

# **Covenant House Texas**

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

June 30, 2020

## Covenant House Texas

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

June 30, 2020

#### TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 21
<b>UNIFORM GUIDANCE REPORTS AND SCHEDULES</b>	
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	
Schedule of Findings and Questioned Costs	28-29
Corrective Action Plan	

## 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, 2020 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, 2020, 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, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***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, 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 on page 22 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 December 1, 2020, 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*

December 1, 2020

## Covenant House Texas

### Statement of Financial Position June 30, 2020 (with comparative amounts at June 30, 2019)

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,234,117	\$ 4,472,988
Contributions and pledges receivable, net	3,194,610	2,400,370
Grants receivable	279,073	208,649
Due from Parent, net	-	538,934
Other receivables	3,028	68
Inventory	2,293	2,619
Prepaid expenses	19,166	15,908
Beneficial interest held in trust	229,093	196,235
Promise of continued use of land	1,033,576	1,045,060
Security deposits and other assets	8,687	37,687
Restricted cash	-	40,000
Property and equipment, net	6,552,380	2,481,874
	\$ 15,556,023	\$ 11,440,392
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 274,110	\$ 391,521
Due to Parent	14,770	-
PPP forgivable loan	661,749	-
Capital lease obligation	24,583	31,174
Note payable	1,400,000	-
Total Liabilities	2,375,212	422,695
Net Assets		
Without donor restrictions	9,531,354	5,035,810
With donor restrictions	3,649,457	5,981,887
Total Net Assets	13,180,811	11,017,697
	\$ 15,556,023	\$ 11,440,392

See notes to financial statements

## Covenant House Texas

### Statement of Activities Year Ended June 30, 2020 (with summarized totals for year ended June 30, 2019)

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>SUPPORT AND REVENUE</b>				
Branding dollars from Parent	\$ 1,180,963	\$ -	\$ 1,180,963	\$ 1,242,000
Contributions	2,648,510	2,347,511	4,996,021	6,743,473
Contributed services and merchandise	100,561	-	100,561	227,852
Government grants and contracts	785,794	-	785,794	648,815
Grants from Parent Related to National Sleep Out Event	579,962	-	579,962	597,519
Special events revenue, net of direct benefit to donor costs of \$101,741 and \$247,864 in 2020 and 2019	1,019,530	-	1,019,530	867,969
Total Support and Revenue	<u>6,315,320</u>	<u>2,347,511</u>	<u>8,662,831</u>	<u>10,327,628</u>
<b>OTHER INCOME</b>				
Interest income	8,963	-	8,963	7,711
Other income	16,011	32,858	48,869	62,909
Total Other Income	<u>24,974</u>	<u>32,858</u>	<u>57,832</u>	<u>70,620</u>
Total Support and Revenue and Other				
Income Before Net Assets Released from Restrictions	6,340,294	2,380,369	8,720,663	10,398,248
Net assets released from restrictions	<u>4,712,799</u>	<u>(4,712,799)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Other Income	<u>11,053,093</u>	<u>(2,332,430)</u>	<u>8,720,663</u>	<u>10,398,248</u>
<b>EXPENSES</b>				
Program services	5,112,552	-	5,112,552	5,098,692
Supporting Services				
Management and general	863,998	-	863,998	679,772
Fundraising	580,999	-	580,999	570,677
Total Expenses	<u>6,557,549</u>	<u>-</u>	<u>6,557,549</u>	<u>6,349,141</u>
Change in Net Assets	4,495,544	(2,332,430)	2,163,114	4,049,107
<b>NET ASSETS</b>				
Beginning of year	<u>5,035,810</u>	<u>5,981,887</u>	<u>11,017,697</u>	<u>6,968,590</u>
End of year	<u>\$ 9,531,354</u>	<u>\$ 3,649,457</u>	<u>\$ 13,180,811</u>	<u>\$ 11,017,697</u>

