

Covenant House Texas

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

June 30, 2023

Covenant House Texas

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

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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, 2023, 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, 2023, 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.

Change in Accounting Policy

As discussed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board ("FASB") Topic 842, Leases, using the effective date method with July 1, 2022 as the date of initial adoption. Our opinion is not modified with respect to this matter.

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, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 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 24, 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 March 5, 2024, 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

March 5, 2024

Covenant House Texas

Statement of Financial Position
June 30, 2023
(with comparative amounts at June 30, 2022)

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 10,211,394	\$ 13,021,985
Investments	5,081,802	-
Contributions and pledges receivable, net	5,544,991	6,051,287
Grants receivable	1,596,604	263,649
Due from Parent	29,986	1,493
Other receivables	30,626	22,560
Inventory	6,015	7,015
Prepaid expenses	29,751	19,404
Beneficial interest held in trust	188,128	138,377
Promise of continued use of land	-	1,010,581
Security deposits and other assets	73,007	44,687
Property and equipment, net	9,026,665	5,651,264
Right of use assets - operating leases	1,313,931	-
	\$ 33,132,900	\$ 26,232,302
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,637,644	\$ 504,585
Finance lease obligations	685	8,739
Note payable	-	1,294,584
Lease liability, operating leases	1,331,650	-
Total Liabilities	2,969,979	1,807,908
Net Assets		
Without donor restrictions	6,543,285	7,305,980
With donor restrictions	23,619,636	17,118,414
Total Net Assets	30,162,921	24,424,394
	\$ 33,132,900	\$ 26,232,302

See notes to financial statements

Covenant House Texas

Statement of Activities Year Ended June 30, 2023 (with summarized totals for year ended June 30, 2022)

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Branding dollars from Parent	\$ 1,232,931	\$ -	\$ 1,232,931	\$ 1,118,000
Contributions	1,941,738	6,909,267	8,851,005	8,245,073
Contributed goods	203,657	-	203,657	190,587
Government grants and contracts	1,114,490	1,014,210	2,128,700	1,172,383
Grants from Parent Related to National Sleep Out Event	775,925	-	775,925	646,618
Restricted Site Investment Fund from Parent	-	-	-	60,000
Special events revenue, net of direct benefit to donor costs of \$225,489 and \$12,159 in 2023 and 2022	533,486	-	533,486	744,482
Total Support and Revenue	<u>5,802,227</u>	<u>7,923,477</u>	<u>13,725,704</u>	<u>12,177,143</u>
OTHER INCOME (LOSS)				
Interest income	462,009	-	462,009	1,241
Other income (loss)	-	49,751	49,751	(97,206)
Total Other Income (Loss)	<u>462,009</u>	<u>49,751</u>	<u>511,760</u>	<u>(95,965)</u>
Total Support and Revenue and Other Income (Loss) Before Net Assets Released from Restrictions	6,264,236	7,973,228	14,237,464	12,081,178
Net assets released from restrictions	<u>1,472,006</u>	<u>(1,472,006)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Other Income (Loss)	<u>7,736,242</u>	<u>6,501,222</u>	<u>14,237,464</u>	<u>12,081,178</u>
EXPENSES				
Program services	6,297,245	-	6,297,245	5,720,975
Supporting Services				
Management and general	1,275,969	-	1,275,969	1,154,228
Fundraising	541,504	-	541,504	644,836
Total Expenses	<u>8,114,718</u>	<u>-</u>	<u>8,114,718</u>	<u>7,520,039</u>
Change in Net Assets Before Non-Operating Activities	(378,476)	6,501,222	6,122,746	4,561,139
NON-OPERATING ACTIVITIES				
CARES Act stimulus revenue	-	-	-	384,219
Return of CARES Act stimulus	(384,219)	-	(384,219)	-
Impairment loss of property and equipment	-	-	-	(1,878,063)
Change in Net Assets	<u>(762,695)</u>	<u>6,501,222</u>	<u>5,738,527</u>	<u>3,067,295</u>
NET ASSETS				
Beginning of year	<u>7,305,980</u>	<u>17,118,414</u>	<u>24,424,394</u>	<u>21,357,099</u>
End of year	<u>\$ 6,543,285</u>	<u>\$ 23,619,636</u>	<u>\$ 30,162,921</u>	<u>\$ 24,424,394</u>

