

Covenant House California

Financial Statements

June 30, 2024

Independent Auditors' Report

Board of Directors
Covenant House California

Opinion

We have audited the accompanying financial statements of Covenant House California ("CHC"), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House California as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

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

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CHC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CHC's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited CHC's June 30, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 12, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

December 16, 2024

Covenant House California

Statement of Financial Position June 30, 2024 (with comparative amounts at June 30, 2023)

	2024	2023
ASSETS		
Cash and cash equivalents	\$ 1,429,227	\$ 592,683
Contributions receivable, net	517,248	482,148
Grants receivable	2,516,718	3,600,918
Due from Parent	-	31,919
Due from Affiliate	1,685,500	1,685,500
Inventory and prepaid expenses	27,508	215,377
Investments	4,441,032	3,379,830
Other assets	53,474	239,618
Contributed use of land	64,388	73,782
Right of use assets - operating leases	547,722	745,968
Property and equipment, net	<u>31,342,197</u>	<u>17,338,952</u>
	<u>\$ 42,625,014</u>	<u>\$ 28,386,695</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,589,981	\$ 2,428,478
Deferred revenue	333,317	323,637
Due to Parent	10,099	-
Finance lease obligations	131,177	194,756
Lease liability, operating leases	595,149	747,027
Notes payable	4,448,754	2,565,869
Line of credit payable	-	500,000
Loan payable to Parent	<u>1,000,000</u>	<u>1,000,000</u>
Total Liabilities	<u>8,108,477</u>	<u>7,759,767</u>
Net Assets		
Without donor restrictions	22,930,627	19,312,567
With donor restrictions	<u>11,585,910</u>	<u>1,314,361</u>
Total Net Assets	<u>34,516,537</u>	<u>20,626,928</u>
	<u>\$ 42,625,014</u>	<u>\$ 28,386,695</u>

See notes to financial statements

Covenant House California

Statement of Activities Year Ended June 30, 2024 (with summarized totals for year ended June 30, 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Contributions from individuals, foundations and corporations, including legacies and bequests of \$460,692 and \$623,947 in 2024 and 2023	\$ 2,536,251	\$ 2,917,544	\$ 5,453,795	\$ 5,124,196
Contributed merchandise	942,570	-	942,570	1,614,296
Contributed services	600,556	471,372	1,071,928	806,970
Government grants and contracts	13,483,165	9,410,000	22,893,165	12,412,305
Branding dollars from Parent	1,527,300	-	1,527,300	1,269,986
Capital campaign	-	2,761,375	2,761,375	550,500
Grants from Parent related to Sleep Out Events	685,671	-	685,671	713,013
Special events revenue, net of direct benefit to donor costs of \$10,698 in 2024 and \$28,221 in 2023	261,990	-	261,990	319,175
Total Support and Revenue	<u>20,037,503</u>	<u>15,560,291</u>	<u>35,597,794</u>	<u>22,810,441</u>
INVESTMENT RETURN AND OTHER INCOME				
Investment return	472,947	-	472,947	313,567
Other income	256,991	-	256,991	251,194
Total Investment Return and Other Income	<u>729,938</u>	<u>-</u>	<u>729,938</u>	<u>564,761</u>
Total Support and Revenue and Investment Return and Other Income Before Net Assets Released from Restrictions	20,767,441	15,560,291	36,327,732	23,375,202
Net assets released from restrictions	<u>5,288,742</u>	<u>(5,288,742)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Investment and Other Income	<u>26,056,183</u>	<u>10,271,549</u>	<u>36,327,732</u>	<u>23,375,202</u>
EXPENSES				
Program services	21,973,100	-	21,973,100	22,117,435
Supporting Services				
Management and general	1,445,255	-	1,445,255	408,255
Fundraising	505,269	-	505,269	762,725
Total Expenses	<u>23,923,624</u>	<u>-</u>	<u>23,923,624</u>	<u>23,288,415</u>
Change in Net Assets Before Nonoperating Changes	<u>2,132,559</u>	<u>10,271,549</u>	<u>12,404,108</u>	<u>86,787</u>
NONOPERATING CHANGES				
Loan forgiveness	1,485,501	-	1,485,501	-
Change in Net Assets	3,618,060	10,271,549	13,889,609	86,787
NET ASSETS				
Beginning of year	<u>19,312,567</u>	<u>1,314,361</u>	<u>20,626,928</u>	<u>20,540,141</u>
End of year	<u>\$ 22,930,627</u>	<u>\$ 11,585,910</u>	<u>\$ 34,516,537</u>	<u>\$ 20,626,928</u>

