Covenant House Texas

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

June 30, 2016

Covenant House Texas

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Uniform Guidance Financial Report
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TABLE OF CONTENTS **Page**

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Directors
Covenant House Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Covenant House Texas (the "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House Texas as of June 30, 2016, 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 Texas' June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on Page 17, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

October 27, 2016

Covenant House Texas

Statement of Financial Position
June 30, 2016
(with comparative amounts at June 30, 2015)

	June 30	
	2016	2015
ASSETS		
Cash and cash equivalents	$ 2,153,348	$ 2,429,691
Contributions and pledges receivable	517,782	223,563
Grants receivable	182,595	152,991
Due from Parent	205,691	17,334
Other receivables	38,027	20,274
Inventory	4,675	4,740
Prepaid expenses	67,032	69,945
Beneficial interest held in trust	93,167	98,829
Promise of continued use of land	1,079,512	1,090,996
Security deposits	12,000	12,000
Restricted cash	40,000	40,000
Property and equipment, net	1,935,784	1,964,606
	$ 6,329,613	$ 6,124,969
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 401,607	$ 519,475
Net Assets		
Unrestricted Net Assets		
Undesignated	2,191,206	2,058,583
Investment in property and equipment	1,935,784	1,964,606
Total Unrestricted Net Assets	4,126,990	4,023,189
Temporarily restricted	1,761,016	1,542,305
Permanently restricted	40,000	40,000
Total Net Assets	5,928,006	5,605,494
	$ 6,329,613	$ 6,124,969

See notes to financial statements

Covenant House Texas

Statement of Activities
Year Ended June 30, 2016
(with summarized totals for year ended June 30, 2015)

	2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2015 Total
SUPPORT AND REVENUE					
Branding dollars from Parent	$ 1,515,000	$ -	$ -	$ 1,515,000	$ 1,615,000
Contributions	1,383,511	504,877	-	1,888,388	1,382,739
Contributed services and merchandise	220,114	-	-	220,114	170,881
Government grants and contracts	1,149,744	-	-	1,149,744	921,068
Grants from Parent Related to National Sleep Out Event	344,932	-	-	344,932	223,066
Special events revenue, net of direct benefit to donor costs of $224,254 and $202,213 in 2016 and 2015	989,615	-	-	989,615	707,478
Total Support and Revenue	5,602,916	504,877	-	6,107,793	5,020,232
OTHER INCOME					
Interest income	1,680		-	1,680	865
Other income (loss)	931	(5,662)	-	(4,731)	(250)
Total Other Income	2,611	(5,662)	-	(3,051)	615
Total Support and Revenue, and Other Income Before Net Assets Released from Restriction	5,605,527	499,215	-	6,104,742	5,020,847
Net assets released from restrictions	280,504	(280,504)	-	-	-
Total Support, Revenue, and Other Income	5,886,031	218,711	-	6,104,742	5,020,847
EXPENSES					
Program services	4,564,391	-	-	4,564,391	4,372,440
Supporting Services					
Management and general	778,402	-	-	778,402	719,721
Fundraising	439,437	-	-	439,437	442,268
Total Expenses	5,782,230	-	-	5,782,230	5,534,429
Change in Net Assets	103,801	218,711	-	322,512	(513,582)
NET ASSETS					
Beginning of year	4,023,189	1,542,305	40,000	5,605,494	6,119,076
End of year	$ 4,126,990	$ 1,761,016	$ 40,000	$ 5,928,006	$ 5,605,494

See notes to financial statements

Covenant House Texas

Statement of Functional Expenses
Year Ended June 30, 2016
(with summarized totals for year ended June 30, 2015)

