

Covenant House Texas

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

June 30, 2021

Covenant House Texas

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

June 30, 2021

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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, 2021 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Covenant House Texas' June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 1, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 21 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 17, 2021, 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 17, 2021

Covenant House Texas

Statement of Financial Position
June 30, 2021
(with comparative amounts at June 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 12,178,295	\$ 4,234,117
Contributions and pledges receivable, net	3,194,581	3,194,610
Grants receivable	161,332	279,073
Due from Parent	606	-
Other receivables	7,337	3,028
Inventory	2,990	2,293
Prepaid expenses	51,574	19,166
Beneficial interest held in trust	289,987	229,093
Promise of continued use of land	1,022,092	1,033,576
Security deposits and other assets	43,187	8,687
Property and equipment, net	<u>6,859,908</u>	<u>6,552,380</u>
	<u>\$ 23,811,889</u>	<u>\$ 15,556,023</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 406,856	\$ 274,110
Due to Parent	-	14,770
Paycheck Protection Program loan payable	661,749	661,749
Capital lease obligation	16,498	24,583
Note payable	<u>1,369,687</u>	<u>1,400,000</u>
Total Liabilities	<u>2,454,790</u>	<u>2,375,212</u>
Net Assets		
Without donor restrictions	9,148,045	9,531,354
With donor restrictions	<u>12,209,054</u>	<u>3,649,457</u>
Total Net Assets	<u>21,357,099</u>	<u>13,180,811</u>
	<u>\$ 23,811,889</u>	<u>\$ 15,556,023</u>

See notes to financial statements

Covenant House Texas

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

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Branding dollars from Parent	\$ 638,000	\$ -	\$ 638,000	\$ 1,180,963
Contributions	2,619,797	9,015,757	11,635,554	4,996,021
Contributed services and merchandise	99,108	-	99,108	100,561
Government grants and contracts	1,159,218	-	1,159,218	785,794
Grants from Parent Related to National Sleep Out Event	569,138	-	569,138	579,962
Special events revenue, net of direct benefit to donor costs of \$5,516 and \$101,741 in 2021 and 2020	543,454	-	543,454	1,019,530
Total Support and Revenue	<u>5,628,715</u>	<u>9,015,757</u>	<u>14,644,472</u>	<u>8,662,831</u>
OTHER INCOME				
Interest income	1,622	-	1,622	8,963
Other income	43,274	60,894	104,168	48,869
Total Other Income	<u>44,896</u>	<u>60,894</u>	<u>105,790</u>	<u>57,832</u>
Total Support and Revenue and Other Income Before Net Assets Released from Restrictions	5,673,611	9,076,651	14,750,262	8,720,663
Net assets released from restrictions	<u>517,054</u>	<u>(517,054)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Other Income	<u>6,190,665</u>	<u>8,559,597</u>	<u>14,750,262</u>	<u>8,720,663</u>
EXPENSES				
Program services	5,080,976	-	5,080,976	5,112,552
Supporting Services				
Management and general	1,002,447	-	1,002,447	863,998
Fundraising	490,551	-	490,551	580,999
Total Expenses	<u>6,573,974</u>	<u>-</u>	<u>6,573,974</u>	<u>6,557,549</u>
Change in Net Assets	(383,309)	8,559,597	8,176,288	2,163,114
NET ASSETS				
Beginning of year	<u>9,531,354</u>	<u>3,649,457</u>	<u>13,180,811</u>	<u>11,017,697</u>
End of year	<u>\$ 9,148,045</u>	<u>\$ 12,209,054</u>	<u>\$ 21,357,099</u>	<u>\$ 13,180,811</u>

