

Covenant House California

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

June 30, 2021

Covenant House California

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

June 30, 2021

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	7-22
UNIFORM GUIDANCE SCHEDULES AND REPORTS	
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24
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	29

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, 2021, 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, 2021, 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, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 23, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2021 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

December 23, 2021

Covenant House California
Statement of Financial Position
June 30, 2021
(with comparative amounts at June 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 1,826,265	\$ 4,074,828
Contributions receivable, net	1,487,592	1,486,259
Grants receivable	3,517,139	1,376,071
Due from Parent	4,343	3,399
Due from Affiliate	1,685,500	1,685,500
Inventory and prepaid expenses	279,066	178,044
Investments	3,104,048	2,512,421
Other assets	99,212	132,080
Contributed use of land	91,546	99,942
Property and equipment, net	<u>15,406,527</u>	<u>11,516,697</u>
	<u>\$ 27,501,238</u>	<u>\$ 23,065,241</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,937,262	\$ 1,696,518
Paycheck Protection Program refundable advance	-	1,528,316
Deferred revenue	637,722	946,505
Capital lease obligations	36,045	65,830
Notes payable	3,537,423	2,012,684
Annuities payable	289	724
Total Liabilities	<u>6,148,741</u>	<u>6,250,577</u>
Net Assets		
Without donor restrictions	19,678,369	14,528,728
With donor restrictions	<u>1,674,128</u>	<u>2,285,936</u>
Total Net Assets	<u>21,352,497</u>	<u>16,814,664</u>
	<u>\$ 27,501,238</u>	<u>\$ 23,065,241</u>

See notes to financial statements

Covenant House California

Statement of Activities Year Ended June 30, 2021 (with summarized totals for year ended June 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Contributions from individuals, foundations and corporations, including legacies and bequests of \$486,577 and \$575,600 in 2021 and 2020	\$ 4,630,223	\$ 543,207	\$ 5,173,430	\$ 4,220,130
Contributed services and merchandise	1,635,987	942,743	2,578,730	1,983,039
Government grants and contracts	12,411,545	-	12,411,545	9,833,878
Support from Parent - Branding dollars from Parent	1,863,531	-	1,863,531	2,693,691
Capital campaign	-	671,300	671,300	1,005,380
Grants from Parent related to Sleep Out Events	979,050	-	979,050	1,112,641
Special events revenue, net of direct benefit to donor costs of \$4,244 and \$42,610 in 2021 and 2020	169,364	-	169,364	141,311
Total Support and Revenue	<u>21,689,700</u>	<u>2,157,250</u>	<u>23,846,950</u>	<u>20,990,070</u>
INVESTMENT AND OTHER INCOME				
Investment Income				
Interest and dividends	60,559	-	60,559	55,435
Unrealized gains	470,521	-	470,521	2,516
Other income	241,263	-	241,263	104,200
Total Investment and Other Income	<u>772,343</u>	<u>-</u>	<u>772,343</u>	<u>162,151</u>
Total Support and Revenue and Investment and Other Income Before Net Assets Released from Restrictions	22,462,043	2,157,250	24,619,293	21,152,221
Net assets released from restrictions	<u>2,769,058</u>	<u>(2,769,058)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>25,231,101</u>	<u>(611,808)</u>	<u>24,619,293</u>	<u>21,152,221</u>
EXPENSES				
Program services	18,894,136	-	18,894,136	18,185,556
Supporting Services				
Management and general	357,093	-	357,093	309,191
Fundraising	830,231	-	830,231	648,159
Total Expenses	<u>20,081,460</u>	<u>-</u>	<u>20,081,460</u>	<u>19,142,906</u>
Change in Net Assets	5,149,641	(611,808)	4,537,833	2,009,315
NET ASSETS				
Beginning of year	<u>14,528,728</u>	<u>2,285,936</u>	<u>16,814,664</u>	<u>14,805,349</u>
End of year	<u>\$ 19,678,369</u>	<u>\$ 1,674,128</u>	<u>\$ 21,352,497</u>	<u>\$ 16,814,664</u>

