

# **Covenant House Texas**

Financial Statements and  
Uniform Guidance Schedules  
Together with Independent Auditors' Reports

June 30, 2018

**Covenant House Texas**

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Uniform Guidance Schedules  
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## 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, 2018 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, 2018, 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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 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 November 15, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

November 15, 2018

## Covenant House Texas

### Statement of Financial Position June 30, 2018 (with comparative amounts at June 30, 2017)

	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,418,985	\$ 2,259,680
Contributions and pledges receivable	159,001	320,255
Grants receivable	244,911	131,685
Due from Parent, net	740,065	424,084
Other receivables	54,555	-
Inventory	3,843	5,688
Prepaid expenses	13,451	31,132
Beneficial interest held in trust	132,721	148,555
Promise of continued use of land	1,056,544	1,068,028
Security deposits	12,687	12,000
Restricted cash	40,000	40,000
Property and equipment, net	2,512,320	1,920,713
	\$ 7,389,083	\$ 6,361,820
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 420,493	\$ 417,519
 Net Assets		
Unrestricted Net Assets		
Undesignated	2,937,015	2,364,134
Investment in property and equipment	2,512,320	1,920,713
Total Unrestricted Net Assets	5,449,335	4,284,847
Temporarily restricted	1,479,255	1,619,454
Permanently restricted	40,000	40,000
Total Net Assets	6,968,590	5,944,301
	\$ 7,389,083	\$ 6,361,820

See notes to financial statements

## Covenant House Texas

### Statement of Activities Year Ended June 30, 2018 (with summarized totals for year ended June 30, 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>SUPPORT AND REVENUE</b>					
Branding dollars from Parent	\$ 1,565,000	\$ -	\$ -	\$ 1,565,000	\$ 1,515,000
Contributions	1,478,155	969,948	-	2,448,103	1,899,321
Contributed services and merchandise	225,735	-	-	225,735	228,397
Government grants and contracts	802,141	-	-	802,141	534,216
Grants from Parent Related to National Sleep Out Event	488,900	-	-	488,900	437,471
Special events revenue, net of direct benefit to donor costs of \$279,518 and \$187,791 in 2018 and 2017	957,043	-	-	957,043	922,631
Total Support and Revenue	<u>5,516,974</u>	<u>969,948</u>	<u>-</u>	<u>6,486,922</u>	<u>5,537,036</u>
<b>Other Income (Loss)</b>					
Interest income	4,204	-	-	4,204	4,548
Other income (loss)	66,816	(15,834)	-	50,982	56,190
Total Other Income (Loss)	<u>71,020</u>	<u>(15,834)</u>	<u>-</u>	<u>55,186</u>	<u>60,738</u>
Total Support and Revenue, and Other Income (Loss) Before Net Assets Released from Restriction	5,587,994	954,114	-	6,542,108	5,597,774
Net assets released from restrictions	<u>1,094,313</u>	<u>(1,094,313)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Other Income (Loss)	<u>6,682,307</u>	<u>(140,199)</u>	<u>-</u>	<u>6,542,108</u>	<u>5,597,774</u>
<b>EXPENSES</b>					
Program services	4,333,524	-	-	4,333,524	4,141,511
Supporting Services					
Management and general	669,341	-	-	669,341	1,060,671
Fundraising	514,954	-	-	514,954	379,297
Total Expenses	<u>5,517,819</u>	<u>-</u>	<u>-</u>	<u>5,517,819</u>	<u>5,581,479</u>
Change in Net Assets	1,164,488	(140,199)	-	1,024,289	16,295
<b>NET ASSETS</b>					
Beginning 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>
End of year	<u>\$ 5,449,335</u>	<u>\$ 1,479,255</u>	<u>\$ 40,000</u>	<u>\$ 6,968,590</u>	<u>\$ 5,944,301</u>

