

Covenant House Texas

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

June 30, 2022

Covenant House Texas

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

June 30, 2022

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Independent Auditors' Report

Board of Directors
Covenant House Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Covenant House Texas (the "Organization") which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 17, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 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 on page 22, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 21, 2022, 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 21, 2022

Covenant House Texas

Statement of Financial Position
June 30, 2022
(with comparative amounts at June 30, 2021)

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 13,021,985	\$ 12,178,295
Contributions and pledges receivable, net	6,051,287	3,194,581
Grants receivable	263,649	161,332
Due from Parent	1,493	606
Other receivables	22,560	7,337
Inventory	7,015	2,990
Prepaid expenses	19,404	51,574
Beneficial interest held in trust	138,377	289,987
Promise of continued use of land	1,010,581	1,022,092
Security deposits and other assets	44,687	43,187
Property and equipment, net	5,651,264	6,859,908
	\$ 26,232,302	\$ 23,811,889
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 504,585	\$ 406,856
Paycheck Protection Program loan payable	-	661,749
Capital lease obligation	8,739	16,498
Note payable	1,294,584	1,369,687
Total Liabilities	1,807,908	2,454,790
 Net Assets		
Without donor restrictions	7,305,980	9,148,045
With donor restrictions	17,118,414	12,209,054
Total Net Assets	24,424,394	21,357,099
	\$ 26,232,302	\$ 23,811,889

See notes to financial statements

Covenant House Texas

Statement of Activities Year Ended June 30, 2022 (with summarized totals for year ended June 30, 2021)

	2022			2021 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Branding dollars from Parent	\$ 1,118,000	\$ -	\$ 1,118,000	\$ 638,000
Contributions	2,750,043	5,495,030	8,245,073	11,635,554
Contributed goods	190,587	-	190,587	96,408
Contributed services	-	-	-	2,700
Government grants and contracts	1,172,383	-	1,172,383	1,159,218
Grants from Parent Related to National Sleep Out Event	646,618	-	646,618	569,138
Restricted Site Investment Fund from Parent	60,000	-	60,000	-
CARES Act stimulus revenue	384,219	-	384,219	-
Special events revenue, net of direct benefit to donor costs of \$12,159 and \$5,516 in 2022 and 2021	744,482	-	744,482	543,454
Total Support and Revenue	<u>7,066,332</u>	<u>5,495,030</u>	<u>12,561,362</u>	<u>14,644,472</u>
OTHER INCOME (LOSS)				
Interest income	1,241	-	1,241	1,622
Other (loss) income	54,404	(151,610)	(97,206)	104,168
Total Other Income (Loss)	<u>55,645</u>	<u>(151,610)</u>	<u>(95,965)</u>	<u>105,790</u>
Total Support and Revenue and Other Income (Loss) Before Net Assets Released from Restrictions	7,121,977	5,343,420	12,465,397	14,750,262
Net assets released from restrictions	434,060	(434,060)	-	-
Total Support and Revenue and Other Income	<u>7,556,037</u>	<u>4,909,360</u>	<u>12,465,397</u>	<u>14,750,262</u>
EXPENSES				
Program services	5,720,975	-	5,720,975	5,080,976
Supporting Services				
Management and general	1,154,228	-	1,154,228	1,002,447
Fundraising	644,836	-	644,836	490,551
Total Expenses	<u>7,520,039</u>	<u>-</u>	<u>7,520,039</u>	<u>6,573,974</u>
Change in Net Assets Before Non-Operating Activity	35,998	4,909,360	4,945,358	8,176,288
NON-OPERATING ACTIVITY				
Impairment loss of property and equipment	(1,878,063)	-	(1,878,063)	-
Change in Net Assets	(1,842,065)	4,909,360	3,067,295	8,176,288
NET ASSETS				
Beginning of year	<u>9,148,045</u>	<u>12,209,054</u>	<u>21,357,099</u>	<u>13,180,811</u>
End of year	<u>\$ 7,305,980</u>	<u>\$ 17,118,414</u>	<u>\$ 24,424,394</u>	<u>\$ 21,357,099</u>