See notes to financial statements

Covenant House California

Statement of Functional Expenses Year Ended June 30, 2021 (with summarized totals for year ended June 30, 2020)

	2021												
	Program Services							Supporting Services					
	Short-term Housing and Crisis Care	Outreach	Medical	Drop-In Services	Public Education and Prevention	Transitional Living - Rights of Passage	Total Program Services	Management and General	Fundraising	Total Supporting Services	Direct Benefit to Donors	Total Expenses	2020 Total
Salaries	\$ 4,517,533	\$ 915,137	\$ 253,076	\$ 361,217	\$ 98,301	\$ 2,215,535	\$ 8,360,799	\$ 134,354	\$ 231,892	\$ 366,246	\$ -	\$ 8,727,045	\$ 8,397,021
Payroll taxes	362,093	70,429	19,656	28,255	5,625	178,955	665,013	9,592	18,124	27,716	-	692,729	687,548
Employee benefits	909,827	162,818	55,394	122,711	13,492	472,190	1,736,432	35,101	37,488	72,589	-	1,809,021	1,772,682
Total Salaries and Related Expenses	5,789,453	1,148,384	328,126	512,183	117,418	2,866,680	10,762,244	179,047	287,504	466,551	-	11,228,795	10,857,251
Contributed legal services	64,898	8,112	8,112	-	8,010	-	89,132	40,612	32,500	73,112	-	162,244	585,786
Accounting fees	14,583	1,821	1,820	1,842	7,190	3,708	30,964	3,640	1,796	5,436	-	36,400	79,600
Legal fees	9,794	973	-	-	-	12,574	23,341	-	-	-	-	23,341	75,236
Consulting fees	106,564	12,340	12,340	13,430	10,000	53,593	208,267	7,180	37,500	44,680	-	252,947	96,938
Medical fees	7,648	655	1,310	655	-	12,981	23,249	-	-	-	-	23,249	16,109
Supplies	82,897	3,764	2,881	12,904	2,893	29,349	134,688	2,213	1,333	3,546	-	138,234	91,180
Telephone	115,021	10,534	4,791	11,428	238	45,911	187,923	6,137	1,608	7,745	-	195,668	170,829
Postage and printing	25,504	2,715	2,693	3,826	54	15,438	50,230	423	9,130	9,553	-	59,783	76,725
Occupancy													
Fuel and utilities	147,528	11,759	4,184	14,921	590	68,503	247,485	1,244	3,877	5,121	-	252,606	362,107
Repairs and maintenance	328,653	15,346	3,904	14,047	61	69,981	431,992	313	5,930	6,243	-	438,235	119,944
Contributed facilities	121,201	420	420	1,679	-	2,099	125,819	420	-	420	-	126,239	8,087
Rent and other	34,279	637	367	29,868	-	4,282	69,433	98	61,454	61,552	-	130,985	284,037
Equipment	263,354	31,923	14,402	28,276	822	117,951	456,728	11,171	4,940	16,111	-	472,839	379,399
Travel and transportation	22,454	933	686	858	2,462	8,978	36,371	1,240	690	1,930	-	38,301	122,478
Conferences, conventions and meetings	10,293	553	434	673	662	4,398	17,013	419	299	718	-	17,731	51,722
Special Assistance to Individuals													
Food	461,930	53,656	6,658	6,873	-	326,362	855,479	-	-	-	-	855,479	908,501
Medical	13,079	3,737	104,257	3,737	-	9,342	134,152	-	-	-	-	134,152	177,980
Clothing, allowance and other	248,172	37,133	20,183	94,424	10,806	1,553,494	1,964,212	5,407	4,412	9,819	-	1,974,031	1,083,827
Contributed clothing and merchandise	646,304	108,348	34,965	106,943	-	239,783	1,136,343	-	314,189	314,189	-	1,450,532	1,268,694
Temporary help	43,303	-	-	54,000	-	600	97,903	-	-	-	-	97,903	254,687
Other purchased services	393,381	38,890	13,348	41,130	1,226	138,417	626,392	6,163	7,784	13,947	-	640,339	731,005
Dues, licenses, and permits	11,669	2,008	1,040	14,321	422	6,850	36,310	320	3,037	3,357	-	39,667	29,890
Subscriptions and publications	17,320	2,034	2,035	2,356	178	10,764	34,687	111	7,943	8,054	-	42,741	48,340
Staff recruitment	9,820	932	879	1,600	-	4,796	18,027	1,453	329	1,782	-	19,809	27,882
Insurance	111,255	11,639	6,041	30,169	1,141	63,925	224,170	4,563	5,041	9,604	-	233,774	199,247
Contributed services - other	14,198	72	36	36	-	10,206	24,548	-	-	-	-	24,548	123,498
Miscellaneous, net	44,147	5,313	3,061	21,647	592	36,521	111,281	3,698	4,689	8,387	4,244	123,912	51,313
Bank charges and fees	11,655	1,298	1,298	2,549	200	6,372	23,372	2,602	31	2,633	-	26,005	24,447
Interest expense	58,859	9,046	7,214	28,743	4	26,910	130,776	10,193	-	10,193	-	140,969	127,700
Total Functional Expenses Before Depreciation and Amortization	9,229,216	1,524,975	587,485	1,055,118	164,969	5,750,768	18,312,531	288,667	796,016	1,084,683	4,244	19,401,458	18,434,439
Depreciation and amortization	273,697	34,211	34,211	34,211	136,849	68,426	581,605	68,426	34,215	102,641	-	684,246	751,077
Total Functional Expenses	9,502,913	1,559,186	621,696	1,089,329	301,818	5,819,194	18,894,136	357,093	830,231	1,187,324	4,244	20,085,704	19,185,516
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(4,244)	(4,244)	(42,610)
Total Expenses Reported by Function on Statement of Activities	\$ 9,502,913	\$ 1,559,186	\$ 621,696	\$ 1,089,329	\$ 301,818	\$ 5,819,194	\$ 18,894,136	\$ 357,093	\$ 830,231	\$ 1,187,324	\$ -	\$ 20,081,460	\$ 19,142,906

