homelessness; and sometimes, youth are not ready to engage in residential services. For those youth, we offer day outreach/wellness care, places where youth can drop in to rest during the day, shower, get a meal, do laundry, have internet access, and access to day-programming such as case management and referrals to additional services.

###### *Public Education and Prevention*

Public Education and Prevention uses a variety of platforms to inform and educate young people, the public, and government officials about youth homelessness and human trafficking. Covenant House employs websites, social media, public service announcements, billboards, newsletters, school-based programs, community engagement (including through Youth Homelessness Awareness Month each November) 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. CHC's research shows that the longer a young person resides with, and takes advantage of CHC's programs, the more likely they are to experience positive outcomes, including stable housing, gainful employment, and higher education. In the Transitional Living programs, youth 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.

## Covenant House California

Notes to Financial Statements

June 30, 2023

### 1. Organization and Tax Status *(continued)*

#### ***Components of Program and Supporting Services (continued)***

##### ***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.

### 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.

#### ***Adoption of New Accounting Policy***

CHC adopted FASB Topic 842, Leases, using the effective date method with July 1, 2022, as the date of initial adoption, with certain practical expedients available. CHC elected the available practical expedients to account for its existing operating leases as operating leases, under the new guidance, without reassessing (a) whether the contracts contain a lease under the new standard, (b) whether the classification of capital (now finance) leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, CHC recognized a lease liability of \$747,827, that represents the present value of the remaining operating lease payments of \$841,666, discounted at 4.25%, and a Right of Use asset ("ROU") of \$747,827, which represents the operating lease liability. CHC's accounting policy for finance leases remained the same.

The standard had a material impact on CHC's statement of financial position but did not have an impact on its statements of activities and cash flows. The most significant impact was the recognition of the ROU asset and lease liability for its operating leases.

## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 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***

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, 2023 totaled \$4,177,881 and are expected to be received over the next year. Awards approved that have not been earned as of June 30, 2022 totaled \$1,886,702 and were earned during the year ended June 30, 2023.

## Covenant House California

Notes to Financial Statements  
June 30, 2023

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

#### ***Recognition of Contributions (continued)***

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.

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.

#### ***Contributions of Nonfinancial Assets***

CHC received donated contributions, property, and services as follows for the years ended June 30:

	2023	2022	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Merchandise	\$ 1,614,296	\$ 641,082	Program and Administration	No associated donor restrictions	(a)
Services	806,970	160,487	Program and Administration	No associated donor restrictions	(b)
	\$ 2,421,266	\$ 801,569			

(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) 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, 2023

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

#### ***Contributions of Nonfinancial Assets (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 \$73,782 and \$82,830 as of June 30, 2023 and 2022, 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 February 2024. Rent expense related to this donated occupancy was \$471,371 for both years ended June 30, 2023 and 2022, 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, 2023 and 2022, as a due from affiliate (see Note 9)

#### ***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, 2023 and 2022, 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, 2023

### 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, 2023 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 \$1,443,545, 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. Repair and maintenance costs are expensed in the period incurred

## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 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 less costs to sell. 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, 2023 and 2022.

#### ***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, 2022, 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, 2023

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

#### **Leases**

As of July 1, 2022, CHC leases office space in Anaheim, California and a temporary housing facility in Hayward, California, and determines if an arrangement is a lease at inception. Operating leases are included in right of use asset – operating leases (“ROU assets”) and lease liability, operating leases on the accompanying statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The leases do not provide an implicit borrowing rate. CHC uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend the lease and when it is reasonably certain that CHC will exercise that option, such amounts are included in ROU assets and lease liabilities. Lease expense for the lease payments is recognized on a straight-line basis over the lease term.

CHC leases various equipment including copiers and laundry machines under financing lease agreements, through 2030. CHC uses the risk-free interest rate to determine the present value of the lease payments when no rate is stated in the lease. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

CHC’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

#### **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, 2020.

#### **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, 2024.

## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 3. Concentrations of Credit Risk

Certain financial instruments potentially subject CHC to concentrations of credit risk. These financial instruments consist primarily of cash, contributions and government grants receivable and investments. CHC places its cash and cash equivalents with high credit quality financial institutions which, at times, may exceed federally insured limits. Concentrations of credit risk with respect to receivables are generally diversified due to the number of entities and individuals composing the entity's program and donor base. CHC performs ongoing credit evaluations and writes off uncollectible amounts as they become known.