See notes to financial statements

## Covenant House Texas

### Statement of Functional Expenses Year Ended June 30, 2018 (with summarized totals for year ended June 30, 2017)

	2018											Direct Benefit to Donors	Total Expense	2017 Total Expense
	Program Services						Supporting Services							
	Shelter and Crisis Care	Mother/ Child	Outreach	Medical Services	Rights of Passage	Community Service Center	Total Program Services	Mangement and General	Fundraising	Total Supporting Services				
Salaries and wages	\$ 892,910	\$ 560,592	\$ 59,931	\$ 169,915	\$ 487,043	\$ 126,730	\$ 2,297,121	\$ 366,286	\$ 288,322	\$ 654,608	\$ -	\$ 2,951,729	\$ 3,045,805	
Payroll taxes	68,020	42,647	4,521	12,339	37,206	9,454	174,187	25,358	22,278	47,636	-	221,823	230,439	
Employee benefits	159,906	85,645	12,488	42,180	106,242	33,621	440,082	42,070	33,336	75,406	-	515,488	541,574	
Total Salaries and Related Expenses	<u>1,120,836</u>	<u>688,884</u>	<u>76,940</u>	<u>224,434</u>	<u>630,491</u>	<u>169,805</u>	<u>2,911,390</u>	<u>433,714</u>	<u>343,936</u>	<u>777,650</u>	<u>-</u>	<u>3,689,040</u>	<u>3,817,818</u>	
Accounting fees	-	-	-	-	-	-	-	40,000	-	40,000	-	40,000	40,837	
Medical fees	7	3	-	137,091	20,781	10	157,892	371	-	371	-	158,263	161,755	
Other professional fees	-	-	-	-	-	-	-	37,789	114,133	151,922	-	151,922	62,150	
Supplies	18,315	8,568	1,583	16,025	11,390	1,808	57,689	4,767	4,051	8,818	46,194	112,701	82,636	
Telephone	9,216	4,263	2,569	2,326	5,578	1,499	25,451	11,958	4,324	16,282	-	41,733	43,057	
Postage, printing and mailing lists	339	26	1,008	25	109	25	1,532	647	9,531	10,178	8,791	20,501	22,037	
Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	-	
Fuel and utilities	42,930	20,640	-	-	40,196	-	103,766	7,971	-	7,971	-	111,737	101,001	
Property lease	5,278	2,538	-	-	2,606	-	10,422	772	290	1,062	-	11,484	11,484	
Repairs and maintenance	23,536	11,316	1,886	3,486	12,592	3,925	56,741	34	-	34	-	56,775	92,359	
Other	3,560	1,040	74	156	3,309	2,866	11,005	7,064	2,918	9,982	-	20,987	26,716	
Travel and vehicle costs	23,955	3,665	2,665	1,993	10,727	1,866	44,871	20,181	8,828	29,009	-	73,880	57,344	
Specific Assistance to Individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	
Food	29,808	14,335	7,796	52	18,125	5,604	75,720	-	-	-	-	75,720	70,988	
Donated food	90,672	43,593	-	-	-	-	134,265	-	-	-	-	134,265	142,377	
Clothing, travel and miscellaneous	29,235	14,053	12,882	20	17,986	7,958	82,134	198	34	232	-	82,366	64,573	
Donated clothing, travel and miscellaneous	33,520	16,116	-	-	-	-	49,636	-	-	-	-	49,636	45,856	
Other purchased services	126,507	58,714	3,588	11,907	64,376	3,977	269,069	23,283	18,901	42,184	222,261	533,514	470,255	
Other donated services	26,065	12,532	-	-	-	-	38,597	-	-	-	-	38,597	40,183	
Dues, licenses and permits	5,251	2,418	628	1,074	1,457	474	11,302	2,713	33	2,746	-	14,048	17,196	
Subscriptions and publications	1,617	768	1	2	1,633	1,207	5,228	637	605	1,242	-	6,470	5,456	
Staff recruitment	7,441	-	219	657	2,845	657	11,819	1,532	1,094	2,626	-	14,445	20,350	
Insurance	47,132	22,660	4,747	2,248	30,993	2,453	110,233	15,966	-	15,966	-	126,199	132,775	
Miscellaneous	19,493	8,334	106	715	6,034	1,680	36,362	1,368	1,658	3,026	-	39,388	97,646	
Bank charges and fees	-	-	-	-	-	-	-	31,483	-	31,483	2,272	33,755	29,160	
Total Functional Expenses Before Bad Debt and Depreciation	<u>1,664,713</u>	<u>934,466</u>	<u>116,692</u>	<u>402,211</u>	<u>881,228</u>	<u>205,814</u>	<u>4,205,124</u>	<u>642,448</u>	<u>510,336</u>	<u>1,152,784</u>	<u>279,518</u>	<u>5,637,426</u>	<u>5,656,009</u>	
Bad debt	-	-	-	-	-	-	-	26,625	-	26,625	-	26,625	-	
Depreciation	31,339	14,987	1,050	371	78,114	2,539	128,400	268	4,618	4,886	-	133,286	113,261	
Total Functional Expenses	<u>1,696,052</u>	<u>949,453</u>	<u>117,742</u>	<u>402,582</u>	<u>959,342</u>	<u>208,353</u>	<u>4,333,524</u>	<u>669,341</u>	<u>514,954</u>	<u>1,184,295</u>	<u>279,518</u>	<u>5,797,337</u>	<u>5,769,270</u>	
Less: cost of direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(279,518)</u>	<u>(279,518)</u>	<u>(187,791)</u>	
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 1,696,052</u>	<u>\$ 949,453</u>	<u>\$ 117,742</u>	<u>\$ 402,582</u>	<u>\$ 959,342</u>	<u>\$ 208,353</u>	<u>\$ 4,333,524</u>	<u>\$ 669,341</u>	<u>\$ 514,954</u>	<u>\$ 1,184,295</u>	<u>\$ -</u>	<u>\$ 5,517,819</u>	<u>\$ 5,581,479</u>	