See notes to financial statements

## Covenant House Texas

### Statement of Functional Expenses Year Ended June 30, 2020 (with summarized totals for year ended June 30, 2019)

	2020							2019			Total Expense	2019 Total Expense	
	Program Services				Supporting Services			Direct Benefit to Donors	Total Expense				
	Shelter and Crisis Care	Mother/ Child	Outreach and Prevention	Medical Services	Rights of Passage / Rapid Rehousing	Community Service Center	Total Program Services			Mangement and General			Fundraising
Salaries and wages	\$ 1,073,817	\$ 654,251	\$ 82,872	\$ 142,157	\$ 670,676	\$ 92,728	\$ 2,716,501	\$ 363,209	\$ 314,170	\$ 677,379	\$ -	\$ 3,393,880	\$ 3,274,676
Payroll taxes	82,922	50,814	6,183	10,543	51,016	7,001	208,479	23,743	23,744	47,487	-	255,966	249,334
Employee benefits	195,380	109,977	16,528	28,645	126,667	18,241	495,438	58,228	43,239	101,467	-	596,905	627,335
Total Salaries and Related Expenses	1,352,119	815,042	105,583	181,345	848,359	117,970	3,420,418	445,180	381,153	826,333	-	4,246,751	4,151,345
Accounting fees	4,517	1,903	667	1,134	1,324	445	9,990	26,697	813	27,510	-	37,500	40,500
Medical fees	-	-	-	145,317	801	-	146,118	-	-	-	-	146,118	149,139
Other professional fees	120,023	50,560	1,926	3,198	6,963	2,743	185,413	197,633	115,006	312,639	-	498,052	333,989
Supplies	33,033	13,914	2,394	17,865	11,493	2,084	80,783	2,111	9,488	11,599	1,276	93,658	75,186
Telephone	23,924	10,078	1,049	3,527	7,245	832	46,655	8,928	5,075	14,003	-	60,658	44,415
Postage, printing and mailing lists	1,117	471	20	33	184	205	2,030	2,706	5,251	7,957	-	9,987	13,351
Occupancy													
Fuel and utilities	46,305	19,506	967	1,628	34,010	10,617	113,033	7,231	641	7,872	-	120,905	126,207
Property lease	9,892	4,167	128	1,383	6,693	3,476	25,739	3,691	3,922	7,613	-	33,352	11,484
Repairs and maintenance	50,994	21,482	7,008	11,907	22,313	12,223	125,927	382	215	597	-	126,524	97,641
Other	-	-	-	-	-	-	-	-	-	-	-	-	21,008
Travel and vehicle costs	24,504	10,323	2,655	2,935	9,917	1,812	52,146	10,953	6,060	17,013	-	69,159	73,904
Specific Assistance to Individuals													
Food	43,076	18,148	5,493	16	6,273	5,574	78,580	54	17	71	-	78,651	93,725
Donated food	5,491	2,313	-	-	-	-	7,804	-	-	-	-	7,804	112,109
Clothing, travel and miscellaneous	24,725	10,418	13,816	254	10,477	12,435	72,125	2,968	905	3,873	-	75,998	84,408
Donated clothing, travel and miscellaneous	42,935	18,087	-	-	-	-	61,022	-	-	-	-	61,022	60,854
Other purchased services	179,359	75,558	7,322	21,258	30,447	5,837	319,781	36,322	26,206	62,528	100,465	482,774	597,035
Other donated services	-	-	-	-	-	-	-	-	-	-	-	-	54,890
Dues, licenses and permits	3,964	1,671	231	989	808	230	7,893	3,035	459	3,494	-	11,387	9,081
Subscriptions and publications	3,751	1,579	120	199	2,505	1,140	9,294	4,051	1,463	5,514	-	14,808	11,698
Staff recruitment	1,544	651	24	36	254	95	2,604	252	159	411	-	3,015	-
Insurance	53,018	22,334	7,232	2,779	32,677	2,126	120,166	10,809	330	11,139	-	131,305	132,580
Miscellaneous	2,216	933	143	244	284	95	3,915	5,706	19,479	25,185	-	29,100	61,328
Interest	-	-	-	-	-	-	-	74,258	-	74,258	-	74,258	-
Bank charges and fees	781	329	116	196	229	77	1,728	4,611	141	4,752	-	6,480	21,175
Total Functional Expenses Before													
Bad Debt and Depreciation	2,027,288	1,099,467	156,894	396,243	1,033,256	180,016	4,893,164	847,578	576,783	1,424,361	101,741	6,419,266	6,377,052
Bad debt	-	-	-	-	-	-	-	-	-	-	-	-	8,880
Depreciation	94,984	40,013	2,228	1,077	80,308	778	219,388	16,420	4,216	20,636	-	240,024	211,073
Total Functional Expenses													
Less: cost of direct benefits to donors	2,122,272	1,139,480	159,122	397,320	1,113,564	180,794	5,112,552	863,998	580,999	1,444,997	101,741	6,659,290	6,597,005
	-	-	-	-	-	-	-	-	-	-	(101,741)	(101,741)	(247,864)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,122,272	\$ 1,139,480	\$ 159,122	\$ 397,320	\$ 1,113,564	\$ 180,794	\$ 5,112,552	\$ 863,998	\$ 580,999	\$ 1,444,997	\$ -	\$ 6,557,549	\$ 6,349,141