	2016													
	Program Services								Supporting Services					
	Shelter and Crisis Care	Mother/ Child	Outreach	Medical Services	Rights of Passage	Community Service Center	Public Education	Total Program Services	Mangement and General	Fundraising	Total Supporting Services	Direct Benefit to Donors	Total Expense	2015 Total Expense
Salaries and wages	$ 988,368	$ 468,548	$ 76,602	$ 182,176	$ 615,905	$ 96,522	$ 32,633	$ 2,460,754	$ 410,320	$ 229,849	$ 640,169	$ -	$ 3,100,923	$ 3,034,022
Payroll taxes	76,023	36,060	5,942	13,332	47,889	7,372	2,591	189,209	30,451	17,205	47,656	-	236,865	238,004
Employee benefits	168,751	83,611	15,705	32,594	110,868	22,601	8,073	442,203	89,134	32,071	121,205	-	563,408	545,982
Total Salaries and Related Expenses	1,233,142	588,219	98,249	228,102	774,662	126,495	43,297	3,092,166	529,905	279,125	809,030	-	3,901,196	3,818,008
Accounting fees	-	-	-	-	-	-	-	-	46,000	-	46,000	-	46,000	49,735
Medical fees	-	-	-	139,805	29,446	-	-	169,251	-	-	-	-	169,251	162,881
Other professional fees	-	-	-	-	-	-	-	-	2,133	53,800	55,933	-	55,933	50,800
Supplies	18,464	10,611	2,281	22,573	13,693	1,200	-	68,822	6,599	3,772	10,371	22,415	101,608	95,595
Telephone	7,807	3,669	2,765	2,018	5,129	1,308	-	22,696	12,127	1,274	13,401	-	36,097	31,421
Postage, printing and mailing lists	431	190	62	211	9	-	-	903	694	32,330	33,024	486	34,413	55,937
Occupancy														
Fuel and utilities	41,770	18,378	-	-	38,954	-	-	99,102	5,688	329	6,017	-	105,119	105,023
Property lease	5,428	2,388	-	-	2,606	-	-	10,422	772	290	1,062	-	11,484	11,484
Repairs and maintenance	26,319	17,938	2,891	3,716	23,459	2,891	-	77,214	-	-	-	-	77,214	30,455
Other	855	-	-	-	84,996	-	-	85,851	1,686	87	1,773	-	87,624	57,884
Rent and repair of equipment	-	-	-	-		-	-	-	8,193	1,043	9,236	-	9,236	8,957
Travel and vehilcle costs	21,833	10,275	3,483	304	10,469	2,966	-	49,330	14,882	9,256	24,138	-	73,468	66,654
Specific assistance to individuals														
Food	41,580	18,285	6,435	-	31,392	-	-	97,692	-	-	-	-	97,692	111,821
Donated food	66,435	29,229	-	-	-	-	-	95,664	-	-	-	-	95,664	80,079
Clothing, travel and miscellaneous	26,184	12,551	16,819	2,234	17,415	4,300	-	79,503	-	-	-	-	79,503	68,964
Donated clothing, travel and miscellaneous	24,766	12,010	-	8,862	-	-	-	45,638	-	-	-	-	45,638	67,791
Other puchased services	89,618	43,132	1,684	4,959	66,089	1,684	-	207,166	53,121	21,895	75,016	195,775	477,957	449,183
Donated other purchased services	1,210	832	136	53,176	272	136	-	55,762	-	23,050	23,050	-	78,812	23,031
Dues, licenses and permits	1,476	952	426	592	1,170	218	-	4,834	8,185	448	8,633	-	13,467	12,835
Subscriptions and publications	2,163	952	-	-	1,597	-	-	4,712	330	159	489	-	5,201	5,735
Staff recruitment	-	-	-	-	-	-	-	-	16,070	-	16,070	-	16,070	400
Insurance	52,396	23,402	4,949	2,021	33,290	2,558	-	118,616	16,978	-	16,978	-	135,594	128,915
Miscellaneous	34,342	14,784	1,129	3,270	41,458	1,202	-	96,185	35,310	7,289	42,599	-	138,784	56,822
Bank charges and fees	-	-	-	-	-	-	-	-	18,287	-	18,287	5,578	23,865	25,997
Total Functional Expenses Before Depreciation	1,696,219	807,797	141,309	471,843	1,176,106	144,958	43,297	4,481,529	776,960	434,147	1,211,107	224,254	5,916,890	5,576,407
Depreciation	13,094	5,917	3,177	438	60,165	71	-	82,862	1,442	5,290	6,732	-	89,594	160,235
Total Functional Expenses	1,709,313	813,714	144,486	472,281	1,236,271	145,029	43,297	4,564,391	778,402	439,437	1,217,839	224,254	6,006,484	5,736,642
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	(224,254)	(224,254)	(202,213)
Total Expenses Reported by Function on the Statement of Activities	$ 1,709,313	$ 813,714	$ 144,486	$ 472,281	$ 1,236,271	$ 145,029	$ 43,297	$ 4,564,391	$ 778,402	$ 439,437	$ 1,217,839	$ -	$ 5,782,230	$ 5,534,429