See notes to financial statements

Covenant House California

Statement of Cash Flows Year Ended June 30, 2021 (with comparative amounts for year ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,537,833	\$ 2,009,315
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(67,521)	(125,319)
Discount and reserve on contributions receivable	25,132	-
Net unrealized gains on investments	(470,521)	(2,516)
Amortization of deferred revenue	(308,783)	(10,640)
Contributed use of land	8,396	8,087
Depreciation and amortization	684,246	751,077
Changes in operating assets and liabilities		
Contributions receivable	(26,465)	(727,127)
Grants receivable	(2,141,068)	398,778
Inventory and prepaid expenses	(101,022)	(47,152)
Due from Parent	(944)	353,802
Other assets	32,868	(98,681)
Accounts payable, accrued expenses and annuities payable	168,874	430,456
Paycheck Protection Program refundable advance	<u>(1,528,316)</u>	<u>1,528,316</u>
Net Cash from Operating Activities	<u>812,709</u>	<u>4,468,396</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(53,585)	-
Purchases of property and equipment	<u>(4,502,641)</u>	<u>(648,034)</u>
Net Cash from Investing Activities	<u>(4,556,226)</u>	<u>(648,034)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (payments) on notes payable	1,524,739	(859,949)
Payments on capital lease obligations	<u>(29,785)</u>	<u>(104,173)</u>
Net Cash from Financing Activities	<u>1,494,954</u>	<u>(964,122)</u>
Net Change in Cash and Cash Equivalents	(2,248,563)	2,856,240
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,074,828</u>	<u>1,218,588</u>
End of year	<u>\$ 1,826,265</u>	<u>\$ 4,074,828</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 103,532	\$ 72,961
NON CASH OPERATING AND INVESTING ACTIVITY		
Construction in progress costs included within accounts payable and accrued expenses	71,435	-