See notes to financial statements

Covenant House Texas

Statement of Functional Expenses Year Ended June 30, 2023 (with summarized totals for year ended June 30, 2022)

	2023												
	Program Services						Supporting Services						
	Immediate Housing	Young Families Program	Outreach	Health and Well-Being	Transitional Living - Rights of Passage	Drop-in Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Direct Benefit to Donors	Total Expense	2022 Total Expense
Salaries and wages	\$ 1,404,451	\$ 135,346	\$ 178,694	\$ 218,036	\$ 730,468	\$ 294,769	\$ 2,961,764	\$ 486,132	\$ 161,253	\$ 647,385	\$ -	\$ 3,609,149	\$ 3,448,140
Payroll taxes	114,678	11,051	14,327	17,171	59,155	23,148	239,530	34,359	12,224	46,583	-	286,113	266,048
Employee benefits	219,663	21,168	28,723	28,145	115,123	53,240	466,062	72,883	28,645	101,528	-	567,590	576,188
Total Salaries and Related Expenses	<u>1,738,792</u>	<u>167,565</u>	<u>221,744</u>	<u>263,352</u>	<u>904,746</u>	<u>371,157</u>	<u>3,667,356</u>	<u>593,374</u>	<u>202,122</u>	<u>795,496</u>	<u>-</u>	<u>4,462,852</u>	<u>4,290,376</u>
Accounting fees	3,322	320	1,575	2,529	3,169	4,631	15,546	38,942	1,261	40,203	-	55,749	51,750
Medical fees	-	-	-	159,442	400	-	159,842	-	-	-	-	159,842	209,472
Other professional fees	63,641	6,128	6,378	6,173	22,818	11,768	116,906	128,051	105,007	233,058	-	349,964	493,979
Supplies	35,028	3,376	8,055	22,325	46,773	22,484	138,041	55,426	2,870	58,296	-	196,337	86,002
Telephone	12,749	1,228	1,356	1,743	13,505	2,892	33,473	17,829	1,285	19,114	-	52,587	44,701
Postage, printing and mailing lists	404	39	20	29	45	53	590	6,960	9,982	16,942	-	17,532	108,201
Occupancy													
Fuel and utilities	60,392	5,820	9,410	14,368	31,238	33,343	154,571	2,930	1,056	3,986	-	158,557	187,530
Property lease	132,722	12,796	61,302	98,349	126,087	182,634	613,890	4,012	1,718	5,730	-	619,620	340,897
Repairs and maintenance	22,766	2,194	7,554	11,962	15,870	21,746	82,092	754	377	1,131	-	83,223	120,012
Travel and vehicle costs	24,186	2,331	4,693	7,466	17,371	13,976	70,023	8,212	946	9,158	-	79,181	63,882
Specific Assistance to Individuals													
Food	130,099	12,538	3,829	151	26,144	5,674	178,435	-	-	-	-	178,435	90,678
Donated food	67,132	6,187	-	-	-	-	73,319	-	-	-	-	73,319	58,058
Clothing, travel and miscellaneous	42,622	4,108	7,095	21	9,215	5,086	68,147	509	600	1,109	-	69,256	74,461
Donated clothing, travel and miscellaneous	55,713	5,369	-	-	-	-	61,082	-	-	-	-	61,082	58,068
Other purchased services	257,475	25,097	26,075	44,209	100,800	75,151	528,807	64,724	83,611	148,335	225,489	902,631	544,412
Dues, licenses and permits	933	90	453	391	547	718	3,132	2,976	116	3,092	-	6,224	6,399
Subscriptions and publications	10,989	1,059	590	887	4,358	3,087	20,970	6,576	7,811	14,387	-	35,357	30,542
Staff recruitment	10,932	1,054	2,603	3,859	7,558	6,927	32,933	53,753	1,950	55,703	-	88,636	26,541
Insurance	16,571	1,597	13,688	6,519	14,896	11,939	65,210	93,051	3,013	96,064	-	161,274	204,709
Events	4,457	430	2,113	3,392	4,251	6,213	20,856	118,100	100,482	218,582	-	239,438	-
Miscellaneous	4,968	479	1,654	2,221	3,215	4,080	16,617	6,148	13,488	19,636	-	36,253	99,230
Interest	11	1	5	9	11	16	53	39,882	4	39,886	-	39,939	74,972
Bank charges and fees	348	34	165	265	332	485	1,629	4,078	132	4,210	-	5,839	2,830
Total Functional Expenses Before Bad Debt and Depreciation	<u>2,696,252</u>	<u>259,840</u>	<u>380,357</u>	<u>649,662</u>	<u>1,353,349</u>	<u>784,060</u>	<u>6,123,520</u>	<u>1,246,287</u>	<u>537,831</u>	<u>1,784,118</u>	<u>225,489</u>	<u>8,133,127</u>	<u>7,267,702</u>
Bad debt	-	-	-	-	-	-	-	13,232	-	13,232	-	13,232	3,125
Depreciation	67,773	6,529	13,668	18,094	34,952	32,709	173,725	16,450	3,673	20,123	-	193,848	261,371
Total Functional Expenses	<u>2,764,025</u>	<u>266,369</u>	<u>394,025</u>	<u>667,756</u>	<u>1,388,301</u>	<u>816,769</u>	<u>6,297,245</u>	<u>1,275,969</u>	<u>541,504</u>	<u>1,817,473</u>	<u>225,489</u>	<u>8,340,207</u>	<u>7,532,198</u>
Less: cost of direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(225,489)</u>	<u>(225,489)</u>	<u>(12,159)</u>
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 2,764,025</u>	<u>\$ 266,369</u>	<u>\$ 394,025</u>	<u>\$ 667,756</u>	<u>\$ 1,388,301</u>	<u>\$ 816,769</u>	<u>\$ 6,297,245</u>	<u>\$ 1,275,969</u>	<u>\$ 541,504</u>	<u>\$ 1,817,473</u>	<u>\$ -</u>	<u>\$ 8,114,718</u>	<u>\$ 7,520,039</u>

