

Covenant House Missouri

Financial Statements

June 30, 2021

Independent Auditors' Report

Board of Directors Covenant House Missouri

We have audited the accompanying financial statements of Covenant House Missouri (the "Organization"), 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. 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 Missouri 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.

Report on Summarized Comparative Information

We have previously audited Covenant House Missouri's June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 21, 2021. 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.

PKF O'Connor Davies, LLP

January 19, 2022

Covenant House Missouri

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	\$ 678,431	\$ 514,105
Investments	1,954	1,963
Government grants receivable	190,922	179,653
Due from Parent	-	766
Pledges receivable, net of allowance for doubtful accounts of \$4,462	420,538	91,891
Prepaid expenses and other assets	26,066	29,092
Property and equipment, net	<u>3,115,331</u>	<u>2,940,837</u>
	<u>\$ 4,433,242</u>	<u>\$ 3,758,307</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 270,501	\$ 245,812
Due to Parent	827	-
Loan payable	134,579	142,496
Notes payable and accrued interest due to Parent	-	1,820,766
Capital lease obligations	17,659	20,706
Other liabilities	<u>116,201</u>	<u>116,201</u>
Total Liabilities	<u>539,767</u>	<u>2,345,981</u>
 Net Assets		
Without donor restrictions	3,151,975	1,292,326
With donor restrictions	<u>741,500</u>	<u>120,000</u>
Total Net Assets	<u>3,893,475</u>	<u>1,412,326</u>
	<u>\$ 4,433,242</u>	<u>\$ 3,758,307</u>

See notes to financial statements

Covenant House Missouri

Statement of Activities
Year Ended June 30, 2021

(with summarized totals for the year ended June 30, 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Contributions	\$ 1,038,685	\$ 891,500	\$ 1,930,185	\$ 1,252,988
Contributed services and merchandise	4,486	-	4,486	148,407
Government grants	1,521,698	-	1,521,698	1,817,841
Branding dollars from Parent	647,123	-	647,123	667,808
Branding dollars from Parent - loan forgiveness	1,812,017	-	1,812,017	-
Grants from Parent related to National Sleep Out Event	376,723	-	376,723	231,971
Special event revenue	130,546	-	130,546	-
Net assets released from restrictions	<u>270,000</u>	<u>(270,000)</u>	<u>-</u>	<u>-</u>
 Total Support and Revenue	 <u>5,801,278</u>	 <u>621,500</u>	 <u>6,422,778</u>	 <u>4,119,015</u>
INVESTMENT AND OTHER INCOME				
Interest and dividends	522	-	522	417
Investment return	(9)	-	(9)	734
Other income	<u>2,511</u>	<u>-</u>	<u>2,511</u>	<u>19,718</u>
Total Investment and Other Income	<u>3,024</u>	<u>-</u>	<u>3,024</u>	<u>20,869</u>
 Total Support and Revenue and Investment and Other Income	 <u>5,804,302</u>	 <u>621,500</u>	 <u>6,425,802</u>	 <u>4,139,884</u>
EXPENSES				
Program services	<u>3,264,336</u>	<u>-</u>	<u>3,264,336</u>	<u>3,070,645</u>
Supporting Services				
Management and general	441,971	-	441,971	643,817
Fundraising	<u>238,346</u>	<u>-</u>	<u>238,346</u>	<u>227,909</u>
Total Supporting Services	<u>680,317</u>	<u>-</u>	<u>680,317</u>	<u>871,726</u>
 Total Expenses	 <u>3,944,653</u>	 <u>-</u>	 <u>3,944,653</u>	 <u>3,942,371</u>
 Change in Net Assets	 1,859,649	 621,500	 2,481,149	 197,513
NET ASSETS				
Beginning of year	<u>1,292,326</u>	<u>120,000</u>	<u>1,412,326</u>	<u>1,214,813</u>
End of year	<u>\$ 3,151,975</u>	<u>\$ 741,500</u>	<u>\$ 3,893,475</u>	<u>\$ 1,412,326</u>

