

Covenant House Texas

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

June 30, 2024

Covenant House Texas

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

June 30, 2024

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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, 2024, 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, 2024, 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, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 5, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 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 January 22, 2025, 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

January 22, 2025

Covenant House Texas

Statement of Financial Position
June 30, 2024
(with comparative amounts at June 30, 2023)

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 4,227,585	\$ 10,211,394
Investments	-	5,081,802
Contributions and pledges receivable, net	9,158,412	5,544,991
Grants receivable	397,744	1,596,604
Due from Parent	1,219	29,986
Other receivables	11,753	30,626
Inventory	7,504	6,015
Prepaid expenses	24,669	29,751
Beneficial interest held in trust	197,701	188,128
Security deposits and other assets	73,007	73,007
Property and equipment, net	38,615,587	9,026,665
Right of use assets - operating leases	<u>602,801</u>	<u>1,313,931</u>
	<u>\$ 53,317,982</u>	<u>\$ 33,132,900</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 2,892,848	\$ 1,637,644
Finance lease obligations	-	685
Lease liability, operating leases	<u>623,603</u>	<u>1,331,650</u>
Total Liabilities	<u>3,516,451</u>	<u>2,969,979</u>
Net Assets		
Without donor restrictions	7,562,630	6,543,285
With donor restrictions	<u>42,238,901</u>	<u>23,619,636</u>
Total Net Assets	<u>49,801,531</u>	<u>30,162,921</u>
	<u>\$ 53,317,982</u>	<u>\$ 33,132,900</u>

See notes to financial statements

Covenant House Texas

Statement of Activities Year Ended June 30, 2024 (with summarized totals for year ended June 30, 2023)

	2024			2023 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Branding dollars from Parent	\$ 1,006,200	\$ -	\$ 1,006,200	\$ 1,232,931
Contributions	2,559,173	20,345,398	22,904,571	8,851,005
Contributed goods	257,077	-	257,077	203,657
Government grants and contracts	1,817,117	-	1,817,117	2,128,700
Grants from Parent Related to National Sleep Out Event	537,971	-	537,971	775,925
Restricted Site Investment Fund from Parent	7,781	-	7,781	-
Special events revenue, net of direct benefit to donor costs of \$296,747 and \$225,489 in 2024 and 2023	903,741	-	903,741	533,486
Total Support and Revenue	<u>7,089,060</u>	<u>20,345,398</u>	<u>27,434,458</u>	<u>13,725,704</u>
OTHER INCOME				
Interest income	621,696	-	621,696	462,009
Other income	141,828	9,573	151,401	49,751
Total Other Income	<u>763,524</u>	<u>9,573</u>	<u>773,097</u>	<u>511,760</u>
Total Support and Revenue and Other Income Before Net Assets Released from Restrictions	7,852,584	20,354,971	28,207,555	14,237,464
Net assets released from restrictions	1,735,706	(1,735,706)	-	-
Total Support and Revenue and Other Income	<u>9,588,290</u>	<u>18,619,265</u>	<u>28,207,555</u>	<u>14,237,464</u>
EXPENSES				
Program services	6,804,804	-	6,804,804	6,297,245
Supporting Services				
Management and general	1,208,409	-	1,208,409	1,275,969
Fundraising	555,732	-	555,732	541,504
Total Expenses	<u>8,568,945</u>	<u>-</u>	<u>8,568,945</u>	<u>8,114,718</u>
Change in Net Assets Before Non-Operating Activities	1,019,345	18,619,265	19,638,610	6,122,746
NON-OPERATING ACTIVITIES				
Return of CARES Act stimulus	-	-	-	(384,219)
Change in Net Assets	1,019,345	18,619,265	19,638,610	5,738,527
NET ASSETS				
Beginning of year	<u>6,543,285</u>	<u>23,619,636</u>	<u>30,162,921</u>	<u>24,424,394</u>
End of year	<u>\$ 7,562,630</u>	<u>\$ 42,238,901</u>	<u>\$ 49,801,531</u>	<u>\$ 30,162,921</u>