See notes to financial statements

Covenant House Texas

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

	2021											2020 Total Expense	
	Program Services						Supporting Services						
	Short-term Housing and Crisis Care	Young Families Program	Outreach and Prevention	Medical	Transitional Living - Rights of Passage / Rapid Rehousing	Drop-in Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Direct Benefit to Donors		Total Expense
Salaries and wages	\$ 1,041,153	\$ 210,157	\$ 139,511	\$ 272,250	\$ 478,024	\$ 277,234	\$ 2,418,329	\$ 478,633	\$ 191,530	\$ 670,163	\$ -	\$ 3,088,492	\$ 3,393,880
Payroll taxes	69,447	14,017	9,301	18,630	31,921	20,123	163,439	32,449	13,994	46,443	-	209,882	255,966
Employee benefits	182,977	36,933	24,077	39,344	95,837	52,465	431,633	72,334	31,384	103,718	-	535,351	596,905
Total Salaries and Related Expenses	1,293,577	261,107	172,889	330,224	605,782	349,822	3,013,401	583,416	236,908	820,324	-	3,833,725	4,246,751
Accounting fees	1,778	359	1,333	3,876	3,905	2,631	13,882	36,688	1,180	37,868	-	51,750	37,500
Medical fees	-	-	-	222,424	-	-	222,424	-	-	-	-	222,424	146,118
Other professional fees	97,736	19,728	3,700	6,250	13,059	6,969	147,442	144,326	162,346	306,672	-	454,114	498,052
Supplies	38,384	7,750	6,291	32,257	26,668	12,163	123,513	3,799	3,813	7,612	-	131,125	93,658
Telephone	10,739	2,168	5,759	2,520	11,341	2,002	34,529	14,890	517	15,407	-	49,936	60,658
Postage, printing and mailing lists	3,565	720	13	28	64	68	4,458	10,662	15,673	26,335	-	30,793	9,987
Occupancy													
Fuel and utilities	56,793	11,464	3,075	7,947	48,512	16,757	144,548	6,566	1,206	7,772	-	152,320	120,905
Property lease	12,605	2,545	652	1,691	8,073	4,732	30,298	5,914	2,595	8,509	-	38,807	33,352
Repairs and maintenance	41,649	8,407	13,443	40,938	104,413	26,484	235,334	803	553	1,356	-	236,690	126,524
Travel and vehicle costs	18,348	3,704	1,807	4,387	6,849	2,936	38,031	-	291	291	-	38,322	69,159
Specific Assistance to Individuals													
Food	43,157	8,711	5,735	-	17,560	1,827	76,990	-	-	-	-	76,990	78,651
Donated food	28,569	5,767	-	-	-	-	34,336	-	-	-	-	34,336	7,804
Clothing, travel and miscellaneous	31,987	6,457	11,160	318	19,600	2,691	72,213	463	694	1,157	-	73,370	75,998
Donated clothing, travel and miscellaneous	33,533	6,769	333	398	1,258	616	42,907	7,798	10,310	18,108	-	61,015	61,022
Other purchased services	162,575	32,815	17,809	51,751	90,352	35,040	390,342	49,258	26,983	76,241	5,516	472,099	482,774
Dues, licenses and permits	596	121	319	1,527	1,475	805	4,843	1,538	50	1,588	-	6,431	11,387
Subscriptions and publications	12,309	2,485	580	725	3,862	2,483	22,444	2,669	2,893	5,562	-	28,006	14,808
Staff recruitment	3,378	681	42	403	158	77	4,739	226	117	343	-	5,082	3,015
Insurance	56,812	11,468	9,389	6,001	49,515	5,326	138,511	19,367	2,518	21,885	-	160,396	131,305
Miscellaneous	4,394	887	466	685	1,041	609	8,082	14,676	14,190	28,866	-	36,948	29,100
Interest	2,702	545	2,026	5,889	5,933	3,998	21,093	55,748	1,793	57,541	-	78,634	74,258
Bank charges and fees	137	27	101	294	296	199	1,054	2,781	89	2,870	-	3,924	6,480
Total Functional Expenses Before Bad Debt and Depreciation	1,955,323	394,685	256,922	720,533	1,019,716	478,235	4,825,414	961,588	484,719	1,446,307	5,516	6,277,237	6,419,266
Bad debt	-	-	-	-	-	-	-	26,075	-	26,075	-	26,075	-
Depreciation	131,911	26,625	3,399	3,292	86,027	4,308	255,562	14,784	5,832	20,616	-	276,178	240,024
Total Functional Expenses	2,087,234	421,310	260,321	723,825	1,105,743	482,543	5,080,976	1,002,447	490,551	1,492,998	5,516	6,579,490	6,659,290
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(5,516)	(5,516)	(101,741)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,087,234	\$ 421,310	\$ 260,321	\$ 723,825	\$ 1,105,743	\$ 482,543	\$ 5,080,976	\$ 1,002,447	\$ 490,551	\$ 1,492,998	\$ -	\$ 6,573,974	\$ 6,557,549