Covenant House Missouri

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

	Program Services			Supporting Services			2021	Total Expenses 2020
	Residential Youth	Community Youth	Total Program Services	Management and General	Development	Total Supporting Services		
Salaries and wages	\$ 1,415,462	\$ 486,194	\$ 1,901,656	\$ 229,345	\$ 132,764	\$ 362,109	\$ 2,263,765	\$ 2,300,934
Payroll taxes	107,216	35,983	143,199	17,625	9,872	27,497	170,696	174,940
Employee benefits	194,979	76,115	271,094	31,686	18,773	50,459	321,553	387,143
Total Salaries and Related Expenses	1,717,657	598,292	2,315,949	278,656	161,409	440,065	2,756,014	2,863,017
Accounting fees	25,739	3,917	29,656	5,019	1,825	6,844	36,500	20,500
Bank charges and fees	3,592	547	4,139	700	255	955	5,094	5,104
Cellular telephone	2,847	433	3,280	555	202	757	4,037	1,366
Conferences, conventions and meetings	13,025	1,982	15,007	2,540	924	3,464	18,471	5,575
Consulting fees	1,058	161	1,219	206	75	281	1,500	1,680
Dues, licenses and permits	2,391	364	2,755	465	170	635	3,390	4,123
Equipment	34,036	5,179	39,215	6,636	2,413	9,049	48,264	48,557
Fundraising expenses	-	-	-	-	32,597	32,597	32,597	40,056
Insurance	73,353	11,162	84,515	14,303	5,201	19,504	104,019	95,669
Interest	-	-	-	41,378	-	41,378	41,378	49,650
Miscellaneous	11,780	1,793	13,573	2,300	835	3,135	16,708	10,826
Occupancy:								
Repairs and maintenance	77,041	11,724	88,765	15,021	5,462	20,483	109,248	28,600
Utilities	84,698	12,889	97,587	16,515	6,005	22,520	120,107	136,940
Other purchased services	64,706	9,847	74,553	12,616	4,588	17,204	91,757	71,719
Postage and printing	13,793	2,099	15,892	2,689	978	3,667	19,559	12,879
Specific Assistance to Individuals:								
Essentials, including contributed merchandise	56,530	8,603	65,133	-	-	-	65,133	108,681
Food	88,842	13,519	102,361	-	-	-	102,361	92,900
Medical	52,387	7,972	60,359	-	-	-	60,359	62,564
Staff recruitment	13,800	2,100	15,900	2,692	978	3,670	19,570	13,156
Subscriptions and publications	2,120	323	2,443	413	150	563	3,006	12,958
Supplies	23,417	3,564	26,981	4,566	1,660	6,226	33,207	24,303
Travel and transportation	12,780	1,945	14,725	2,492	906	3,398	18,123	16,996
Total Functional Expenses Before Depreciation	2,375,592	698,415	3,074,007	409,762	226,633	636,395	3,710,402	3,727,819
Depreciation	165,191	25,138	190,329	32,209	11,713	43,922	234,251	214,552
Total Functional Expenses	\$ 2,540,783	\$ 723,553	\$ 3,264,336	\$ 441,971	\$ 238,346	\$ 680,317	\$ 3,944,653	\$ 3,942,371

See notes to financial statements

Covenant House Missouri

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

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,481,149	\$ 197,513
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	234,251	214,552
Net realized gain on investments	-	(492)
Net unrealized loss (gain) on investments	51	(230)
Accrued interest	41,251	40,026
Loan forgiveness from Parent	(1,812,017)	-
Gain on sale of property and equipment	(400)	(600)
Donated property and equipment	-	(28,395)
Loan forgiveness from Affordable Housing Commission	(7,917)	(7,917)
Net change in operating assets and liabilities		
Government grants receivable	(11,269)	(19,820)
Pledges receivable	(328,647)	(49,243)
Prepaid expenses and other assets	3,026	(18,602)
Accounts payable and accrued liabilities	24,689	12,154
Due from/to Parent	1,593	(1,558)
Net Cash from Operating Activities	625,760	337,388
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of short-term investments	(42)	(75)
Proceeds from the sale of short-term investments	-	182,879
Proceeds from the sale of property and equipment	400	600
Purchase of property and equipment	(408,745)	(44,389)
Net Cash from Investing Activities	(408,387)	139,015
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of non-interest bearing note from parent	(50,000)	-
Repayment of capital lease obligations	(3,047)	(445)
Proceeds on line of credit payable to Parent	250,000	410,000
Payments on line of credit payable to Parent	(250,000)	(410,000)
Net Cash from Financing Activities	(53,047)	(445)
Change in Cash and Cash Equivalents	164,326	475,958
CASH AND CASH EQUIVALENTS		
Beginning of year	514,105	38,147
End of year	\$ 678,431	\$ 514,105
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 483	\$ 9,624
NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under capital lease	-	21,151