See notes to financial statements

Covenant House Texas

Statement of Functional Expenses Year Ended June 30, 2024 (with summarized totals for year ended June 30, 2023)

	2024												2023 Total Expense
	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	
Salaries and wages	\$ 1,528,657	\$ 147,315	\$ 186,221	\$ 224,391	\$ 673,108	\$ 316,271	\$ 3,075,963	\$ 524,270	\$ 183,980	\$ 708,250	\$ -	\$ 3,784,213	\$ 3,609,149
Payroll taxes	123,886	11,939	14,687	17,578	53,284	25,569	246,943	37,796	14,344	52,140	-	299,083	286,113
Employee benefits	232,446	22,400	33,562	31,731	102,269	48,417	470,825	74,329	23,370	97,699	-	568,524	567,590
Total Salaries and Related Expenses	1,884,989	181,654	234,470	273,700	828,661	390,257	3,793,731	636,395	221,694	858,089	-	4,651,820	4,462,852
Accounting fees	4,066	392	1,927	3,095	3,879	5,668	19,027	47,659	1,543	49,202	-	68,229	55,749
Medical fees	-	-	-	165,018	-	-	165,018	-	-	-	-	165,018	159,842
Other professional fees	77,532	7,465	8,651	9,085	29,201	17,186	149,120	226,827	196,856	423,683	-	572,803	349,964
Supplies	34,846	3,358	4,620	19,839	19,905	14,159	96,727	42,155	3,155	45,310	-	142,037	196,337
Telephone	12,891	1,242	2,009	2,763	16,775	4,806	40,486	34,374	1,840	36,214	-	76,700	52,587
Postage, printing and mailing lists	115	11	4	4	113	8	255	3,633	5,378	9,011	-	9,266	17,532
Occupancy													
Fuel and utilities	61,868	5,961	17,701	26,643	40,056	49,062	201,291	9,059	2,596	11,655	-	212,946	158,557
Property lease	169,340	16,326	78,581	126,097	160,849	233,443	784,636	6,871	1,705	8,576	-	793,212	619,620
Repairs and maintenance	5,960	574	1,928	3,079	4,181	5,461	21,183	338	169	507	-	21,690	83,223
Travel and vehicle costs	14,608	1,408	3,016	4,061	6,966	7,453	37,512	12,002	2,563	14,565	-	52,077	79,181
Specific Assistance to Individuals													
Food	233,517	22,504	3,114	-	24,222	5,742	289,099	-	-	-	-	289,099	178,435
Donated food	150,039	14,459	-	-	-	-	164,498	-	-	-	-	164,498	73,319
Clothing, travel and miscellaneous	63,336	6,104	44,620	11	7,388	3,625	125,084	620	853	1,473	-	126,557	69,256
Donated clothing, travel and miscellaneous	34,487	3,324	-	-	-	-	37,811	-	-	-	-	37,811	61,082
Other purchased services	316,418	30,495	31,858	59,722	92,322	91,611	622,426	50,163	71,116	121,279	-	743,705	902,631
Dues, licenses and permits	875	84	203	290	497	535	2,484	579	66	645	-	3,129	6,224
Subscriptions and publications	9,563	922	778	1,238	4,246	3,510	20,257	6,229	8,610	14,839	-	35,096	35,357
Staff recruitment	22,604	2,177	1,573	1,034	6,830	2,064	36,282	3,514	1,757	5,271	-	41,553	88,636
Insurance	15,956	1,538	13,806	5,537	14,140	10,140	61,117	77,313	2,504	79,817	-	140,934	161,274
Events	-	-	-	-	-	-	-	-	-	-	296,747	296,747	239,438
Miscellaneous	2,539	245	683	347	832	648	5,294	27,441	31,089	58,530	-	63,824	36,253
Interest	-	-	-	-	-	-	-	-	-	-	-	-	39,939
Bank charges and fees	584	56	277	445	557	814	2,733	6,846	222	7,068	-	9,801	5,839
Total Functional Expenses Before Bad Debt and Depreciation	3,116,133	300,299	449,819	702,008	1,261,620	846,192	6,676,071	1,192,018	553,716	1,745,734	296,747	8,718,552	8,133,127
Bad debt	-	-	-	-	-	-	-	-	-	-	-	-	13,232
Depreciation	42,003	4,047	15,101	15,248	25,174	27,160	128,733	16,391	2,016	18,407	-	147,140	193,848
Total Functional Expenses	3,158,136	304,346	464,920	717,256	1,286,794	873,352	6,804,804	1,208,409	555,732	1,764,141	296,747	8,865,692	8,340,207
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(296,747)	(296,747)	(225,489)
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 3,158,136</u>	<u>\$ 304,346</u>	<u>\$ 464,920</u>	<u>\$ 717,256</u>	<u>\$ 1,286,794</u>	<u>\$ 873,352</u>	<u>\$ 6,804,804</u>	<u>\$ 1,208,409</u>	<u>\$ 555,732</u>	<u>\$ 1,764,141</u>	<u>\$ -</u>	<u>\$ 8,568,945</u>	<u>\$ 8,114,718</u>