See notes to financial statements

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

1. Organization and Tax Status

Covenant House California (“CHC” or the “Organization”), is a not-for-profit 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 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 18,000 young people during fiscal year 2021. During fiscal 2021, the worldwide COVID-19 pandemic impacted the number of youth Covenant House reached, as affiliates took measures to ensure social distancing, set aside isolation rooms for symptomatic youth, paused in-person public education and prevention programs, and, throughout the year, suspended or modified street outreach. The pandemic impacted all of Covenant House’s operations, including food production (meal provision was nearly 75% higher than pre-pandemic levels); the creation of online opportunities for mental health care, education, and job readiness training; development of appropriate intake protocols; implementation of new cleaning and sanitizing protocols, and other measures, all of which drove up operating costs. Nevertheless, in fiscal 2021, Covenant House affiliates provided a total of nearly 690,000 nights of housing and safety for, on average, 1,883 youth each night.

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

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

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

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

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

Covenant House California

Notes to Financial Statements
June 30, 2021 and 2020

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

Short-term Housing and Crisis Care (formerly Shelter and Crisis Care)

The short-term housing and crisis care program provides emergency services, temporary housing, food, clothing, medical care, mental health services, and legal aid to young people experiencing homelessness or human trafficking through Covenant House affiliates in North and Central America.

Outreach

The street outreach teams actively seek out young people experiencing homelessness who may need help. The team assists with critical safety needs by providing transportation to a safe shelter. Young people living on the streets can receive food, water, hygiene kits, clothing, blankets, counseling, and referrals to services such as medical care, employment, and education services.

Medical

Includes medical facilities operated at and maintained by certain Covenant House affiliates to provide immediate and ongoing medical attention to individuals receiving services at the site.

Drop-In Services (formerly Community Service Center)

Drop-in services are another form of outreach at Covenant House. Youth in this program are not receiving residential services, but are provided 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 the education and employment program.

Public Education and Prevention

Covenant House uses a variety of platforms to inform and educate the public, government officials, and young people about youth homelessness and human trafficking. Covenant House employs websites, social media, public service announcements, billboards, newsletters, school-based programs, talks, lectures, and peer-to-peer events across Covenant House's federation 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.

Covenant House California

Notes to Financial Statements
June 30, 2021 and 2020

1. Organization and Tax Status (*continued*)

Components of Program and Supporting Services (continued)

Transitional Living - Rights of Passage

Covenant House's transitional living programs, often referred to as "Rights of Passage" or ROP, are where young people take steps toward independence. Youth live in ROP for 18-24 months, where they tap their potential and plan for the future. Here they build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. The staff support each young person on their journey toward sustainable independence and a hope-filled future.

Supporting Services

Management and General

Management and general services include administration, finance and general support activities. Certain administrative costs that relate to specific programs have been allocated to such programs.

Fundraising

Fundraising services are related to the activities of the development department in raising general and specific contributions.

Direct Benefit to Donors

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

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

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.

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

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

Net Asset Presentation (continued)

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.

As of June 30, 2021 and 2020, 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, 2021 totaled \$1,310,619 and are expected to be received over the next year. Awards approved that have not been earned as of June 30, 2020 totaled \$5,556,768 and were received during the year ended June 30, 2021.

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

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

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

Recognition of Contributions (continued)

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.

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 \$91,546 and \$99,942 as of June 30, 2021 and 2020, 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%.

