

Covenant House Texas

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

June 30, 2025

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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, 2025, 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, 2025, 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, 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 22, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2026, 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

February 5, 2026

Covenant House Texas

Statement of Financial Position
June 30, 2025
(with comparative amounts at June 30, 2024)

	<u>2025</u>	<u>2024</u>
ASSETS		
Cash and cash equivalents	\$ 758,940	\$ 4,227,585
Contributions and pledges receivable, net	5,243,601	8,658,412
Grants receivable	320,341	397,744
Due from Parent	7,601	1,219
Other receivables	503,666	511,753
Inventory	4,891	7,504
Prepaid expenses	22,876	24,669
Beneficial interest held in trust	218,565	197,701
Security deposits and other assets	40,787	73,007
Property and equipment, net	52,280,162	38,615,587
Right of use assets - operating leases	<u>333,052</u>	<u>602,801</u>
	<u>\$ 59,734,482</u>	<u>\$ 53,317,982</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,107,603	\$ 2,892,848
Loans payable	7,134,172	-
Refundable advance	750,000	-
Lease liability, operating leases	<u>265,893</u>	<u>623,603</u>
Total Liabilities	<u>9,257,668</u>	<u>3,516,451</u>
Net Assets		
Without donor restrictions	49,737,596	7,562,630
With donor restrictions	<u>739,218</u>	<u>42,238,901</u>
Total Net Assets	<u>50,476,814</u>	<u>49,801,531</u>
	<u>\$ 59,734,482</u>	<u>\$ 53,317,982</u>

See notes to financial statements

Covenant House Texas

Statement of Activities Year Ended June 30, 2025 (with summarized totals for year ended June 30, 2024)

	2025			2024 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE				
Branding dollars from Parent	\$ 955,896	\$ -	\$ 955,896	\$ 1,006,200
Contributions	1,511,078	4,158,921	5,669,999	22,904,571
Contributions of nonfinancial assets	190,959	-	190,959	257,077
Government grants and contracts	2,033,752	-	2,033,752	1,817,117
Grants from Parent Related to National Sleep Out Event	528,933	-	528,933	537,971
Restricted Site Investment Fund from Parent	1,681	-	1,681	7,781
Special events revenue, net of direct benefit to donor costs of \$222,047 and \$296,747 in 2025 and 2024	<u>988,452</u>	<u>-</u>	<u>988,452</u>	<u>903,741</u>
Total Support and Revenue	<u>6,210,751</u>	<u>4,158,921</u>	<u>10,369,672</u>	<u>27,434,458</u>
OTHER INCOME				
Interest income	112,486	-	112,486	621,696
Other income	<u>166,430</u>	<u>20,864</u>	<u>187,294</u>	<u>151,401</u>
Total Other Income	<u>278,916</u>	<u>20,864</u>	<u>299,780</u>	<u>773,097</u>
Total Support and Revenue and Other Income Before Net Assets Released from Restrictions	6,489,667	4,179,785	10,669,452	28,207,555
Net assets released from restrictions	<u>45,679,468</u>	<u>(45,679,468)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Other Income	<u>52,169,135</u>	<u>(41,499,683)</u>	<u>10,669,452</u>	<u>28,207,555</u>
EXPENSES				
Program services	7,300,978	-	7,300,978	6,804,804
Supporting Services				
Management and general	1,821,608	-	1,821,608	1,208,409
Fundraising	<u>871,583</u>	<u>-</u>	<u>871,583</u>	<u>555,732</u>
Total Expenses	<u>9,994,169</u>	<u>-</u>	<u>9,994,169</u>	<u>8,568,945</u>
Change in Net Assets	42,174,966	(41,499,683)	675,283	19,638,610
NET ASSETS				
Beginning of year	<u>7,562,630</u>	<u>42,238,901</u>	<u>49,801,531</u>	<u>30,162,921</u>
End of year	<u>\$ 49,737,596</u>	<u>\$ 739,218</u>	<u>\$ 50,476,814</u>	<u>\$ 49,801,531</u>