See notes to financial statements

Covenant House Missouri

Notes to Financial Statements

June 30, 2021

1. Organization and Tax Status

Covenant House Missouri (the "Organization"), a not-for-profit organization, is an operating affiliate of Covenant House (the "Parent"), a New York-based organization. The Organization provides shelter, residential services, community services, and outreach services to youth in the St. Louis metropolitan area.

Covenant House (Parent) is a not-for-profit organization founded in 1968 and incorporated in 1972. Covenant House (Parent) and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical 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 year 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 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 year 2021, Covenant House 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. Covenant House (Parent), together with CIF, represent the controlling interest of the following international not-for-profit affiliates:

- Asociacion 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 Missouri

Notes to Financial Statements
June 30, 2021

1. Organization and Tax Status *(continued)*

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

The Organization has been determined to be a not-for-profit organization exempt from federal and state income taxes under Section 501(c)(3) of the United States Internal Revenue Code. The Organization is also exempt from Missouri income and sales taxes.

Program Services

Components of Program and Supporting Services

Program Services

Residential Youth Programming

The Organization provides safe shelter and case management to youth ages 16-24 who are runaway, trafficked, and at-risk of or experiencing homelessness. Currently, the Organization operates a short-term emergency shelter, Genesis, and a 2-year Transitional Living Program (“TLP”). In fiscal 2021, the Genesis Shelter provided short-term care and case management services to 146 youth. Youth were able to receive support services and work with case managers to identify and create a plan to work towards meeting their goals. 46 youth resided in TLP, where they were able to access support services, work on achieving long-term goals and stability, and transition to long-term housing. The average census in Genesis and TLP in fiscal 2021 was 98% and 96%. Between the two programs, 13,113 bed nights were provided. All residential youth have access to comprehensive support services such as mental health care, physical health care, and career development services.

Community Youth Programming

The Organization recognizes that the need for services far exceeds the available shelter space in the community. To meet this overwhelming need, the Organization provides services to youth in the community who are unsheltered, at-risk and need support. In fiscal 2021, 52 youth in the community received services through the Aftercare and Outreach services. The Organization endeavors to safeguard all youth, ensuring they have access to the comprehensive services they need. Youth in the community have access to mental health care, physical health care, career development services and case management.

In fiscal 2021, 265 residential and community youth, ages 16-24, participated in supportive services. This included visits to the Wellness Center, which offers mental and physical healthcare services, as well as visits with a psychiatrist, and career services, which offer educational and employment support. In fiscal 2021, 191 youth engaged with career services, a key step in providing youth with the tools they need to live sustainable lives.

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 those programs.

Fundraising

Fundraising services relate to the activities of the development program in raising general and specific contributions.

Covenant House Missouri

Notes to Financial Statements

June 30, 2021

1. Organization and Nature of Activities (continued)

Components of Program and Supporting Services (continued)

Supporting Services (continued)

Direct Benefit-to-Donor Costs

Direct benefit-to-donor are costs incurred in conjunction with items such as meals and entertainment benefiting attendees of special events.

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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Asset Presentation

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

Without donor restrictions – consist of resources available for the general support of the Organization's operations. This class also includes assets previously restricted where restrictions have expired or been met.

With donor restrictions – represent amounts subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization. Certain restrictions may require the assets to be maintained in perpetuity.

Earnings related to restricted net assets will be included in net assets without donor restrictions unless otherwise specifically required to be included in donor restricted net assets by the donor or by applicable state law.

Revenue Recognition

Revenue is recognized as services are performed or expenditures are incurred under the Organization's contracts with its clients and funders.

Covenant House Missouri

Notes to Financial Statements
June 30, 2021

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. Supporting services include management and general and fundraising. Salaries and related expenses are allocated directly to program salaries and supporting services. Specific assistance to individuals such as food, medical and essentials are allocated based on individuals serviced by each program. Other expenses by function have been allocated among program and supporting services classifications on the basis of salary allocation.