See notes to financial statements

Covenant House Texas

Statement of Cash Flows Year Ended June 30, 2023 (with comparative amounts for year ended June 30, 2022)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,738,527	\$ 3,067,295
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	193,848	261,371
Impairment loss of property and equipment	-	1,878,063
Recognition of continued use of land	-	11,511
Interest income on short-term treasury bills	(83,784)	-
Change in value of beneficial interest held in trust	(49,751)	151,610
Amortization of right of use assets - operating leases	528,104	-
Discount on contributions and pledges receivable	244,371	159,218
Provision for bad debts	13,232	3,125
Forgiveness of Paycheck Protection Program loan payable	-	(661,749)
Changes in operating assets and liabilities		
Contributions and pledges receivable	248,693	(3,019,049)
Grants receivable	(1,332,955)	(102,317)
Due from Parent	(28,493)	(887)
Other receivables	(8,066)	(15,223)
Inventory	1,000	(4,025)
Prepaid expenses	(10,347)	32,170
Security deposits and other assets	(28,320)	(1,500)
Accounts payable and accrued expenses	1,133,059	97,729
Lease liabilities	(510,385)	-
Net Cash from Operating Activities	6,048,733	1,857,342
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,558,668)	(930,790)
Purchase of short-term treasury bills	(4,998,018)	-
Net Cash from Investing Activities	(7,556,686)	(930,790)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable repayments	(1,294,584)	(75,103)
Repayments on finance lease obligations	(8,054)	(7,759)
Net Cash from Financing Activities	(1,302,638)	(82,862)
Net Change in Cash and Cash Equivalents	(2,810,591)	843,690
CASH AND CASH EQUIVALENTS		
Beginning of year	13,021,985	12,178,295
End of year	\$ 10,211,394	\$ 13,021,985
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 74,977	\$ 74,972
NON CASH OPERATING AND FINANCING ACTIVITIES		
Transfer of continued use of land to property and equipment	1,010,581	-
Forgiveness of Paycheck Protection Program loan payable	-	661,749

