

Covenant House California

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

June 30, 2020

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

June 30, 2020

TABLE OF CONTENTS	Page
Independent Auditors' Report	
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-24
UNIFORM GUIDANCE REPORTS AND SCHEDULES	
Schedule of Expenditures of Federal Awards	25
Notes to Schedule of Expenditures of Federal Awards	26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	
Schedule of Findings and Questioned Costs	31

Independent Auditors' Report

**Board of Directors
Covenant House California**

Report on the Financial Statements

We have audited the accompanying financial statements of Covenant House California ("CHC"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House California as of June 30, 2020, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Covenant House California's June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 25, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2020 on our consideration of CHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CHC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHC's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

November 13, 2020

Covenant House California

Statement of Financial Position June 30, 2020 (with comparative amounts at June 30, 2019)

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 4,074,828	\$ 1,218,588
Contributions receivable, net	1,486,259	759,132
Grants receivable	1,376,071	1,774,849
Due from Parent	3,399	357,201
Due from Affiliate	1,685,500	1,685,500
Inventory and prepaid expenses	178,044	130,892
Investments	2,512,421	2,384,586
Other assets	132,080	33,399
Contributed use of land	99,942	108,029
Property and equipment, net	11,516,697	11,619,740
	<u>\$ 23,065,241</u>	<u>\$ 20,071,916</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,696,518	\$ 1,264,757
PPP refundable advance	1,528,316	-
Deferred revenue	428,505	439,145
Capital lease obligations	65,830	170,003
Notes payable	2,530,684	3,390,633
Annuities payable	724	2,029
Total Liabilities	<u>6,250,577</u>	<u>5,266,567</u>
Net Assets		
Without donor restrictions	14,528,728	14,025,821
With donor restrictions	2,285,936	779,528
Total Net Assets	<u>16,814,664</u>	<u>14,805,349</u>
	<u>\$ 23,065,241</u>	<u>\$ 20,071,916</u>

See notes to financial statements

Covenant House California

Statement of Activities Year Ended June 30, 2020 (with summarized totals for year ended June 30, 2019)

	2020		
	Without Donor Restrictions	With Donor Restrictions	2019 Total
SUPPORT AND REVENUE			
Contributions from individuals, foundations and corporations, including legacies and bequests of \$575,600 and \$1,638,784 in 2020 and 2019	\$ 4,220,130	\$ -	\$ 3,810,573
Contributed services and merchandise	1,983,039	-	1,202,587
Government grants and contracts	8,871,443	962,435	8,132,102
Support from Parent - Branding Dollars from Parent	2,693,691	-	1,886,000
Capital campaign	298,012	707,368	1,716,434
Grants from Parent Related to National Sleep Out Event	1,112,641	-	790,216
Special events revenue, net of direct benefit to donor costs of \$42,610 and \$145,780 in 2020 and 2019	141,311	-	400,093
Total Support and Revenue	<u>19,320,267</u>	<u>1,669,803</u>	<u>17,938,005</u>
INVESTMENT AND OTHER INCOME			
Investment Income			
Interest and dividends	55,435	-	65,476
Unrealized gains	24,389	-	7,972
Realized (losses) gains	(21,873)	-	9,880
Other income	104,200	-	1,132,358
Total Investment and Other Income	<u>162,151</u>	<u>-</u>	<u>1,215,686</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released	19,482,418	1,669,803	19,153,691
Net assets released from restrictions	<u>163,395</u>	<u>(163,395)</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>19,645,813</u>	<u>1,506,408</u>	<u>19,153,691</u>
EXPENSES			
Program services	18,185,556	-	15,955,169
Supporting Services			
Management and general	309,191	-	264,038
Fundraising	648,159	-	388,346
Total Expenses	<u>19,142,906</u>	<u>-</u>	<u>16,607,553</u>
Change in Net Assets	502,907	1,506,408	2,546,138
NET ASSETS			
Beginning of year	<u>14,025,821</u>	<u>779,528</u>	<u>12,259,211</u>
End of year	<u>\$ 14,528,728</u>	<u>\$ 2,285,936</u>	<u>\$ 14,805,349</u>

See notes to financial statements

Covenant House California

Statement of Functional Expenses Year Ended June 30, 2020 (with summarized totals for year ended June 30, 2019)