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.

Investment Valuation and Income Recognition

Investments are carried at fair value in the statement of financial position. Interest and dividend income, as well as realized gains or losses and unrealized appreciation or depreciation in investment value, are recognized as with or without donor restrictions, in accordance with donor intent in the statement of activities. 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.

Property and Equipment

Property and equipment are reported at cost at the date of acquisition or at their estimated fair value at the date of donation. Expenditures for maintenance and repairs are expensed as incurred. Expenditures that improve or extend the estimated useful lives are capitalized. The Organization follows the practice of capitalizing all expenditures for property and equipment with a cost in excess of \$5,000.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Building improvements	1 to 39 years
Furniture, vehicles and equipment	1 to 12 years

Covenant House Missouri

Notes to Financial Statements
June 30, 2021

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

Contributions and Pledges Receivable

Contributions, including unconditional promises to give, are reported as revenues in the period received. Unconditional promises to give that are due beyond one year are discounted to reflect the present value of future cash flows using a risk adjusted discount rate assigned in the year the respective pledge originates. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Conditional promises to give are recognized when the conditions upon which they depend have been substantially met.

All contributions and pledges receivable as of June 30, 2021 and 2020 are expected to be fully collected within one year.

Special Events

Revenues and expenses incurred relative to special events are recognized upon occurrence of the respective event. Revenues are shown net of cost of direct benefits to donors.

Donated Goods and Services

Donated goods consist of items received by the Organization. These amounts are recorded as both revenue and expense at their estimated fair values at the date of receipt.

The Organization recognizes the fair value of donated services which create or enhance nonfinancial assets, or require specialized skills provided by individuals possessing those skills and would typically be purchased if not provided by donation. Contributed services which do not meet these criteria are not recognized as revenue and are not reported in the accompanying financial statements.

Advertising Costs

Advertising costs are expensed as incurred.

Asset Retirement Obligation

The Organization has recorded a liability for the future estimated costs of removing asbestos from buildings it owns. There are no assets legally restricted to fund this liability. The liability is recorded as other liabilities on the accompanying statement of financial position and is \$116,201 as of June 30, 2021 and 2020.

Covenant House Missouri

Notes to Financial Statements
June 30, 2021

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

Impairment of Long-Lived Assets

U.S. GAAP guidance, *Accounting for the Impairment or Disposal of Long-lived Assets* requires long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, impairment would then be measured as the difference between the fair value of the asset and its carrying value to determine the amount of the impairment. The Organization generally determines fair value by using the undiscounted cash flow method. No impairment losses have been recorded to date.

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 or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2018.

Reclassification

Certain items from the 2020 financial statements have been reclassified to be in conformity with the 2021 financial statement presentation.

Prior Year Summarized Comparative Information

The financial statements include prior-year summarized comparative information in total but not by net asset 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 the Organization's financial statements as of and for the year ended June 30, 2020, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is January 19, 2022.

Covenant House Missouri

Notes to Financial Statements June 30, 2021

3. Investments

The following are major classes and categories of investments measured at fair value as of June 30, 2021 and 2020. All mutual funds are valued using Level 1 inputs under the fair value hierarchy.

Investments:	<u>2021</u>	<u>2020</u>
Mutual Funds:		
Bonds	\$ 1,954	\$ 1,963
Total Investments at Fair Value	<u>\$ 1,954</u>	<u>\$ 1,963</u>

The composition of investment return as reported in the statement of activities for the years ended June 30, is as follows:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 42	\$ 52
Fees	-	(40)
Realized gain	-	492
Unrealized (loss) gain	<u>(51)</u>	<u>230</u>
Investment Return	<u>\$ (9)</u>	<u>\$ 734</u>

4. Government Grants Receivable

All government grants and pledges receivable as of June 30, 2021 and 2020 are expected to be fully collected within one year.