See notes to financial statements

Covenant House California

Statement of Functional Expenses Year Ended June 30, 2024 (with summarized totals for year ended June 30, 2023)

	2024													
	Program Services							Supporting Services						
	Immediate and Short-Term Housing	Outreach	Health and Well-Being	Drop-In Services	Public Education and Prevention	Transitional Living - Rights of Passage	Permenant Supportive Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	Direct Benefit to Donors	Total Expenses	2023 Total Expenses
Salaries	\$ 5,877,223	\$ 93,876	\$ 184,617	\$ 801,222	\$ 89,025	\$ 1,151,291	\$ 792,243	\$ 8,989,497	\$ 513,110	\$ 317,250	\$ 830,360	\$ -	\$ 9,819,857	\$ 10,103,067
Payroll taxes	474,202	6,764	14,859	61,408	6,823	90,842	62,121	717,019	39,059	23,873	62,932	-	779,951	727,058
Employee benefits	863,192	13,847	26,360	144,825	16,092	183,809	145,717	1,393,842	177,270	37,538	214,808	-	1,608,650	1,874,071
Total Salaries and Related Expenses	7,214,617	114,487	225,836	1,007,455	111,940	1,425,942	1,000,081	11,100,358	729,439	378,661	1,108,100	-	12,208,458	12,704,196
Contributed legal services	133,118	1,510	4,197	17,684	1,965	26,303	33,256	218,033	93,240	-	93,240	-	311,273	337,702
Accounting fees	30,513	346	962	4,054	450	6,029	7,623	49,977	21,372	-	21,372	-	71,349	66,900
Legal fees	39,079	273	759	3,199	355	4,758	6,015	54,438	16,865	-	16,865	-	71,303	16,571
Consulting fees	151,692	1,229	3,418	14,402	1,600	37,073	27,084	236,498	51,300	24,636	75,936	-	312,434	500,851
Medical fees	-	-	-	-	-	-	-	-	-	-	-	-	-	1,961
Supplies	112,776	215	836	4,533	504	32,215	22,337	173,416	4,169	9,100	13,269	-	186,685	114,303
Telephone	231,475	3,021	4,910	17,715	1,968	61,516	32,664	353,269	38,847	6,115	44,962	-	398,231	204,841
Postage and printing	-	-	-	-	-	-	-	-	-	-	-	-	-	37,026
Occupancy														
Fuel and utilities	264,993	1,981	3,706	16,657	1,851	82,087	18,380	389,655	5,276	2,523	7,799	-	397,454	417,037
Repairs and maintenance	576,760	2,717	6,879	46,090	5,121	206,877	33,881	878,325	26,318	3,890	30,208	-	908,533	507,294
Contributed facilities	475,389	46	127	534	59	794	1,004	477,953	2,814	-	2,814	-	480,767	480,419
Rent and other	206,180	365	1,013	56,515	6,279	23,939	26,524	320,815	22,183	332	22,515	-	343,330	349,816
Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	50,184
Travel and transportation	56,355	443	856	7,894	877	8,558	10,609	85,592	13,489	5,535	19,024	-	104,616	115,707
Conferences, conventions and meetings	13,777	120	982	2,170	241	5,594	3,117	26,001	6,990	421	7,411	-	33,412	50,856
Special Assistance to Individuals														
Food	491,294	8	73	5,104	567	136,027	6,936	640,009	487	18	505	-	640,514	1,031,377
Medical	158,140	-	70,030	-	-	-	-	228,170	-	-	-	-	228,170	240,765
Clothing, allowance and other	1,158,787	73	351	207,824	23,092	264,525	1,478,115	3,132,767	561	3,936	4,497	-	3,137,264	1,696,859
Contributed clothing and merchandise	819,464	-	-	59,333	6,593	88,252	32,610	1,006,252	-	-	-	-	1,006,252	1,614,296
Temporary help	328,191	2,677	7,441	206,071	22,897	47,860	77,530	692,667	143,744	21,567	165,311	-	857,978	309,351
Other purchased services	146,772	1,194	8,070	19,802	2,200	24,482	170,673	373,193	7,658	8,961	16,619	10,698	400,510	838,071
Dues, licenses, and permits	6,366	48	134	1,389	154	856	1,065	10,012	2,936	51	2,987	-	12,999	17,766
Subscriptions and publications	330	71	198	742	82	34	468	1,925	4,400	-	4,400	-	6,325	55,961
Staff recruitment	57,613	651	1,810	7,628	848	11,504	14,346	94,400	31,954	8,267	40,221	-	134,621	51,513
Insurance	178,546	854	3,169	18,400	2,044	47,958	34,661	285,632	10,274	2,337	12,611	-	298,243	287,135
Contributed services - other	51,090	-	-	-	-	5,693	-	56,783	-	-	-	-	56,783	37,177
Miscellaneous, net	3,126	3,738	585	2,961	329	710	5,031	16,480	100,183	28,888	129,071	-	145,551	177,973
Bank charges and fees	-	-	-	-	-	-	-	-	-	-	-	-	-	20,643
Interest expense	108,005	1,113	3,095	13,039	1,449	19,395	36,307	182,403	68,718	31	68,749	-	251,152	126,414
Total Functional Expenses Before Depreciation and Amortization	13,014,448	137,180	349,437	1,741,195	193,465	2,568,981	3,080,317	21,085,023	1,403,217	505,269	1,908,486	10,698	23,004,207	22,460,965
Depreciation and amortization	430,519	14,013	14,013	12,611	1,401	252,229	163,291	888,077	42,038	-	42,038	-	930,115	855,671
Total Functional Expenses	13,444,967	151,193	363,450	1,753,806	194,866	2,821,210	3,243,608	21,973,100	1,445,255	505,269	1,950,524	10,698	23,934,322	23,316,636
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	(10,698)	(10,698)	(28,221)
Total Expenses Reported by Function on Statement of Activities	\$ 13,444,967	\$ 151,193	\$ 363,450	\$ 1,753,806	\$ 194,866	\$ 2,821,210	\$ 3,243,608	\$ 21,973,100	\$ 1,445,255	\$ 505,269	\$ 1,950,524	\$ -	\$ 23,923,624	\$ 23,288,415

