

**Covenant House Texas**

Financial Statements

June 30, 2017 and 2016

## **Independent Auditors' Report**

### **Board of Directors Covenant House Texas**

We have audited the accompanying financial statements of Covenant House Texas (the "Organization"), which comprise the statement of financial position as of June 30, 2017 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 Texas as of June 30, 2017 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent in all material respects, with the audited financial statements from which it has been derived.

*PKF O'Connor Davies, LLP*

November 15, 2017

## Covenant House Texas

### Statement of Financial Position

June 30, 2017

(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,259,680	\$ 2,153,348
Contributions and pledges receivable	320,255	517,782
Grants receivable	131,685	182,595
Due from Parent	424,084	205,691
Other receivables	-	38,027
Inventory	5,688	4,675
Prepaid expenses	31,132	67,032
Beneficial interest held in trust	148,555	93,167
Promise of continued use of land	1,068,028	1,079,512
Security deposits	12,000	12,000
Restricted cash	40,000	40,000
Property and equipment, net	<u>1,920,713</u>	<u>1,935,784</u>
	<u>\$ 6,361,820</u>	<u>\$ 6,329,613</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 417,519</u>	<u>\$ 401,607</u>
Net Assets		
Unrestricted Net Assets		
Undesignated	2,364,134	2,191,206
Investment in property and equipment	<u>1,920,713</u>	<u>1,935,784</u>
Total Unrestricted Net Assets	4,284,847	4,126,990
Temporarily restricted	1,619,454	1,761,016
Permanently restricted	<u>40,000</u>	<u>40,000</u>
Total Net Assets	<u>5,944,301</u>	<u>5,928,006</u>
	<u>\$ 6,361,820</u>	<u>\$ 6,329,613</u>

See notes to financial statements

## Covenant House Texas

### Statement of Activities Year Ended June 30, 2017 (with summarized totals for year ended June 30, 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>SUPPORT AND REVENUE</b>					
Branding dollars from Parent	\$ 1,515,000	\$ -	\$ -	\$ 1,515,000	\$ 1,515,000
Contributions	1,204,141	695,180	-	1,899,321	1,888,388
Contributed services and merchandise	228,397	-	-	228,397	220,114
Government grants and contracts	534,216	-	-	534,216	1,149,744
Grants from Parent Related to National Sleep Out Event	437,471	-	-	437,471	344,932
Special events revenue, net of direct benefit to donor costs of \$187,791 and \$224,254 in 2017 and 2016	<u>922,631</u>	<u>-</u>	<u>-</u>	<u>922,631</u>	<u>989,615</u>
Total Support and Revenue	<u>4,841,856</u>	<u>695,180</u>	<u>-</u>	<u>5,537,036</u>	<u>6,107,793</u>
<b>Other income (loss)</b>					
Interest income	4,548	-	-	4,548	1,680
Other income (loss)	<u>802</u>	<u>55,388</u>	<u>-</u>	<u>56,190</u>	<u>(4,731)</u>
Total Other Income (loss)	<u>5,350</u>	<u>55,388</u>	<u>-</u>	<u>60,738</u>	<u>(3,051)</u>
Total Support and Revenue, and Other					
Income Before Net Assets Released from Restriction	4,847,206	750,568	-	5,597,774	6,104,742
Net assets released from restrictions	<u>892,130</u>	<u>(892,130)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Other Income	<u>5,739,336</u>	<u>(141,562)</u>	<u>-</u>	<u>5,597,774</u>	<u>6,104,742</u>
<b>EXPENSES</b>					
Program services	4,141,511	-	-	4,141,511	4,564,391
Supporting Services					
Management and general	1,060,671	-	-	1,060,671	778,402
Fundraising	<u>379,297</u>	<u>-</u>	<u>-</u>	<u>379,297</u>	<u>439,437</u>
Total Expenses	<u>5,581,479</u>	<u>-</u>	<u>-</u>	<u>5,581,479</u>	<u>5,782,230</u>
Change in Net Assets	157,857	(141,562)	-	16,295	322,512
<b>NET ASSETS</b>					
Beginning of year	<u>4,126,990</u>	<u>1,761,016</u>	<u>40,000</u>	<u>5,928,006</u>	<u>5,605,494</u>
End of year	<u>\$ 4,284,847</u>	<u>\$ 1,619,454</u>	<u>\$ 40,000</u>	<u>\$ 5,944,301</u>	<u>\$ 5,928,006</u>