See notes to financial statements

Covenant House Texas

Statement of Cash Flows Year Ended June 30, 2024 (with comparative amounts for year ended June 30, 2023)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 19,638,610	\$ 5,738,527
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	147,140	193,848
Interest income on short-term treasury bills	(171,548)	(83,784)
Change in value of beneficial interest held in trust	(9,573)	(49,751)
Amortization of right of use assets - operating leases	711,130	528,104
Discount on contributions and pledges receivable	(72,555)	244,371
Provision for bad debts	-	13,232
Changes in operating assets and liabilities		
Contributions and pledges receivable	(3,540,866)	248,693
Grants receivable	1,198,860	(1,332,955)
Due from Parent	28,767	(28,493)
Other receivables	18,873	(8,066)
Inventory	(1,489)	1,000
Prepaid expenses	5,082	(10,347)
Security deposits and other assets	-	(28,320)
Accounts payable and accrued expenses	1,255,204	1,133,059
Lease liability - operating leases	(708,047)	(510,385)
Net Cash from Operating Activities	18,499,588	6,048,733
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(75,911)	(494,437)
Construction in progress	(29,654,011)	(2,064,231)
Sale of short-term treasury bills	5,247,210	-
Purchase of short-term treasury bills	-	(4,998,018)
Net Cash from Investing Activities	(24,482,712)	(7,556,686)
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable repayments	-	(1,294,584)
Repayments on finance lease obligations	(685)	(8,054)
Net Cash from Financing Activities	(685)	(1,302,638)
Net Change in Cash and Cash Equivalents	(5,983,809)	(2,810,591)
CASH AND CASH EQUIVALENTS		
Beginning of year	10,211,394	13,021,985
End of year	\$ 4,227,585	\$ 10,211,394
NON CASH OPERATING AND FINANCING ACTIVITIES		
Transfer of continued use of land to property and equipment	\$ -	\$ 1,010,581
Construction in progress included in accounts payable and accrued expenses	2,360,975	690,910

See notes to financial statements

Covenant House Texas

Notes to Financial Statements
June 30, 2024

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 57,000 young people during fiscal 2024. Throughout fiscal 2024, Covenant House provided a total of more than 862,000 nights of housing and safety for, on average, 2,400 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, 2024

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 and Short-Term Housing

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+, youth who are pregnant or parenting, and young people facing mental health challenges. The Organization's shelter doors are open 24/7, and the Organization has provided uninterrupted service to children and youth for more than 50 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 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 benefit from the Organization's services.

Young Families

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

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, 2024

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Health and Well-Being (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

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, 2024

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

In June 2016, the Financial Accounting Standards Board issued an accounting pronouncement related to the measurement of credit losses on financial instruments. This pronouncement and subsequently issued Accounting Standards Updates, clarified certain provisions of the new guidance, changed the incurred loss model for most financial assets and required the use of an “expected loss” model for instruments measured at amortized cost. Under this model, entities are required to estimate the lifetime expected credit losses on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. The adoption of this guidance on July 1, 2023, did not have a material effect on its financial statements.