See notes to financial statements

Covenant House Texas

Statement of Cash Flows
Year Ended June 30, 2016
(with comparative amounts for year ended June 30, 2015)

	Year Ended June 30, 2016	Year Ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 322,512	$ (513,582)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	89,594	160,235
Recognition of continued use of land	11,484	11,484
Change in value of beneficial interest held in trust	5,662	6,198
Changes in operating assets and liabilities		
Contributions and pledges receivable	(294,219)	350,748
Grants receivable	(29,604)	82,589
Due from Parent	(188,357)	(17,334)
Other receivables	(17,753)	5,161
Inventory	65	(1,380)
Prepaid expenses	2,913	(60,321)
Accounts payable and accrued expenses	(117,868)	76,775
Due to Parent	-	(156,923)
Net Cash from Operating Activities	(215,571)	(56,350)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(60,772)	(31,730)
Net Change in Cash and Cash Equivalents	(276,343)	(88,080)
CASH AND CASH EQUIVALENTS		
Beginning of year	2,429,691	2,517,771
End of year	$ 2,153,348	$ 2,429,691

See notes to financial statements

Covenant House Texas

Notes to Financial Statements
June 30, 2016

1. Organization and Tax Status

Covenant House Texas (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 Houston, TX metropolitan area. The Parent is the sole member of the Organization and is itself a private not-for-profit organization which, through its affiliates, provided shelter, food, clothing, counseling, medical attention, crisis intervention, public education, and other services to 46,991 (unaudited) and 51,173 (unaudited) runaway and homeless youths during the years ended June 30, 2016 and 2015.

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

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Washington, D.C.
- Under 21 Boston, Inc.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House New York/Under 21
- Covenant International Foundation
- Covenant House Holding LLC
- Covenant House Toronto
- Covenant House Vancouver
- Association La Alianza (Guatemala)
- Casa Alianza de Honduras
- Casa Alianza Nicaragua
- Casa Alianza International
- Rights of Passage, Inc.
- 268 West 44th Corporation
- Fundacion Casa Alianza Mexico, I.A.P.

The Organization 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. The Organization is also exempt from Texas income and sales taxes.

Components of Program and Supporting Services

Program Services

Shelter and Crisis Care
The Shelter and Crisis Care program provides crisis care, shelter, food, clothing, counseling and legal advice to abandoned and runaway youths through Covenant House programs in Texas.

Mother/Child
The Mother/Child program provides emergency shelter, food, and counseling to homeless mothers under the age of 21 and their children.

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Outreach
The Outreach program is an effort to reach youth who are on the streets for various reasons. Outreach vans cruise the city streets day and night searching for these youth, providing them with food, a trained counselor, and referrals to shelters and health and other services, if needed. Youth are also referred to the Organization's Community Service Center (CSC); there they receive ongoing counseling and other services.

Medical Services
Medical Services includes a clinic maintained by the Organization to provide youth in the programs with needed medical attention, along with mental health and substance abuse services. Youth who are not residents may also receive medical care.

Rights of Passage
The Rights of Passage program provides transitional living services to youth for up to 18 months, including individual counseling and help with their education and finding jobs and housing.

Rights of Passage Apartment Living Program (ROPAL) is the second tier of the transitional living process. It is an off-campus apartment living program that enables young adults to further transition to independence over the period of one year. After successfully completing the program the young person has the option to renew his or her apartment lease as a resident entirely independent of Covenant House Texas.

