

Covenant House California

Financial Statements

June 30, 2025

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, 2025, 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, 2025, 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.

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, 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 16, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

New York, New York
December 17, 2025

Covenant House California

Statement of Financial Position June 30, 2025 (with comparative amounts at June 30, 2024)

	2025	2024
ASSETS		
Cash and cash equivalents	\$ 4,433,530	\$ 1,429,227
Contributions receivable	702,248	517,248
Grants receivable	3,593,278	2,516,718
Due from Parent	4,419	-
Due from Affiliate	1,685,500	1,685,500
Inventory and prepaid expenses	58,269	27,508
Investments	8,459,591	4,441,032
Other assets	75,049	53,474
Contributed use of land	54,636	64,388
Right of use assets - operating leases	498,186	547,722
Property and equipment, net	<u>34,378,200</u>	<u>31,342,197</u>
	<u>\$ 53,942,906</u>	<u>\$ 42,625,014</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,610,933	\$ 1,589,981
Deferred revenue	1,539,637	333,317
Due to Parent	-	10,099
Finance lease obligations	91,861	131,177
Lease liability, operating leases	605,229	595,149
Notes payable	4,326,739	4,448,754
Loan payable to Parent	<u>1,000,000</u>	<u>1,000,000</u>
Total Liabilities	<u>10,174,399</u>	<u>8,108,477</u>
Net Assets		
Without donor restrictions	24,576,185	22,930,627
With donor restrictions	<u>19,192,322</u>	<u>11,585,910</u>
Total Net Assets	<u>43,768,507</u>	<u>34,516,537</u>
	<u>\$ 53,942,906</u>	<u>\$ 42,625,014</u>

See notes to financial statements

Covenant House California

Statement of Activities Year Ended June 30, 2025 (with summarized totals for year ended June 30, 2024)

	Without Donor Restrictions	2025 With Donor Restrictions	Total	2024 Total
SUPPORT AND REVENUE				
Contributions from individuals, foundations and corporations, including legacies and bequests of \$3,371,916 and \$460,692 in 2025 and 2024	\$ 6,019,678	\$ 2,825,668	\$ 8,845,346	\$ 5,453,795
Contributed merchandise	663,747	-	663,747	942,570
Contributed services	128,815	471,372	600,187	1,071,928
Government grants and contracts	11,722,195	5,852,000	17,574,195	22,893,165
Branding dollars from Parent	1,450,932	-	1,450,932	1,527,300
Capital campaign	-	555,519	555,519	2,761,375
Grants from Parent related to Sleep Out Events	647,338	-	647,338	685,671
Special events revenue, net of direct benefit to donor costs of \$33,303 and \$10,698 in 2025 and 2024	333,628	-	333,628	261,990
Total Support and Revenue	<u>20,966,333</u>	<u>9,704,559</u>	<u>30,670,892</u>	<u>35,597,794</u>
INVESTMENT RETURN AND OTHER INCOME				
Investment return	430,617	-	430,617	472,947
Other income	372,868	-	372,868	256,991
Total Investment Return and Other Income	<u>803,485</u>	<u>-</u>	<u>803,485</u>	<u>729,938</u>
Total Support and Revenue and Investment Return and Other Income Before Net Assets Released from Restrictions	21,769,818	9,704,559	31,474,377	36,327,732
Net assets released from restrictions	<u>2,098,147</u>	<u>(2,098,147)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>23,867,965</u>	<u>7,606,412</u>	<u>31,474,377</u>	<u>36,327,732</u>
EXPENSES				
Program services	20,152,047	-	20,152,047	21,973,100
Supporting services				
Management and general	1,680,933	-	1,680,933	1,445,255
Fundraising	611,427	-	611,427	505,269
Total Expenses	<u>22,444,407</u>	<u>-</u>	<u>22,444,407</u>	<u>23,923,624</u>
Change in Net Assets Before Nonoperating Changes	1,423,558	7,606,412	9,029,970	12,404,108
NONOPERATING CHANGES				
Loan forgiveness	222,000	-	222,000	1,485,501
Change in Net Assets	1,645,558	7,606,412	9,251,970	13,889,609
NET ASSETS				
Beginning of year	<u>22,930,627</u>	<u>11,585,910</u>	<u>34,516,537</u>	<u>20,626,928</u>
End of year	<u>\$ 24,576,185</u>	<u>\$ 19,192,322</u>	<u>\$ 43,768,507</u>	<u>\$ 34,516,537</u>