See notes to financial statements

Covenant House Texas

Notes to Financial Statements
June 30, 2023

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. The 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 58,000 young people during fiscal 2023. Throughout fiscal 2023, Covenant House provided a total of more than 790,000 nights of housing and safety for, on average, 2,165 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, 2023

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

Immediate Housing (formerly Shelter and Crisis Care)

The Immediate and Short-term Housing program focuses on crisis care and provides emergency services: temporary, immediate housing; nutritious meals; clothing; medical care; mental health services; and legal aid to all young people ages 18-24 who are experiencing homelessness or human trafficking. The Organization's high-quality programs and services meet youths' immediate needs, stabilize their situation, and help them consider their longer-term goals for education, employment, and career planning. The Organization is expertly equipped to respond to the unique needs of young survivors of human trafficking, youth who identify as LGBTQ+, and youth who are pregnant or parenting. The Organization's shelter doors are always open, 24/7, and the Organization has provided uninterrupted service to children and youth for more than 40 years.

Outreach

The Outreach program actively seeks out young people experiencing homelessness who may need help. In vans and on foot, Covenant House outreach workers go out to the neighborhoods, riverfronts, parks, and other places where young people facing homelessness often seek refuge. The Organization's teams offer food, water, hygiene kits, clothing, blankets, counseling, and referrals. Through sustained contact, they build trust with the young people they encounter, encouraging them to come into the Organization's shelters and connect with the Organization's services.

Young Families (formerly Mother/Child)

The Young Families program provides emergency services, short- and long-term housing, nourishing meals, and medical and mental health care to pregnant and parenting youth and their children. The Organization also offers young families access to free childcare services, parenting support, and a full range of educational, vocational, and job placement services. This holistic plan provides young parents with the support they need to grow into responsible and loving parents, capable of supporting their families financially and emotionally.

Health and Well-Being (formerly Medical)

Homelessness impacts young people's physical and mental well-being in many ways, and because youth are still developing cognitively, physically, psychologically, and emotionally, those impacts can have deep effects. This is even more the case for young people of color and those who identify as LGBTQ+, as they face unique challenges associated with racism and prejudice, and for survivors of human trafficking. Half of all Covenant House youth tell the Organization they are dealing with a mental health challenge, and the Organization's data shows that LGBTQ+ youth are more likely to face these challenges than their peers. Covenant House welcomes all young people with unconditional love and absolute respect.

Covenant House Texas

Notes to Financial Statements
June 30, 2023

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Health and Well-Being (formerly Medical) (continued)

The Organization's trauma-informed Health and Well-being services range from medical care at the Organization's on-site health centers at certain Covenant House sites to yoga classes, art and music therapy, one-on-one and group counseling, religious and spiritual services, and physical fitness. Through these activities and the stability and care they receive at Covenant House, young people begin to heal from the harm they experienced while living unhoused, taking control of their lives, building on their strengths, and nourishing their self-confidence.

Drop-In Services (formerly Community Service Center)

Drop-in services are another form of outreach at Covenant House affiliates. Youth in this program do not receive residential services, but do receive 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 Organization's education and employment programs.