See notes to financial statements

Covenant House Texas

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

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,176,288	\$ 2,163,114
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	276,178	240,024
Recognition of continued use of land	11,484	11,484
Change in value of beneficial interest held in trust	(60,894)	(32,858)
Discount on contributions and pledges receivable	4,598	(13,047)
Provision for bad debts	26,075	-
Forgiveness of Paycheck Protection Program loan payable	(661,749)	-
Changes in operating assets and liabilities		
Contributions and pledges receivable	(30,644)	(781,193)
Grants receivable	117,741	(70,424)
Due to/from Parent	(15,376)	553,704
Other receivables	(4,309)	(2,960)
Inventory	(697)	326
Prepaid expenses	(32,408)	(3,258)
Security deposits and other assets	(34,500)	29,000
Accounts payable and accrued expenses	132,746	(117,411)
Net Cash from Operating Activities	7,904,533	1,976,501
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(583,706)	(4,310,530)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	1,800,000
Note payable repayments	(30,313)	(400,000)
Proceeds from Paycheck Protection Program loan payable	661,749	661,749
Repayments under capital lease obligation	(8,085)	(6,591)
Net Cash from Financing Activities	623,351	2,055,158
Net Change in Cash and Cash Equivalents	7,944,178	(278,871)
CASH AND CASH EQUIVALENTS		
Beginning of year	4,234,117	4,512,988
End of year	\$ 12,178,295	\$ 4,234,117
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 78,558	\$ 74,258
NON CASH FINANCING ACTIVITY		
Forgiveness of Paycheck Protection Program loan payable	661,749	-

See notes to financial statements

Covenant House Texas

Notes to Financial Statements
June 30, 2021

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 and mental health care, crisis intervention, education and vocational services, public education and prevention and other programs that reached approximately 18,000 young people during fiscal year 2021. During fiscal year 2021, the worldwide COVID-19 pandemic impacted the number of youth Covenant House reached, as affiliates took measures to ensure social distancing, set aside isolation rooms for symptomatic youth, paused our in-person public education and prevention programs, and, throughout the year, suspended or modified street outreach. The pandemic impacted all of our operations, including food production (our meal provision was nearly 75% higher than pre-pandemic levels); the creation of online opportunities for mental health care, education, and job readiness training; development of appropriate intake protocols; implementation of new cleaning and sanitizing protocols, and other measures, all of which drove up operating costs. Nevertheless, in fiscal year 2021, Covenant House provided a total of nearly 690,000 nights of housing and safety for, on average, 1,883 youth each night.

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

- Covenant House Alaska
- Covenant House California
- Covenant House Chicago
- Covenant House Connecticut
- Covenant House Florida
- Covenant House Georgia
- Covenant House Illinois
- Covenant House Michigan
- Covenant House Missouri
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House New York/Under 21
- Covenant House Pennsylvania/Under 21
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House Texas
- Covenant House Holdings, LLC
- Covenant International Foundation
- CH Housing Development Fund Corporation
- Rights of Passage, Inc.
- Under 21 Boston, Inc.
- 268 West 44th Corporation
- 460 West 41st Street, LLC

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

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

Covenant House Texas

Notes to Financial Statements
June 30, 2021

1. Organization and Tax Status *(continued)*

The Organization operates as a not-for-profit organization and has been recognized by the Internal Revenue Service as an organization exempt from income taxation pursuant to Internal Revenue Code Section 501 (c)(3) on its income other than unrelated business income. The Organization is also exempt from Texas income and sales taxes.