See notes to financial statements

Covenant House Texas

Statement of Functional Expenses Year Ended June 30, 2025 (with summarized totals for year ended June 30, 2024)

	2025												
	Program Services						Supporting Services				Direct Benefit to Donors	Total Expense	2024 Total Expense
	Short-Term Housing & Crisis Care	Outreach and Prevention	Clinical & Medical	Rights of Passage	YHDP	Youth Engagement Center	Total Program Services	Management and General	Fundraising	Total Supporting Services			
Salaries and wages	\$ 1,390,229	\$ 397,574	\$ 191,153	\$ 317,200	\$ 383,592	\$ 373,623	\$ 3,053,371	\$ 748,270	\$ 345,149	\$ 1,093,419	\$ -	\$ 4,146,790	\$ 3,784,213
Payroll taxes	110,534	30,725	14,593	25,509	29,583	29,268	240,212	53,493	32,655	86,148	-	326,360	299,083
Employee benefits	<u>222,935</u>	<u>56,626</u>	<u>29,004</u>	<u>89,437</u>	<u>11,162</u>	<u>47,007</u>	<u>456,171</u>	<u>71,369</u>	<u>43,503</u>	<u>114,872</u>	-	<u>571,043</u>	<u>568,524</u>
Total Salaries and Related Expenses	<u>1,723,698</u>	<u>484,925</u>	<u>234,750</u>	<u>432,146</u>	<u>424,337</u>	<u>449,898</u>	<u>3,749,754</u>	<u>873,132</u>	<u>421,307</u>	<u>1,294,439</u>	-	<u>5,044,193</u>	<u>4,651,820</u>
Accounting fees	-	-	-	-	-	-	-	63,100	-	63,100	-	63,100	68,229
Medical fees	-	-	177,530	-	-	-	177,530	-	-	-	-	177,530	165,018
Other professional fees	50,069	64,323	5,223	15,066	-	29,218	163,899	263,844	219,792	483,636	-	647,535	572,803
Supplies	80,832	69,655	8,438	21,746	7,794	44,251	232,716	36,572	3,623	40,195	-	272,911	142,037
Telephone	35,866	32,253	2,131	11,009	2,799	19,082	103,140	9,623	3,490	13,113	-	116,253	76,700
Postage, printing and mailing lists	704	42	3	14	-	26	789	1,210	7,098	8,308	-	9,097	9,266
Occupancy													
Fuel and utilities	68,372	64,709	4,455	20,573	42,272	39,900	240,281	-	-	-	-	240,281	212,946
Property lease	195,244	2,311	16,659	115,683	353,222	17,925	701,044	366	-	366	-	701,410	793,212
Repairs and maintenance	773	732	50	2,312	2,079	2,530	8,476	6,799	2,079	8,878	-	17,354	21,690
Travel and vehicle costs	293,472	12,073	5,179	43,055	1,453	7,781	363,013	60,990	3,374	64,364	-	427,377	52,077
Specific Assistance to Individuals													
Food	312,342	1,420	81	41,964	-	6,377	362,184	-	-	-	-	362,184	289,099
Donated food	18,539	-	-	-	-	-	18,539	-	-	-	-	18,539	164,498
Clothing, travel and miscellaneous	44,723	10,457	470	1,997	5,133	4,970	67,750	-	6,444	6,444	-	74,194	126,557
Donated clothing, travel and miscellaneous	59,537	56,347	3,879	17,914	-	34,743	172,420	-	-	-	-	172,420	37,811
Other purchased services	154,333	146,065	12,178	46,438	22,902	90,061	471,977	-	125,878	125,878	-	597,855	743,705
Dues, licenses and permits	305	288	20	92	-	177	882	-	-	-	-	882	3,129
Subscriptions and publications	1,560	1,181	357	720	-	1,009	4,827	5,067	21,406	26,473	-	31,300	35,096
Staff recruitment	2,289	613	364	195	2,000	378	5,839	111,493	1,395	112,888	-	118,727	41,553
Insurance	95,120	107,705	6,198	37,466	-	55,507	301,996	27,013	9,796	36,809	-	338,805	140,934
Events	-	-	-	-	-	-	-	-	-	-	222,047	222,047	296,747
Miscellaneous	2,073	1,844	127	586	-	1,137	5,767	73,745	45,499	119,244	-	125,011	63,824
Interest	-	-	-	-	-	-	-	58,629	-	58,629	-	58,629	-
Bank charges and fees	-	-	-	-	-	-	-	10,738	-	10,738	-	10,738	9,801
Total Functional Expenses Before Bad Debt and Depreciation	<u>3,139,851</u>	<u>1,056,943</u>	<u>478,092</u>	<u>808,976</u>	<u>863,991</u>	<u>804,970</u>	<u>7,152,823</u>	<u>1,602,321</u>	<u>871,181</u>	<u>2,473,502</u>	<u>222,047</u>	<u>9,848,372</u>	<u>8,718,552</u>
Bad debt	-	-	-	-	-	-	-	18,895	-	18,895	-	18,895	-
Depreciation	<u>85,805</u>	<u>30,435</u>	<u>2,490</u>	<u>11,062</u>	<u>-</u>	<u>18,363</u>	<u>148,155</u>	<u>200,392</u>	<u>402</u>	<u>200,794</u>	<u>-</u>	<u>348,949</u>	<u>147,140</u>
Total Functional Expenses	<u>3,225,656</u>	<u>1,087,378</u>	<u>480,582</u>	<u>820,038</u>	<u>863,991</u>	<u>823,333</u>	<u>7,300,978</u>	<u>1,821,608</u>	<u>871,583</u>	<u>2,693,191</u>	<u>222,047</u>	<u>10,216,216</u>	<u>8,865,692</u>
Less: cost of direct benefits to donors	-	-	-	-	-	-	-	-	-	-	(222,047)	(222,047)	(296,747)
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 3,225,656</u>	<u>\$ 1,087,378</u>	<u>\$ 480,582</u>	<u>\$ 820,038</u>	<u>\$ 863,991</u>	<u>\$ 823,333</u>	<u>\$ 7,300,978</u>	<u>\$ 1,821,608</u>	<u>\$ 871,583</u>	<u>\$ 2,693,191</u>	<u>\$ -</u>	<u>\$ 9,994,169</u>	<u>\$ 8,568,945</u>