	2020												2019
	Program Services						Supporting Services				Direct	Total	2019
	Shelter and Crisis Care	Outreach	Medical Services	Community Service Center	Public Education	Rights of Passage	Total Program Services	Management and General	Fundraising	Total Supporting Services	Benefit to Donors	Expenses	Total Expenses
Salaries	\$ 4,450,569	\$ 798,361	\$ 255,871	\$ 333,026	\$ 99,763	\$ 2,117,230	\$ 8,054,820	\$ 136,002	\$ 206,199	\$ 342,201	\$ -	\$ 8,397,021	\$ 7,557,923
Payroll taxes	371,819	60,383	21,483	30,596	4,926	169,801	659,008	14,161	14,379	28,540	-	687,548	656,396
Employee benefits	914,663	125,626	54,328	146,419	10,209	436,375	1,687,620	51,542	33,520	85,062	-	1,772,682	1,328,232
Total Salaries and Related Expenses	5,737,051	984,370	331,682	510,041	114,898	2,723,406	10,401,448	201,705	254,098	455,803	-	10,857,251	9,542,551
Contributed legal services	234,315	29,289	29,289	117,157	-	146,447	556,497	29,289	-	29,289	-	585,786	434,067
Accounting fees	35,820	3,980	3,980	7,960	-	19,900	71,640	7,960	-	7,960	-	79,600	63,917
Legal fees	45,595	9,203	4,650	4,650	389	10,457	74,944	195	97	292	-	75,236	53,240
Consulting fees	43,966	4,171	4,171	3,759	16,130	11,941	84,138	8,366	4,434	12,800	-	96,938	296,520
Medical fees	2,381	428	8,057	428	-	4,815	16,109	-	-	-	-	16,109	15,436
Supplies	54,400	5,327	2,699	5,915	483	20,848	89,672	1,170	338	1,508	-	91,180	99,220
Telephone	92,773	11,180	4,496	12,491	229	42,775	163,944	6,100	785	6,885	-	170,829	150,789
Postage and printing	29,587	3,723	3,591	10,073	374	18,276	65,624	1,203	9,899	11,102	-	76,726	90,831
Occupancy													
Fuel and utilities	198,009	17,463	7,131	20,134	660	115,324	358,721	1,391	1,995	3,386	-	362,107	272,960
Repairs and maintenance	64,293	3,245	1,305	6,817	3	44,018	119,681	262	1	263	-	119,944	132,975
Contributed facilities	3,235	404	404	1,617	-	2,022	7,682	404	-	404	-	8,086	7,787
Rent and other	74,497	1,008	638	75,533	-	123,962	275,638	399	8,000	8,399	-	284,037	275,372
Equipment	216,311	26,516	10,996	23,305	846	89,076	367,050	8,383	3,966	12,349	-	379,399	361,605
Travel and transportation	41,365	12,568	4,977	6,593	3,936	43,786	113,225	3,707	5,546	9,253	-	122,478	155,502
Conferences, conventions and meetings	17,246	5,536	2,756	3,219	4,580	13,266	46,603	3,125	1,994	5,119	-	51,722	57,012
Special Assistance to Individuals													
Food	476,958	40,808	6,203	6,317	-	335,605	865,891	-	-	-	42,610	908,501	899,226
Medical	29,968	9,464	124,351	6,309	-	7,888	177,980	-	-	-	-	177,980	156,701
Clothing, allowance and other	99,156	10,890	2,394	102,882	89	867,621	1,083,032	107	688	795	-	1,083,827	909,812
Contributed clothing and merchandise	560,605	84,472	37,460	84,472	-	234,314	1,001,323	-	267,371	267,371	-	1,268,694	608,360
Temporary help	80,022	3,707	3,766	61,938	1,310	93,961	244,704	4,536	5,447	9,983	-	254,687	127,852
Other purchased services	393,944	48,678	20,169	43,497	1,613	154,902	662,803	3,643	64,559	68,202	-	731,005	635,838
Dues, licenses, and permits	7,953	2,351	854	4,406	286	5,560	21,410	369	8,111	8,480	-	29,890	26,042
Subscriptions and publications	20,214	2,464	2,273	2,908	-	11,611	39,470	103	8,767	8,870	-	48,340	30,719
Staff recruitment	12,967	1,674	851	1,338	22	10,421	27,273	462	147	609	-	27,882	80,808
Insurance	101,587	14,069	5,910	17,123	185	56,673	195,547	3,085	615	3,700	-	199,247	171,522
Contributed services - other	101,237	1,094	547	547	-	20,073	123,498	-	-	-	-	123,498	160,173
Miscellaneous, net	32,964	1,362	1,362	2,508	573	9,746	48,515	2,580	218	2,798	-	51,313	71,714
Bank charges and fees	11,005	1,219	1,219	2,450	-	6,123	22,016	2,431	-	2,431	-	24,447	28,405
Interest expense	47,346	7,793	5,962	38,512	-	20,660	120,273	7,427	-	7,427	-	127,700	133,732
Total Functional Expenses Before Depreciation and Amortization	8,866,770	1,348,456	634,143	1,184,899	146,606	5,265,477	17,446,351	298,402	647,076	945,478	42,610	18,434,439	16,050,688
Depreciation and amortization	368,016	100,021	12,696	98,801	395	159,276	739,205	10,789	1,083	11,872	-	751,077	702,645
Total Functional Expenses	9,234,786	1,448,477	646,839	1,283,700	147,001	5,424,753	18,185,556	309,191	648,159	957,350	42,610	19,185,516	16,753,333
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(42,610)	(42,610)	(145,780)
Total Expenses Reported by Function on Statement of Activities	\$ 9,234,786	\$ 1,448,477	\$ 646,839	\$ 1,283,700	\$ 147,001	\$ 5,424,753	\$ 18,185,556	\$ 309,191	\$ 648,159	\$ 957,350	\$ -	\$ 19,142,906	\$ 16,607,553