See notes to financial statements

Covenant House Texas

Statement of Functional Expenses Year Ended June 30, 2022 (with summarized totals for year ended June 30, 2021)

	2022											2021 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	\$ 1,261,162	\$ 121,538	\$ 166,087	\$ 220,239	\$ 660,053	\$ 337,538	\$ 2,766,617	\$ 494,685	\$ 186,838	\$ 681,523	\$ -	\$ 3,448,140	\$ 3,088,492
Payroll taxes	99,659	9,603	13,421	17,433	51,488	26,448	218,052	34,886	13,110	47,996	-	266,048	209,882
Employee benefits	197,708	19,052	25,627	27,452	116,582	66,206	452,627	83,493	40,068	123,561	-	576,188	535,351
Total Salaries and Related Expenses	1,558,529	150,193	205,135	265,124	828,123	430,192	3,437,296	613,064	240,016	853,080	-	4,290,376	3,833,725
Accounting fees	3,065	296	1,453	2,333	2,924	4,273	14,344	36,307	1,099	37,406	-	51,750	51,750
Medical fees	-	-	-	209,472	-	-	209,472	-	-	-	-	209,472	222,424
Other professional fees	67,523	6,501	6,304	5,727	23,472	10,990	120,517	178,792	194,670	373,462	-	493,979	454,114
Supplies	27,809	2,682	5,059	13,852	16,141	13,799	79,342	4,039	2,621	6,660	-	86,002	131,125
Telephone	10,766	1,038	2,545	1,474	9,912	2,826	28,561	15,221	919	16,140	-	44,701	49,936
Postage, printing and mailing lists	668	64	18	28	75	285	1,138	43,061	64,002	107,063	-	108,201	30,793
Occupancy													
Fuel and utilities	95,465	9,199	4,032	5,989	41,323	25,974	181,982	4,535	1,013	5,548	-	187,530	152,320
Property lease	49,779	4,797	17,399	27,814	41,082	54,414	195,285	60,684	84,928	145,612	-	340,897	38,807
Repairs and maintenance	39,708	3,826	9,686	14,823	21,711	27,231	116,985	2,019	1,008	3,027	-	120,012	236,690
Travel and vehicle costs	15,272	1,471	4,486	7,075	12,081	13,779	54,164	8,967	751	9,718	-	63,882	38,322
Specific Assistance to Individuals													
Food	56,742	5,468	7,197	524	19,788	959	90,678	-	-	-	-	90,678	76,990
Donated food	87,186	8,402	-	-	-	-	95,588	-	-	-	-	95,588	34,336
Clothing, travel and miscellaneous	70,886	6,831	11,826	404	28,454	2,785	121,186	1,744	1,572	3,316	-	124,502	73,370
Donated clothing, travel and miscellaneous	53,768	5,182	1,100	1,767	2,214	3,236	67,267	27,499	833	28,332	-	95,599	61,015
Other purchased services	176,819	17,040	14,796	23,786	78,825	41,434	352,700	28,813	25,638	54,451	12,159	419,310	472,099
Dues, licenses and permits	1,198	115	1,781	1,203	804	1,206	6,307	77	15	92	-	6,399	6,431
Subscriptions and publications	8,556	824	137	117	3,596	1,581	14,811	6,533	9,198	15,731	-	30,542	28,006
Staff recruitment	7,599	732	859	982	2,766	1,869	14,807	11,213	521	11,734	-	26,541	5,082
Insurance	84,985	8,191	14,108	4,297	52,567	8,588	172,736	29,741	2,232	31,973	-	204,709	160,396
Miscellaneous	19,247	1,858	7,425	11,770	15,369	21,571	77,240	12,937	9,053	21,990	-	99,230	36,948
Interest	4,441	428	2,105	3,380	4,236	6,190	20,780	52,599	1,593	54,192	-	74,972	78,634
Bank charges and fees	168	16	79	128	160	234	785	1,985	60	2,045	-	2,830	3,924
Total Functional Expenses Before	2,440,179	235,154	317,530	602,069	1,205,623	673,416	5,473,971	1,139,830	641,742	1,781,572	12,159	7,267,702	6,277,237
Bad debt	-	-	-	-	-	-	-	3,125	-	3,125	-	3,125	26,075
Depreciation	137,948	13,291	3,821	1,921	86,263	3,760	247,004	11,273	3,094	14,367	-	261,371	276,178
Total Functional Expenses	2,578,127	248,445	321,351	603,990	1,291,886	677,176	5,720,975	1,154,228	644,836	1,799,064	12,159	7,532,198	6,579,490
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(12,159)	(12,159)	(5,516)
Total Expenses Reported by Function on the Statement of Activities	\$ 2,578,127	\$ 248,445	\$ 321,351	\$ 603,990	\$ 1,291,886	\$ 677,176	\$ 5,720,975	\$ 1,154,228	\$ 644,836	\$ 1,799,064	\$ -	\$ 7,520,039	\$ 6,573,974