See notes to financial statements

Covenant House Texas

Statement of Cash Flows Year Ended June 30, 2025 (with comparative amounts for year ended June 30, 2024)

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 675,283	\$ 19,638,610
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	348,949	147,140
Interest income	16,779	(171,548)
Change in value of beneficial interest held in trust	(20,864)	(9,573)
Amortization of right of use assets - operating leases	269,749	711,130
Discount on contributions and pledges receivable	(68,687)	(72,555)
Bad debt expense	18,895	-
Gain on disposal of fixed assets	(11,847)	-
Changes in operating assets and liabilities		
Contributions and pledges receivable	3,464,603	(3,540,866)
Grants receivable	77,403	1,198,860
Due from Parent	(6,382)	28,767
Other receivables	8,087	18,873
Inventory	2,613	(1,489)
Prepaid expenses	1,793	5,082
Security deposits and other assets	32,220	-
Accounts payable and accrued expenses	(1,785,245)	1,255,204
Refundable advance	750,000	-
Lease liability - operating leases	(357,710)	(708,047)
Net Cash from Operating Activities	3,415,639	18,499,588
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(13,867,029)	(75,911)
Construction in progress	-	(29,654,011)
Sale of short-term treasury bills	-	5,247,210
Net Cash from Investing Activities	(13,867,029)	(24,482,712)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on loan payable	(2,775,000)	-
Proceeds on loan payable	9,757,745	-
Repayments on finance lease obligations	-	(685)
Net Cash from Financing Activities	6,982,745	(685)
Net Change in Cash and Cash Equivalents	(3,468,645)	(5,983,809)
CASH AND CASH EQUIVALENTS		
Beginning of year	4,227,585	10,211,394
End of year	\$ 758,940	\$ 4,227,585
NON CASH OPERATING AND FINANCING ACTIVITIES		
Construction in progress included in accounts payable and accrued expenses	\$ -	\$ 2,360,975
Cash interest paid	146,495	-