The investment portfolio is managed by professional investment advisors and managers. CHC performs ongoing evaluations of its portfolio and believes that credit risk to this portfolio is minimal.

### 4. Contributions Receivable

Contributions receivable at June 30, are summarized as follows:

	<u>2023</u>	<u>2022</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 564,898	\$ 830,801
Less: Reserve for uncollectible accounts	<u>(82,750)</u>	<u>(82,750)</u>
	<u>\$ 482,148</u>	<u>\$ 748,051</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, 2023 and 2022.

## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 5. Property and Equipment

Property and equipment consist of the following at June 30:

	2023	2022
Land	\$ 6,369,351	\$ 6,369,351
Buildings and building improvements	6,277,354	6,261,065
Buildings and building improvements on leased land	13,913,694	13,770,409
Furniture and equipment	2,034,490	2,034,490
Vehicles	374,502	374,502
Equipment acquired under finance leases	837,643	759,390
Construction in progress	2,004,099	252,698
	31,811,133	29,821,905
Accumulated depreciation and amortization (including accumulated amortization on equipment acquired under finance leases of \$642,088 and \$579,022 in 2023 and 2022)	(14,472,181)	(13,620,159)
	\$ 17,338,952	\$ 16,201,746

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.

In fiscal 2024, CHC acquired property at West Pico Boulevard, Los Angeles, California for a purchase price of \$2,940,000. The purchase was financed through both a grant of \$1,340,000 and a \$1,600,000 loan from a separate third party.

Depreciation and amortization expense was \$855,671 and \$723,229 for the years ended June 30, 2023 and 2022.

## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 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:

	2023		
	Level 1	Level 2	Total
Mutual funds	\$ 3,026,860	\$ -	\$ 3,026,860
Common stocks	305,621	-	305,621
Total Investments at Fair Value	\$ 3,332,481	\$ -	3,332,481
Cash and cash equivalents, at cost			47,349
Total Investments			\$ 3,379,830
	2022		
	Level 1	Level 2	Total
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

### 7. Notes and Line of Credit 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 \$49,113 and \$51,287 for the years ended June 30, 2023 and 2022.

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 \$52,213 and \$53,901 for the years ended June 30, 2023 and 2022.

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 \$101,326 and \$105,188 for the years ended June 30, 2023 and 2022.

## Covenant House California

### Notes to Financial Statements

June 30, 2023

#### 7. Notes and Line of Credit Payable (continued)

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

2024	\$ 116,924
2025	121,816
2026	126,637
2027	131,651
2028	941,767
Thereafter	<u>1,127,074</u>
	<u>\$2,565,869</u>

On March 21, 2023, CHC entered into a Master Credit Agreement with Bank of America, with Bank of America's prime interest rate plus 0.3% and maturity date of March 1, 2024. As of June 30, 2023, CHC drew down \$500,000 on the Master Credit Agreement which is presented as Line of Credit Payable on the accompanying statement of financial position. Subsequent to June 30, 2023, this borrowed amount was fully repaid.

#### 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 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.

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.

## Covenant House California

### Notes to Financial Statements

June 30, 2023

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

At June 30, 2022, the forgivable loan was fully amortized. The amount of grant revenue recognized from these loans was \$249,728 for the year ended June 30, 2022.

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, 2023 and 2022, the total unamortized balance of the remaining forgivable loan was \$296,000 and \$370,000, which is included in deferred revenue in the accompanying statement of financial position.

#### 9. Related Party Transactions

In fiscal 2023 and 2022, 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 \$86 million and \$89 million for the Parent in the years ended June 30, 2023 and 2022.

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 \$36 million and \$38 million in fiscal 2023 and 2022. For the years ended June 30, 2023 and 2022, CHC received \$1,269,986 and \$2,543,578 in support received from Parent. For the years ended June 30, 2023 and 2022, the Parent granted funds related to Sleep Out events to CHC totaling \$713,013 and \$1,040,506.

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. There were no such funds provided for fiscal 2023.

Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due from the Parent was \$31,919 and \$41,346 at June 30, 2023 and 2022.

## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 9. Related Party Transactions (*continued*)

Contribution revenue from board members, including donations of common stock and special events revenue, totaled \$970,546 and \$336,604 for the years ended June 30, 2023 and 2022. The outstanding balances of amounts receivable from board members was \$138,000 and \$14,000 as of June 30, 2023 and 2022.

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, which was fully repaid during fiscal 2022. 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).