See notes to financial statements

Covenant House California

Statement of Cash Flows Year Ended June 30, 2020 (with comparative amounts for year ended June 30, 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,009,315	\$ 2,546,138
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(125,319)	(147,485)
Discount on contributions receivables	-	7,618
Net realized and unrealized gains on investments	(2,516)	(17,852)
Amortization of deferred revenue	(10,640)	(137,939)
Contributed use of land	8,087	7,787
Depreciation and amortization	751,077	702,645
Changes in operating assets and liabilities		
Contributions receivable	(727,127)	(467,749)
Grants receivable	398,778	(537,416)
Inventory and prepaid expenses	(47,152)	(67,425)
Due from Parent	353,802	(171,338)
Other assets	(98,681)	24,516
Accounts payable, accrued expenses and annuities payable	430,456	(795,205)
PPP refundable advance	1,528,316	-
Net Cash from Operating Activities	<u>4,468,396</u>	<u>946,295</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(385,219)
Proceeds from sales and maturities of investments	-	98,361
Purchases of property and equipment	(648,034)	(2,105,493)
Net Cash from Investing Activities	<u>(648,034)</u>	<u>(2,392,351)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (payments) on notes payable	(859,949)	1,281,952
Payment on capital lease obligations	(104,173)	(84,070)
Net Cash from Financing Activities	<u>(964,122)</u>	<u>1,197,882</u>
Net Change in Cash and Cash Equivalents	2,856,240	(248,174)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,218,588</u>	<u>1,466,762</u>
End of year	<u>\$ 4,074,828</u>	<u>\$ 1,218,588</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 72,961	\$ 69,550
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired under capital leases	-	14,783

See notes to financial statements

Covenant House California

Notes to Financial Statements
June 30, 2020 and 2019

1. Organization and Tax Status

Covenant House California (“CHC” or the “Organization”), a not-for-profit member organization which was incorporated in October 1986, providing shelter and crisis care and outreach services to youth in the Los Angeles and Oakland, California areas. Covenant House (Parent), is a not-for-profit organization founded in 1968 and incorporated in 1972. Covenant House (Parent) and affiliates (collectively, “Covenant House”), provided shelter, food, clothing, medical attention, crisis intervention, public education, prevention, and other services that reached approximately 50,000 and 74,000 young people during fiscal 2020 and 2019.

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

- Covenant House Alaska
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Illinois
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House New York/Under 21
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House Holdings, LLC
- Covenant International Foundation
- CH Housing Development Fund Corporation
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44th Corporation
- 460 West 41st Street, LLC

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

- 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.

The Parent is the founder of Fundación Casa Alianza México, I.A.P.

Covenant House California

Notes to Financial Statements
June 30, 2020 and 2019

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

Shelter and Crisis Care

The *Shelter and Crisis Care* program provides crisis care, shelter, food, clothing and counseling to abandoned and runaway youths in the Los Angeles and Oakland areas.

Outreach

The *Outreach* program is an effort to reach youths who would otherwise not find their way to the shelter. Outreach vans cruise the city streets every night, searching out these youths and providing them with food, a trained counselor and a safe ride to the shelter.

Medical Services

The *Medical Services* center provides on-site comprehensive emergency medical services to both shelter and outreach youths including medical exams, physical exams, routine laboratory testing, pharmacy services, health education, psychological assessment, HIV/AIDS counseling and testing.