See notes to financial statements

Covenant House California

Statement of Cash Flows Year Ended June 30, 2024 (with comparative amounts for year ended June 30, 2023)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,889,609	\$ 86,787
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributed investment securities	(85,291)	(202,378)
Net unrealized and realized gains on investments	(364,115)	(222,841)
Amortization of deferred revenue	9,680	(74,000)
Contributed use of land	9,394	9,048
Amortization of right of use assets - operating leases	198,246	103,933
Depreciation and amortization	930,115	855,671
Loss on disposal of property and equipment	-	3,649
Changes in operating assets and liabilities		
Contributions receivable	(35,100)	265,903
Grants receivable	1,084,200	(1,334,584)
Due from Parent	31,919	9,427
Due to Parent	10,099	-
Inventory and prepaid expenses	187,869	(138,055)
Other assets	186,144	24,601
Accounts payable and accrued expenses	(838,497)	254,156
Lease liabilities	(151,878)	(110,172)
Net Cash from Operating Activities	<u>15,062,394</u>	<u>(468,855)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,725,383)	(90,726)
Proceeds from sales and maturities of investments	2,113,587	187,766
Purchases of property and equipment	<u>(14,933,360)</u>	<u>(1,975,689)</u>
Net Cash from Investing Activities	<u>(15,545,156)</u>	<u>(1,878,649)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on loan payable from Parent	-	1,000,000
(Repayments) proceeds on line of credit	(500,000)	500,000
Proceeds from notes payable	2,000,000	-
Payments on notes payable	(117,115)	(112,916)
Repayments on finance lease obligations	<u>(63,579)</u>	<u>19,582</u>
Net Cash from Financing Activities	<u>1,319,306</u>	<u>1,406,666</u>
Net Change in Cash and Cash Equivalents	836,544	(940,838)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>592,683</u>	<u>1,533,521</u>
End of year	<u>\$ 1,429,227</u>	<u>\$ 592,683</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 105,781	\$ 115,117
Loan forgiveness	1,485,501	-
Construction in progress costs included within accounts payable and accrued expenses	-	13,539
Finance lease obligations	-	78,254

See notes to financial statements

Covenant House California

Notes to Financial Statements
June 30, 2024

1. Organization and Tax Status

Covenant House California (“CHC”) is a not-for-profit organization, which has been serving youth in California for over 35 years. CHC operates youth-centered housing programs and supportive services in five different communities across the state, including Alameda County, Los Angeles, Orange County, Santa Clara and Santa Cruz, for young people between the ages of 18-24 that are experiencing homelessness and human trafficking. CHC's full continuum of services is provided through a trauma-informed lens that meets the physical, emotional, educational, vocational, and well-being of young people. In the past three decades, CHC has been a fierce advocate for those who have been impacted by homelessness, systems of care and family trauma that has forced them into housing instability. CHC does this through various interventions to meet young people where they are. Throughout fiscal 2024, CHC provided a total of more than 109,000 nights of care, for, on average, 300 youth each night, serving more than 1,500 young people.