Community Service Center (CSC)
The CSC program provides comprehensive services to youth in the residential programs and to other youth in the community who need support in order to complete their education, obtain employment, and maintain themselves in stable living situations.

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

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.

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Supporting Services (continued)

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

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

The Organization maintains its net assets under the following three classes:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain time and donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization.
- Permanently restricted net assets represent those resources that have been designated by the donor to be held and invested in perpetuity by the Organization.

Revenue Recognition

The Organization records earned revenues on an accrual basis. In addition, the Organization 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 (which includes governmental grants receivable), certain contributed services and gifts of other assets. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. The Organization also raises funds through special events, such as galas. Event revenues, net of related costs with a direct-benefit to donors, are recorded as unrestricted contributions since such funds can be used for general operations unless there are donor-imposed restrictions. Costs to generate restricted and unrestricted donations and grants are expensed as incurred.

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

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.

Property and Equipment

The Organization follows the practice of capitalizing all expenditures for property and equipment with a cost in excess of $1,000. Property and equipment are reported at cost at the date of acquisition or at their fair values at the date of donation. Major repairs and renovations are capitalized, whereas minor costs of repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

Asset Recoverability

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including undiscounted cash flow models, quoted fair values and third-party independent appraisals, as considered necessary. There is no such impairment for the years ended June 30, 2016 and 2015.

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

Contributions Receivable

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge or of cash or other assets. Contributions are considered available for unrestricted use, unless the donors restrict their use. Contributions to be received after one year are discounted using a risk-adjusted rate. An allowance for uncollectible pledges receivable is provided, using management's judgment of potential defaults, which considers factors such as prior collection history, type of contribution and the nature of fundraising activity. Contribution revenue is recognized based on the present value of the estimated future payments to be made to the Organization. The Organization considers all receivables at June 30, 2016 and 2015 to be fully collectible, and accordingly there is no allowance for doubtful accounts recorded.

Donated Goods and Contributed Services

Donated merchandise consists of items received by the Organization, such as food, clothes and supplies. 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.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2015 is presented for comparative purposes only. Certain activity by net asset classification are not included in these financial statements. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements as of and for the year ended June 30, 2015, from which the summarized comparative information was derived.

Inventory

Inventory consists of materials and supplies which, if purchased, are stated at the lower of cost or market under the average cost method, or if donated, at the fair value at the date of donation.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $16,976 and $21,778 for the years ended June 30, 2016 and 2015.

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

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2013.

Cash and Cash Equivalents

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

Reclassifications

Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent Events

Management evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 27, 2016.

3. Grants, Contributions, Pledges, and Other Receivables

Grants, contributions, pledges, and other receivables as of June 30 that are due to be collected within one year consist of the following:

	2016	2015
Contributions and pledges	$ 517,782	$ 223,563
Grants	182,595	152,991
Other	38,027	20,274

4. Property and Equipment

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

	2016	2015
Land	$ 4,310	$ 4,310
Property and improvements	3,692,133	3,666,446
Furniture and equipment	462,733	449,791
Vehicles	134,589	127,346
Computer hardware and software	87,629	72,729
Covenant House Texas video	26,452	26,452
Donated mineral royalty interests	669	669
	4,408,515	4,347,743
Accumulated depreciation	(2,472,731)	(2,383,137)
	$ 1,935,784	$ 1,964,606

Depreciation expense was $89,594 and $160,235 for the years ended June 30, 2016 and 2015.

5. Beneficial Interest Held in Trust

The Organization is a beneficiary in a charitable remainder trust established by a donor. Under the terms of the trust agreement, the Organization will ultimately receive 33.4% of the trust assets upon the death of the donor's last life beneficiary, who while living receives monthly payments of income earned by the trust. Upon termination of the trust, the remaining net assets will be transferred to the Organization for its unrestricted use. The Organization reports the trust as an asset and temporarily restricted contribution revenue at the present value of the estimated future benefits to be received. Adjustments to the receivable to reflect amortization of the discount and changes in actuarial assumptions are recognized in other income. The present value of the estimated future benefits to be received by the Organization under the trust amounted to $93,167 and $98,829 at June 30, 2016 and 2015. The fair value of the trust was valued using level 3 inputs.