See notes to financial statements

## Covenant House Texas

Statement of Cash Flows  
Year Ended June 30, 2018  
(with comparative amounts for year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,024,289	\$ 16,295
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	133,286	113,261
Recognition of continued use of land	11,484	11,484
Change in value of beneficial interest held in trust	15,834	(55,388)
Donated equipment	(3,257)	-
Provision for bad debts	26,625	-
Changes in operating assets and liabilities		
Contributions and pledges receivable	134,629	197,527
Grants receivable	(113,226)	50,910
Due from Parent	(315,981)	(218,393)
Other receivables	(54,555)	38,027
Inventory	1,845	(1,013)
Prepaid expenses	17,681	35,900
Security deposits	(687)	-
Accounts payable and accrued expenses	<u>2,974</u>	<u>15,912</u>
Net Cash from Operating Activities	880,941	204,522
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(721,636)</u>	<u>(98,190)</u>
Net Change in Cash and Cash Equivalents	159,305	106,332
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>2,259,680</u>	<u>2,153,348</u>
End of year	<u>\$ 2,418,985</u>	<u>\$ 2,259,680</u>

See notes to financial statements



# Covenant House Texas

Notes to Financial Statements  
June 30, 2018

## 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 89,000 and 80,000 young people during fiscal 2018 and 2017.

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, 2018

### 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 24 and their children.

###### *Outreach and Prevention*

The Outreach program is an effort to reach youth who are on the streets for various reasons. Each night, the Outreach team cruises the city streets in search of these youth, providing them with food, basic supplies, a trained counselor, and referrals to shelters, medical care and other services. Youth are also referred to the Organization's Community Service Center, where they receive ongoing counseling and other services.

In the Prevention program, a Prevention Specialist works with schools, community centers and churches to connect with youth and parents deemed by teachers and counselors 'at risk' for becoming homeless. In an effort to deter youth from moving on the streets, peer educators give personal testimonies about the perils of street life and provide alternatives for dealing with difficult situations at home and in school.

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

## Covenant House Texas

Notes to Financial Statements  
June 30, 2018

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

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

##### ***Program Services (continued)***

###### *Rapid Rehousing*

The Organization 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.

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 is a drop-in center that provides comprehensive services to youth in the residential programs and to other youth in the community. This program offers youth ages 18-24 meals, laundry services, clothing, showers, recreational activities, and vocational education. Access to medical, mental health, and substance abuse counseling and services is also provided.

##### ***Supporting Services***

###### *Management and General*

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

###### *Fundraising*

Fundraising services relate to the activities of the development 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, 2018

### 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 records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2018

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

#### ***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.

#### ***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, 2018 and 2017.

#### ***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, 2018 and 2017 to be fully collectible, and accordingly there is no allowance for doubtful accounts recorded.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2018

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

#### ***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, 2017 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, 2017, 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 net realizable value 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 \$1,616 and \$61 for the years ended June 30, 2018 and 2017.

#### ***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, 2015.

#### ***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.

#### ***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, 2018.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2018

### 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:

	<u>2018</u>	<u>2017</u>
Contributions and pledges	\$ 159,001	\$ 320,255
Grants	244,911	131,685
Other	54,555	-

### 4. Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 4,310	\$ 4,310
Property and improvements	4,293,125	3,674,750
Furniture and equipment	435,614	423,075
Vehicles	126,886	123,629
Computer hardware and software	86,915	74,881
Covenant House Texas video	26,452	26,452
Donated mineral royalty interests	<u>669</u>	<u>669</u>
	4,973,971	4,327,766
Accumulated depreciation	<u>(2,461,651)</u>	<u>(2,407,053)</u>
	<u>\$ 2,512,320</u>	<u>\$ 1,920,713</u>

Depreciation expense was \$133,286 and \$113,261 for the years ended June 30, 2018 and 2017.