See notes to financial statements

Covenant House California

Statement of Functional Expenses Year Ended June 30, 2025 (with summarized totals for year ended June 30, 2024)

	2025														2024 Total Expenses
	Program Services								Supporting Services						
	Immediate and Short-Term Housing	Outreach	Health and Well-Being	Drop-In Services	Public Education and Prevention	Transitional Living - Rights of Passage	Permanent Supportive Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	Direct Benefit to Donors	Total Expenses		
Salaries	\$ 5,306,212	\$ 428,723	\$ 36,368	\$ 583,314	\$ 21,875	\$ 645,475	\$ 1,090,354	\$ 8,112,321	\$ 637,887	\$ 366,499	\$ 1,004,386	\$ -	\$ 9,116,707	\$ 9,819,857	
Payroll taxes	433,641	33,126	3,763	46,627	1,706	49,887	86,854	655,604	49,468	28,858	78,326	-	733,930	779,951	
Employee benefits	1,000,822	71,713	8,821	108,620	6,422	162,948	194,571	1,553,917	227,884	48,930	276,814	-	1,830,731	1,608,650	
Total Salaries and Related Expenses	6,740,675	533,562	48,952	738,561	30,003	858,310	1,371,779	10,321,842	915,239	444,287	1,359,526	-	11,681,368	12,208,458	
Contributed legal services	23,830	1,767	357	2,507	495	7,711	5,766	42,433	22,714	-	22,714	-	65,147	311,273	
Accounting fees	11,354	842	169	1,195	27,136	3,674	2,748	47,118	10,822	-	10,822	-	57,940	71,349	
Legal fees	203,129	14,846	2,996	21,068	4,157	64,935	48,451	359,582	190,850	-	190,850	-	550,432	71,303	
Consulting fees	91,380	3,585	723	5,087	1,004	15,645	11,699	129,123	31,726	14,355	46,081	-	175,204	312,434	
Supplies	116,596	2,065	475	3,523	1,549	12,222	37,572	174,002	7,458	18,399	25,857	-	199,859	186,685	
Telephone	210,468	10,861	3,498	15,387	3,613	44,522	55,440	343,789	53,491	10,198	63,689	-	407,478	398,231	
Occupancy															
Fuel and utilities	226,399	2,566	3,674	12,755	2,485	33,329	93,191	374,399	6,483	3,051	9,534	-	383,933	397,454	
Repairs and maintenance	376,611	3,064	2,773	18,031	484	49,164	131,716	581,843	20,602	1,613	22,215	-	604,058	908,533	
Contributed facilities	474,939	264	53	375	74	1,154	863	477,722	3,400	-	3,400	-	481,122	480,767	
Rent and other	157,418	2,460	496	3,490	60,257	42,362	102,038	368,521	31,517	101	31,618	-	400,139	343,330	
Travel and transportation	73,873	7,326	704	17,902	914	15,906	14,079	130,704	34,752	7,201	41,953	-	172,657	104,616	
Conferences, conventions and meetings	16,013	8,207	130	2,904	151	2,352	2,973	32,730	5,456	1,471	6,927	-	39,657	33,412	
Special Assistance to Individuals															
Food	345,313	1,586	145	1,922	86	20,044	169,440	538,536	1,333	170	1,503	-	540,039	640,514	
Medical	-	-	84,145	-	-	-	-	84,145	-	-	-	-	84,145	228,170	
Clothing, allowance and other	384,788	67,323	182	188,999	29,592	2,026,040	236,784	2,933,708	1,639	37	1,676	-	2,935,384	2,968,447	
Contributed clothing and merchandise	527,776	31,891	-	-	-	-	104,082	663,749	-	-	-	-	663,749	1,175,069	
Temporary help	373,163	95,549	2,845	20,007	71,627	65,486	68,367	697,044	141,498	39,746	181,244	-	878,288	857,978	
Other purchased services	181,855	7,629	1,268	13,893	928	39,906	29,444	274,923	24,862	12,920	37,782	33,303	346,008	400,510	
Dues, licenses, and permits	8,723	313	63	471	5,282	5,394	4,414	24,660	3,335	693	4,028	-	28,688	12,999	
Subscriptions and publications	32,756	2,614	884	3,640	1,444	11,027	8,084	60,449	2,957	27,902	30,859	-	91,308	6,325	
Staff recruitment	46,078	3,416	689	4,848	957	14,911	11,150	82,049	37,329	6,590	43,919	-	125,968	134,621	
Insurance	174,616	4,074	961	19,219	331	41,794	100,136	341,131	12,434	2,775	15,209	-	356,340	298,243	
Contributed services - other	49,883	-	-	-	-	-	13,785	63,668	-	-	-	-	63,668	56,783	
Miscellaneous, net	31,730	1,549	313	4,682	434	6,800	6,901	52,409	23,568	19,918	43,486	-	95,895	145,551	
Interest expense	56,623	4,158	839	5,900	1,164	18,261	17,577	104,522	53,449	-	53,449	-	157,971	251,152	
Total Functional Expenses Before Depreciation and Amortization	10,935,989	811,517	157,334	1,106,366	244,167	3,400,949	2,648,479	19,304,801	1,636,914	611,427	2,248,341	33,303	21,586,445	23,004,207	
Depreciation and amortization	449,383	14,672	14,672	14,672	264,101	89,746	-	847,246	44,019	-	44,019	-	891,265	930,115	
Total Functional Expenses	11,385,372	826,189	172,006	1,121,038	508,268	3,490,695	2,648,479	20,152,047	1,680,933	611,427	2,292,360	33,303	22,477,710	23,934,322	
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	(33,303)	(33,303)	(10,698)	
Total Expenses Reported by Function on Statement of Activities	\$ 11,385,372	\$ 826,189	\$ 172,006	\$ 1,121,038	\$ 508,268	\$ 3,490,695	\$ 2,648,479	\$ 20,152,047	\$ 1,680,933	\$ 611,427	\$ 2,292,360	\$ -	\$ 22,444,407	\$ 23,923,624	