Transitional Living - Rights of Passage (ROP)

The Organization's Transitional Living programs, often referred to as "Rights of Passage" or ROP, are where young people take their boldest steps toward independence. Youth live in ROP for up to 24 months, where they tap their potential and plan for the future. The Organization's research shows that the longer a young person resides with Covenant House and takes advantage of the Organization's programs, the more likely they are to experience positive outcomes, including stable housing, gainful employment, and higher education. In the Organization's Transitional Living programs, youth 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. Covenant House staff support each young person on their journey toward sustainable independence and a hope-filled future.

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, 2023

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.

Adoption of New Accounting Policy

The Organization adopted FASB Topic 842, Leases, using the effective date method with July 1, 2022, as the date of initial adoption, with certain practical expedients available.

The Organization elected the available practical expedients to account for its existing operating leases as operating leases, under the new guidance, without reassessing (a) whether the contracts contain a lease under the new standard, (b) whether classification of capital (now finance) leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease guidance, on July 1, 2022, the Organization recognized a lease liability of \$1,090,082 that represents the present value of the remaining operating lease payments of \$1,954,685, discounted at 4.60% and a Right of Use (“ROU”) asset of \$1,090,082.

The standard had a material impact on the Organization’s statement of financial position but did not have an impact on its statements of activities and cash flows. The most significant impact was the recognition of the ROU asset and lease liability for its operating leases. The Organization’s accounting policy for capital (now finance) leases remained the same.

Net Asset Presentation

The Organization reports information regarding financial position and activities in two classes of new 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.

Covenant House Texas

Notes to Financial Statements
June 30, 2023

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

Net Asset Presentation (continued)

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.

Investment Valuation and Income Recognition

Investments are stated at fair value. Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the change in net assets.

Revenue Recognition

The Organization records earned revenues on an accrual basis. In addition, the Organization records as revenue the following types of contributions, when they are received unconditionally at their fair value: cash, promises to give (contributions receivable), grants receivable (which includes governmental grants receivable), certain contributed services and gifts of other assets.

Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met.

The Organization records contributions as with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions.

The Organization also raises funds through special events, such as galas. Event revenues, net of related costs with a direct-benefit to donors, are recorded as without donor restricted contributions unless there are donor-imposed restrictions. Costs to generate donations and grants are expensed as incurred.

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.

Covenant House Texas

Notes to Financial Statements
June 30, 2023

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

Functional Allocation of Expenses (continued)

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. As of June 30, 2023, all the Organization's investments held are short-term treasury bills, which are valued at Level 1 inputs.

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.

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 less costs to sell. 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, 2023, the Organization recognized \$1,878,063 of impairment losses. In 2023, 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.

Covenant House Texas

Notes to Financial Statements
June 30, 2023

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

Contributions and Pledges Receivable (continued)

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, 2023 and 2022, the Organization did not establish an allowance against contributions and pledges receivable.

Contributions of Nonfinancial Assets

The Organization received donated contributions and services as follows for the years ended June 30:

	2023	2022	Usage in Program/ Activities	Donor Restriction	Fair Value Techniques
Goods	\$ 203,657	\$ 190,587	Program and Administration	None	Estimated based on usual and customary rates of the vendor

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

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2022 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, 2022, 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. During fiscal 2022, the Organization filed the necessary forms for the ERTC. However, during fiscal 2023 it was noted that the Organization did not qualify to receive the ERTC funds and recognized the return, which is included in non-operating activities, on the accompanying 2023 statement of activities. The Organization also incurred \$38,157 worth of penalties and \$35,038 worth of interest on the ERTC return, which is included in miscellaneous and interest on the accompanying 2023 statement of functional expenses.