Community Service Center

The *Community Service Center* program provides comprehensive services to youths who left the Covenant House Crisis Center and other youths in the community who need support to maintain themselves in stable living situations. Services provided include substance abuse counseling and employment skills training.

Public Education

The *Public Education* program informs and educates the public on how to identify potential "runaway" and "throwaway" adolescents, the public and private resources available to help such adolescents before they leave home and the public support services available to help these families to improve their home environment.

Rights of Passage

Rights of Passage provides transitional home services for up to 18 months for youths, which include education, job placement, and housing.

Covenant House California

Notes to Financial Statements
June 30, 2020 and 2019

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.

Direct Benefit to Donors

Direct Benefit to Donors are those costs incurred in connection with special events related to items benefiting attendees of special events, such as meals and entertainment.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements

Revenue from Contracts with Customers

Effective July 1, 2019, CHC adopted ASU 2014-09, *Revenue from Contracts with Customers*, as amended. The guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the new guidance.

The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

Revenue from Contracts with Customers (continued)

Analysis of various provisions of this standard resulted in no changes in the way CHC recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

The new guidance requires CHC to not recognize revenue until it is probable of collection and, based on CHC's strong collection experience, management has concluded that all revenue recognized is probably of collection.

Recognition of Contributions

Effective July 1, 2019, CHC adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way CHC recognizes grants and contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. Adoption of ASU 2018-08 had no impact on CHC's financial statements.

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.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

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

Revenue Recognition

CHC records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, CHC records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), grants receivable, certain contributed services and gifts of other assets. Multi-year pledges 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.

As of June 30, 2020 and 2019, the Organization had been approved for a number of government cost reimbursable grants, some of which have conditions stipulated in the grant agreements that have not yet been met. Awards approved that have not been earned as of June 30, 2020 totaled \$5,556,768 and are expected to be received over the next year. Awards approved that have not been earned as of June 30, 2019 totaled \$4,980,833 and were received during the year ended June 30, 2020. Revenue from cost reimbursable grants is recorded to the extent of expenses incurred applicable to the grant.

Recognition of Contributions

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge or of cash or other assets. Contributions are considered without donor restriction, unless the donors restrict their use. Contributions to be received after one year are discounted at an interest rate commensurate with the risk involved.

CHC records contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, with donor restricted net assets are reclassified to without donor restricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Organization's policy to record with donor restricted contributions received for which the related restrictions are met in the same accounting period in the without donor restricted net asset class activity.

Covenant House California

Notes to Financial Statements
June 30, 2020 and 2019

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

Recognition of Contributions (continued)

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as with donor restriction. Absent explicit donor restrictions on how long those long-lived assets must be maintained, CHC reflects the expiration of the donor-imposed restriction when the donated or acquired long-lived assets have been placed in service, at which time donor restricted net assets are released from restrictions.

Contributed Services, Merchandise, and Use of Land

Contributed services are recognized as revenue if the services received create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

Contributions of clothing and merchandise are recorded at their estimated fair value at the date of receipt and recognized as inventory and revenue when received and expensed when the inventory is used.

Covenant House Western Avenue ("CHWA") is a separate 501(c)(3) corporation and an affiliate of CHC. It was established for the purpose to hold land upon which a building for CHC's programs in Los Angeles, California, was constructed. CHC originally entered into an agreement with CHWA to lease the land for twenty years beginning January 1, 2004 at \$1 per year. On September 26, 2011, the agreement was extended, with an effective date of January 1, 2011 (the "effective date") for twenty years beginning on the effective date. All other terms of the agreement remained unchanged. CHC is responsible for all related taxes, repairs and maintenance and utility costs. The use of this land is restricted to accommodate facilities and operations which achieve CHC's mission. CHC has recorded \$99,942 and \$108,029 as of June 30, 2020 and 2019, as a contribution receivable (contributed use of land) which represents the present value of the remaining lease term using a discount rate of 3.75%.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

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

Due from Affiliate

On December 20, 2017, CHWA entered into a separate agreement to hold additional property for CHC for the purpose of CHC's programs in Los Angeles, California. CHC entered into an agreement with CHWA to lease the property for 25 years. CHC is responsible for all related taxes, repairs and maintenance and utility costs. The property is restricted to accommodate facilities and operations which achieve CHC's mission. CHC has recorded both the land and building value of \$1,685,500 as of June 30, 2020 and 2019, as a due from affiliate.