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.

Covenant House Texas

Notes to Financial Statements

June 30, 2024

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

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. Contributions received for the acquisition of long-lived assets are released from donor restriction upon placing the related long-lived asset in service.

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.

Covenant House Texas

Notes to Financial Statements
June 30, 2024

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

Fair Value of Financial Instruments

The Organization follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist. 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

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. The Organization follows the practice of capitalizing all expenditures for property and equipment with a cost in excess of \$2,000.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building improvements	40 years
Buildings	33 years
Furniture, fixture and equipment	10 years
Leasehold improvements	7 years
Vehicles and computer hardware and software	5 to 7 years

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, 2024 and 2023, the Organization did not establish an allowance against contributions and pledges receivable.

Covenant House Texas

Notes to Financial Statements June 30, 2024

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

Contributions of Nonfinancial Assets

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

	2024	2023	Usage in Program/ Activities	Donor Restriction	Fair Value Techniques
Goods	\$ 257,077	\$ 203,657	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, 2023 is presented for comparative purposes only. Certain activity by net asset classification and reporting of expenses by both natural and functional 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, 2023, 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.

Leases

The Organization determines if an arrangement is a lease at inception. All leases are recorded on the statement of financial position except for leases with an initial term less than 12 months for which the Organization made the short-term lease election.

Operating lease right-of-use assets (“ROU”) and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. ROU assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. 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.

Covenant House Texas

Notes to Financial Statements
June 30, 2024

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

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, 2021.

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.

Subsequent Events Evaluation by Management

The Organization has evaluated events through January 22, 2025, 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.

3. Contributions and Pledges Receivable

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

	<u>2024</u>	<u>2023</u>
In one year or less	\$ 6,814,313	\$ 2,795,093
Between one year and five years	<u>2,695,696</u>	<u>3,174,050</u>
	9,510,009	5,969,143
Less:		
Discount, at 4.33% and 4.13%	<u>351,597</u>	<u>424,152</u>
	<u>\$ 9,158,412</u>	<u>\$ 5,544,991</u>

4. Grants and Other Receivables

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

	<u>2024</u>	<u>2023</u>
Grants	\$ 397,744	\$ 1,596,604
Other	11,753	30,626

Covenant House Texas

Notes to Financial Statements
June 30, 2024

5. Property and Equipment

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

	<u>2024</u>	<u>2023</u>
Land	\$ 2,989,891	\$ 2,989,891
Property and improvements	2,228,371	2,208,227
Furniture and equipment	343,608	343,608
Vehicles	184,084	126,886
Computer hardware and software	136,693	131,984
Covenant House Texas video	26,452	26,452
Construction in progress	33,277,355	3,623,344
Donated mineral royalty interests	669	669
Leasehold improvements	<u>337,650</u>	<u>337,650</u>
	39,524,773	9,788,711
Accumulated depreciation	<u>(909,186)</u>	<u>(762,046)</u>
	<u>\$ 38,615,587</u>	<u>\$ 9,026,665</u>

Depreciation expense was \$147,140 and \$193,848 for the years ended June 30, 2024 and 2023.

The Organization is capitalizing expenditures related to time or purpose restricted contributions in accordance with the government contracts and will be released once the asset is placed into service. As of June 30, 2024 and 2023, approximately.

6. 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 \$197,701 and \$188,128 at June 30, 2024 and 2023. The fair value of the trust was valued using level 3 inputs.

Covenant House Texas

Notes to Financial Statements June 30, 2024

6. Beneficial Interest Held in Trust *(continued)*

The following table summarizes the changes in fair value associated with the Organization's Level 3 financial assets for the years ended:

Balance, June 30, 2022	\$	138,377
Change in fair value		<u>49,751</u>
Balance, June 30, 2023		188,128
Change in fair value		<u>9,573</u>
Balance, June 30, 2024	\$	<u><u>197,701</u></u>

7. 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.