See notes to financial statements

Covenant House Texas

Statement of Cash Flows Year Ended June 30, 2022 (with comparative amounts for year ended June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,067,295	\$ 8,176,288
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	261,371	276,178
Impairment loss of property and equipment	1,878,063	-
Recognition of continued use of land	11,511	11,484
Change in value of beneficial interest held in trust	151,610	(60,894)
Discount on contributions and pledges receivable	159,218	4,598
Provision for bad debts	3,125	26,075
Forgiveness of Paycheck Protection Program loan payable	(661,749)	(661,749)
Changes in operating assets and liabilities		
Contributions and pledges receivable	(3,019,049)	(30,644)
Grants receivable	(102,317)	117,741
Due from Parent	(887)	(15,376)
Other receivables	(15,223)	(4,309)
Inventory	(4,025)	(697)
Prepaid expenses	32,170	(32,408)
Security deposits and other assets	(1,500)	(34,500)
Accounts payable and accrued expenses	97,729	132,746
Net Cash from Operating Activities	1,857,342	7,904,533
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(930,790)	(583,706)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable repayments	(75,103)	(30,313)
Proceeds from Paycheck Protection Program loan payable	-	661,749
Repayments under capital lease obligation	(7,759)	(8,085)
Net Cash from Financing Activities	(82,862)	623,351
Net Change in Cash and Cash Equivalents	843,690	7,944,178
CASH AND CASH EQUIVALENTS		
Beginning of year	12,178,295	4,234,117
End of year	\$ 13,021,985	\$ 12,178,295
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 74,972	\$ 78,558
NON CASH FINANCING ACTIVITY		
Forgiveness of Paycheck Protection Program loan payable	661,749	661,749

See notes to financial statements

Covenant House Texas

Notes to Financial Statements
June 30, 2022

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 43,000 young people during fiscal year 2022. During fiscal 2022, the worldwide COVID-19 pandemic continued to impact the number of youth Covenant House reached, as affiliates prolonged measures to ensure social distancing, set aside isolation rooms for symptomatic youth, and modify street outreach. Nevertheless, in fiscal 2022, Covenant House provided a total of nearly 730,000 nights of housing and safety for, on average, 1,991 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
- Under 21 Covenant House New York
- 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, 2022

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

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

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, 2022

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

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, 2022

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, 2022

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 \$2,000. Property and equipment are reported at cost at the date of acquisition or at their fair values at the date of donation. Major repairs and renovations are capitalized, whereas minor costs of repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

Covenant House Texas

Notes to Financial Statements
June 30, 2022

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. For the year ended June 30, 2022, the Organization recognized \$1,878,063 of impairment losses. In 2021, there were no such losses.

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, 2022, the Organization did not establish an allowance against contributions and pledges receivable whereas at June 30, 2021, the Organization established an allowance against contributions and pledges receivable for \$12,955.