5. Property and Equipment

Property and equipment consists of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Buildings	\$ 232,330	\$ 232,330
Building improvements	4,998,372	4,834,069
Furniture, vehicles and equipment	371,341	830,156
Construction in progress	<u>34,201</u>	<u>-</u>
	5,636,244	5,896,555
Less accumulated depreciation	<u>2,520,913</u>	<u>2,955,718</u>
	<u>\$ 3,115,331</u>	<u>\$ 2,940,837</u>

Covenant House Missouri

Notes to Financial Statements
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6. Loan Payable

In 2008, the Organization obtained a non-interest-bearing forgivable loan totaling \$237,500 from the Affordable Housing Commission for the construction of 36 residential dwelling units located at 2727 N. Kingshighway (the "Project"). The loan is secured by the assets of the Project. The Affordable Housing Commission forgives \$7,917 of the liability annually, with final forgiveness occurring on November 16, 2037, the maturity date. The entire unpaid principal and interest amount of this loan shall become immediately due and payable upon the first to occur of the following: (i) the sale of the Project; (ii) failure of the borrower to maintain the Project as a rental property, (iii) failure of occupancy requirements. The forgivable loan balance amounted to \$134,579 and \$142,496 for the years ended June 30, 2021 and 2020.

7. Notes Payable and Line of Credit Payable to Parent

During 2014, the Organization entered into a promissory note of \$2,184,000 with the Parent to finance real estate and leasehold improvements. The promissory note was due in monthly principal and interest payments, at an interest rate of 1.25%, through January 15, 2028.

On June 15, 2021, the Parent forgave the remaining loan principal balance of \$1,601,033 and accrued interest on that loan of \$160,984. The amounts of forgiveness are included in Branding dollars – loan forgiveness on the 2021 statement of activities. Total interest expense in 2021 and 2020 was \$41,251 and \$40,026.

During 2019, The Organization borrowed an additional \$100,000 from the Parent to cover operating expenses. This note bears no interest. On June 15, 2021, the Parent forgave the remaining loan balance of \$50,000. The amounts of forgiveness are included in Branding dollars – loan forgiveness on the 2021 statement of activities.

The Parent entered into an unsecured line of credit agreement with a bank to borrow up to an aggregate amount of \$15 million on February 14, 2019. Interest on outstanding borrowings is payable at the one-month LIBOR rate plus additional percentage points as defined in the agreement, which is 1.50% at June 30, 2021. Under this unsecured line of credit agreement, the Organization has access to \$350,000 to fund cash shortfalls. There were no outstanding balances on the line of credit as of June 30, 2021 and 2020.

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Notes to Financial Statements
June 30, 2021

8. Capital Lease Obligations

The Organization entered into an agreement to lease a copier machines on May 25, 2020. Per the terms of the agreement, ownership of the copier machines transfers once all principal rental payments have been made. The lease meets the criteria of capital leases as defined by U.S. GAAP guidance. The balance due at June 30, 2021 and 2020 was \$17,659 and \$20,706. Interest expense for 2021 and 2020 was \$2,823 and \$533. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, and, and accordingly, it is recorded in the Organization's assets and liabilities. The following is an analysis of the leased asset included in property and equipment:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 21,151	\$ 21,151
Less accumulated depreciation	<u>(8,460)</u>	<u>(4,230)</u>
	<u>\$ 12,691</u>	<u>\$ 16,921</u>

Payments to Maturity

The annual requirements to amortize capital lease obligations at June 30, 2021 including interest payments of \$6,031 are as follows:

Year Ending June 30,	<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 3,523	\$ 2,347
2023	4,100	1,770
2024	4,771	1,100
2025	<u>5,265</u>	<u>814</u>
	<u>\$ 17,659</u>	<u>\$ 6,031</u>

Covenant House Missouri

Notes to Financial Statements

June 30, 2021

9. Related Party Transactions

The Parent provides financial support as well as management and organizational support for its affiliated organizations. The Parent conducts fundraising activities for its own programs and the programs of its affiliates. Contributions, promises to give and government grants and contracts totaled approximately \$84 million and \$88 million for the Parent for the years ended June 30, 2021 and 2020. Contributions received from the Parent are generally not specifically restricted by donors to specific Covenant House affiliates.