See notes to financial statements

Covenant House California

Statement of Cash Flows Year Ended June 30, 2025 (with comparative amounts for year ended June 30, 2024)

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 9,251,970	\$ 13,889,609
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(90,550)	(85,291)
Net unrealized and realized gains on investments	(218,569)	(364,115)
Amortization of deferred revenue	(83,680)	(74,000)
Contributed use of land	9,752	9,394
Amortization of right of use assets - operating leases	182,357	198,246
Loan forgiveness	(222,000)	(1,485,501)
Depreciation and amortization	891,265	930,115
Loss on disposal of property and equipment	6,669	-
Changes in operating assets and liabilities		
Contributions receivable	(185,000)	(35,100)
Grants receivable	(1,076,560)	1,084,200
Due from Parent	(4,419)	31,919
Inventory and prepaid expenses	(30,761)	187,869
Other assets	(21,575)	186,144
Accounts payable and accrued expenses	1,020,952	(838,497)
Deferred revenue	1,512,000	83,680
Due to Parent	(10,099)	10,099
Lease liability, operating leases	(122,741)	(151,878)
Net Cash from Operating Activities	<u>10,809,011</u>	<u>13,576,893</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,730,786)	(2,725,383)
Proceeds from sales and maturities of investments	2,021,346	2,113,587
Purchases of property and equipment	(3,935,768)	(14,933,360)
Proceeds from sales of property and equipment	1,831	-
Net Cash from Investing Activities	<u>(7,643,377)</u>	<u>(15,545,156)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on line of credit	-	(500,000)
Proceeds from notes payable	-	3,600,000
Payments on notes payable	(122,015)	(231,614)
Repayments on finance lease obligations	(39,316)	(63,579)
Net Cash from Financing Activities	<u>(161,331)</u>	<u>2,804,807</u>
Net Change in Cash and Cash Equivalents	3,004,303	836,544
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,429,227</u>	<u>592,683</u>
End of year	<u>\$ 4,433,530</u>	<u>\$ 1,429,227</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 93,807	\$ 105,781
Loan forgiveness	222,000	1,485,501

See notes to financial statements

Covenant House California

Notes to Financial Statements
June 30, 2025

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 18-24 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 2025, CHC provided a total of more than 119,000 nights of care, for, on average, 300 youth each night, serving more than 1,300 young people.