Contributions of Nonfinancial Assets

Contributions of nonfinancial assets are recorded as income and expenses at the time the items are received, which is also the time they are placed into service. Contributed services are reported as income and expense at their fair value if such services create value or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

The Organization received contributions of nonfinancial assets and contributed services for the years ended June 30, as follows:

	2022	2021	Usage in Program/ Activities	Donor Restriction	Fair Value Techniques
Goods	\$ 190,587	\$ 96,408	Program and Administration	None	Estimated based on usual and customary rates of the vendor
Services	-	2,700	Program	None	Estimated based on current rates of services provided by the vendor
	<u>\$ 190,587</u>	<u>\$ 99,108</u>			

The Organization does not sell or monetize contributions of nonfinancial assets.

Covenant House Texas

Notes to Financial Statements
June 30, 2022

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

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2021 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, 2021, 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.

Employee Retention Credit

During fiscal year 2022, the Organization received, and recorded revenue related to the Employee Retention Tax Credit (ERTC) in the amount of \$384,219. The ERTC, established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, allows eligible employers to receive a payroll tax credit based on certain qualifications. The calculation of the credit varies based on the applicable calendar year and the amount of qualified wages paid during a qualifying period. The Organization met the qualifications of the ERTC program and filed the necessary forms to claim the ERTC.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were \$0 and \$1,659 for the years ended June 30, 2022 and 2021.

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, 2019.

Operating Measure

The Organization has elected to present an operating measure in its statement of activities. Accordingly, items affecting operations are segmented from those not affecting operations. The Organization includes in its measure of operations all revenue and expenses that are an integral part of its program and supporting activities.

Covenant House Texas

Notes to Financial Statements June 30, 2022

3. Contributions and Pledges Receivable

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

	2022	2021
In one year or less	\$3,080,867	\$1,825,898
Between one year and five years	3,150,200	1,402,200
	6,231,067	3,228,098
Less:		
Allowance for doubtful accounts	-	12,955
Discount, at 1.75% and .43%	179,780	20,562
	<u>\$6,051,287</u>	<u>\$3,194,581</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:

	2022	2021
Grants	\$ 263,649	\$ 161,332
Other	22,560	7,337

5. Property and Equipment

Property and equipment consists of the following as of June 30

	2022	2021
Land	\$ 1,979,310	\$ 1,979,310
Property and improvements	3,126,845	7,142,915
Furniture and equipment	239,394	493,061
Vehicles	126,886	126,886
Computer hardware and software	82,007	100,173
Covenant House Texas video	26,452	26,452
Construction in progress	637,896	105,438
Donated mineral royalty interests	669	669
	6,219,459	9,974,904
Accumulated depreciation	(568,195)	(3,114,996)
	<u>\$ 5,651,264</u>	<u>\$ 6,859,908</u>

During 2022, the Organization disposed of \$4,407,350 of property and improvements, \$253,669 of furniture and equipment and \$25,517 of computer hardware and software. The disposal resulted in an impairment loss totaling \$1,878,063 and is reflected as a non-operating activity in the 2022 statement of activities.

Covenant House Texas

Notes to Financial Statements
June 30, 2022

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 payments 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, 2022, the total amount outstanding on the note payable was \$1,294,584.

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

2023	\$ 80,568
2024	86,276
2025	<u>1,127,740</u>
	<u>\$1,294,584</u>

7. Paycheck Protection Program Loan Payable

On March 20, 2021, the Organization received the second draw of loan proceeds in the amount of \$661,749 under the Paycheck Protection Program (the "PPP"). The amount was forgiven in full by the United States Small Business Administration on December 14, 2021. The forgiveness of the second draw of the PPP loan is recorded in contributions on the accompanying 2022 statement of activities.

Covenant House Texas

Notes to Financial Statements
June 30, 2022

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 \$138,377 and \$289,987 at June 30, 2022 and 2021. 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, 2020	\$ 229,093
Change in fair value	<u>60,894</u>
Balance, June 30, 2021	289,987
Change in fair value	<u>(151,610)</u>
Balance, June 30, 2022	<u>\$ 138,377</u>

9. Operating Leases

The Organization has entered into four operating leases for physical plant facilities, office space expiring through fiscal 2026.