During fiscal 2023, CHC entered into an unsecured loan agreement with the Parent to borrow \$1,000,000 with an interest rate at the 30-day SOFR rate plus 1.61%. The loan is expected to be repaid in full by June 2024.

### 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 plan will be 100% vested after three years of service. CHC's expense related to the 403(b) plan was \$364,881 and \$253,291 for the years ended June 30, 2023 and 2022.

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, 2023 and 2022, CHC contributed \$328,544 and \$237,965 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, 2023

### 11. Net Assets Without Donor Restrictions

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

	2023	2022
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	17,338,952	16,201,746
Undesignated	1,351,626	3,103,180
	\$ 19,304,949	\$ 19,919,297

Board designated funds are included in investments.

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

	2023	2022
Purpose restrictions:		
Program core support	\$ 926,920	\$ 159,486
Time restrictions:		
Other time restrictions	387,441	461,358
	\$ 1,314,361	\$ 620,844

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:

	2023	2022
Purpose restrictions:		
Program core support	\$ 1,577,909	\$ 2,758,720
Time restrictions:		
Other time restrictions	506,008	505,088
	\$ 2,083,917	\$ 3,263,808



## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 12. Lease Commitments

#### *Operating Lease*

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. At July 1, 2022, CHC recognized a ROU asset of \$747,827.

During fiscal 2023, CHC entered into a new lease agreement for its office space in Anaheim, CA and recognized a ROU asset of \$102,074.

CHC amortizes these two operating leases over the remaining life of the lease agreements. Right-of-use assets consist of the following at June 30, 2023:

ROU asset	\$ 849,901
Less: accumulated amortization	<u>(103,933)</u>
	<u>\$ 745,968</u>

Information associated with the measurement of CHC's operating lease obligations as of June 30, 2023 is as follows:

Weighted-average remaining lease term in years for operating leases	6.87
Weighted-average discount rate for operating leases	3.04%

Operating lease expense for the years ended June 30, 2023 and 2022 totaled \$127,159. Cash paid for the amounts included in the measurement of operating lease liabilities for the year ended June 30, 2023 totals \$126,100.

#### *Finance Lease*

CHC is a lessee of certain equipment acquired under finance leases expiring in various years through 2030.

During fiscal 2023, CHC entered into new finance lease agreements and recognized a combined ROU asset of \$78,254. Amortization of assets acquired under finance leases is included in depreciation and amortization expense.

CHC amortizes these finance leases over the remaining life of the lease agreements. Right-of-use assets (included in Property and Equipment on the accompanying statement of financial position) consist of the following at June 30, 2023:

ROU asset - finance lease	\$ 837,643
Less: accumulated amortization	<u>(642,088)</u>
	<u>\$ 195,555</u>

## Covenant House California

Notes to Financial Statements  
June 30, 2023

### 12. Lease Commitments *(continued)*

#### ***Finance Lease (continued)***

Information associated with the measurement of CHC's finance lease obligations as of June 30, 2023 is as follows:

Weighted-average remaining lease term in years for finance leases	4.27
Weighted-average discount rate for finance leases	1.25%

As of June 30, 2023, the future minimum lease payments under the lease agreements above are as follows:

	Operating	Finance	Total
2024	\$ 135,844	\$ 66,564	\$ 202,408
2025	137,281	41,077	178,358
2026	109,411	33,648	143,059
2027	100,000	33,648	133,648
2028	100,000	11,880	111,880
Thereafter	241,667	14,650	256,317
Total undiscounted lease payments	824,203	201,467	1,025,670
Less: imputed interest	(77,176)	(6,711)	(83,887)
Present value of lease liabilities	\$ 747,027	\$ 194,756	\$ 941,783

### 13. 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, 2023

### 14. 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.

	2023	2022
Financial Assets:		
Cash and cash equivalents	\$ 592,683	\$ 1,533,521
Contributions receivable	482,148	748,051
Grants receivable	3,600,918	2,266,334
Due from Parent	31,919	41,346
Investments	<u>3,379,830</u>	<u>3,051,651</u>
Total Financial Assets	<u>8,087,498</u>	<u>7,640,903</u>
Less: Contractual or donor imposed restrictions amounts		
Investments held for charitable remainder annuity trusts	1,443,545	1,277,796
Restricted by donor with time or purpose restrictions	926,331	184,486
Board designated funds	<u>614,371</u>	<u>614,371</u>
	<u>2,984,247</u>	<u>2,076,653</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 5,103,251</u>	<u>\$ 5,564,250</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.

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