Covenant House Texas

Notes to Financial Statements
June 30, 2023

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

Leases

As of July 1, 2022, the Organization leases space and copiers and determines if an arrangement is a lease at inception. Operating leases are included in right of use asset – operating leases, (“ROU assets”) and lease liability, operating leases on the accompanying statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The leases do not provide an implicit borrowing rate. The Organization uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend the lease and when it is reasonably certain that the Organization will exercise that option, such amounts are included in ROU assets and lease liabilities. Lease expense for the lease payments is recognized on a straight-line basis over the lease term.

The Organization’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Reclassification

Certain information in the prior year’s financial statements has been reclassified to conform to the current year’s presentation.

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, 2020.

Operating Measure

The Organization has elected to present an operating measure in its statement of activities. Accordingly, items affecting operations are segregated 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, 2023

3. Contributions and Pledges Receivable

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

	2023	2022
In one year or less	\$2,795,093	\$3,080,867
Between one year and five years	3,174,050	3,150,200
	5,969,143	6,231,067
Less:		
Discount, at 4.13% and 1.75%	424,152	179,780
	\$5,544,991	\$6,051,287

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:

	2023	2022
Grants	\$ 1,596,604	\$ 263,649
Other	30,626	22,560

5. Property and Equipment

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

	2023	2022
Land	\$ 2,989,891	\$ 1,979,370
Property and improvements	2,208,227	2,346,035
Furniture and equipment	343,608	415,570
Vehicles	126,886	126,886
Computer hardware and software	131,984	107,226
Covenant House Texas video	26,452	26,452
Construction in progress	3,623,344	1,217,255
Donated mineral royalty interests	669	669
Leasehold improvements	337,651	-
	9,788,712	6,219,463
Accumulated depreciation	(762,047)	(568,199)
	\$ 9,026,665	\$ 5,651,264

Covenant House Texas

Notes to Financial Statements June 30, 2023

5. Property and Equipment (*continued*)

Depreciation expense was \$193,848 and \$261,371 for the years ended June 30, 2023 and 2022.

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.

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 for the balance. During fiscal 2023, the Organization repaid the loan in full.

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.

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 \$188,128 and \$138,377 at June 30, 2023 and 2022. 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, 2021	\$ 289,987
Change in fair value	<u>(151,610)</u>
Balance, June 30, 2022	138,377
Change in fair value	<u>49,751</u>
Balance, June 30, 2023	<u>\$ 188,128</u>

Covenant House Texas

Notes to Financial Statements June 30, 2023

9. Lease Commitments

The Organization has entered into eleven operating leases for space and copiers expiring through fiscal 2027.

The Organization had five operating leases that commenced prior to July 1, 2022, for space and copiers with the latest expiring in July 2027. Each of these leases provides a different annual base rent, payable in monthly installments.

During fiscal 2023, the Organization entered into six lease agreements to rent space in Houston, Texas. The leases commenced at various times during fiscal 2023 with the latest expiring in April 2025. Each of these leases provides a different annual base rent, payable in monthly installments. During fiscal 2023, the Organization recognized a ROU Asset of \$751,953.

The Organization amortizes these eleven operating leases over the remaining life of the lease agreements. Right-of-use assets consist of the following at June 30, 2023:

Right of use assets - operating leases	\$1,842,035
Less: accumulated amortization	<u>(528,104)</u>
	<u>\$1,313,931</u>

As of June 30, 2023, the future minimum lease payments under the lease agreements described above are as follows:

2024	\$ 751,673
2025	605,941
2026	15,013
2027	<u>15,013</u>
Total undiscounted operating lease payments	1,387,640
Less imputed interest	<u>(55,990)</u>
Present value of operating lease liabilities	<u>\$ 1,331,650</u>

Cash paid for the amounts included in the measurement of operating lease liabilities for the year ended June 30, 2023, total \$542,501.

Information associated with the measurement of the Organization's operating lease obligations as of June 30, 2023, is as follows:

Weighted-average remaining lease term in years for operating leases	1.87
Weighted-average discount rate for operating leases	4.60%

Operating lease expense for the year ended June 30, 2023 totaled \$584,764.