The following table summarizes the changes in fair value associated with the Organization's Level 3 financial assets for the years ended June 30, 2016 and 2015:

Balance, June 30, 2014	$ 105,027
Change in fair value	(6,198)
Balance, June 30, 2015	98,829
Change in fair value	(5,662)
Balance, June 30, 2016	$ 93,167

6. Operating Leases

The Organization has entered into various operating leases for physical plant facilities, office space, and equipment. These leases expire at various dates through March 2020.

Lease expense was $100,113 and $75,274 for the years ended June 30, 2016 and 2015.

Future minimum annual lease payments for the years ending June 30 are payable as follows:

2017	$ 8,690
2018	8,690
2019	6,149
	$ 23,529

7. Commitments and Contingencies

The Organization has a contract with Baylor College of Medicine ("Baylor") whereby Baylor provides medical services for the youth in the Organization's programs. This contract, which will expire on February 28, 2019, provided for payments of $61,152 to Baylor during each of the years ended June 30, 2016 and 2015.

The Organization entered into a consulting agreement with Baylor whereby Baylor provided psychiatric mental health services for the youth staying at the Organization. This agreement provided for payments of $60,000 to Baylor during each of the years ended June 30, 2016 and 2015.

The Organization is subject to various claims and lawsuits that may arise in the ordinary course of business. The Organization also maintains adequate insurance coverage to shield it from inherent risks associated with the performance of its mission.

8. Related Party Transactions

The Parent combines contributions received from individuals, corporations and foundations plus a Parent subsidy and appropriates funds classified as "Branding Dollars" or "Contributions Received from Parent" to each Covenant House affiliate. Total funds allocated to affiliates, based on the Parent's policy, approximated $33.6 and $31.3 million for the years ended June 30, 2016 and 2015. In 2016 and 2015, the Organization received $1,515,000 and $1,615,000 in contributions from the Parent.

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 the affiliates. Contributions and promises to give totaled approximately $64.3 and $60.8 million for the Parent in years ended June 30, 2016 and 2015. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

8. Related Party Transactions *(continued)*

In fiscal year 2011, the Parent sold buildings which it owned to the Organization. Subsequent to the sale of the buildings, the Parent entered into a 99 year lease with the Organization to use the land on which the purchased buildings are situated. During 2013, the Organization recognized a promise of continued use of land and a corresponding receivable at the book value of the property held by the Parent in the amount of $1,125,448. This transaction was reflected in temporarily restricted net assets. The Organization has recorded $1,079,512 and $1,090,996 as of June 30, 2016 and 2015, as a promise of continued use of land. Net assets are released from restriction over the life of the lease and classified as rent expense at a rate of $11,484 annually, recognizing the use of the land.

9. Retirement Plan

Effective January 1, 2007, the Parent adopted a defined contribution 403(b) savings and retirement plan, covering the Organization and its domestic affiliates. 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 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 $208,058 and $206,492 for the years ended June 30, 2016 and 2015.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of purpose restricted contributions as follows:

	2016	2015
Shelter and crisis care	$ 264,331	$ 271,474
Medical services	49,006	49,006
Rights of passage	75,000	32,000
Promise of continued use of land	1,079,512	1,090,996
Beneficial interest held in trust	93,167	98,829
General operations- Time restricted	200,000	-
	$ 1,761,016	$ 1,542,305

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:

	2016	2015
Shelter and crisis care	$ 152,520	$ 105,726
Medical services	74,500	146,316
Rights of passage	42,000	-
Promise of continued use of land	11,484	11,484
	$ 280,504	$ 263,526

11. Permanently Restricted Net Assets

Permanently restricted net assets of $40,000 are restricted in perpetuity. These assets have been restricted by donors for the establishment of a Covenant House Texas endowment fund. As of June 30, 2016, an endowment has not yet been established. Income earned from the endowment fund investments is available for unrestricted use.