The Parent combines contributions received from individuals, corporations and foundations plus a Parent subsidy and appropriates funds classified as "Branding Dollars" to each Covenant House affiliate. Total funds allocated to affiliates, based on the Parent's policy, approximated \$36 million and \$38 million for the years ended June 30, 2021 and 2020. For the years ended June 30, 2021 and 2020, the Organization received \$2,459,140 and \$667,808 and is included in Branding dollars from the Parent. Additionally, in 2021 and 2020, the Organization received \$376,723 and \$231,971 from the Parent relating to National Sleep Out Events. Additionally, in 2020, the Organization received a one-time grant of \$20,000 the Parent relating to development efforts of the Organization. Additionally, in 2021, the Organization received a one-time grant of \$50,000 the Parent from the site investment fund.

10. Employee Benefit Plan

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan. Employees are immediately eligible to participate in the plan. Employees who work at least 1,000 hours per year are eligible to receive an employer contribution. The Organization makes annual contributions into the plan on behalf of employees ranging from 1% to 9% of employee compensation and are determined using a formula based on points, which equal the sum of age and years of service. Employer contributions to the plan are 100% vested after employees have completed three years of service. Total expense related to the 403(b) plan was \$36,720 and \$76,934 for the years ended June 30, 2021 and 2020.

The Organization 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, the Organization contributed \$24,253 and \$34,963 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 Missouri

Notes to Financial Statements
June 30, 2021

11. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, are as follows:

	<u>2021</u>	<u>2020</u>
Time Restrictions		
Program	\$ -	\$ 25,000
Purpose Restriction		
Support development team	41,500	20,000
Capital improvements	150,000	-
Wellness center construction	-	75,000
Residential program expansion	<u>550,000</u>	<u>-</u>
	<u>\$ 741,500</u>	<u>\$ 120,000</u>

Net assets released from restriction during the years ended June 30, were as follows:

	<u>2021</u>	<u>2020</u>
Time Restrictions		
Program	\$ 25,000	\$ 5,000
Purpose Restriction		
Support development team	20,000	-
Program	150,000	100,453
Wellness center construction	<u>75,000</u>	<u>-</u>
	<u>\$ 270,000</u>	<u>\$ 105,453</u>

12. Commitments and Contingencies

Leases

The Organization has entered into various non-cancelable operating leases for equipment. These leases expire at various dates through April 2025. Rental expenses under all operating leases amounted to \$1,381 and \$20,384 for the years ended June 30, 2021 and 2020. There are no future minimum annual lease payments.

Government Grants

In accordance with the terms of certain government grants, the records of the Organization are subject to audit for varying periods after the date of final payment of the grants. The Organization is liable for any disallowed costs; however, management believes that the amount of disallowed costs, if any, would not be significant. Government grants totaled \$1,521,698 and, \$1,817,841 for the years ended June 30, 2021 and 2020.

Covenant House Missouri

Notes to Financial Statements
June 30, 2021

13. Concentration and Risks

Investments Risks and Uncertainties

Investments are carried at fair value. Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

Credit Risk

Financial instruments, which potentially subject the Organization to a concentration of credit and market risk, consist principally of cash deposits with financial institutions and grants receivable. These deposits are maintained at financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. The Organization does not believe that a significant risk of loss due to the failure of a financial institution presently exists. Concentration 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. At June 30, 2021 and 2020, approximately \$524,000 and \$33,000 was maintained with an institution in excess of FDIC limits.

Operating Risk

The Coronavirus outbreak may have an adverse effect on the results of operations. Given the uncertainty around the extent and timing of the potential future spread or mitigation of the Coronavirus and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact to future results of operations, cash flows, or financial condition.

14. Liquidity and Availability of Financial Assets

The Organization’s financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2021</u>	<u>2020</u>
Financial Assets:		
Cash and cash equivalents	\$ 678,431	\$ 514,105
Investments	1,954	1,963
Grants receivable	190,922	179,653
Due from Parent	-	766
Pledges receivable, net	<u>420,538</u>	<u>91,891</u>
Total Financial Assets	1,291,845	788,378
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions	<u>741,500</u>	<u>120,000</u>
Financial Assets Available to Meet General Expenditures over the Next Twelve Months	<u>\$ 550,345</u>	<u>\$ 668,378</u>

Covenant House Missouri

Notes to Financial Statements
June 30, 2021

14. Liquidity and Availability of Financial Assets *(continued)*

At June 30, 2021, the Organization has an available line of credit of \$350,000 for working capital.

As part of the Organization's liquidity management strategy, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization'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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