Covenant House (the “Parent”) is a not-for-profit organization incorporated in 1972. The Parent and affiliates (collectively, “Covenant House”), provided shelter, food, clothing, medical and mental health care, crisis intervention, education and vocational services, public education and prevention, and other programs that reached approximately 57,000 young people during fiscal 2024. Throughout fiscal 2024, Covenant House provided a total of more than 862,000 nights of housing and safety for, on average, 2,400 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, 2024

1. Organization and Tax Status (*continued*)

CHC operates as a not-for-profit organization and has been recognized by the Internal Revenue Service as an organization exempt from income taxation pursuant to Internal Revenue Code Section 501(c)(3) on its income other than unrelated business income and has also been recognized by the Franchise Tax Board as exempt from state franchise or income tax pursuant to California Revenue and Taxation Code Section 23701(d) on its income other than unrelated business income.

Components of Program and Supporting Services

Program Services

Immediate and Short-Term Housing

The Immediate and Short-term Housing program focuses on crisis care and provides emergency services: temporary, immediate housing; nutritious meals; clothing; medical care; mental health services; and legal aid to young people ages 16-24 in the U.S. and Canada and ages 12-18 in Guatemala, Honduras, and Mexico who are experiencing homelessness or human trafficking. Our high-quality programs and services meet youths' immediate needs, stabilize their situation, and help them consider their longer-term goals for education, employment, and career planning. We are expertly equipped to respond to the unique needs of young survivors of human trafficking, youth who identify as LGBTQ+, youth who are pregnant or parenting, and young people facing mental health challenges from their time unhoused. Our shelter doors are open 24/7, and we have provided uninterrupted service to children and youth for more than 50 years.

Outreach

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

Health and Well-Being

Homelessness impacts young people's physical and mental well-being in many ways, and because youth are still developing cognitively, physically, psychologically, and emotionally, those impacts can have deep effects. This is even more the case for young people of color and those who identify as LGBTQ+, as they face unique challenges associated with racism and prejudice, and for survivors of human trafficking. More than half (53%) of all Covenant House youth tell us they are dealing with a mental health challenge, and our data shows that LGBTQ+ youth are more likely to face these challenges than their peers.

Covenant House California

Notes to Financial Statements
June 30, 2024

1. Organization and Tax Status (*continued*)

Components of Program and Supporting Services (continued)

Program Services (continued)

Health and Well-Being (continued)

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

Drop-In Services

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

Public Education and Prevention

Public Education and Prevention uses a variety of platforms to inform and educate young people, the public, and government officials about youth homelessness and human trafficking, and to advocate for laws and policies to protect unhoused youth and advance their interests. Covenant House employs websites, social media, public service announcements, billboards, newsletters, school-based programs, community engagement (including through Youth Homelessness Awareness Month each November) and training, talks, lectures, and peer-to-peer events to raise awareness of the causes and impacts of youth homelessness and of the signs that a young person might be experiencing homelessness or human trafficking.

Transitional Living - Rights of Passage (ROP)

Covenant House's Transitional Living programs, often referred to as "Rights of Passage" or ROP, are where young people take their boldest steps toward independence. Youth live in ROP for up to 24 months, where they engage their potential and plan for the future. Our research shows that the longer a young person resides with us and takes advantage of our programs, the more likely they are to experience positive outcomes, including stable housing, gainful employment, and higher education. In our Transitional Living programs, youth build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. Covenant House staff support each young person on their journey toward sustainable independence and a hope-filled future.

Covenant House California

Notes to Financial Statements
June 30, 2024

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Permanent Supportive Housing

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

Supporting Services

Management and General

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

Fundraising

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

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

Covenant House California

Notes to Financial Statements June 30, 2024

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

Adoption of New Accounting Policy

In June 2016, the Financial Accounting Standards Board issued an accounting pronouncement related to the measurement of credit losses on financial instruments. This pronouncement and subsequently issued Accounting Standards Updates, clarified certain provisions of the new guidance, changed the incurred loss model for most financial assets and required the use of an “expected loss” model for instruments measured at amortized cost. Under this model, entities are required to estimate the lifetime expected credit losses on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a new presentation of the amount expected to be collected on the financial asset. The adoption of this guidance on July 1, 2023, did not have a material effect 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.