Donated rent is recorded at its estimated fair value. Such donations are reported as without donor restriction unless the donor has specified a length of time over which the donated space is to be occupied. The contribution is then reported as with donor restriction, and the restrictions expire evenly over the specified period. In fiscal 2021, CHC entered into an in-kind rent agreement in Santa Clara, CA with an unrelated third party for three years (see note 14). Revenue recognized on the statement of activities in contributed services and merchandise totaled \$942,743.

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

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, 2021 and 2020, as a due from affiliate (see note 10).

Allowance for Doubtful Accounts

CHC maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make required payments. Such allowances are estimated based upon several factors including, but not limited to, historical experience and the financial condition of the donor. Uncollectible accounts are written off based upon the amount of time they have been outstanding and management's expected collectability. As of June 30, 2021 and 2020, an allowance of \$82,750 and \$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, 2021 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 \$1,474,493, 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, 2021 and 2020

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. Other buildings and building improvements are depreciated on a straight-line basis over 10-30 years. Vehicles are depreciated on a straight-line basis over the estimated useful life of five years. Capital leases, if the lease has an ownership transfer or bargain purchase option at the end of the lease, are to be depreciated over its economic life, otherwise it will be depreciated over the lease term. Repair and maintenance costs are expensed in the period incurred.

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, 2021 and 2020.

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.

Inventory

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

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

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

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2020 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, 2020, 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, 2018.

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 December 23, 2021.

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, 2021, 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, 2021 and 2020

4. Contributions Receivable

Contributions receivable at June 30, are summarized as follows:

	2021	2020
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,216,813	\$ 1,493,877
Within five years	<u>353,529</u>	<u>50,000</u>
	1,570,342	1,543,877
Less: Reserve for uncollectible accounts	(82,750)	(50,000)
Discount to present value	<u>-</u>	<u>(7,618)</u>
	<u><u>\$ 1,487,592</u></u>	<u><u>\$ 1,486,259</u></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 were discounted to their present value using an interest rate of 3.43%. The interest rate was calculated using discount factors that approximate the risk and expected timing of future contribution payments. There was no present value discount rate applied as of June 30, 2021.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2021	2020
Land	\$ 6,369,350	\$ 4,260,628
Buildings and building improvements	3,589,192	3,589,192
Buildings and building improvements on leased land	13,563,750	12,964,015
Furniture and equipment	1,899,059	1,826,314
Vehicles	353,663	331,233
Equipment acquired under capital leases	572,145	572,145
Construction in progress	<u>1,956,298</u>	<u>185,854</u>
	28,303,457	23,729,381
Accumulated depreciation and amortization (including accumulated amortization on equipment acquired under capital leases of \$523,856 and \$495,810 in 2021 and 2020)	<u>(12,896,930)</u>	<u>(12,212,684)</u>
	<u><u>\$ 15,406,527</u></u>	<u><u>\$ 11,516,697</u></u>

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

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

5. Property and Equipment (*continued*)

Depreciation and amortization expense was \$684,246 and \$751,077 for the years ended June 30, 2021 and 2020.

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:

	2021		
	Level 1	Level 2	Total
Mutual funds	\$ 1,969,809	\$ -	\$ 1,969,809
U.S. Government agencies	387,549	-	387,549
Corporate bonds	-	207,164	207,164
Mortgage backed securities	-	34,431	34,431
Total Investments at Fair Value	<u>\$ 2,357,358</u>	<u>\$ 241,595</u>	2,598,953
Cash and cash equivalents, at cost			505,095
Total Investments			<u>\$ 3,104,048</u>

	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>

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 \$53,677 and \$55,673 for the years ended June 30, 2021 and 2020.

On November 5, 2018 (the "disbursement date"), CHC obtained through financing an unsecured note payable of \$750,000 with an interest rate at 2% from an unrelated foundation, with the condition that the note be used to repay the secured note of \$750,000, entered into for the CHWA property. The principal balance and accrued interest was repaid in full on November 12, 2021.

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

7. Notes Payable (*continued*)

The total amount of interest expense relating to this note totaled \$15,000 for each of the years ended June 30, 2021 and 2020. Both the term loan and the unsecured note payable are included in notes payable on the statement of financial position.