2023	\$ 384,000
2024	394,070
2025	275,898
2026	<u>6,400</u>
	<u>\$ 1,053,968</u>

Lease expense was \$298,515 and \$20,772 for the years ended June 30, 2022 and 2021.

Covenant House Texas

Notes to Financial Statements June 30, 2022

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, 2022 and 2021 is \$28,801 and \$21,041. Interest expense on this lease for the years ended June 30, 2022 and 2021 was \$191 and \$679.

Future minimum lease payments together with the present value of the minimum lease payments as of June 30, 2022 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ 8,245
2024	<u>685</u>
Total minimum lease payments	8,930
Less amount representing interest	<u>(191)</u>
Obligation under capital lease	<u><u>\$ 8,739</u></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 expired in February 2022 and was renewed in May 2022, provided for payments that totaled \$70,282 and \$47,713 to Baylor during the years ended June 30, 2022 and 2021.

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 that totaled \$93,011 and \$101,523 to Baylor during the years ended June 30, 2022 and 2021.

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 \$38 million and \$36 million for the years ended June 30, 2022 and 2021. In 2022 and 2021, the Organization received \$1,118,000 and \$638,000 in contributions from the Parent. The Parent provided a Site Investment Fund (“SIF”) to Covenant House affiliates during fiscal 2022. The SIF is to encourage innovative programming at Covenant House by implementing a new program or pilot program, build program capacity, make a material change in site-related program work, or introduce an innovative approach to current programs. The Parent provided to the Organization a total of \$60,000 for the year ended June 30, 2022, towards the SIF.

Covenant House Texas

Notes to Financial Statements
June 30, 2022

12. Related Party Transactions (continued)

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 \$200,000 in 2022 and \$285,000 in 2021. Of this amount, the Organization has established a receivable of \$150,000 and \$108,000, which is included in contributions and pledges receivable in the accompanying statement of financial position at June 30, 2022 and 2021.

Since it was founded in 1983, the Organization has operated programs and services on real property which was owned by the Parent. In 2010, the Parent leased the use of the land to the Organization for a term of 99 years. 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 \$1,010,581 and \$1,022,092 as of June 30, 2022 and 2021, 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 \$11,511 annually, recognizing the use of the land. Since 2020, the Organization has commenced an ambitious capital campaign to redevelop the property. In recognition of the Organization's performance on that campaign and to lessen the complexity of the redevelopment, the Parent's Board of Directors, through its Executive Committee in a meeting dated April 27, 2022, resolved to transfer the Parent's remainder interest - i.e., the current right to rent and the future right to the property beginning in the year 2109 - to the Organization so that the Organization would be the owner of the property in fee simple. The deed from the Parent to the Organization was executed on July 26, 2022 and recorded by Harris County on September 9, 2022.

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 \$195,430 and \$155,219 for the years ended June 30, 2022 and 2021.

14. Net Assets With Donor Restrictions

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

	2022	2021
Shelter and crisis care	\$ 38,176	\$ 38,086
Promise of continued use of land	1,010,581	1,022,092
Beneficial interest held in trust	138,377	289,987
Capital campaign	<u>15,931,280</u>	<u>10,858,889</u>
	<u>\$ 17,118,414</u>	<u>\$12,209,054</u>

Covenant House Texas

Notes to Financial Statements June 30, 2022

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:

	2022	2021
Shelter and crisis care	\$ 25,260	\$ 71,808
Rights of Passage	10,000	59,000
Promise of continued use of land	11,511	11,484
Strategic plan initiative	154,550	38,941
Capital campaign	232,739	257,826
Time restricted	-	77,995
	\$ 434,060	\$ 517,054

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:

	2022	2021
Cash and cash equivalents	\$ 13,021,985	\$ 12,178,295
Contributions and pledges receivable, net	6,051,287	3,194,581
Grants receivable	263,649	161,332
Due from Parent	1,493	606
Other receivables	22,560	7,337
Beneficial interest held in trust	138,377	289,987
Total Financial Assets	19,499,351	15,832,138
Less: Contractual or donor imposed restrictions amounts		
Receivables scheduled to be collected more more than one year	2,970,420	1,381,638
Donor imposed restricted amounts	13,137,413	9,805,324
Financial Assets Available to Meet General Expenditures over the next twelve months	\$ 3,391,518	\$ 4,645,176

Covenant House Texas

Notes to Financial Statements
June 30, 2022

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

Given the uncertainty around the extent and timing of the potential future spread or mitigation of the Coronavirus and around the imposition or relaxation of protective measures, management cannot reasonably estimate the impact to future results of operations, cash flows, or financial condition.