12. Government Grants and Contracts

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

13. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to a concentration risk consist principally of cash deposits with financial institutions and receivables from pledges and contracts. The Organization maintains its cash with three financial institutions, which at times, may be in excess of federally insured limits. The Organization has not experienced any losses on its cash deposits. There are no significant concentrations with regard to receivables due to the broad donor base of the Organization.

* * * * *

Covenant House Texas

Uniform Guidance
Reports and Schedule

June 30, 2016

Covenant House Texas

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Identifying Number	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
Department of Houing and Urban Development				
Direct Programs				
Continuum of Care Program		14.267	$ -	$ 865,569
Pass-through City of Houston				
Emergency Solutions Grants Program	FC 33544	14.231	-	132,016
Community Development Block Grants/Entitlement Grants	FC 33544	14.218	-	15,214
Pass-through County of Harris				
Emergency Solutions Grants Program	2015-0032B	14.231	-	29,501
Emergency Solutions Grants Program	2016-0033B	14.231	-	11,316
Pass-through Texas Department of Housing and Community Affairs:				
Emergency Solutions Grants Program	42150002310	14.231	-	62,875
Total Department of Housing and Urban Development, Pass-through Programs			-	250,922
Total Department of Housing and Urban Development			-	1,116,491
Department of Homeland Security				
Pass-through United Way				
Emergency Food and Shelter National Board Program	LRO-005	97.024	-	33,253
Total Department of Homeland Security			-	33,253
Total Expenditures of Federal Awards			$ -	$ 1,149,744

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

Covenant House Texas

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Covenant House Texas (the "Organization") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Certain grants included on the Schedule were awarded by federal agencies prior to December 26, 2014 and such related expenditures are recognized following the cost principles contained in the pre-Uniform Guidance circulars, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Those grants awarded after December 26, 2014 follow the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented when available.

3. Indirect Cost Rate

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

4. Nonmonetary Assistance

For the year ended June 30, 2016, the Organization received no nonmonetary assistance.

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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

Independent Auditors' Report

Board of Directors
Covenant House Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Covenant House Texas (the "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness, as listed 2016-001.

Compliance and Other Matters

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

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

PKF O'Connor Davies, LLP

October 27, 2016

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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

Independent Auditors' Report

Board of Directors
Covenant House Texas

Report on Compliance for Each Major Federal Program

We have audited Covenant House Texas' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

PKF O'Connor Davies, LLP

October 27, 2016

Covenant House Texas

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	x	yes	no
Significant deficiency(ies) identified?		yes	x	none reported
Noncompliance material to financial statements noted?		yes	x	no

Federal Awards

Internal control over major Federal programs:			
Material weakness(es) identified?		yes	x	no
Significant deficiency(ies) identified?		yes	x	none reported
Type of auditors' report issued on compliance for major Federal programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?		yes	x	no

Identification of major Federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.267	Continuum of Care Program

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? x yes ____ no

Section II- Financial Statement Findings

2016-001: Theft of funds from the Covenant Youth Banking Account ("CYBA") program.

Criteria: An organization should have written policies and procedures in place to establish defined responsibilities with regard to the cash reconciliation process and custody of assets of the CYBA program.

Condition: The Organization is in the process of developing and implementing policies and procedures surrounding the CYBA program.

Context: The CYBA program was part of the overall goals and objectives of the Organization. The Organization recognized that many of the residents were unable to open bank accounts for a number of reasons (lack of proper documentation, unwillingness on the part of the banks to deal with the residents). As a result, the CYBA program became the answer to help residents build up assets and learn financing and budgeting techniques to help them when they leave the Organization and were out on their own.

Cause: The lack of proper policies and procedures relating to the CYBA program resulted in the cash account not being recorded on the Organization's books and financial statements. As of June 30, 2016, the CYBA cash account was properly recorded in the Organization's financial statements.

Effect: The Organization sustained a loss attributable to the theft of funds from the CYBA program.