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 \$91,470 and \$70,673 for the years ended June 30, 2021 and 2020.

On January 15, 2021, the Organization entered into a \$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 \$22,793 for the year ended June 30, 2021.

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

2022	\$ 856,284
2023	112,734
2024	116,924
2025	110,693
2026	115,555
Thereafter	<u>2,225,233</u>
	<u>\$ 3,537,423</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 is 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 below 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 and 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.

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. For the years ended June 30, 2021 and June 30, 2020, CHC has recognized \$1,528,316 and \$447,710 in government grants and contracts on the accompanying statement of activities as conditions were substantially met. The PPP loan was subsequently forgiven in full by the SBA on July 1, 2021.

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

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

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

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

As CHC's central mission is to provide emergency shelter and transitional housing for homeless youths and the loans do not impose additional conditions other than those ordinarily performed by 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, 2021 and 2020, the total unamortized balance of the remaining forgivable loan was \$150,729 and \$297,068, which is included in deferred revenue in the accompanying statement of financial position. The amount of grant revenue recognized from these loans was \$226,936 and \$141,977 for the years ended June 30, 2021 and 2020.

In fiscal 2019, CHC was awarded an additional EHAP grant through DHCD of \$740,000 in order to secure funding on the purchase of the DreamCatcher property. The grant is structured as a loan to CHC, to be forgiven at the end of the grant period, and secured by a deed of trust on the DreamCatcher property and bears interest at the rate of 3% simple interest per annum. The forgiveness is amortized over the grant period. At June 30, 2021 and 2020, the total unamortized balance of the remaining forgivable loan was \$444,000 and \$518,000, which is included in deferred revenue in the accompanying statement of financial position.

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

10. Related Party Transactions

In fiscal 2021 and 2020, 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 \$84 million and \$88 million for the Parent in the years ended June 30, 2021 and 2020.

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

Branding Dollars allocated to affiliates, based on the Parent's policy, approximated \$36 million and \$38 million in fiscal 2021 and 2020. For the years ended June 30, 2021 and 2020, the Organization received \$1,863,531 and \$2,693,691 in support received from Parent. For the years ended June 30, 2021 and 2020, the Parent granted funds related to Sleep Out events to the Organization totaling \$979,050 and \$1,112,641.

Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due from the Parent was \$4,343 and \$3,399 at June 30, 2021 and 2020.

Contribution revenue from board members, including donations of common stock and special events revenue, totaled \$324,827 and \$232,749 for the years ended June 30, 2021 and 2020. The outstanding balances of amounts receivable from board members was \$14,000 as of June 30, 2021 and 2020.

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

11. Pension Plan

The Parent adopted a new defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees are immediately eligible to enter the 403(b) savings plan. CHC will match 50 cents for every dollar contributed up to 6.0% of compensation. All full-time and eligible part-time employees employed with CHC as of December 31, 2006 immediately received the employer match. Per diem employees who worked more than 1,000 hours in 2006 were immediately eligible for the match. In addition, CHC adds employer contributions to the retirement account for all employees who work 1,000 hours in a year. The rate of contribution (percent of compensation) is based upon points. The employer contribution percentage ranges are from 1.0% to 9.0% based on points. Employer contributions for the savings and retirement plan will be 100% vested after three years of service. CHC's expense related to the 403(b) plan was \$214,348 and \$225,666 for the years ended June 30, 2021 and 2020.

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

11. Pension Plan (*continued*)

CHC participates in a noncontributory defined benefit pension plan (the "Plan"), which was established on August 1, 1982, sponsored by the Parent covering substantially all of the employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and final average salary. Effective August 1, 2009, the Board of Directors of the Parent approved to freeze the future benefit accruals of all employees of Covenant House participating in the Plan. As set forth in the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Parent is responsible for maintaining an annual minimum funding requirement that is reported and paid by the Parent. Although the Parent is responsible for maintaining the total annual minimum funding requirement, the Plan's actuary has determined the respective allocable share to the various affiliates that participate in the Plan. For the years ended June 30, 2021 and 2020, CHC contributed \$219,915 and \$313,370 for its allocable share of the Parent's minimum funding requirement, which is included in employee benefits on the statement of functional expense.