See notes to financial statements

## Covenant House Texas

### Statement of Cash Flows Year Ended June 30, 2020 (with comparative amounts for year ended June 30, 2019)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,163,114	\$ 4,049,107
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	240,024	211,073
Recognition of continued use of land	11,484	11,484
Change in value of beneficial interest held in trust	(32,858)	(63,514)
Discount on contributions and pledges receivable	(13,047)	29,011
Provision for bad debts	-	8,880
Changes in operating assets and liabilities		
Contributions and pledges receivable	(781,193)	(2,279,260)
Grants receivable	(70,424)	36,262
Due to/from Parent	553,704	201,131
Other receivables	(2,960)	54,487
Inventory	326	1,224
Prepaid expenses	(3,258)	(2,457)
Security deposits and other assets	29,000	(25,000)
Accounts payable and accrued expenses	(117,411)	(28,972)
Net Cash from Operating Activities	1,976,501	2,203,456
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(4,310,530)	(143,086)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from note payable	1,800,000	-
Note payable repayments	(400,000)	-
Proceeds from PPP forgivable loan	661,749	-
Repayments under capital lease obligation	(6,591)	(6,367)
Net Cash from Financing Activities	2,055,158	(6,367)
Net Change in Cash, Cash Equivalents and Restricted Cash	(278,871)	2,054,003
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Beginning of year	4,512,988	2,458,985
End of year	\$ 4,234,117	\$ 4,512,988
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$ 74,258	\$ 1,192
<b>NON-CASH INVESTING AND FINANCING ACTIVITY</b>		
Capital lease obligations	-	37,541
See notes to financial statements		



## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

### 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 50,000 and 74,000 young people during fiscal 2020 and 2019.

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

Covenant House Alaska	Covenant House Pennsylvania/Under 21
Covenant House California	Covenant House Washington, D.C.
Covenant House Chicago	Covenant House Western Avenue
Covenant House Connecticut	Covenant House Testamentum
Covenant House Florida	Covenant House Holdings, LLC
Covenant House Georgia	Covenant International Foundation
Covenant House Illinois	CH Housing Development Fund Corporation
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	460 West 41st Street, LLC
Covenant House New York/Under 21	

Covenant House is also the sole member of Covenant International Foundation ("CIF"), a not-for-profit corporation. 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, 2020

### 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 to 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.

###### *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.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

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

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

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

###### *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 are 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.

#### ***New Accounting Pronouncements***

##### *Revenue from Contracts with Customers*

Effective July 1, 2019, the Organization adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, as amended. The guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue recognition guidance does not apply to how contributions and pledges are recognized, as they are specifically scoped out of the new guidance.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

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

#### ***New Accounting Pronouncements (continued)***

##### *Revenue from Contracts with Customers (continued)*

The core principle of the new guidance is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those promised goods or services to customers. The guidance includes a five-step framework to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this guidance requires new or expanded disclosures related to judgments made by entities when following this framework.

Analysis of various provisions of this standard resulted in no changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

The new guidance requires the Organization to not recognize revenue until it is probable of collection and, based on the Organization's strong collection experience, management has concluded that all revenue recognized is probably of collection.

##### *Recognition of Contributions*

Effective July 1, 2019, the Organization adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides a framework for evaluating whether grants and contributions should be accounted for as exchange transactions or as non-exchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes grants and contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. Adoption of ASU 2018-08 had no impact on the Organization's financial statements.