Components of Program and Supporting Services

Program Services

Short-term Housing and Crisis Care (formerly Shelter and Crisis Care)

The short-term housing and crisis care program provides emergency services, temporary housing, food, clothing, medical care, mental health services, and legal aid to young people experiencing homelessness or human trafficking through the Organization's programs in Texas.

Young Families Program (formerly Mother/Child)

The young families program provides emergency services, short and long-term housing, food, and medical and mental health care to pregnant and parenting youth and their children. The Organization's program also offers young families access to free child care services, parenting support, and a full range of educational, vocational, and job placement services.

Outreach and Prevention

The Organization's street outreach teams actively seek out young people experiencing homelessness who may need help. The team assists with critical safety needs by providing transportation to a safe shelter. Young people living on the streets can receive food, water, hygiene kits, clothing, blankets, counseling, and referrals to services such as medical care, employment, and education services.

In the Prevention program, the Organization uses a variety of platforms to inform and educate the public, government officials, and young people about youth homelessness and human trafficking. The Organization employs websites, social media, public service announcements, billboards, newsletters, school-based programs, talks, lectures, and peer-to-peer events across our federation to raise awareness of the causes and impacts of youth homelessness and of the signs that a young person might be experiencing homelessness or human trafficking.

Medical

Includes medical facilities operated at and maintained by certain Covenant House affiliates to provide immediate and ongoing medical attention to individuals receiving services at the site.

Transitional Living - Rights of Passage

The Organization's transitional living programs, often referred to as "Rights of Passage" or ROP, are where young people take steps toward independence. Youth live in ROP for 18-24 months, where they tap their potential and plan for the future. Here they build basic life skills and financial literacy, participate in educational and vocational programs, seek employment with long-term advancement and career prospects, and work toward moving into their own safe and stable housing. The Organization's staff support each young person on their journey toward sustainable independence and a hope-filled future.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

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.

Drop-In Services (formerly Community Service Center)

Drop-in services are another form of outreach at the Organization. Youth in this program are not receiving residential services, but are provided access to nutritious meals, hot showers, hygiene products, laundry services, and new clothing and shoes. They can request and receive medical and mental health services, case management services, transitional and permanent housing assistance, and they may take part in the education and employment program.

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.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Asset Presentation

The Organization 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.

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 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.

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.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

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

Revenue Recognition (continued)

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.

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.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

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

Asset Recoverability

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. Fair value is determined through various valuation techniques including undiscounted cash flow models, quoted fair values and third-party independent appraisals, as considered necessary. There is no such impairment for the years ended June 30, 2021 and 2020.

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. At June 30, 2021, the Organization established an allowance against contributions receivable for \$12,955.

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, 2020 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, 2020, from which the summarized comparative information was derived.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

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

Inventory

Inventory consists of materials and supplies which, if purchased, are stated at the lower of cost or 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 \$1,659 and \$2,977 for the years ended June 30, 2021 and 2020.

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, 2018.

3. Contributions and Pledges Receivable

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

	<u>2021</u>	<u>2020</u>
In one year or less	\$1,825,898	\$1,093,989
Between one year and five years	<u>1,402,200</u>	<u>2,116,585</u>
	3,228,098	3,210,574
Less:		
Allowance	12,955	-
Discount, at .43% and .29%	<u>20,562</u>	<u>15,964</u>
	<u><u>\$3,194,581</u></u>	<u><u>\$3,194,610</u></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>2021</u>	<u>2020</u>
Grants	\$ 161,332	\$ 279,073
Other	7,337	3,028

Covenant House Texas

Notes to Financial Statements
June 30, 2021

4. Grants and Other Receivables (continued)

In April 2021, the Organization was awarded a cost reimbursable grant by Harris County, Texas, in the amount of \$3,723,404 to fund construction of an Emergency Shelter project. As of June 30, 2021, a final contract had not been executed between the Organization and Harris County. Accordingly, awarded grant funds expended before contract execution will not be reimbursed. Therefore, the awarded funds will be recognized as those construction costs are incurred and submitted to Harris County.

5. Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 1,979,310	\$ 1,979,310
Property and improvements	6,610,459	6,610,457
Furniture and equipment	493,063	477,201
Vehicles	126,886	126,886
Computer hardware and software	100,170	64,786
Covenant House Texas video	26,452	26,452
Construction in progress	637,896	105,438
Donated mineral royalty interests	<u>669</u>	<u>669</u>
	9,974,905	9,391,199
Accumulated depreciation	<u>(3,114,997)</u>	<u>(2,838,819)</u>
	<u>\$ 6,859,908</u>	<u>\$ 6,552,380</u>

Depreciation expense was \$276,178 and \$240,024 for the years ended June 30, 2021 and 2020.

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. In fiscal 2020, the Organization made a balloon principal payment of \$400,000 towards the loan. As of June 30, 2021, the total amount outstanding on the note payable was \$1,369,687.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

6. Note Payable (continued)

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

2022	\$ 76,266
2023	80,568
2024	85,113
2025	<u>1,127,740</u>
	<u>\$1,369,687</u>

7. Paycheck Protection Program Loan Payable

On April 25, 2020, the Organization received the first draw of 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 is 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 below 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.

As of June 30, 2020, the PPP loan is recognized as debt on the statement of financial position. The PPP loan was forgiven in full by the SBA on April 16, 2021 and is recorded in contributions on the accompanying 2021 statement of activities.

On March 20, 2021, the Organization received the second draw of loan proceeds in the amount of \$661,749 under the PPP. 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, 2021, 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, 2021.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

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 \$289,987 and \$229,093 at June 30, 2021 and 2020. 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:

Balance, June 30, 2019	\$ 196,235
Change in fair value	<u>32,858</u>
Balance, June 30, 2020	229,093
Change in fair value	<u>60,894</u>
Balance, June 30, 2021	<u><u>\$ 289,987</u></u>

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 \$20,772 and \$33,188 for the years ended June 30, 2021 and 2020. Future minimum annual lease payments through June 30, 2022 are \$21,858.

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 was \$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, 2021 and 2020 is \$21,041 and \$13,567. Interest expense on this lease for the years ended June 30, 2021 and 2020 was \$679 and \$1,046.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

10. Capital Lease (continued)

Future minimum lease payments together with the present value of the minimum lease payments as of June 30, 2021 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 8,245
2023	8,245
2024	<u>687</u>
Total minimum lease payments	17,177
Less amount representing interest	<u>(679)</u>
Obligation under capital lease	<u>\$ 16,498</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 \$47,713 and \$61,515 to Baylor during the years ended June 30, 2021 and 2020.

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 \$101,253 and \$25,000 to Baylor during the years ended June 30, 2021 and 2020.

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.

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 \$36 million and \$38 million for the years ended June 30, 2021 and 2020. In 2021 and 2020, the Organization received \$638,000 and \$1,180,963 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 \$285,000 in 2021 and \$10,000 in 2020. Of this amount, the Organization has established a receivable of \$108,800 and \$7,500, which is included in contributions and pledges receivable in the accompanying statement of financial position at June 30, 2021 and 2020.

Covenant House Texas

Notes to Financial Statements
June 30, 2021

12. Related Party Transactions *(continued)*

In fiscal year 2011, the Parent sold buildings which it owned to the Organization. Subsequent to the sale of the buildings, the Parent entered into a 99 year lease with the Organization to use the land on which the purchased buildings are situated. During 2013, the Organization recognized 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 \$1,022,092 and \$1,033,576 as of June 30, 2021 and 2020, 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 \$155,219 and \$191,958 for the years ended June 30, 2021 and 2020.

14. Net Assets With Donor Restrictions

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

	2021	2020
Shelter and crisis care	\$ 38,086	\$ 35,894
Promise of continued use of land	1,022,092	1,033,576
Beneficial interest held in trust	289,987	229,093
Strategic plan initiative	-	3,441
Capital campaign	10,858,889	2,269,458
Time restricted	-	77,995
	<u>\$ 12,209,054</u>	<u>\$ 3,649,457</u>

Covenant House Texas

Notes to Financial Statements
June 30, 2021

14. Net Assets With Donor Restrictions (continued)

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:

	<u>2021</u>	<u>2020</u>
Shelter and crisis care	\$ 71,808	\$ 73,032
Rights of Passage	59,000	-
Promise of continued use of land	11,484	11,484
Strategic plan initiative	38,941	121,870
Capital campaign	257,826	4,466,413
Time restricted	<u>77,995</u>	<u>40,000</u>
	<u>\$ 517,054</u>	<u>\$4,712,799</u>

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 12,178,295	\$ 4,234,117
Contributions and pledges receivable, net	3,194,581	3,194,610
Grants receivable	161,332	279,073
Due from Parent	606	-
Other receivables	7,337	3,028
Beneficial interest held in trust	<u>289,987</u>	<u>229,093</u>
Total Financial Assets	15,832,138	7,939,921
Less: Contractual or donor imposed restrictions amounts		
Receivables scheduled to be collected more more than one year	1,381,638	2,100,621
Donor imposed restricted amounts	<u>9,805,324</u>	<u>1,548,836</u>
Financial Assets Available to Meet General Expenditures over the next twelve months	<u>\$ 4,645,176</u>	<u>\$ 4,290,464</u>

Covenant House Texas

Notes to Financial Statements
June 30, 2021

15. Liquidity and Availability of Resources (continued)

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 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.

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 PPP loans 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 November 17, 2021, the date these financial statements were available to be 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
Schedules and Reports

June 30, 2021

Covenant House Texas

Schedule of Expenditures of Federal Awards Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>				
Pass-Through City of Houston				
Emergency Solutions Grant Program	4600013805	14.231	\$ -	\$ 95,346
Pass-Through Harris County				
Emergency Solutions Grant Program	2019-0031c	14.231	-	18,561
Emergency Solutions Grant Program	2021-0033c	14.231	-	17,133
Emergency Solutions Grant Program	N.A. (New)	14.231	-	26,033
Emergency Solutions Grant Program	N.A. (New)	14.231	-	15,324
Emergency Solutions Grant Program	2018-0031b	14.231	-	89,565
Emergency Solutions Grant Program	N.A. (New)	14.231	-	21,602
Pass-Through Texas Department of Housing and Community Affairs				
Emergency Solutions Grant Program	42207000046	14.231	-	25,681
Emergency Solutions Grant Program	42187000075	14.231	-	15,926
Emergency Solutions Grant Program	43207000045	14.231	-	348,046
Emergency Solutions Grant Program	42197000045	14.231	-	77,271
Pass-Through Coalition for the Homeless of Houston				
Emergency Solutions Grant Program	2021-0033b	14.231	-	24,851
Emergency Solutions Grant Program	2019-0031b	14.231	-	82,897
Pass-Through Houston Housing Authority				
Continuum of Care Program	16-31-B	14.267	-	48,902
Total U.S. Department of Housing and Urban Development, Pass-Through Programs			-	907,138
<u>U.S. Department of Health and Human Services</u>				
Direct Programs				
Transitional Living for Homeless Youth	90CX7191-03-01	93.550	-	50,629
Transitional Living for Homeless Youth	90CX7191-04-01	93.550	-	203,120
Total U.S. Department of Health and Human Services			-	253,749
<u>U.S. Department of Homeland Security</u>				
Pass-Through United Way - Phase 37				
Emergency Food and Shelter National Board Program	LRO-005	97.024	-	39,230
Pass-Through United Way - Phase 38				
Emergency Food and Shelter National Board Program	LRO-005	97.024	-	16,313
Total U.S. Department of Homeland Security			-	55,543
Total Expenditures of Federal Awards			\$ -	\$ 1,216,430

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, 2021

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, 2021. 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.

**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, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2021.

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) as a basis for designing 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 financial statements. 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 17, 2021

**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, 2021. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2021.

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 17, 2021

Covenant House Texas

Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

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 X no
Significant deficiency(ies) identified? ___ yes X none reported
Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

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

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2021.

Section III – Federal Award Findings and Questioned Costs

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

Section IV – Prior Year Audit Findings

2019-001 Reconciliation of General Ledger Accounts and Audit Readiness

Criteria or Specific Requirement

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 accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Current Status

Condition has been corrected.