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 63,000 young people during 2025. Throughout the fiscal year, Covenant House provided a total of 896,000 nights of housing and safety for, on average 2,500 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 Innovation Center LLC
- 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. 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
- 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, 2025

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 and Short-Term Housing

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 young people ages 16-24 in the U.S. and Canada and ages 12-18 in Guatemala, Honduras, and Mexico who are experiencing homelessness or human trafficking. Our 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. We are expertly equipped to respond to the unique needs of young survivors of human trafficking, youth who identify as LGBTQ+, youth who are pregnant or parenting, and young people facing mental health challenges from their time unhoused. Our shelter doors are 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. In vans and on foot, Covenant House outreach workers go out to neighborhoods, riverfronts, parks, and other places where young people facing homelessness often seek refuge. Our teams offer food, water, hygiene kits, clothing, blankets, counseling, and referrals. Through sustained contact, they build trust with the young people they encounter, encouraging them to come into our shelters and benefit from our services.

Health and Well-Being

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. More than half (56%) of all Covenant House youth tell 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.

Covenant House California

Notes to Financial Statements
June 30, 2025

1. Organization and Tax Status (*continued*)

Components of Program and Supporting Services (continued)

Program Services (continued)

Health and Well-Being (continued)

Covenant House welcomes all young people with unconditional love and absolute respect. Our trauma-informed Health and Well-being services range from medical care at the on-site health centers at certain Covenant House affiliates, to yoga classes, art and music therapy, one-on-one and group counseling, religious and spiritual services, and physical fitness. Through these activities and the stability and care they receive at Covenant House, young people begin to heal from the harm they experienced while living unhoused, taking control of their lives, building on their strengths, and nourishing their self-confidence

Drop-In Services

Drop-in services are another form of outreach at Covenant House affiliates. Youth in this program do not receive residential services, but they do 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.

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, and to advocate for laws and policies to protect unhoused youth and advance their interests. 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 (ROP)

Covenant House'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 engage their potential and plan for the future. Our research shows that the longer a young person resides with us and takes advantage of our programs, the more likely they are to experience positive outcomes, including stable housing, gainful employment, and higher education. In our 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. Covenant House 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, 2025

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Permanent Supportive Housing

The Permanent Supportive Housing program provides permanent housing to youth and young families through scattered-site apartments, where they receive ongoing case management and behavioral health services. Covenant House helps youth by covering a portion of their rent, a portion that diminishes as their capacity for independence increases. Covenant House seeks to promote different models of affordable-for-youth housing, that is, housing that youth can afford on their limited, entry-level salaries. To that end, we also have built, own, and operate units that have rent requirements but no time restrictions, so young people can remain safely housed while they build their capacity for the home to which they aspire. Community apartments and rapid rehousing programs are an increasingly important part of our housing services.

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.

Covenant House California

Notes to Financial Statements
June 30, 2025

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.

Covenant House California

Notes to Financial Statements
June 30, 2025

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

Recognition of Contributions

CHC recognized grant and contract revenues in the statement of activities to the extent that reimbursable expenses have been incurred for the purpose specified by the grantor during the period. Funds received in advance are reported as refundable advances in the statement of financial position. Revenue for performance-based grants and contracts is recognized on a fixed fee unit basis based on actual services rendered, not to exceed the maximum allowable per the grant or contract.

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 merchandise and services as follows for the years ended June 30:

	<u>2025</u>	<u>2024</u>	<u>Utilization in</u> <u>Programs/Activities</u>	<u>Donor Restrictions</u>	<u>Valuation</u> <u>Techniques</u> <u>and Inputs</u>
Merchandise	\$ 663,747	\$ 942,570	Program and Administration	No associated donor restrictions	(a)
Services	600,187	1,071,928	Program and Administration	Donor restrictions	(b)
	<u>\$ 1,263,934</u>	<u>\$ 2,014,498</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) 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, 2025

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 \$54,636 and \$64,388 as of June 30, 2025 and 2024, 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 2026. Rent expense related to this donated occupancy was \$471,372 for both years ended June 30, 2025 and 2024, 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, 2025 and 2024, as a due from affiliate (see Note 9)

Cash and Cash Equivalents

Except for those cash equivalents which are included in CHC's investment portfolio which are held for long-term investment purposes, cash and cash equivalents include cash balances held in bank and all highly liquid debt instruments with maturities of three months or less at the time of purchase.

Grants Receivable

Grants receivable are stated at the amount management expects to collect from outstanding balances. Management assesses grants to determine whether balances are probable of collection, and whether an allowance is required. As of June 30, 2025 and 2024, CHC believes all grants receivable are collectible and no provision for doubtful accounts has been made.