Revenue Recognition

CHC records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, CHC records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), grants receivable, certain contributed services and gifts of other assets. Multi-year pledges are recorded at present value based on the expected collection date using a risk-adjusted discount rate. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. CHC also raises funds through special events, such as galas. Event revenues, net of related costs with a direct-benefit to donors, are recorded as without donor restrictions unless there are donor-imposed restrictions. Costs to generate revenues are expensed as incurred. Grant revenue is recognized as services are performed or expenditures are incurred under CHC’s contracts with its clients and funders. Revenue from cost reimbursable grants is recorded to the extent of expenses incurred applicable to the grant.

Covenant House California

Notes to Financial Statements June 30, 2024

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

Recognition of Contributions

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

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

CHC records contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, with donor restricted net assets are reclassified to without donor restricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Contributions of Nonfinancial Assets

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

	2024	2023	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Merchandise	\$ 942,570	\$ 1,614,296	Program and Administration	No associated donor restrictions	(a)
Services	<u>1,071,928</u>	<u>806,970</u>	Program and Administration	Donor restrictions	(b)
	<u>\$ 2,014,498</u>	<u>\$ 2,421,266</u>			

- (a) CHC estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
- (b) Contributed services are valued at the estimated fair value based on current rates for similar services.

Covenant House California

Notes to Financial Statements June 30, 2024

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

Contributions of Nonfinancial Assets (continued)

Covenant House Western Avenue ("CHWA") is a separate 501(c)(3) corporation and an affiliate of CHC. It was established for the purpose to hold land upon which a building for CHC's programs in Los Angeles, California, was constructed. CHC originally entered into an agreement with CHWA to lease the land for twenty years beginning January 1, 2004, at \$1 per year. On September 26, 2011, the agreement was extended, with an effective date of January 1, 2011 (the "effective date") for twenty years beginning on the effective date. All other terms of the agreement remained unchanged. CHC is responsible for all related taxes, repairs and maintenance and utility costs. The use of this land is restricted to accommodate facilities and operations which achieve CHC's mission. CHC has recorded \$64,388 and \$73,782 as of June 30, 2024 and 2023, as a contribution receivable (contributed use of land) which represents the present value of the remaining lease term using a discount rate of 3.75%.

CHC occupied a location in Santa Clara, California at no charge under an agreement for donated occupancy, which commenced in April 2021 and expires in February 2025. Rent expense related to this donated occupancy was \$471,372 for both years ended June 30, 2024 and 2023, which is included in the statement of functional expense under contributed facilities.

Due from Affiliate

On December 20, 2017, CHWA entered into a separate agreement to hold additional property for CHC for the purpose of CHC's programs in Los Angeles, California. CHC entered into an agreement with CHWA to lease the property for 25 years. CHC is responsible for all related taxes, repairs and maintenance and utility costs. The property is restricted to accommodate facilities and operations which achieve CHC's mission. CHC has recorded both the land and building value of \$1,685,000 as of June 30, 2024 and 2023, as a due from affiliate (see Note 9)

Cash and Cash Equivalents

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

Grants Receivable

Grants receivable are stated at the amount management expects to collect from outstanding balance. Management assesses grants to determine whether balances are probable of collection, and whether an allowance is required. As of June 30, 2024 and 2023, CHC believes all grants receivable are collectible and no provision for doubtful accounts has been made.

Covenant House California

Notes to Financial Statements June 30, 2024

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

Charitable Remainder Annuity Trusts

CHC is the beneficiary of a charitable remainder annuity trust for which it serves as the trustee. The trust instrument provides that for the time preceding the death of the donor or the term of 10 years, whichever is earlier, CHC has the obligation to make quarterly installment payments of annuity trust amounts at the end of the selected period during each taxable year of the trust. At June 30, 2024 and 2023, the present value of the future benefits to be received by CHC, when the trust terminates and the trust assets are distributed, has been recorded in the amount \$1,712,270 and \$1,443,545, and is included in investments.

Investments Valuation and Investment Income

Investments, other than temporary cash investments, are carried at fair value and determined in accordance with the fair value hierarchy.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the change in net assets. Investment income is included as increases and decreases in without donor restricted net assets unless its use is restricted by donors to a specified purpose or for a future period.