19. Subsequent Events

The Organization has evaluated events through November 21, 2022, 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, 2022

Covenant House Texas

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Assistance Listing Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>				
Pass-Through City of Houston Housing & Community Development				
Emergency Solutions Grant Program	4600013805	14.231	\$ -	\$ 137,078
Pass-Through City of Houston				
Emergency Solutions Grant Program	4600016579	14.231	-	164,725
Pass-Through Harris County Community Services Department				
Emergency Solutions Grant Program	E-20-UC-48-0002; 2021-0031c	14.231	-	19,660
Emergency Solutions Grant Program	E-20-UC-48-0002; 2022-008c	14.231	-	12,083
Emergency Solutions Grant Program	E-20-UC-48-002; 2021-033b	14.231	-	83,039
Emergency Solutions Grant Program	E-20-UC-48-002; 2022-008b	14.231	-	40,104
Pass-Through Texas Department of Housing & Community Affairs				
Emergency Solutions Grant Program	43207000045	14.231	-	190,463
Emergency Solutions Grant Program	42207000046	14.231	-	23,148
Emergency Solutions Grant Program	42217000045	14.231	-	121,035
Pass-Through Houston Housing Authority				
Continuum of Care Homeless Assistance Program	16-31-B	14.267	-	54,888
Total U.S. Department of Housing and Urban Development, Pass-Through Programs			-	846,223
<u>U.S. Department of Health and Human Services</u>				
Direct Programs				
Transitional Living Program for Homeless Youth	90CX7191-04-00	93.550	-	23,802
Transitional Living Program for Homeless Youth	90CX7191-05-00	93.550	-	175,740
Total U.S. Department of Health and Human Services			-	199,542
<u>U.S. Department of Homeland Security</u>				
Pass-Through Coalition for the Homeless of Houston - Phase 38	LRO 782800-005	97.024	-	16,313
Emergency Food and Shelter National Board Program				
Pass-Through Coalition for the Homeless of Houston - Phase 39	LRO 782800-005	97.024	-	40,537
Emergency Food and Shelter National Board Program				
Pass-Through Coalition for the Homeless of Houston - Phase ARPA-R	LRO 782800-005	97.024	-	69,715
Emergency Food and Shelter National Board Program				
Total U.S. Department of Homeland Security			-	126,565
Total Expenditures of Federal Awards			\$ -	\$ 1,172,330

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, 2022

1. Basis of Presentation

The accompanying 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, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* 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 expenditures are not allowable or are limited as to reimbursement.

3. Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule based on the amount disbursed or received. The Organization received no nonmonetary assistance for the year ended June 30, 2022.

4. 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 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, 2022, 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 21, 2022.

Report on 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 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 or significant deficiencies may exist that have not been identified.

Report on 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 21, 2022



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

Opinion on Each Major Federal Program

We have audited Covenant House Texas' compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Covenant House Texas' major federal programs for the year ended June 30, 2022. Covenant House Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Covenant House Texas 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, 2022.

Basis for Opinion on Each Major Federal Program

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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report. We are required to be independent of Covenant House Texas and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Covenant House Texas' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Covenant House Texas' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Covenant House Texas' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Covenant House Texas compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Covenant House Texas' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Covenant House Texas' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Covenant House Texas' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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.

Report on Internal Control Over Compliance (*continued*)

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 21, 2022

Covenant House Texas

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

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:

Federal Assistance Listing Number

Name of Federal Program or Cluster

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?

X yes ___ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2022.

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 Findings and Questioned Costs

There were no audit findings in the prior year.