Covenant House Texas

Notes to Financial Statements June 30, 2023

10. Other 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, was renewed in May 2022, provided for payments that totaled \$32,438 and \$70,282 to Baylor during the years ended June 30, 2023 and 2022.

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 \$110,716 and \$93,011 to Baylor during the years ended June 30, 2023 and 2022.

These two agreements have no expiration date and require a thirty-date notice of cancellation.

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.

11. 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, 2023 and 2022. In 2023 and 2022, the Organization received \$1,232,931 and \$1,118,000 in contributions from the Parent. The Parent provided a Site Investment Fund (“SIF”) to Covenant House affiliates during fiscal 2022. In both 2023 and 2022, grants from Parent related to the National Sleep Out Event totaled \$775,925 and \$646,618.

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.

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 \$408,850 in 2023 and \$200,000 in 2022. Of this amount, the Organization has established a receivable of \$508,500 and \$150,000, which is included in contributions and pledges receivable in the accompanying statement of financial position at June 30, 2023 and 2022.

Covenant House Texas

Notes to Financial Statements
June 30, 2023

11. Related Party Transactions (*continued*)

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. 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. A balance of \$1,010,581 remained as of June 30, 2022, as a promise of continued use of land. Net assets were 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 (see Note 14).

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 on 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 through 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 for \$1,010,581 which was transferred to land within property and equipment during fiscal 2023.

12. 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 \$223,976 and \$195,430 for the years ended June 30, 2023 and 2022.

13. Net Assets With Donor Restrictions

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

	2023	2022
Shelter and crisis care	\$ 23,176	\$ 38,176
Promise of continued use of land	-	1,010,581
Beneficial interest held in trust	188,128	138,377
Capital campaign	23,408,332	15,931,280
	<u>\$ 23,619,636</u>	<u>\$17,118,414</u>

Covenant House Texas

Notes to Financial Statements June 30, 2023

13. 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>2023</u>	<u>2022</u>
Shelter and crisis care	\$ 186,775	\$ 25,260
Rights of Passage	5,000	10,000
Promise of continued use of land	1,010,581	11,511
Strategic plan initiative	65,250	154,550
Capital campaign	<u>204,400</u>	<u>232,739</u>
	<u>\$ 1,472,006</u>	<u>\$ 434,060</u>

14. Campus Redevelopment

In connection with the Organization's capital campaign for the campus redevelopment (the "Project"), the Organization signed a funding agreement with Harris County (the "County"), the City of Houston (the "City") (collectively, the "Public Funders"), and Cadence Bank (the "Senior Lender") to develop the Project.

During fiscal 2023, the Organization signed an advancing term loan (the "loan") with the Senior Lender for a maximum principal amount of \$25,000,000. The proceeds of the loan shall be used to pay the cost and related expenses of the Project. The loan holds an interest rate of 4.85% and matures in 2032. No funds have been borrowed against the loan during fiscal 2023.

The grant agreement between the County and the Organization is a reimbursable award for construction costs related to the Project, up to a maximum of \$4,146,250. During fiscal 2023, the Organization incurred and recognized \$537,468 worth of construction costs towards this grant.

The City and the Organization executed a forgivable loan (the "City Loan") up to a maximum of \$6,700,000 for construction costs on the Project. The affordability period of the City Loan commences fifteen years after the Project is completed. During fiscal 2023, the Organization incurred \$1,014,210 worth of construction costs which are recognized under grants and contracts on the accompanying statement of activities and grants receivables on the accompanying statement of financial position. The Organization also capitalized these costs incurred as construction in progress, leasehold improvements and recognized the expense incurred under accounts payable and accrued expenses on the accompanying statement of financial position. Subsequent to fiscal year end, the Organization received payment for \$252,000 worth of construction costs from the City.