##### *Restricted Cash*

Effective July 1, 2019, the Organization adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* for all periods presented. This guidance requires inclusion of restricted cash with cash when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows to the statement of financial position. The Organization retrospectively applied the pronouncement to the prior-year balance. Previously, changes in restricted cash were reported on the statement of cash flows as operating, investing or financing activities based on the nature of the underlying activity

##### ***Net Asset Presentation***

The Organization reports information regarding financial position and activities in two classes of net assets: without and with donor restrictions.

*Without donor restrictions* – consist of resources available for the general support of the Organization's operations. Net assets without donor restrictions may be used at the discretion of the Organization's management and Board of Directors.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

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

#### ***Net Asset Presentation (continued)***

*With donor restrictions* – represent amounts restricted by donors to be used for specific activities or at some future date, or which require the Organization to maintain in perpetuity, including funds that are subject to restrictions or gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Income and gains earned on endowment fund investments are available to be used in the “without donor restrictions” or “with donor restrictions” net asset classes based upon stipulations by donors.

#### ***Cash, Cash Equivalents and Restricted Cash***

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

Restricted cash includes funds that were restricted as to use by the Organization. The following is a reconciliation of the cash and restricted cash reported on the statement of financial position to the statement of cash flows at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,234,117	\$ 4,472,988
Restricted cash	-	40,000
	<u>\$ 4,234,117</u>	<u>\$ 4,512,988</u>

#### ***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 with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor 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 without donor restricted contributions unless there are donor-imposed restrictions. Costs to generate donations and grants are expensed as incurred.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

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

#### ***Functional Allocation of Expenses***

The majority of expenses are directly identified with the program or supporting service to which they relate and are charged accordingly. Expenses incurred by shared services such as administrative, finance, human resources, security, housekeeping, and maintenance are allocated among programs and supporting services on the basis of percentage of time spent by staff on a particular program or task, and other criteria as determined by the management of the Organization. The statement of functional expenses is prepared based on actual expenses of each program and an allocation of expenses from shared services or non-program services. Expenses of shared services or non-program services are allocated to programs in several ways: (1) based on the ratio of participants to the total client population of the Organization; (2) based on the number of full-time employees in each department categorized by the functional area they support; or (3) other criteria as determined by the Organization's management.

#### ***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, 2020 and 2019.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

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

#### ***Contributions and Pledges Receivable***

Contributions to the Organization are recorded as revenue upon the receipt of an unconditional pledge or of cash or other assets. Contributions and pledges are considered available for general use, unless the donors restrict their use. Multi-year receivables are discounted at an interest rate commensurate with the risk involved. An allowance for uncollectible contributions and 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, 2020 and 2019 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, 2019 is presented for comparative purposes only. Certain activity by net asset classification is 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, 2019, 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 \$2,977 and \$1,762 for the years ended June 30, 2020 and 2019.

**Covenant House Texas**

Notes to Financial Statements  
June 30, 2020

**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, 2017.

**3. Contributions and Pledges Receivable**

Contributions and pledges receivable at June 30 that are due to be collected as follows:

	<u>2020</u>	<u>2019</u>
In one year or less	\$ 1,093,989	\$ 1,618,295
Between one year and five years	<u>2,116,585</u>	<u>811,086</u>
	3,210,574	2,429,381
Less:		
Discount, at .29% and 1.79%	<u>15,964</u>	<u>29,011</u>
	<u>\$3,194,610</u>	<u>\$2,400,370</u>

**4. Grants and Other Receivables**

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

	<u>2020</u>	<u>2019</u>
Grants	\$ 279,073	\$ 208,649
Other	3,028	68



## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

### 5. Property and Equipment

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

	2020	2019
Land	\$ 1,979,310	\$ 4,310
Property and improvements	6,715,897	4,423,691
Furniture and equipment	477,201	436,962
Vehicles	126,886	126,886
Computer hardware and software	64,783	61,698
Covenant House Texas video	26,452	26,452
Donated mineral royalty interests	669	669
	<u>9,391,198</u>	<u>5,080,668</u>
Accumulated depreciation	<u>(2,838,818)</u>	<u>(2,598,794)</u>
	<u>\$ 6,552,380</u>	<u>\$ 2,481,874</u>

Depreciation expense was \$240,024 and \$211,073 for the years ended June 30, 2020 and 2019.