Covenant House California

Notes to Financial Statements
June 30, 2025

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

Charitable Remainder Annuity Trusts

CHC is the beneficiary of charitable remainder annuity trusts 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, 2025 and 2024, 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 \$1,894,762 and \$1,712,270, 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, 2025

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 years ended June 30, 2025 and 2024.

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, 2024, 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, 2025

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

Leases

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. Finance leases are included in property and equipment and finance lease obligations 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. 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. 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.

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, 2022.

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 December 17, 2025.

Covenant House California

Notes to Financial Statements June 30, 2025

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.

Deposits held at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") are insured up to \$250,000. At time cash balances may exceed the FDIC limit. As of June 30, 2025 and 2024, CHC's uninsured cash and cash equivalents were approximately \$4,265,000 and \$1,742,000. CHC has not experienced any losses in such accounts and, as such, believes it is not exposed to any significant credit risk on cash and cash equivalents.

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>2025</u>	<u>2024</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 702,248	\$ 517,248

As of June 30, 2025 and 2024, CHC deems all contributions receivable to be fully collectible and no allowance for doubtful accounts is necessary.

Covenant House California

Notes to Financial Statements June 30, 2025

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2025	2024
Land	\$ 5,128,547	\$ 5,137,048
Buildings and building improvements	6,502,855	6,502,855
Buildings and building improvements on leased land	27,249,458	27,891,686
Furniture and equipment	2,120,172	2,059,985
Vehicles	374,502	374,502
Equipment acquired under finance leases	837,643	837,643
Construction in progress	<u>8,458,584</u>	<u>3,940,774</u>
	50,671,761	46,744,493
Less: accumulated depreciation and amortization (including accumulated amortization on equipment acquired under finance leases of \$745,035 and \$705,847 in 2025 and 2024)	<u>(16,293,561)</u>	<u>(15,402,296)</u>
	<u>\$34,378,200</u>	<u>\$31,342,197</u>

In 2024, CHC acquired property at West Pico Boulevard (the "Pico Property"), Los Angeles, California for a purchase price of \$2,940,000. The Pico Property was financed through a loan agreement from a separate third party for \$1,600,000 (see Note 7) and with capital campaign donations for \$1,340,000. The Pico Property was put into service in 2024.

In 2024, CHC also acquired property at 5601 Hollywood Boulevard ("Hollywood Property"), Los Angeles, California for a purchase price of \$9,400,000, of which \$9,125,380 was allocated to buildings and \$274,620 was allocated to land at the estimated fair value of the assets. The purchase was financed through grants from a federal awarding agency, which is included within government grants and contracts on the accompanying statement of activities. At June 30, 2025 and 2024, construction in progress related to the Hollywood Property total \$2,088,947 and \$285,948. Management expects construction to be completed in December 2025 and programming to begin January 2026.

Depreciation and amortization expense was \$891,265 and \$930,115 for the years ended June 30, 2025 and 2024.

Covenant House California

Notes to Financial Statements June 30, 2025

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:

	2025	
	Level 1	Total
Mutual funds	\$ 7,921,341	
Exchange-traded funds	<u>511,795</u>	
Total Investments at Fair Value		8,433,136
Cash and cash equivalents, at cost		<u>26,455</u>
Total Investments		<u>\$ 8,459,591</u>
	2024	
	Level 1	Total
Mutual funds	\$ 1,380,577	
Exchange-traded funds	<u>307,548</u>	
Total Investments at Fair Value		1,688,125
Cash and cash equivalents, at cost		<u>2,752,907</u>
Total Investments		<u>\$ 4,441,032</u>

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 \$44,303 and \$46,796 for the years ended June 30, 2025 and 2024.

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 \$47,939 and \$50,147 for the years ended June 30, 2025 and 2024.

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 \$92,242 and \$96,943 for the years ended June 30, 2025 and 2024.

Covenant House California

Notes to Financial Statements June 30, 2025

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

On July 5, 2023, CHC entered into a loan agreement (the “Loan Agreement”) with a separate nonprofit corporation (the “Lender”) for \$1,600,000 to assist CHC in the acquisition and rehabilitation of the Pico Property (see Note 5). During 2024, CHC repaid \$114,499 towards the loan agreement. On June 1, 2024, the Lender forgave the remaining amount of \$1,485,501 which is recorded as loan forgiveness on the accompanying 2024 statement of activities.