Recommendation: We recommend that the Organization consider implementing the following improvements in controls surrounding the CYBA program:

- A three part pre-numbered form should be used for the resident's withdrawals and deposits. One copy maintained by the advisor (aka staff), one copy to the Finance Department and one copy provided to the resident.
- The employee in charge of the cash in the safe should reconcile the balance on a daily basis and submit the reconciliation to the Finance Department to review and approve the reconciliation.
- On a weekly but random basis the Finance Department and a staff unrelated to the CYBA program should perform a cash count and verify it reconciles. A log should be maintained by the Finance Department and signed off by the two individuals involved in the count and by the individual in charge of maintaining the CYBA cash account.
- The CYBA program residents' balance should be maintained in detail on the books of the Organization.

Section II- Financial Statement Findings *(continued)*

- The amount of cash requested on a weekly basis should not exceed the previous week's payout and the cash amount in the safe should never exceed $2,000, unless the number of residents participating significantly exceeds historical averages.
- Residents should be provided with a summary of their balances on a monthly basis.
- On Tuesday, the day the ledgers are provided to the Finance Department a log should be maintained that includes the amount of cash requested, an image of the check and signatures of both the Finance Department and the individual in charge of the CYBA program that the correct amount of cash was received.
- When a resident leaves, there should be a form signed that indicates the full amount of their CYBA cash account has been paid, the check number, the amount and their acceptance as to the accuracy.
- A policy should exist that limits the dollar amount allowed to accumulate in the CYBA cash account before the resident is assisted in opening up their own bank account. Based on our interviews concerns exist that significant balances may be accumulating, potentially enabling residents to shield assets when applying for government assistance.
- Any excess cash being deposited should be documented as to the source of the deposits.
- A written policy needs to be prepared that details how to handle residents that leave the Organization and do not request their balances. Unclaimed property is normally turned over to the state to maintain until the owner is located.

Management's response to findings: See corrective action plan

Section III- Federal Award Findings and Questioned Costs

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

Section IV- Prior Year Findings

There were no prior year audit findings.

Covenant House Texas
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October 27, 2016

PKF O'Connor Davies, LLP
20 Commerce Drive, Suite 301
Cranford NJ 07016

RE: Corrective Action Plan

We are providing this document as our Corrective Action Plan (CAP) in connection with your audit of the financial statements of Covenant House Texas as of and for the year ended June 30, 2016. The purpose of this CAP is to outline our plan to remedy recommendations and deficiencies in internal control matters as noted in the Auditor's Schedule of Findings and Questioned Costs.

Item 2016-001 Theft of Funds from the Covenant Youth Banking Account (CYBA) program.

1. As the financial loss sustained was the direct result of cash transactions generated by residents, cash transactions have been eliminated from the Covenant Youth Banking Account (CYBA) program. Cash is no longer held in escrow by the Organization for the benefit and use of residents. The Organization has encouraged and assisted residents in opening personal bank accounts. Residents are now responsible for maintaining custody and control of cash, and most residents have opened their own accounts. The Organization will assist residents on an ongoing basis in managing their personal accounts.

2. The Organization is maintaining "deposit only" accounts for crisis shelter residents until December 31, 2016. After that time, crisis shelter residents must maintain their own accounts.

3. Beginning on January 1, 2017, the CYBA program will be a deposit only account for rent payments, and available only to ROP residents. The Organization will maintain individual resident accounts to track resident rent payments. When a resident is discharged, the accumulated rent balance will be returned to the resident, along with an accounting of the resident's rent account with the Organization. The Organization will not maintain rent accounts for discharged former residents.

4. As the cash handling aspect of the CYBA program has been eliminated, no further actions are needed relative to cash verification.

5. The Organization will begin using 3 part pre-numbered forms to process resident rent deposits. Residents will be provided with a summary of their rent account balances on a monthly basis.

6. A formal policy has been implemented that calls for residents to receive their accumulated rent balance at the time of discharge. The youth's Resident Advisor will initiate the rent refund through the use of the standard pre-numbered form, described above, which will become the basis for creating a check request and subsequent payment. The resident (ex-resident) will either receive their rent refund before leaving Covenant House Texas, or it will be mailed to an address that they will provide. Any unclaimed funds will be remitted to the State of Texas in accordance with applicable laws and regulations.

John S. Lampson
Director of Finance