Allowance for Doubtful Accounts

CHC maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make required payments. Such allowances are estimated based upon several factors including, but not limited to, historical experience and the financial condition of the donor. Uncollectible accounts are written off based upon the amount of time they have been outstanding and management's expected collectability. As of June 30, 2020 and 2019, an allowance of \$50,000 was determined to be necessary as identified in Note 4.

Cash and Cash Equivalents

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

Charitable Remainder Annuity Trusts

CHC is the beneficiary of a charitable remainder annuity trust for which it serves as the trustee. The trust instrument provides that for the time preceding the death of the donor or the term of 10 years, whichever is earlier, CHC has the obligation to make quarterly installment payments of annuity trust amounts at the end of the selected period during each taxable year of the trust. At June 30, 2020 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 \$1,055,560, 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.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

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

Functional Expense Allocation

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

Property and Equipment

The Organization follows the practice of capitalizing all expenditures for property, building and equipment with a cost in excess of \$5,000. Property and equipment are recorded at cost if purchased or, if donated, at fair value at the date of gift, less accumulated depreciation and amortization. Furniture and equipment is depreciated on a straight-line basis over the estimated useful life of five years. Buildings and building improvements on leased land are amortized on a straight-line basis over the lesser of the term of the lease or their estimated useful lives. Buildings and building improvements are depreciated on a straight-line basis over 10-30 years. Vehicles are depreciated on a straight-line basis over the estimated useful life of five years. Capital leases, if the lease has an ownership transfer or bargain purchase option at the end of the lease, are to be depreciated over its economic life, otherwise it will be depreciated over the lease term. Repair and maintenance costs are expensed in the period incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including undiscounted cash flows models, quoted fair values and third-party independent appraisals, as considered necessary. There is no such impairment for the fiscal years ended June 30, 2020 and 2019.

Fair Value of Financial Instruments

The Organization follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

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

Inventory

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

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2019 is presented for comparative purposes only. Certain activity by net asset classification is not included in these financial statements. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended June 30, 2019, from which the summarized comparative information was derived.

Advertising Costs

Advertising costs are expensed as incurred.

Reclassifications

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

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2017.

Subsequent Events

Management evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 13, 2020.

3. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of investments, cash and cash equivalents and receivables. Investments and cash and cash equivalents are managed within guidelines established by the Board of Directors. As of June 30, 2020, all investments were maintained by large financial institutions. The Organization maintains its cash with established commercial banks. At times, the cash balances exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents. Concentrations of credit risk with respect to receivables are limited due to the fact that receivables are due from a number of donors and grant agencies.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

4. Contributions Receivable

Contributions receivable at June 30, are summarized as follows:

	2020	2019
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,493,877	\$ 716,750
Within five years	<u>50,000</u>	<u>100,000</u>
	1,543,877	816,750
Less: Reserve for uncollectible accounts	(50,000)	(50,000)
Discount to present value	<u>(7,618)</u>	<u>(7,618)</u>
	<u>\$ 1,486,259</u>	<u>\$ 759,132</u>

Contributions receivable from donors that are due within one year are considered current. Contributions receivable as of June 30, 2020 with payments to be received after June 30, 2021 are discounted to their present value using an interest rate of 3.43%. The interest rate has been calculated using discount factors that approximate the risk and expected timing of future contribution payments.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2020	2019
Land	\$ 4,260,628	\$ 4,260,628
Buildings and building improvements	3,589,192	5,386,767
Buildings and building improvements on leased land	13,149,869	10,746,415
Furniture and equipment	1,826,314	1,784,159
Vehicles	331,233	331,233
Equipment acquired under capital leases	<u>572,145</u>	<u>572,145</u>
	23,729,381	23,081,347
Accumulated depreciation and amortization (including accumulated amortization on equipment acquired under capital leases of \$168,504 and \$73,459 in 2020 and 2019)	<u>(12,212,684)</u>	<u>(11,461,607)</u>
	<u>\$ 11,516,697</u>	<u>\$ 11,619,740</u>

Depreciation and amortization expense was \$751,077 and \$702,645 for the years ended June 30, 2020 and 2019.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

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:

	2020		
	Level 1	Level 2	Total
Mutual funds	\$ 1,483,469	\$ -	\$ 1,483,469
U.S. Government agencies	299,303	-	299,303
Corporate bonds	-	280,139	280,139
Mortgage backed securities	-	52,209	52,209
Total Investments at Fair Value	<u>\$ 1,782,772</u>	<u>\$ 332,348</u>	2,115,120
Cash and cash equivalents, at cost			397,301
Total Investments			<u>\$ 2,512,421</u>

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

7. Notes Payable

On January 30, 2018, the Organization refinanced its outstanding debt and entered into a \$1,375,000 term loan with Bank of America, with an interest rate of 4.25% and maturity date of January 28, 2028. The total amount of interest expense relating to this loan totaled \$55,673 and \$57,580 for the years ended June 30, 2020 and 2019.