### 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 \$132,721 and \$148,555 at June 30, 2018 and 2017. The fair value of the trust was valued using level 3 inputs.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2018

### 5. Beneficial Interest Held in Trust *(continued)*

The following table summarizes the changes in fair value associated with the Organization's Level 3 financial assets for the years ended June 30, 2018 and 2017:

Balance, June 30, 2016	\$ 93,167
Change in fair value	<u>55,388</u>
Balance, June 30, 2017	148,555
Change in fair value	<u>(15,834)</u>
Balance, June 30, 2018	<u>\$ 132,721</u>

### 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 \$32,471 and \$52,175 for the years ended June 30, 2018 and 2017. Future minimum annual lease payments for the years ending June 30 are payable as follows:

2019	\$ 18,023
2020	16,955
2021	16,955
2022	<u>12,716</u>
	<u>\$64,649</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, 2018 and 2017.

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, 2018 and 2017.

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 \$35 million and \$36 million for the years ended June 30, 2018 and 2017. In 2018 and 2017, the Organization received \$1,565,000 and \$1,515,000 in contributions from the Parent.



## Covenant House Texas

Notes to Financial Statements  
June 30, 2018

### 8. Related Party Transactions (*continued*)

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 million and \$66 million for the Parent in years ended June 30, 2018 and 2017. Contributions received from the Parent are generally not specifically restricted by donors to specific affiliates.

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 \$1,056,544 and \$1,068,028 as of June 30, 2018 and 2017, 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 other 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 \$156,539 and \$180,241 for the years ended June 30, 2018 and 2017.

### 10. Temporarily Restricted Net Assets

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

	2018	2017
Shelter and crisis care	\$ 58,942	\$ 197,680
Medical services	-	8,986
Rights of Passage	-	21,205
Promise of continued use of land	1,056,544	1,068,028
Beneficial interest held in trust	132,721	148,555
Strategic plan initiative	38,064	75,000
Hurricane relief	152,704	-
General operations- Time restricted	40,280	100,000
	<u>\$ 1,479,255</u>	<u>\$ 1,619,454</u>

## Covenant House Texas

Notes to Financial Statements  
June 30, 2018

### 10. Temporarily Restricted Net Assets (continued)

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:

	2018	2017
Shelter and crisis care	\$ 298,806	\$ 189,811
Hurricane relief	467,776	-
Medical services	78,986	45,020
Rights of Passage	116,705	545,815
Promise of continued use of land	11,484	11,484
Strategic plan initiative	36,936	-
General operations-Time restricted	83,620	100,000
	<u>\$ 1,094,313</u>	<u>\$ 892,130</u>

### 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, 2018, 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 Schedules

June 30, 2018

## Covenant House Texas

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>Department of Housing and Urban Development</u>				
Pass-Through City of Houston Community Development Block Grants/Entitlement Grants	4600013805	14.218	\$ -	\$ 17,282
Pass-Through Harris County Community Development Block Grants/Entitlement Grants	2015-0038	14.218	-	206,481
Pass-Through City of Houston Emergency Solutions Grant Program	4600013805	14.231	-	108,948
Pass-Through Harris County Emergency Solutions Grant Program	2016-0033b	14.231	-	26,606
Emergency Solutions Grant Program	2017-0035b	14.231	-	24,537
Emergency Solutions Grant Program	2018-0031b	14.231	-	11,460
Pass-Through Texas Department of Housing and Community Affairs Emergency Solutions Grant Program	42160002557	14.231	-	42,199
Emergency Solutions Grant Program	42170002834	14.231	-	90,767
Pass-Through Coalition for the Homeless of Houston Emergency Solutions Grant Program	2018-0031g	14.231	-	11,317
Pass-Through Houston Housing Authority Continuum of Care Program	16-31-B	14.267	-	32,504
Total Department of Housing and Urban Development, Pass-Through Programs			-	572,101
Total Department of Housing and Urban Development			-	572,101
<u>Department of Health and Human Services</u>				
Direct Programs Transitional Living for Homeless Youth		93.550	-	155,040
Total Department of Health and Human Services			-	155,040
<u>Department of Homeland Security</u>				
Pass-Through United Way - Phase 34 Emergency Food and Shelter National Board Program	LRO-005	97.024	-	75,000
Total Department of Homeland Security			-	75,000
Total Expenditures of Federal Awards			\$ -	\$ 802,141

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, 2018

### 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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditure are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### 3. 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, 2018, the Organization received no nonmonetary assistance.

**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, 2018, 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 November 15, 2018.

**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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

### **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*

November 15, 2018

**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's (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, 2018. 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, 2018.

**Report on Internal Control Over Compliance**

Management of the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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*

November 15, 2018

**Covenant House Texas**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018

**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 U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants
14.231	Emergency Solutions Grant Program

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

Auditee qualified as low-risk auditee?  yes  no

**Section II – Financial Statement Findings**

During our audit, we noted no material findings for the year ended June 30, 2018.

**Section III – Federal Award Findings and Questioned Costs**

During our 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 Audit Findings**

There were no prior year audit findings.