Covenant House Texas

Notes to Financial Statements June 30, 2023

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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 10,211,394	\$ 13,021,985
Investments	5,081,802	-
Contributions and pledges receivable, net	5,544,991	6,051,287
Grants receivable	1,596,604	263,649
Due from Parent	29,986	1,493
Other receivables	30,626	22,560
Beneficial interest held in trust	<u>188,128</u>	<u>138,377</u>
Total Financial Assets	22,683,531	19,499,351
Less: Contractual or donor imposed restrictions amounts		
Receivables scheduled to be collected more than one year	2,749,898	2,970,420
Donor imposed restricted amounts	<u>20,869,738</u>	<u>13,137,413</u>
Financial Assets Available to Meet General Expenditures over the next twelve months	<u>\$ (936,105)</u>	<u>\$ 3,391,518</u>

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

16. Government Grants and Contracts

In accordance with the terms of certain government grants, the records of the Organization are subject to audit after the date of final payment of the contracts. The Organization is liable for any disallowed costs; however, management believes that the amount of costs disallowed, if any, would not be significant.

Covenant House Texas

Notes to Financial Statements
June 30, 2023

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. Subsequent Events

The Organization has evaluated events through March 5, 2024, 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, 2023

Covenant House Texas

Schedule of Expenditures of Federal Awards Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Assistance Listing Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>				
Pass-Through The Way Home Continuum of Care Program Youth Homeless Demonstration Program (YHDP)	TX0649Y6E002000	14.276	\$ -	\$ 358,517
Pass-Through City of Houston Housing & Community Development Department Emergency Solutions Grant Program	4600013805	14.231	-	150,933
Pass-Through Harris County Community Services Department Emergency Solutions Grant Program	E-20-UC-48-002; 2022-008b	14.231	-	129,190
Emergency Solutions Grant Program	E-20-UC-48-0002; 2022-008c	14.231	-	51,115
Pass-Through Texas Department of Housing & Community Affairs Emergency Solutions Grant Program	42217000045	14.231	-	4,061
Emergency Solutions Grant Program	42227000043	14.231	-	73,905
Pass-Through The Way Home Continuum of Care Program Continuum of Care (CoC) Homeless Assistance Program - Rapid Re-Housing	16-31-B	14.267	-	49,386
CDBG - Entitlement Grants Cluster:				
Pass-Through City of Houston Housing & Community Development Department Community Development Block Grants/Entitlement Grants	4600016579	14.218	-	170,377
Pass-Through City of Houston Community Development Block Grants/Entitlement Grants	4600016579	14.218	-	1,014,210
Total CDBG - Entitlement Grants Cluster			-	1,184,587
Pass-Through Harris County Community Services Department Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii	D2017-084	14.228	-	537,468
Total U.S. Department of Housing and Urban Development			-	2,539,162
<u>U.S. Department of Health and Human Services:</u>				
Direct Programs Transitional Living Program for Homeless Youth		93.550	-	18,986
Pass-Through Harris County Public Health Services Department Advanced Research Projects Agency for Health (ARPA-Health)	220163	93.384	-	107,454
Total U.S. Department of Health and Human Services			-	126,440
<u>U.S. Department of Homeland Security:</u>				
Pass-Through Coalition for the Homeless of Houston/Harris County Emergency Food and Shelter National Board Program - Phase 39	LRO 782800-005	97.024	-	13,214
Total Expenditures of Federal Awards			\$ -	\$ 2,678,816

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, 2023

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, 2023. 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 did not receive any nonmonetary assistance.

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, 2023, 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 March 5, 2024.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

March 5, 2024

**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, 2023. 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, 2023.

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

March 5, 2024

Covenant House Texas

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

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>Federal Assistance Listing Numbers</u>	<u>Name of Federal Programs or Clusters</u>
14.231	Emergency Solutions Grant Program
14.218	CDBG-Entitlement Grants Cluster Community Development Block Grants/ Entitlement Grants

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, 2023.

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.