On November 5, 2018 (the "disbursement date"), CHC obtained through financing an unsecured note payable of \$750,000 with an interest rate at 2% from an unrelated foundation, with the condition that the note be used to repay the secured note of \$750,000, entered into for the CHWA property. The repayment of the principal balance and accrued interest will be due and payable three years from the disbursement date. The total amount of interest expense relating to this note totaled \$15,000 and \$9,833 for the years ended June 30, 2020 and 2019. Both the term loan and the unsecured note payable are included in notes payable on the statement of financial position.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

7. Notes Payable (continued)

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 \$70,673 and \$39,833 for the years ended June 30, 2020 and 2019.

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

2021	\$ 799,182
2022	51,346
2023	53,603
2024	55,828
2025	58,412
Thereafter	994,313
	<u>\$ 2,012,684</u>

8. Paycheck Protection Program Refundable Advance

On May 1, 2020, CHC received loan proceeds in the amount of \$1,976,026 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries above a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the loan. Loan payments of principal or interest are deferred until the amount of loan forgiveness is determined by the United States Small Business Administration ("SBA"). If CHC does not apply for forgiveness, payments begin approximately 16 months after the loan date.

CHC intends to use all proceeds received in accordance with regulations established by the PPP. Management believes its use of the proceeds, including amounts expended through June 30, 2020, will be forgiven. Management is recognizing the PPP loan as a conditional grant under ASC 958-605 *Revenue Recognition-Contributions* and will recognize the funds when the related costs are incurred. As of June 30, 2020, CHC has incurred and recognized \$447,710 worth of costs under government grants and contracts in the statement of activities. The remaining funds under the PPP is reported as a refundable advance in the statement of financial position at June 30, 2020.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

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

In January 2012, CHC was awarded an Emergency Housing and Assistance Program Operating Facility ("EHAP") grant of \$967,260 from the state of California through the Department of Housing and Community Development ("DHCD") for additional rehabilitations of the Hollywood, California facility. In January 2014, DHCD deposited the grant amount of \$967,260 in an escrow account chosen by DHCD and will be disbursed to CHC by the escrow company based on Request for Disbursement ("RFD") approved by DHCD. The grant is structured as a loan to CHC, secured by a deed of trust on the 1325 North Western Avenue, Los Angeles, California property and bears interest at the rate of 3% simple interest per annum. The loan will be forgiven after a seven-year period from the date of the Certificate of Occupancy or the date the Notice of Completion is recorded if the Organization provides the services for the full loan term, based on approved activities. The DHCD agreement also contains customary requirements such as maintaining adequate controls over grant funds, record-keeping and submission of semiannual and annual report on project status. In the event CHC ceases utilization of the facilities based on its approved activities, the State of California shall terminate the loan and require immediate repayment including all outstanding principal and accrued interest.

On February 25, 2015, the rehabilitation was completed and CHC received a Certificate of Occupancy from the County of Los Angeles. CHC received a total of \$967,260 from the escrow company from the RFDs approved by DHCD.

As CHC's central mission is to provide emergency shelter and transitional housing for homeless youths and the loans do not impose additional conditions other than those ordinarily performed by the Organization in the normal course of operations, the conditions for forgiveness are expected to be met. As such, the Organization has recorded the capital assets acquired as property and equipment at actual cost and the state funds received as deferred revenue. The deferred revenue is amortized as without donor restriction on a straight line basis over the respective loan terms. No interest expense is accrued since the Organization does not anticipate that repayment will be required. Annual in-kind interest expense and a corresponding grant revenue from the state agency is recognized. At June 30, 2020 and 2019, the total unamortized balance of the remaining forgivable loan was \$297,168 and \$439,145, which is included in deferred revenue in the accompanying statement of financial position. The amount of grant revenue recognized from these loans was \$141,977 and \$137,939 for the years ended June 30, 2020 and 2019.

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 for a total value of \$1,479,480. The difference between the EHAP funding and the property value was contributed to CHC for \$850,801 and recorded as other income in the statement of activities. The grant is structured as a loan to CHC, secured by a deed of trust on the DreamCatcher property and bears interest at the rate of 3% simple interest per annum.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

10. Related Party Transactions

In fiscal 2020 and 2019, support received from Parent includes contributions received from individuals, corporations and foundations as a result of fundraising activities conducted by the Parent on behalf of the Organization and other Covenant House Affiliates. It also includes a subsidy or contribution from the Parent to help support the program activities of the Organization. The Parent refers to this contribution as "Branding Dollars".