Functional Expense Allocation

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

Property and Equipment

CHC follows the practice of capitalizing all expenditures for property, building and equipment with a cost in excess of \$5,000. Property and equipment are recorded at cost if purchased or, if donated, at fair value at the date of gift, less accumulated depreciation and amortization. Furniture and equipment is depreciated on a straight-line basis over the estimated useful life of five years. Buildings and building improvements on leased land are amortized on a straight-line basis over the lesser of the term of the lease or their estimated useful lives. Other buildings and building improvements are depreciated on a straight-line basis over 10-30 years. Vehicles are depreciated on a straight-line basis over the estimated useful life of five years. Repair and maintenance costs are expensed in the period incurred.

Covenant House California

Notes to Financial Statements June 30, 2024

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

Property and Equipment (continued)

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value less costs to sell. Fair value is determined through various valuation techniques including undiscounted cash flows models, quoted fair values and third-party independent appraisals, as considered necessary. There is no such impairment for the fiscal years ended June 30, 2024 and 2023.

Fair Value of Financial Instruments

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

Inventory

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

Prior Year Summarized Comparative Information

The statements of activities and functional expenses include certain prior year summarized comparative information in total but not by net asset class or functional class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with CHC's financial statements as of and for the year ended June 30, 2023, from which the summarized comparative information was derived.

Advertising Costs

Advertising costs are expensed as incurred.

Reclassifications

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

Covenant House California

Notes to Financial Statements June 30, 2024

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

Leases

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

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

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

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

Accounting for Uncertainty in Income Taxes

CHC recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that CHC had no uncertain tax positions that would require financial statement recognition and/or disclosure. CHC is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2021.

Subsequent Events Evaluation by Management

Management evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 16, 2024.

Covenant House California

Notes to Financial Statements June 30, 2024

3. Concentrations of Credit Risk

Certain financial instruments potentially subject CHC to concentrations of credit risk. These financial instruments consist primarily of cash, contributions and government grants receivable and investments. CHC places its cash and cash equivalents with high credit quality financial institutions which, at times, may exceed federally insured limits.

Deposits held at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") are insured up to \$250,000. At time cash balances may exceed the FDIC limit. As of June 30, 2024 and 2023, CHC's uninsured cash and cash equivalents were \$1,176,227 and \$336,933. CHC has not experienced any losses in such accounts and, as such, believes it is not exposed to any significant credit risk on cash and cash equivalents.

Concentrations of credit risk with respect to receivables are generally diversified due to the number of entities and individuals composing the entity's program and donor base. CHC performs ongoing credit evaluations and writes off uncollectible amounts as they become known.

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

4. Contributions Receivable

Contributions receivable at June 30, are summarized as follows:

	<u>2024</u>	<u>2023</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 517,248	\$ 564,898
Less: Reserve for uncollectible accounts	<u>-</u>	<u>(82,750)</u>
	<u>\$ 517,248</u>	<u>\$ 482,148</u>

Contributions receivable from donors that are due within one year are considered current. There was no present value discount rate applied as of June 30, 2023.

Covenant House California

Notes to Financial Statements June 30, 2024

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2024	2023
Land	\$ 6,643,970	\$ 6,369,350
Buildings and building improvements	6,502,855	6,277,355
Buildings and building improvements on leased land	26,384,764	13,913,696
Furniture and equipment	2,059,985	2,034,489
Vehicles	374,502	374,502
Equipment acquired under finance leases	837,643	837,643
Construction in progress	3,940,774	2,004,098
	<u>46,744,493</u>	<u>31,811,133</u>
Accumulated depreciation and amortization (including accumulated amortization on equipment acquired under finance leases of \$705,848 and \$642,088 in 2024 and 2023)	<u>(15,402,296)</u>	<u>(14,472,181)</u>
	<u>\$ 31,342,197</u>	<u>\$ 17,338,952</u>

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

In fiscal 2024, CHC also acquired property at 5601 Hollywood Boulevard, Los Angeles, California for a purchase price of \$9,400,000, of which \$9,125,380 was allocated to buildings and \$274,620 was allocated to land at the estimated fair value of the assets. The purchase was financed through grants from a federal awarding agency, which is included within government grants and contracts on the accompanying statement of activities.

Depreciation and amortization expense was \$930,115 and \$855,671 for the years ended June 30, 2024 and 2023.