### 6. Note Payable

On July 22, 2019, the Organization acquired a certain real property with a purchase price of \$3,750,000, of which \$1,975,000 was allocated to land and \$1,775,000 was allocated to building at the estimated fair value of the assets. At closing, the Organization made a cash payment of \$1,950,000 and obtained a loan totaling \$1,800,000 held by Allegiance Bank (the "Bank") for the balance. The loan with the Bank matures on July 22, 2024, and requires monthly of interest only at the rate of 5.50% per annum for the first eighteen months. Commencing with month nineteen, monthly installment payments of principal and interest shall be due based on an amortization of the original loan over 240 months. Upon maturity, the remaining principal and accrued interest are due in full. Upon maturity, the remaining principal and accrued interest are due in full. In fiscal 2020, the Organization made a balloon principal payment of \$400,000 towards the loan. As of June 30, 2020, the total amount outstanding on the note payable was \$1,400,000.

The following table presents the maturities of the loan in each of the next five years:

2021	\$ 16,318
2022	40,160
2023	42,457
2024	44,689
2025	<u>1,256,376</u>
	<u>\$ 1,400,000</u>

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

### 7. PPP Forgivable Loan

On April 25, 2020, the Organization received loan proceeds in the amount of \$661,749 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act, over a period of either eight or twenty-four weeks (the "Covered Period"). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries above a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the PPP loan, if any, is payable within two years from the date of the loan. Loan payments of principal or interest are deferred until the amount of loan forgiveness is determined by the United States Small Business Administration ("SBA"). If the Organization does not apply for forgiveness, payments begin approximately 16 months after the loan date.

The Organization intends to use all proceeds received in accordance with regulations established by the PPP. Management believes its use of the proceeds, including amounts expended through June 30, 2020, will be forgiven. The entire amount received under the PPP is reported as a forgivable loan in the statement of financial position at June 30, 2020.

### 8. 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 general use. The Organization reports the trust as an asset and donor 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 \$229,093 and \$196,235 at June 30, 2020 and 2019. 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, 2020 and 2019:

Balance, June 30, 2018	\$ 132,721
Change in fair value	<u>63,514</u>
Balance, June 30, 2019	196,235
Change in fair value	<u>32,858</u>
Balance, June 30, 2020	<u>\$ 229,093</u>

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

### 9. 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 fiscal 2022.

Lease expense was \$33,188 and \$32,492 for the years ended June 30, 2020 and 2019. Future minimum annual lease payments for the years ending June 30 are payable as follows:

2021	19,883
2022	<u>15,179</u>
	<u>\$ 35,062</u>

### 10. Capital Lease

The Organization has entered into a capital lease agreement for telephone equipment. The present value of the obligations to the lessors has been recorded as a liability. As a result, the cost of leased equipment as of June 30, 2020 is \$37,541. This equipment is being amortized on the straight-line method over the estimated useful life of the asset. Accumulated amortization as of June 30, 2020 and 2019 is \$13,567 and \$6,367. Interest expense on this lease for the years ended June 30, 2020 and 2019 was \$1,046 and \$1,192.

Future minimum lease payments together with the present value of the minimum lease payments as of June 30, 2020 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 8,246
2022	8,246
2023	8,246
2024	<u>891</u>
Total minimum lease payments	25,629
Less amount representing interest	<u>(1,046)</u>
Obligation under capital lease	<u>\$ 24,583</u>

### 11. 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, 2022, provided for payments of \$61,515 and \$61,152 to Baylor during the years ended June 30, 2020 and 2019.

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 \$25,000 and \$60,000 to Baylor during the years ended June 30, 2020 and 2019.

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.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

### 12. 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 \$38 million and \$34 million for the years ended June 30, 2020 and 2019. In 2020 and 2019, the Organization received \$1,180,963 and \$1,242,000 in contributions from the Parent.

Certain board members have relationships with various companies and financial institutions where the Organization conducts its business.

Revenue reflected in the accompanying statement of activities includes contributions from certain board members related to the capital campaign in the amount of \$10,000 in 2020 and \$987,500 in 2019. Of this amount, the Organization has established a receivable of \$7,500 and \$645,585, which is included in contributions and pledges receivable in the accompanying statement of financial position at June 30, 2020 and 2019.

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 the lease as 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 net assets with donor restrictions. The remaining balance of \$1,033,576 and \$1,045,060 as of June 30, 2020 and 2019, 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.