The Parent provides financial support as well as management and organizational support for its affiliated organizations. It also conducts fundraising activities for its own programs and the programs of its affiliates. Contributions and promises to give totaled approximately \$88 million and \$66 million for the Parent in the years ended June 30, 2020 and 2019.

Contributions received by the Parent are generally not specifically restricted by donors to specific affiliates.

Branding Dollars allocated to affiliates, based on the Parent's policy, approximated \$38 million and \$34 million in fiscal 2020 and 2019. For the years ended June 30, 2020 and 2019, the Organization received \$2,693,691 and \$1,886,000 in support received from Parent.

Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due from the Parent was \$3,399 and \$357,201 at June 30, 2020 and 2019.

Contribution revenue from board members, including donations of common stock and special events revenue, totaled \$232,749 and \$207,473 for the years ended June 30, 2020 and 2019. The outstanding balances of amounts receivable from board members was \$14,000 and \$24,000 as of June 30, 2019 and 2018.

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

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

11. Pension Plan

The Parent adopted a new defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees are immediately eligible to enter the 403(b) savings plan. CHC will match 50 cents for every dollar contributed up to 6.0% of compensation. All full-time and eligible part-time employees employed with CHC as of December 31, 2006 immediately received the employer match. Per diem employees who worked more than 1,000 hours in 2006 were immediately eligible for the match. In addition, CHC adds employer contributions to the retirement account for all employees who work 1,000 hours in a year. The rate of contribution (percent of compensation) is based upon points. The employer contribution percentage ranges are from 1.0% to 9.0% based on points. Employer contributions for the savings and retirement plan will be 100% vested after three years of service. CHC's expense related to the 403(b) plan was \$225,666 and \$188,677 for the years ended June 30, 2020 and 2019.

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, 2020 and 2019, CHC contributed \$313,370 and \$186,921 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expense.

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

12. Net Assets Without Donor Restrictions

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

	2020	2019
Board Designated:		
Building/parking lot	\$ 494,000	\$ 494,000
Computer upgrades	54,000	54,000
Program development	66,371	66,371
Subtotal Board Designated	614,371	614,371
Designated - property and equipment	11,516,697	11,619,740
Undesignated	3,360,097	1,791,710
	<u>\$ 15,491,165</u>	<u>\$ 14,025,821</u>

Board designated funds are included in investments.

13. Net Assets With Donor Restrictions

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

	2020	2019
Purpose restrictions:		
Program core support	\$ 2,135,995	\$ 571,500
Time restrictions:		
Other time restrictions	149,941	208,028
	<u>\$ 2,285,936</u>	<u>\$ 779,528</u>

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:

	2020	2019
Purpose restrictions:		
Program core support	\$ 105,308	\$ -
Time restrictions:		
Other time restrictions	58,087	8,072
	<u>\$ 163,395</u>	<u>\$ 8,072</u>

Covenant House California

Notes to Financial Statements June 30, 2020 and 2019

14. Lease Commitments

CHC is a lessee of certain equipment acquired under capital leases expiring in various years through 2025. Amortization of assets acquired under capital leases is included in depreciation and amortization expense. Obligations under capital leases at June 30, 2020 and 2019 amounted to \$65,830 and \$170,003. The amount of imputed interest necessary to reduce the net minimum lease payments under capital lease obligations to present value totaled \$3,978 and \$9,941 at June 30, 2020 and 2019.

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

2021	\$ 34,908
2022	24,900
2023	4,800
2024	4,800
2025	400
	69,808
Less amounts representing interest	(3,978)
	\$ 65,830

In addition, CHC entered into several month to month operating lease agreements. Rent expense for these agreements was \$267,051 and \$243,278 for the years ended June 30, 2020 and 2019.

15. 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, 2020 and 2019

16. 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.