Covenant House California

Notes to Financial Statements June 30, 2024

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:

	2024		
	Level 1	Level 2	Total
Mutual funds	<u>\$ 1,688,727</u>	<u>\$ -</u>	<u>\$ 1,688,727</u>
Total Investments at Fair Value	<u>\$ 1,688,727</u>	<u>\$ -</u>	<u>1,688,727</u>
Cash and cash equivalents, at cost			<u>2,752,305</u>
Total Investments			<u>\$ 4,441,032</u>

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

7. Notes and Line of Credit Payable

On January 30, 2018, CHC refinanced its outstanding debt and entered into a \$1,375,000 term loan with Bank of America, with an interest rate of 4.25% and maturity date of January 28, 2028. The total amount of interest expense relating to this loan totaled \$46,796 and \$49,113 for the years ended June 30, 2024 and 2023.

On January 15, 2021, CHC entered into a separate \$1,600,000 term loan with Bank of America, with an interest rate of 3.45% and maturity date of January 15, 2031. The total amount of interest expense relating to this loan totaled \$50,147 and \$52,213 for the years ended June 30, 2024 and 2023.

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 \$96,943 and \$101,326 for the years ended June 30, 2024 and 2023.

Covenant House California

Notes to Financial Statements June 30, 2024

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

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

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

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

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

2025	\$ 121,816
2026	126,637
2027	131,651
2028	1,941,767
2029	72,908
Thereafter	<u>2,053,975</u>
	<u>\$ 4,448,754</u>

8. DreamCatcher Acquisition

In fiscal 2019, CHC was awarded an Emergency Housing and Assistance Program Operating Facility ("EHAP") grant through the Department of Housing and Community Development ("DHCD") of \$740,000 in order to secure funding on the purchase of the DreamCatcher property. The grant is structured as a loan to CHC, to be forgiven at the end of the grant period and secured by a deed of trust on the DreamCatcher property and bears interest at the rate of 3% simple interest per annum. The forgiveness is amortized over the grant period. At June 30, 2024 and 2023, the total unamortized balance of the remaining forgivable loan was \$222,000 and \$296,000, which is included in deferred revenue in the accompanying statement of financial position.

Covenant House California

Notes to Financial Statements June 30, 2024

9. Related Party Transactions

In fiscal 2024 and 2023, support received from Parent includes contributions received from individuals, corporations and foundations as a result of fundraising activities conducted by the Parent on behalf of CHC and other Covenant House Affiliates. It also includes a subsidy or contribution from the Parent to help support the program activities of CHC. The Parent refers to this contribution as "Branding Dollars".

The Parent provides financial support as well as management and organizational support for its affiliated organizations. It also conducts fundraising activities for its own programs and the programs of its affiliates. Contributions and promises to give totaled approximately \$91 million and \$86 million for the Parent in the years ended June 30, 2024 and 2023.

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 \$37 million and \$36 million in fiscal 2024 and 2023. For the years ended June 30, 2024 and 2023, CHC received \$1,527,300 and \$1,269,986 in branding dollars from the Parent. For the years ended June 30, 2024 and 2023, the Parent granted funds related to Sleep Out events to CHC totaling \$685,671 and \$713,013.

Intercompany amounts due from, or payable to, the Parent do not bear interest and are settled periodically. The amount due to the Parent was \$10,099 as of June 30, 2024. The amount due from the Parent was \$31,919 as of June 30, 2023.

Contribution revenue from board members, including donations of common stock and special events revenue, totaled \$1,114,392 and \$970,546 for the years ended June 30, 2024 and 2023. The outstanding balances of amounts receivable from board members was \$138,000 as of June 30, 2024 and 2023.

CHC obtained through financing, a secured note payable of \$750,000 with an interest rate at 2% from an unrelated party with the condition that this noted be used for property, which was fully repaid during fiscal 2022. In fiscal 2018, CHWA entered into a separate agreement to hold this property for CHC for the purpose of CHC's programs in Los Angeles, California (see Note 2).

During fiscal 2023, CHC entered into an unsecured loan agreement with the Parent to borrow \$1,000,000 with an interest rate at the 30-day SOFR rate plus 1.61%. The loan is expected to be repaid in full by June 2025.