### 13. 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 \$191,958 and \$183,011 for the years ended June 30, 2020 and 2019.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

### 14. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	2020	2019
Shelter and crisis care	\$ 35,894	\$ 96,402
Promise of continued use of land	1,033,576	1,045,060
Beneficial interest held in trust	229,093	196,235
Endowment deposit	-	40,000
Strategic plan initiative	3,441	125,311
Capital campaign	2,269,458	4,400,884
Time restricted	77,995	77,995
	<u>\$ 3,649,457</u>	<u>\$5,981,887</u>

Net assets with donor restrictions 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:

	2020	2019
Shelter and crisis care	\$ 73,032	\$ 263,849
Hurricane relief	-	152,704
Medical services	-	79,920
Rights of Passage	-	62,153
Promise of continued use of land	11,484	11,484
Strategic plan initiative	121,870	87,753
Capital campaign	4,466,413	152,755
Time restricted	40,000	21,945
	<u>\$ 4,712,799</u>	<u>\$ 832,563</u>

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

### 15. Liquidity and Availability of Resources

The following reflects the Organization's available financial assets, reduced by amounts not available for general use within one year. Amounts not available for use within one year include financial assets received with donor restrictions that are designated for a specific purpose, timeline or contractual obligation, and have been earmarked as resources available for future years. Total financial assets available to meet cash needs for general expenditures within one year of the date of financial position, are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,234,117	\$ 4,472,988
Contributions and pledges receivable, net	3,194,610	2,400,370
Grants receivable	279,073	208,649
Due from Parent, net	-	538,934
Other receivables	3,028	68
Beneficial interest held in trust	<u>229,093</u>	<u>196,235</u>
Total Financial Assets	7,939,921	7,817,244
Less: Contractual or donor imposed restrictions amounts		
Receivables scheduled to be collected more than one year	2,100,621	782,075
Donor imposed restricted amounts	<u>1,545,647</u>	<u>2,576,457</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 4,293,653</u>	<u>\$ 4,458,712</u>

The Organization is substantially supported by contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. As such, financial assets with restrictions may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Excess cash is included in various checking accounts and although the Organization does not intend to spend from the accounts other than amounts appropriate for general expenditure as part of its annual budget approval and appropriate process, the amounts could be made available if necessary. Another part of this policy is the board's approval of the annual balanced budget before the start of the fiscal year.

### 16. 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.

## Covenant House Texas

Notes to Financial Statements  
June 30, 2020

### 17. 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 two 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.

### 18. Risks and Uncertainties

The ongoing Coronavirus pandemic has resulted in substantial volatility in the global economy. The pandemic may potentially have an adverse effect on the results of operations. While management has implemented measures to mitigate the impact of the pandemic, including obtaining a PPP loan under the CARES Act as detailed in Note 7, the extent to which the Organization's operations are impacted will depend on future developments, which are highly uncertain and cannot be predicted. As a result, management cannot reasonably estimate the overall impact of the Coronavirus pandemic to the Organization's future results of operations, cash flows, or financial condition.

### 19. Subsequent Events

The Organization has evaluated events through December 1, 2020, the date these financial statements were issued and has determined that, other than what is disclosed here-in, there are no subsequent events or transactions requiring recognition or disclosure in the financial statements.

\* \* \* \* \*

# **Covenant House Texas**

Uniform Guidance  
Reports and Schedules

June 30, 2020



## Covenant House Texas

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2020

<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	\$ -	\$ 24,131
Pass-Through City of Houston Emergency Solutions Grant Program	4600013805	14.231	-	115,314
Pass-Through Harris County Emergency Solutions Grant Program	2019-0031c	14.231	-	21,398
Emergency Solutions Grant Program	2018-0031b	14.231	-	107,215
Pass-Through Texas Department of Housing and Community Affairs Emergency Solutions Grant Program	43207000045	14.231	-	19,249
Emergency Solutions Grant Program	42197000045	14.231	-	168,916
Pass-Through Coalition for the Homeless of Houston Emergency Solutions Grant Program	2019-0031b	14.231	-	120,264
Pass-Through Houston Housing Authority Continuum of Care Program	16-31-B	14.267	-	49,991
Total Department of Housing and Urban Development, Pass-Through Programs			-	626,478
<u>Department of Health and Human Services</u>				
Direct Programs Transitional Living for Homeless Youth		93.550	-	219,989
Total Department of Health and Human Services			-	219,989
<u>Department of Homeland Security</u>				
Pass-Through United Way - Phase 36 Emergency Food and Shelter National Board Program	LRO-005	97.024	-	60,000
Total Department of Homeland Security			-	60,000
Total Expenditures of Federal Awards			\$ -	\$ 906,467

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, 2020

### 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, 2020. 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, 2020, 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, 2020, 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 December 1, 2020.