See notes to financial statements

## Covenant House Texas

### Statement of Functional Expenses Year Ended June 30, 2017 (with summarized totals for year ended June 30, 2016)

2017

	Program Services							Supporting Services			Direct Benefit to Donors	Total Expense	2016 Total Expense	
	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
Salaries and wages	\$ 847,568	\$ 569,436	\$ 55,821	\$ 175,686	\$ 461,175	\$ 15,499	\$ 15,623	\$ 2,140,808	\$ 696,126	\$ 208,871	\$ 904,997	\$ -	\$ 3,045,805	\$ 3,100,923
Payroll taxes	66,650	43,510	4,206	12,873	33,392	1,212	1,257	163,100	51,129	16,210	67,339	-	230,439	236,865
Employee benefits	158,088	111,178	13,633	37,457	104,337	4,940	18,363	447,996	83,728	9,850	93,578	-	541,574	563,408
Total Salaries and Related Expenses	1,072,306	724,124	73,660	226,016	598,904	21,651	35,243	2,751,904	830,983	234,931	1,065,914	-	3,817,818	3,901,196
Accounting fees	-	-	-	-	-	-	-	-	40,837	-	40,837	-	40,837	46,000
Medical fees	-	-	-	137,697	24,058	-	-	161,755	-	-	-	-	161,755	169,251
Other professional fees	-	-	-	-	-	-	-	-	8,980	53,170	62,150	-	62,150	55,933
Supplies	10,572	9,617	878	17,988	8,664	878	-	48,597	5,762	4,906	10,668	23,371	82,636	101,608
Telephone	10,222	6,709	3,521	2,079	6,119	883	-	29,533	12,220	1,304	13,524	-	43,057	36,097
Postage, printing and mailing lists	-	-	1,958	-	-	-	-	1,958	578	12,390	12,968	7,111	22,037	34,413
Occupancy														
Fuel and utilities	35,279	21,859	-	-	37,713	-	-	94,851	6,150	-	6,150	-	101,001	105,119
Property lease	4,826	2,990	-	-	2,606	-	-	10,422	772	290	1,062	-	11,484	11,484
Repairs and maintenance	23,708	20,647	2,355	3,087	30,687	2,355	-	82,839	7,043	2,477	9,520	-	92,359	86,450
Other	504	-	-	-	25,526	-	-	26,030	686	-	686	-	26,716	87,624
Travel and vehicle costs	18,797	12,221	4,603	186	2,314	809	-	38,930	15,955	2,459	18,414	-	57,344	73,468
Specific Assistance to Individuals														
Food	26,902	16,669	6,457	-	20,960	-	-	70,988	-	-	-	-	70,988	97,692
Donated food	87,909	54,468	-	-	-	-	-	142,377	-	-	-	-	142,377	95,664
Clothing, travel and miscellaneous	27,812	16,886	11,079	-	7,671	1,125	-	64,573	-	-	-	-	64,573	79,503
Donated clothing, travel and miscellaneous	24,868	20,988	-	-	-	-	-	45,856	-	-	-	-	45,856	45,638
Other purchased services	89,072	59,991	1,551	7,515	65,250	1,551	-	224,930	39,899	54,082	93,981	151,344	470,255	477,957
Other donated services	10,308	9,817	1,107	12,146	2,215	1,107	-	36,700	3,483	-	3,483	-	40,183	78,812
Dues, licenses and permits	3,432	2,639	327	766	1,120	166	-	8,450	8,511	235	8,746	-	17,196	13,467
Subscriptions and publications	1,444	895	-	-	1,616	-	-	3,955	735	766	1,501	-	5,456	5,201
Staff recruitment	-	-	-	-	-	-	-	-	20,350	-	20,350	-	20,350	16,070
Insurance	45,396	28,647	4,627	1,842	32,440	2,472	-	115,424	17,351	-	17,351	-	132,775	135,594
Miscellaneous	42,984	27,665	279	2,009	1,586	472	-	74,995	16,622	6,029	22,651	-	97,646	138,784
Bank charges and fees	-	-	-	-	-	-	-	-	23,195	-	23,195	5,965	29,160	23,865
Total Functional Expenses Before Depreciation	1,536,341	1,036,832	112,402	411,331	869,449	33,469	35,243	4,035,067	1,060,112	373,039	1,433,151	187,791	5,656,009	5,916,890
Depreciation	23,850	14,999	1,414	372	65,737	72	-	106,444	559	6,258	6,817	-	113,261	89,594
Total Functional Expenses	1,560,191	1,051,831	113,816	411,703	935,186	33,541	35,243	4,141,511	1,060,671	379,297	1,439,968	187,791	5,769,270	6,006,484
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	(187,791)	(187,791)	(224,254)
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 1,560,191</u>	<u>\$ 1,051,831</u>	<u>\$ 113,816</u>	<u>\$ 411,703</u>	<u>\$ 935,186</u>	<u>\$ 33,541</u>	<u>\$ 35,243</u>	<u>\$ 4,141,511</u>	<u>\$ 1,060,671</u>	<u>\$ 379,297</u>	<u>\$ 1,439,968</u>	<u>\$ -</u>	<u>\$ 5,581,479</u>	<u>\$ 5,782,230</u>