Covenant House California

Notes to Financial Statements June 30, 2024

10. Pension Plans

The Parent adopted a new defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees are immediately eligible to enter the 403(b) savings plan. CHC will match 50 cents for every dollar contributed up to 3% of compensation. All full-time and eligible part-time employees employed with CHC as of December 31, 2006 immediately received the employer match. Per diem employees who worked more than 1,000 hours in 2006 were immediately eligible for the match. In addition, CHC adds employer contributions to the retirement account for all employees who work 1,000 hours in a year. The rate of contribution (percent of compensation) is based upon points. The employer contribution percentage ranges are from 1.0% to 9.0% based on points. Employer contributions for the savings and retirement plan will be 100% vested after three years of service. CHC's expense related to the 403(b) plan was \$382,238 and \$364,881 for the years ended June 30, 2024 and 2023.

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, 2024 and 2023, CHC contributed \$209,220 and \$328,544 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, 2024

11. Net Assets Without Donor Restrictions

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

	2024	2023
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	21,942,197	17,338,952
Undesignated	374,059	1,359,244
	<u>\$ 22,930,627</u>	<u>\$ 19,312,567</u>

Board designated funds are included in investments.

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

	2024	2023
Purpose restrictions:		
Program core support	\$ 11,340,349	\$ 926,920
Time restrictions:		
Other time restrictions	245,561	387,441
	<u>\$ 11,585,910</u>	<u>\$ 1,314,361</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:

	2024	2023
Purpose restrictions:		
Program core support	\$ 4,675,491	\$ 1,577,909
Time restrictions:		
Other time restrictions	613,251	506,008
	<u>\$ 5,288,742</u>	<u>\$ 2,083,917</u>

Covenant House California

Notes to Financial Statements June 30, 2024

12. Lease Commitments

Operating Lease

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

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

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

	<u>2024</u>	<u>2023</u>
ROU asset	\$ 849,901	\$ 849,901
Less: accumulated amortization	<u>(302,179)</u>	<u>(103,933)</u>
	<u>\$ 547,722</u>	<u>\$ 745,968</u>

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

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term in years for operating leases	6.02	6.87
Weighted-average discount rate for operating leases	3.00%	3.04%

Operating lease expense for the years ended June 30, 2024 and 2023 totaled \$123,877 and \$127,159. Cash paid for the amounts included in the measurement of operating lease liabilities for the year ended June 30, 2024 and 2023 totals \$77,509 and \$126,100.

Finance Lease

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

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

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

	<u>2024</u>	<u>2023</u>
ROU asset - finance lease	\$ 837,643	\$ 837,643
Less: accumulated amortization	<u>(705,848)</u>	<u>(642,088)</u>
	<u>\$ 131,795</u>	<u>\$ 195,555</u>

Covenant House California

Notes to Financial Statements June 30, 2024

12. Lease Commitments (*continued*)

Finance Lease (continued)

Information associated with the measurement of CHC's finance lease obligations as of June 30, 2024 is as follows:

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term in years for finance leases	3.90	4.27
Weighted-average discount rate for finance leases	1.12%	1.25%

As of June 30, 2024, the future minimum lease payments under the lease agreements above are as follows:

	<u>Operating</u>	<u>Finance</u>	<u>Total</u>
2025	\$ 67,041	\$ 41,077	\$ 108,118
2026	114,411	33,648	148,059
2027	105,000	33,648	138,648
2028	105,000	11,880	116,880
2029	107,919	9,840	117,759
Thereafter	<u>155,839</u>	<u>5,030</u>	<u>160,869</u>
Total Undiscounted Lease Payments	655,210	135,123	790,333
Less: imputed interest	<u>(60,061)</u>	<u>(3,946)</u>	<u>(64,007)</u>
Present Value of Lease Liabilities	<u>\$ 595,149</u>	<u>\$ 131,177</u>	<u>\$ 726,326</u>

13. Government Grants and Contracts

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

Covenant House California

Notes to Financial Statements June 30, 2024

14. Liquidity and Availability of Financial Assets

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

	2024	2023
Financial Assets:		
Cash and cash equivalents	\$ 1,429,227	\$ 592,683
Contributions receivable	517,248	482,148
Grants receivable	2,516,718	3,600,918
Due from Parent	-	31,919
Investments	<u>4,441,032</u>	<u>3,379,830</u>
Total Financial Assets	<u>8,904,225</u>	<u>8,087,498</u>
Less: Contractual or donor imposed restrictions amounts		
Investments held for charitable remainder annuity trusts	1,712,270	1,443,545
Restricted by donor with time or purpose restrictions	1,797,274	926,331
Board designated funds	<u>614,371</u>	<u>614,371</u>
	<u>4,123,915</u>	<u>2,984,247</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 4,780,310</u>	<u>\$ 5,103,251</u>

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

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