	2020	2019
Financial Assets:		
Cash and cash equivalents	\$ 4,074,828	\$ 1,218,588
Contributions receivable, net	1,486,259	759,132
Grants receivable	1,376,071	1,774,849
Investments	2,512,421	2,384,586
Total Financial Assets	<u>9,449,579</u>	<u>6,137,155</u>
Less: Contractual or donor imposed restrictions amounts		
Investments held for charitable remainder annuity trusts	1,055,560	1,044,895
Contributions and grants receivable - Due in future years	50,000	100,000
Restricted by donor with time or purpose restrictions	2,235,936	679,528
Board designated funds	614,371	614,371
	<u>3,955,867</u>	<u>2,438,794</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 5,493,712</u>	<u>\$ 3,698,361</u>

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

17. COVID-19

The ongoing Coronavirus pandemic has resulted in substantial volatility in the global economy. The pandemic may potentially have an adverse effect on the results of operations. While management has implemented measures to mitigate the impact of the pandemic, including obtaining a PPP loan under the CARES Act as detailed in Note 8, the extent to which CHC's results are impacted will depend on future developments, which are highly uncertain and cannot be predicted. As a result, management cannot reasonably estimate the overall impact of the Coronavirus pandemic to CHC's future results of operations, cash flows, or financial condition.

* * * * *

Covenant House California

Uniform Guidance
Reports and Schedules

June 30, 2020

Covenant House California

Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
<u>Department of Housing and Urban Development</u>				
Pass-Through City of Oakland				
Continuum of Care Program	CA0106L9T021811	14.267	\$ -	\$ 335,327
Continuum of Care Program	CA1465L9T021702	14.267	-	215,773
Continuum of Care Program	CA1464L9T021803	14.267	-	282,435
Total Department of Housing and Urban Development, Pass-Through Programs			-	833,535
Total Department of Housing and Urban Development			-	833,535
<u>Department of Health and Human Services</u>				
City of Oakland- Alameda County-Oakland Community Action Partnership				
Community Services Block Grant	20F-3002	93.569	-	15,146
Pass-Through John Wesley Community Health Institute (JWCH)				
Substance Abuse and Mental Health Services Projects of Regional and National Significance	SP 021278	93.243	-	15,000
Pass-Through ACF/ACYF - Family and Youth Services Bureau				
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90YO2265-03-00	93.557	-	8,619
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90YO2349-01-00	93.557	-	144,613
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90YO2239-03-00	93.557	-	33,992
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	90YO2348-01-00	93.557	-	131,652
Basic Center Grant	90CY6992-02-00	93.623	-	29,249
Basic Center Grant	90CY6992-03-00	93.623	-	169,736
Total Department of Health and Human Services			-	548,007
<u>Department of Justice</u>				
Direct Programs				
Services for Trafficking Victims		16.320	-	212,001
Pass-Through California Governor's Office of Emergency Services				
Crime Victim Assistance	KI 19-02-1027	16.575	-	182,866
Crime Victim Assistance	KI18-01-1027	16.575	-	120,525
Crime Victim Assistance	KE17 A1 1027	16.575	-	52,918
Crime Victim Assistance	KE 19 A2 1027	16.575	-	213,238
Crime Victim Assistance	XH16 01 1027	16.575	-	85,084
Crime Victim Assistance	XH16 02 1027	16.575	-	226,166
Crime Victim Assistance	2017-VA GX-0084	16.575	-	47,507
Crime Victim Assistance	KE17 01 1027	16.575	-	103,695
Crime Victim Assistance	KE19-02-1027	16.575	-	276,201
Total Department of Justice			-	1,520,201
Total Expenditures of Federal Awards			\$ -	\$ 2,901,743

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

Covenant House California

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Covenant House California (the "Organization") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

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

3. Non-Cash Awards

For the year ended June 30, 2020, the Organization did not have any non-cash awards, mortgages, or loan funds that should be included in the federal expenditures presented in this Schedule.

4. Indirect Cost Rate

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

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

Independent Auditors' Report

**Board of Directors
Covenant House California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Covenant House California which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PKF O'Connor Davies, LLP

November 13, 2020

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

Independent Auditors' Report

**Board of Directors
Covenant House California**

Report on Compliance for Each Major Federal Program

We have audited Covenant House California's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Covenant House California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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

PKF O'Connor Davies, LLP

November 13, 2020

Covenant House California

Schedule of Findings and Questioned Costs Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

___ yes X no

Significant deficiency(ies) identified?

___ yes X none reported

Noncompliance material to financial statements noted?

___ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

___ yes X no

Significant deficiency(ies) identified?

___ yes X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

___ yes X no

Identification of major federal programs:

CFDA Number(s)

14.267

16.575

16.320

Name of Federal Program or Cluster

Continuum of Care Program

Crime Victim Assistance

Services for Trafficking Victims

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X yes ___ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2020.

Section III – Federal Award Findings and Questioned Costs

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

Section IV – Prior Year Audit Findings

There were no prior year audit findings.