See notes to financial statements

## Covenant House Texas

Statement of Cash Flows  
Year Ended June 30, 2017  
(with comparative amounts for year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 16,295	\$ 322,512
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	113,261	89,594
Recognition of continued use of land	11,484	11,484
Change in value of beneficial interest held in trust	(55,388)	5,662
Changes in operating assets and liabilities		
Contributions and pledges receivable	197,527	(294,219)
Grants receivable	50,910	(29,604)
Due from Parent	(218,393)	(188,357)
Other receivables	38,027	(17,753)
Inventory	(1,013)	65
Prepaid expenses	35,900	2,913
Accounts payable and accrued expenses	<u>15,912</u>	<u>(117,868)</u>
Net Cash from Operating Activities	204,522	(215,571)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(98,190)</u>	<u>(60,772)</u>
Net Change in Cash and Cash Equivalents	106,332	(276,343)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>2,153,348</u>	<u>2,429,691</u>
End of year	<u>\$ 2,259,680</u>	<u>\$ 2,153,348</u>

See notes to financial statements

## Covenant House Texas

Notes to Financial Statements  
June 30, 2017 and 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.

Covenant House (Parent) is a not-for-profit organization founded in 1968 and incorporated in 1972. Covenant House (Parent) and affiliates (collectively "Covenant House"), provided shelter, food, clothing, medical attention, crisis intervention, public education and prevention, and other services that reached approximately 80,000 young people during fiscal 2017.

In fiscal 2016, Covenant House, provided shelter, food, clothing, medical attention, crisis intervention, and other services to approximately 47,000 runaway and homeless. The increase from 2016 to 2017 is due to the inclusion of our Public Education and Prevention programs.

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

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

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

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

Covenant House is the founder of Fundación Casa Alianza México, 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.



## Covenant House Texas

Notes to Financial Statements  
June 30, 2017 and 2016

### 1. Organization and Tax Status (*continued*)

#### ***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.

###### *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. This program, while successful, was terminated and replaced with the Rapid Rehousing Program in fiscal 2017.

###### *Rapid Rehousing*

Covenant House Texas is currently participating in a collaborative with the Houston Coalition for the Homeless to provide housing and case management services for transitional aged youth. Rapid Rehousing for youth (defined as under 25 years of age) is funded by the Department of Housing and Urban Development.