On June 18, 2024, CHC entered into a program-related investment loan (the “PRI loan”) with a third-party foundation for \$2,000,000. The PRI loan’s proceeds will be used to retire a portion of existing loans payable to the Parent and fund deferred maintenance for CHC’s asset portfolio. The PRI loan is unsecured and does not require any collateral. Interest will accrue at 2% annually and will be due and payable at the end of each quarter commencing September 30, 2024. CHC will pay a principal amount of \$1,000,000 on December 31, 2027. Payment of the outstanding balance and all unpaid interest will be due and payable on June 18, 2031. The total amount of interest expense relating to this loan totaled \$41,315 for the year ended June 30, 2025.

On April 8, 2025, CHC entered into a loan agreement with a municipal corporation for \$1,200,000 with 3% interest related to a project site expansion. There were no outstanding borrowings at June 30, 2025 related to this loan.

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

2026	\$ 126,639
2027	131,652
2028	1,939,541
2029	72,908
2030	75,498
Thereafter	1,980,501
	<u>\$ 4,326,739</u>

8. DreamCatcher Acquisition

In 2019, CHC was awarded an Emergency Housing and Assistance Program Operating Facility (“EHAP”) grant through the Department of Housing and Community Development (“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.

The loan was fully forgiven on June 30, 2025. At June 30, 2024, the total unamortized balance of the remaining forgivable loan was \$222,000, which is included in deferred revenue in the accompanying 2024 statement of financial position.

Covenant House California

Notes to Financial Statements June 30, 2025

9. Related Party Transactions

In 2025 and 2024, 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, promises to give and government grants and contracts totaled approximately \$91 million and \$91 million for the Parent for the years ended June 30, 2025 and 2024.

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 \$37 million in 2025 and 2024. For the years ended June 30, 2025 and 2024, CHC received \$1,450,932 and \$1,527,300 in branding dollars from the Parent. For the years ended June 30, 2025 and 2024, the Parent granted funds related to Sleep Out events to CHC totaling \$647,338 and \$684,671.

Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due from the Parent was \$4,419 as of June 30, 2025. The amount due to the Parent was \$10,099 as of June 30, 2024.

Contribution revenue from board members, including donations of common stock and special events revenue, totaled \$905,481 and \$1,114,392 for the years ended June 30, 2025 and 2024. The outstanding balances of amounts receivable from board members was \$138,000 as of June 30, 2025 and 2024.

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 note be used for property, which was fully repaid during 2022. In 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 2023, CHC entered into an unsecured loan agreement with the Parent to borrow \$1,000,000 with an interest rate at the 30-day Secured Overnight Financing Rate ("SOFR") rate plus 1.61%. This loan was repaid in June 2024.

During 2024, CHC obtained a \$1,000,000 interest-free loan from the Parent, with an initial maturity date of June 2025. In June 2025, the Parent approved a one-year extension of the loan term.

Covenant House California

Notes to Financial Statements June 30, 2025

10. Pension Plans

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 3% 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 \$364,508 and \$382,238 for the years ended June 30, 2025 and 2024.

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, 2025 and 2024, CHC contributed \$252,885 and \$209,220 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expense.

11. Net Assets

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

	<u>2025</u>	<u>2024</u>
Board Designated		
Building/parking lot	\$ -	\$ 494,000
Computer upgrades	-	54,000
Program development	<u>-</u>	<u>66,371</u>
	-	614,371
Designated		
Property and equipment	<u>24,576,185</u>	<u>22,316,256</u>
	<u>\$24,576,185</u>	<u>\$22,930,627</u>

On June 2025, the Board approved the release of designations on net assets previously assigned for building/parking lot, computer upgrades and program development. Board designated funds were included in investments.