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 2024, the Organization did not enter into any new leases.

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:

	2024	2023
Right of use assets - operating leases	\$ 1,842,035	\$ 1,842,035
Less: accumulated amortization	<u>(1,239,234)</u>	<u>(528,104)</u>
	<u>\$ 602,801</u>	<u>\$ 1,313,931</u>

As of June 30, 2024, the future minimum lease payments under the lease agreements described above are as follows:

2025	\$	605,941
2026		15,013
2027		<u>15,013</u>
Total undiscounted operating lease payments		635,967
Less imputed interest		<u>(12,364)</u>
Present value of operating lease liabilities	\$	<u><u>623,603</u></u>

Cash paid for the amounts included in the measurement of operating lease liabilities for the year ended June 30, 2024 and 2023, totaled \$751,673 and \$542,501.

Covenant House Texas

Notes to Financial Statements June 30, 2024

7. Lease Commitments *(continued)*

Information associated with the measurement of the Organization's operating lease obligations as of June 30, 2024 and 2023, is as follows:

	2024	2023
Weighted-average remaining lease term in years for operating leases	0.93	1.87
Weighted-average discount rate for operating leases	4.60%	4.60%

Operating lease expense for the years ended June 30, 2024 and 2023 totaled \$754,756 and \$584,764.

8. 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 \$- and \$32,438 to Baylor during the years ended June 30, 2024 and 2023.

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 \$141,480 and \$110,716 to Baylor during the years ended June 30, 2024 and 2023.

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.

9. 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 \$37 million and \$36 million for the years ended June 30, 2024 and 2023. In 2024 and 2023, the Organization received \$1,006,200 and \$1,232,931 in contributions from the Parent. In both 2024 and 2023, grants from Parent related to the National Sleep Out Event totaled \$537,971 and \$775,925.

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 \$516,675 in 2024 and \$408,850 in 2023. Of this amount, the Organization has established a receivable of \$1,097,165 and \$508,500, which is included in contributions and pledges receivable in the accompanying statement of financial position at June 30, 2024 and 2023.

Covenant House Texas

Notes to Financial Statements June 30, 2024

10. 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 \$207,278 and \$223,976 for the years ended June 30, 2024 and 2023.

11. Net Assets With Donor Restrictions

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

	<u>2024</u>	<u>2023</u>
Shelter and crisis care	\$ 23,176	\$ 23,176
Beneficial interest held in trust	197,701	188,128
Capital campaign	<u>42,018,024</u>	<u>23,408,332</u>
	<u>\$ 42,238,901</u>	<u>\$ 23,619,636</u>

Net assets with donor restrictions released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specific by donors during the years ended June 30:

	<u>2024</u>	<u>2023</u>
Shelter and crisis care	\$ 16,300	\$ 25,260
Rights of Passage	500,000	10,000
Promise of continued use of land	-	11,511
Strategic plan initiative	20,000	154,550
Capital campaign	<u>1,199,406</u>	<u>232,739</u>
	<u>\$ 1,735,706</u>	<u>\$ 434,060</u>

12. 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 were borrowed against the loan during fiscal 2023.

Covenant House Texas

Notes to Financial Statements
June 30, 2024

12. Campus Redevelopment (continued)

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 2024 and 2023, the Organization incurred and recognized \$3,622,462 and \$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 2024 and 2023, the Organization incurred \$8,692,994 and \$1,483,281 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 cost incurred under accounts payable and accrued expenses on the accompanying statement of financial position. Subsequent to fiscal year end, the Organization received payment for \$1,779,019 of construction costs incurred during the fiscal year from the County.