**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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 to be a significant deficiency.

### **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 Finding**

The Organization's response to the finding 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*

December 1, 2020

**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, 2020. 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, 2020.

**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*

December 1, 2020

## Covenant House Texas

### Schedule of Findings and Questioned Costs Year Ended June 30, 2020

#### 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>
14.231	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

##### 2019-001 Reconciliation of General Ledger Accounts and Audit Readiness

###### Criteria

The general ledger should be reconciled and certain account schedules should be prepared on a timely basis to permit the preparation of financial statements in accordance with Generally Accepted Accounting Principles ("U.S. GAAP").

###### Condition

Certain account schedules were not fully analyzed and prepared until several weeks after the commencement of audit fieldwork. Specifically, accrued donations and the capital campaign receivables were not audit-ready. This caused adjusting journal entries to be proposed by the auditors and posted by the Organization during audit fieldwork.

###### Cause

The Organization does not have an adequate monthly financial closing process, whereby all transactions are entered, monthly reconciliations performed, adjusting journal entries recorded, and ending balances reviewed and approved by an appropriate member of the financial team, within a reasonable time period after month end.

## **Covenant House Texas**

### Schedule of Findings and Questioned Costs Year Ended June 30, 2020

#### Section II – Financial Statement Findings (continued)

##### 2019-001 Reconciliation of General Ledger Accounts and Audit Readiness (continued)

###### Effect

Account balances in the general ledger were not accurately stated and required adjustments.

###### Recommendation

We recommend that the Organization develop a well-defined monthly closing process timeline, with each step assigned an expected due date that is reasonable based on the reporting needs of the Organization. In this way, timely reporting of financial information becomes routine, and the year-end closing process will be timely and efficient.

###### Views of Responsible Officials

See Corrective Action Plan

#### 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.



## Corrective Action Plan

### **Section II – Financial Statement Findings**

#### **Item 2019-001 Reconciliation of General Ledger Accounts and Audit Readiness**

##### Criteria

The general ledger should be reconciled and certain account schedules should be prepared on a timely basis to permit the preparation of financial statements in accordance with Generally Accepted Accounting Principles (“U.S. GAAP”).

##### Condition

Certain account schedules were not fully analyzed and prepared until several weeks after the commencement of audit fieldwork. Specifically, accrued donations and the capital campaign receivables were not audit-ready. This caused adjusting journal entries to be proposed by the auditors and posted by the Organization during audit fieldwork.

##### Cause

The Organization does not have an adequate monthly financial closing process, whereby all transactions are entered, monthly reconciliations performed, adjusting journal entries recorded, and ending balances reviewed and approved by an appropriate member of the financial team, within a reasonable time period after month end.

##### Effect

Account balances in the general ledger were not accurately stated and required adjustments.

##### Recommendation

We recommend that the Organization develop a well-defined monthly closing process timeline, with each step assigned an expected due date that is reasonable based on the reporting needs of the Organization. In this way, timely reporting of financial information becomes routine, and the year-end closing process will be timely and efficient.

##### Views of Responsible Officials and Corrective Action Plan

1. The general ledger will be reconciled and certain account schedules will be fully analyzed monthly, by management, such that they will be audit-ready.
2. Management will update the existing monthly financial closing process that includes a check list to ensure all transactions are entered, monthly reconciliations performed, adjusting journal entries recorded, and ending balance reviewed and approved by the CFO within 15 workdays after each month end.
3. Management will implement a well-defined monthly closing process to include the assignment and due date of each step described in Item (2) above. All steps will be completed no more than 15 workdays after each month-end date and two months after the year-end date.



Calvin Tang, CPA, CGMA  
Chief Financial Officer