12. Net Assets Without Donor Restrictions

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

	2021	2020
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	15,406,527	11,516,697
Undesignated	3,657,471	2,397,660
	<u>\$ 19,678,369</u>	<u>\$ 14,528,728</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:

	2021	2020
Purpose restrictions:		
Program core support	\$ 707,682	\$ 2,135,995
Time restrictions:		
Other time restrictions	966,446	149,941
	<u>\$ 1,674,128</u>	<u>\$ 2,285,936</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:

Covenant House California

Notes to Financial Statements June 30, 2021 and 2020

13. Net Assets With Donor Restrictions *(continued)*

	2021	2020
Purpose restrictions:		
Program core support	\$ 2,642,820	\$ 105,308
Time restrictions:		
Other time restrictions	126,238	58,087
	<u>\$ 2,769,058</u>	<u>\$ 163,395</u>

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, 2021 and 2020 amounted to \$36,045 and \$65,830. The amount of imputed interest necessary to reduce the net minimum lease payments under capital lease obligations to present value totaled \$2,765 and \$3,978 at June 30, 2021 and 2020.

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

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

2022	\$ 124,900
2023	124,900
2024	104,800
2025	100,400
2026	105,000
Thereafter	535,000
	<u>1,095,000</u>
Less amounts representing interest	<u>(2,765)</u>
	<u>\$ 1,092,235</u>

In addition, CHC entered into several month to month operating lease agreements. Rent expense for these agreements was \$110,182 and \$267,051 for the years ended June 30, 2021 and 2020. CHC occupied a location in Santa Clara, California at no charge under an agreement for donated occupancy, which commenced in April 2021 and expires in April 2023. Rent expense related to this donated occupancy was \$117,843, which is included in the statement of functional expense under contributed facilities.

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, 2021 and 2020

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.

	2021	2020
Financial Assets:		
Cash and cash equivalents	\$ 1,826,265	\$ 4,074,828
Contributions receivable, net	1,487,592	1,486,259
Grants receivable	3,517,139	1,376,071
Investments	<u>3,104,048</u>	<u>2,512,421</u>
Total Financial Assets	<u>9,935,044</u>	<u>9,449,579</u>
Less: Contractual or donor imposed restrictions amounts		
Investments held for charitable remainder annuity trusts	1,474,493	1,055,560
Restricted by donor with time or purpose restrictions	639,839	2,185,994
Board designated funds	<u>614,371</u>	<u>614,371</u>
	<u>2,728,703</u>	<u>3,855,925</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 7,206,341</u>	<u>\$ 5,593,654</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. Risk and Uncertainties

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, 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
Schedules and Reports