Covenant House California

Notes to Financial Statements June 30, 2025

11. Net Assets (*continued*)

At June 30, net assets with donor restrictions consist of time and purpose restricted contributions consist of the following:

	<u>2025</u>	<u>2024</u>
Purpose Restrictions		
Program core support	\$18,824,026	\$11,340,349
Time Restrictions		
Other time restrictions	<u>368,296</u>	<u>245,561</u>
	<u>\$19,192,322</u>	<u>\$11,585,910</u>

Net assets released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors during the years ended June 30, are as follows:

	<u>2025</u>	<u>2024</u>
Purpose Restrictions		
Program core support	\$ 1,617,024	\$ 4,675,491
Time Restrictions		
Other time restrictions	<u>481,123</u>	<u>613,251</u>
	<u>\$ 2,098,147</u>	<u>\$ 5,288,742</u>

12. Lease Commitments

Operating Leases

During 2020, CHC entered into a 10-year agreement subject to escalation to lease land space to construct temporary housing in the City of Hayward. In addition, CHC has the right of first refusal if the landlord decides to sell the land. On July 1, 2022, CHC recognized a ROU asset of \$747,827.

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

During 2025, CHC entered into a lease agreement for commercial space in Los Angeles, CA and recorded a ROU asset of \$132,821.

Covenant House California

Notes to Financial Statements June 30, 2025

12. Lease Commitments (*continued*)

CHC amortizes these three operating leases over the remaining life of the lease agreements. ROU assets consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Right of use assets	\$ 982,722	\$ 849,901
Less: accumulated amortization	<u>(484,536)</u>	<u>(302,179)</u>
	<u>\$ 498,186</u>	<u>\$ 547,722</u>

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

	<u>2025</u>	<u>2024</u>
Weighted-average remaining lease term in years for operating leases	5.33	6.02
Weighted-average discount rate for operating leases	3%	3%

Operating lease expense for the years ended June 30, 2025 and 2024 totaled \$182,357 and \$123,877. Cash paid for the amounts included in the measurement of operating lease liabilities for the years ended June 30, 2025 and 2024 totaled \$125,481 and \$77,509.

Finance Leases

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

CHC amortizes these finance leases over the remaining life of the lease agreements. ROU assets (included in property and equipment on the accompanying statement of financial position) consist of the following at June 30:

	<u>2025</u>	<u>2024</u>
Right of use assets	\$ 837,643	\$ 837,643
Less: accumulated amortization	<u>(745,035)</u>	<u>(705,847)</u>
	<u>\$ 92,608</u>	<u>\$ 131,796</u>

Expense related to equipment under finance leases is as follows for the years ended June 30:

	<u>2025</u>	<u>2024</u>
Lease expense	\$ 39,315	\$ 63,807
Interest expense	<u>1,762</u>	<u>2,758</u>
	<u>\$ 41,077</u>	<u>\$ 66,565</u>

Covenant House California

Notes to Financial Statements June 30, 2025

12. Lease Commitments *(continued)*

Finance Leases (continued)

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

	<u>2025</u>	<u>2024</u>
Weighted-average remaining lease term in years for finance leases	3.23	3.90
Weighted-average discount rate for finance leases	1%	1%

The future minimum lease payments under the lease agreements above are as follows:

	<u>Operating</u>	<u>Finance</u>	<u>Total</u>
2026	\$ 175,671	\$ 33,648	\$ 209,319
2027	105,000	33,648	138,648
2028	105,000	11,880	116,880
2029	107,919	9,840	117,759
2030	110,004	5,041	115,045
Thereafter	<u>45,835</u>	<u>-</u>	<u>45,835</u>
Total Undiscounted Lease Payments	649,429	94,057	743,486
Less: imputed interest	<u>(44,200)</u>	<u>(2,196)</u>	<u>(46,396)</u>
Present Value of Lease Liabilities	<u>\$ 605,229</u>	<u>\$ 91,861</u>	<u>\$ 697,090</u>

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, 2025

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.

	<u>2025</u>	<u>2024</u>
Financial Assets		
Cash and cash equivalents	\$ 4,433,530	\$ 1,429,227
Contributions receivable	702,248	517,248
Grants receivable	3,593,278	2,516,718
Due from Parent	4,419	-
Investments	<u>8,459,591</u>	<u>4,441,032</u>
Total Financial Assets	<u>17,193,066</u>	<u>8,904,225</u>
Less: Contractual or donor imposed restrictions amounts		
Investments held for charitable remainder annuity trusts	(1,894,762)	(1,712,270)
Restricted by donor with time or purpose restrictions	(9,423,438)	(1,797,274)
Board designated funds	<u>-</u>	<u>(614,371)</u>
	<u>(11,318,200)</u>	<u>(4,123,915)</u>
Financial Assets Available to Meet General Expenditures		
Over the Next Twelve Months	<u>\$ 5,874,866</u>	<u>\$ 4,780,310</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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