13. 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:

	2024	2023
Cash and cash equivalents	\$ 4,227,585	\$ 10,211,394
Investments	-	5,081,802
Contributions and pledges receivable, net	9,158,412	5,544,991
Grants receivable	397,744	1,596,604
Due from Parent	1,219	29,986
Other receivables	11,753	30,626
Beneficial interest held in trust	197,701	188,128
Total Financial Assets	13,994,414	22,683,531
Less: Contractual or donor imposed restrictions amounts		
Restricted by donor with time or purpose restrictions, net of construction in progress restrictions to be released over the next twelve months	42,238,901	23,619,636
Add back: Amounts included in construction in progress	(30,453,609)	(1,551,678)
Donor imposed restricted amounts	11,785,292	22,067,958
Financial Assets Available to Meet General Expenditures over the next twelve months	\$ 2,209,122	\$ 615,573

Covenant House Texas

Notes to Financial Statements
June 30, 2024

13. 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.

14. 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.

15. Concentration of Credit Risk

Financial instruments, which potentially subject the Organization to a concentration of credit and market 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 exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The Organization does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At June 30, 2024 and 2023, approximately \$3,700,000 and \$9,700,000 was maintained with an institution in excess of FDIC limits.

The concentration of credit risk with respect to receivables are limited due to the fact that receivables are due from grant agencies and are expected to be collected in the normal course of business. As of June 30, 2024, sixty-nine donors accounted for all pledge receivables.

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Covenant House Texas

Uniform Guidance Schedules and Reports

June 30, 2024

Covenant House Texas

Schedule of Expenditures of Federal Awards Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development:				
Pass-Through Office of Special Needs Assistance Programs: Youth Homelessness Demonstration Program	14.276	TX0649Y6E002000	\$ -	\$ 1,013,916
Pass-Through Child Care Council of Greater Houston, Inc. and City of Houston Housing & Community Development Department: Emergency Solutions Grant Program	14.231	4600013805	-	115,589
Pass-Through Harris County Community Services Department: Emergency Solutions Grant Program	14.231	E-20-UC-48-0002; 2023-007b	-	46,910
Emergency Solutions Grant Program	14.231	E-20-UC-48-0002; 2023-0031c	-	9,865
Emergency Solutions Grant Program	14.231	E-20-UC-48-002; 2022-008b	-	33,553
Pass-Through Texas Department of Housing & Community Affairs: Emergency Solutions Grant Program	14.231	42217000046	-	30,030
Emergency Solutions Grant Program	14.231	42227000043	-	76,326
			-	312,273
Pass-Through The Way Home Continuum of Care/Houston Housing Authority: Continuum of Care Program	14.267	16-31-B	-	22,726
CDBG - Entitlement Grants Cluster:				
Pass-Through City of Houston - ESGP/ Child Care Council of Greater Houston, Inc. Community Development Block Grants/Entitlement Grants	14.218	4600016579	-	143,959
Pass-Through Harris County Community Services Department: Community Development Block Grants/Entitlement Grants	14.218	B-20-UW-48-002; C2020-050c	-	71,657
Total CDBG - Entitlement Grants Cluster			-	215,616
Total U.S. Department of Housing and Urban Development			-	1,564,531
U.S. Department of the Treasury:				
Coronavirus State and Local Fiscal Recovery Funds	21.027		-	277,457
U.S. Department of Homeland Security:				
Pass-Through EFSP Local Board - Coalition for the Homeless of Houston/Harris County: Emergency Food and Shelter National Board Program	97.024	LRO 782800-005	-	46,786
Total Expenditures of Federal Awards			\$ -	\$ 1,888,774

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, 2024

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, 2024. 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, 2024, 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 January 22, 2025.

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 were not 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

January 22, 2025



Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as 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' (the "Organization") 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, 2024. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

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 the Organization 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 the Organization's 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 the Organization's 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 the Organization's 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 the Organization's 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 the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's 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 the Organization's 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.

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

January 22, 2025

Covenant House Texas

Schedule of Findings and Questioned Costs
Year Ended June 30, 2024

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? yes none reported

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

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

Identification of major federal programs:

<u>Federal Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
14.276	Youth Homelessness Demonstration Program

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

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2024.

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.