June 30, 2021

Covenant House California

Schedule of Expenditures of Federal Awards Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Additional Award Identification	Pass-Through Entity Identifying Number	Assistance Listing Number	Passed Through to Subrecipients	Federal Expenditures
<u>Department of Housing and Urban Development</u>					
Pass-Through City of Oakland					
Continuum of Care Program		CA0106L9T021912	14.267	\$ -	\$ 335,327
Continuum of Care Program		CA1464L9T021803	14.267	-	156,833
Continuum of Care Program		CA1465L9T021904	14.267	-	221,608
Total Department of Housing and Urban Development, Pass-Through Programs				-	713,768
Emergency Solutions Grant Program	COVID-19		14.231	-	192,000
Total Department of Housing and Urban Development				-	905,768
<u>Department of Health and Human Services</u>					
Pass-Through City of Oakland- Alameda County-Oakland Community Action Partnership					
Community Services Block Grant		20F-3002	93.569	-	24,854
Community Services Block Grant		1004443	93.569	-	40,228
Community Services Block Grant		1005381	93.569	-	6,340
Pass-Through John Wesley Community Health Institute (JWCH)					
Substance Abuse and Mental Health Services Projects of Regional and National Significance		SP 021278	93.243	-	3,750
Substance Abuse and Mental Health Services Projects of Regional and National Significance		90CY6992-02-00	93.243	-	148,500
Pass-Through ACF/ACYF - Family and Youth Services Bureau					
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth		90YO2349-01-00	93.557	-	5,387
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth		90YO2349-01-00	93.557	-	135,356
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth		90YO2348-01-00	93.557	-	15,317
Basic Center Grant		90CY6992-03-00	93.623	-	7,578
Basic Center Grant		90CY7209-01-00	93.623	-	184,881
Total Department of Health and Human Services				-	572,191
<u>Department of Justice</u>					
Direct Programs					
Services for Trafficking Victims			16.320	-	40,000
Services for Trafficking Victims			16.320	-	105,580
Services for Trafficking Victims			16.320	-	150,689
Pass-Through California Governor's Office of Emergency Services					
Crime Victim Assistance		XH20 03 1027	16.575	-	233,170
Crime Victim Assistance		XH19 02 1027	16.575	-	75,405
Crime Victim Assistance		KU 19 01 1027	16.575	-	113,770
Crime Victim Assistance		2018-V2 GX-0029	16.575	-	40,000
Crime Victim Assistance		KE20 03 1027	16.575	-	291,033
Crime Victim Assistance		KE19-02-1027	16.575	-	9,651
Crime Victim Assistance		KE20 A3 1027	16.575	-	242,126
Crime Victim Assistance		KE 19 A2 1027	16.575	-	84,220
Crime Victim Assistance		KI20 03 1027	16.575	-	221,996
Crime Victim Assistance		KI 19-02-1027	16.575	-	85,999
Total Department of Justice				-	1,693,639
<u>Department of Homeland Security</u>					
Pass-Through EFSP United Way Los Angeles					
Emergency Food and Shelter National Board Program		LRO# 064600054	97.024	-	41,250
Emergency Food and Shelter National Board Program		LRO# 069500163	97.024	-	30,100
Emergency Food and Shelter National Board Program		LRO# 069500163	97.024	-	48,000
Emergency Food and Shelter National Board Program		LRO # 069500163	97.024	-	40,000
Total Department of Homeland Security				-	159,350
Total Expenditures of Federal Awards				\$ -	\$ 3,330,948

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, 2021

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Covenant House California ("CHC") under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CHC, it is not intended to and does not present the financial position, changes in net assets or cash flows of CHC.

2. Summary of Significant Accounting Policies

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

3. Non-Cash Awards

For the year ended June 30, 2021, CHC did not have any non-cash awards, mortgages, or loan funds that should be included in the federal expenditures presented in this Schedule.

4. Indirect Cost Rate

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

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

Independent Auditors' Report

**Board of Directors
Covenant House California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Covenant House California which comprise the statement of financial position as of June 30, 2021, 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 December 23, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

PKF O'Connor Davies, LLP

December 23, 2021



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 ("CHC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CHC's major federal programs for the year ended June 30, 2021. CHC'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of CHC'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 CHC'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 CHC's compliance.

Opinion on Each Major Federal Program

In our opinion, CHC 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, 2021.

Report on Internal Control Over Compliance

Management of CHC 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 CHC'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 CHC'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

December 23, 2021

Covenant House California

Schedule of Findings and Questioned Costs Year Ended June 30, 2021

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:

Federal Assistance

Listing Number

16.575

Name of Federal Program or Cluster

Crime Victim Assistance

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

\$750,000

Auditee qualified as low-risk auditee?

X yes ___ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2021.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs tested 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.