The goals of the Rapid Rehousing Program are to rapidly move youth into permanent housing; offer short to medium term financial assistance; and provide developmentally appropriate case management and services.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2017 and 2016

### 1. Organization and Tax Status *(continued)*

#### ***Components of Program and Supporting Services (continued)***

##### Rapid Rehousing (continued)

Youth are usually eligible for rental assistance and case management services for approximately 19 months. Youth are required to progressively pay a portion of their rent as their income increases.

##### 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.

#### ***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.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### ***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.

#### ***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 \$2,500. 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.

## **Covenant House Texas**

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### ***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, 2017 and 2016.

#### ***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, 2017 and 2016 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, 2016 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, 2016, from which the summarized comparative information was derived.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### *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 \$61 and \$16,976 for the years ended June 30, 2017 and 2016.

#### *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, 2014.

#### *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 2016 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 November 15, 2017.

### 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:

	2017	2016
Contributions and pledges	\$ 320,255	\$ 517,782
Grants	131,685	182,595
Other	-	38,027

## Covenant House Texas

Notes to Financial Statements  
June 30, 2017 and 2016

### 4. Property and Equipment

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

	2017	2016
Land	\$ 4,310	\$ 4,310
Property and improvements	3,674,750	3,692,133
Furniture and equipment	423,075	462,733
Vehicles	123,629	134,589
Computer hardware and software	74,881	87,629
Covenant House Texas video	26,452	26,452
Donated mineral royalty interests	<u>669</u>	<u>669</u>
	4,327,766	4,408,515
Accumulated depreciation	<u>(2,407,053)</u>	<u>(2,472,731)</u>
	<u>\$ 1,920,713</u>	<u>\$ 1,935,784</u>

Depreciation expense was \$113,261 and \$89,594 for the years ended June 30, 2017 and 2016.

### 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 Organization's share of 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 \$148,555 and \$93,167 at June 30, 2017 and 2016. 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, 2017 and 2016:

Balance, June 30, 2015	\$ 98,829
Change in fair value	<u>(5,662)</u>
Balance, June 30, 2016	93,167
Change in fair value	<u>55,388</u>
Balance, June 30, 2017	<u>\$ 148,555</u>

## Covenant House Texas

### Notes to Financial Statements June 30, 2017 and 2016

#### 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 2022.

Lease expense was \$52,175 and \$100,113 for the years ended June 30, 2017 and 2016.

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

2018	\$ 18,023
2019	18,023
2020	16,955
2021	16,955
2022	<u>12,716</u>
	<u>\$ 82,672</u>

#### 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, 2017 and 2016.

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, 2017 and 2016.

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 \$36.0 and \$33.6 million for the years ended June 30, 2017 and 2016. In 2017 and 2016, the Organization received \$1,515,000 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 \$66.0 and \$64.3 million for the Parent in years ended June 30, 2017 and 2016. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

**Covenant House Texas**

Notes to Financial Statements  
June 30, 2017 and 2016

**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 remaining balance of \$1,068,028 and \$1,079,512 as of June 30, 2017 and 2016, is recorded 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 \$180,241 and \$208,058 for the years ended June 30, 2017 and 2016.

**10. Temporarily Restricted Net Assets**

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

	2017	2016
Shelter and crisis care	\$ 197,680	\$ 264,331
Medical services	8,986	49,006
Rights of Passage	21,205	75,000
Promise of continued use of land	1,068,028	1,079,512
Beneficial interest held in trust	148,555	93,167
Strategic plan initiative	75,000	-
General operations- Time restricted	100,000	200,000
	\$ 1,619,454	\$ 1,761,016

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:

	2017	2016
Shelter and crisis care	\$ 189,811	\$ 152,520
Medical services	45,020	74,500
Rights of Passage	545,815	42,000
Promise of continued use of land	11,484	11,484
General operations-Time restricted	100,000	-
	\$ 892,130	\$ 280,504



## **Covenant House Texas**

Notes to Financial Statements  
June 30, 2017 and 2016

### **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, 2017, 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.

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