See notes to financial statements

Covenant House Texas

Notes to Financial Statements
June 30, 2025

1. Organization and Tax Status

Covenant House Texas (the “Organization”), a not-for-profit organization incorporated in 1983, 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.

The Organization is dedicated to providing shelter, love, and hope to young people ages 18–24. In fiscal year 2025, the Organization offered shelter, food, clothing, medical and mental health services, crisis intervention, education and vocational support, public education and prevention services, and other programs that reached a total of 939 young people. Throughout fiscal 2025, the Organization provided 35,996 nights of safe and stable housing.

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 63,000 young people during fiscal 2025. Throughout fiscal 2025, Covenant House provided a total of more than 896,000 nights of housing and safety for, on average, 2,500 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 Innovation Center LLC
- 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)
- Casa Alianza De Honduras
- Casa Alianza Internacional
- Covenant House Toronto
- Covenant House Vancouver
- Fundación Casa Alianza México, I.A.P.

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

Covenant House Texas

Notes to Financial Statements
June 30, 2025

1. Organization and Tax Status (*continued*)

Components of Program and Supporting Services

Program Services

Youth Engagement Center

The Youth Engagement Center (YEC) provides a safe, welcoming space for young people ages 18–24, offering daily drop-in services and emergency overnight support. Designed to meet both immediate needs and longer-term goals, the YEC ensures youth have access to essential resources in an environment that values their dignity and potential. *Drop-In Services:* Open daily youth can take a shower, enjoy a nutritious meal, do laundry, rest, and access additional supportive services. Youth Engagement Specialists are available to meet individual needs, provide guidance, and ensure every young person feels seen and supported. *Emergency Overnight Services:* Youth may participate in a lottery to secure a spot for overnight shelter, with priority given to youth who are employed or enrolled full-time in school. Youth receive meals, hygiene supplies, laundry services, and access to clothing and shoes, as well as medical and mental health support, case management, and assistance with housing, education, and employment.

The YEC also hosts workshops, peer events, and educational programs to raise awareness about youth homelessness, human trafficking, and the resources available to support young people in crisis. By offering a safe space and comprehensive support, the YEC helps youth build stability, confidence, and pathways to independence.

Safe Haven

The Safe Haven Program at Covenant House Texas provides immediate, short-term housing and crisis care for young adults ages 18–24 who are experiencing homelessness or human trafficking. Designed to meet urgent needs with dignity and compassion, Safe Haven offers a welcoming environment where youth can stabilize, regroup, and begin planning their next steps. Youth receive 24/7 access to essential services, including temporary housing, nutritious meals, clothing, medical care, mental health support, and legal assistance. Our trauma-informed team is specially equipped to support young survivors of human trafficking, LGBTQ+ youth, young parents, and youth navigating the emotional and physical impacts of homelessness. Beyond meeting basic needs, Safe Haven helps young people regain a sense of safety and possibility. Youth are supported in exploring longer-term goals in education, employment, and career development, setting the foundation for future stability and independence.

Rights of Passage (ROP)

Rights of Passage (ROP) is Covenant House Texas's six-month transitional living program for young adults ages 18–24. Rooted in trauma-informed, healing-centered care, ROP offers a safe, supportive community where youth can build independence at their own pace.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Rights of Passage (ROP) (continued)

Youth receive individualized support in employment, education, and career development, along with coaching in financial literacy, communication, community living, and self-advocacy. ROP provides the time, stability, and relationships young people need to heal, regain confidence, and prepare for long-term success. With consistent guidance and wraparound services, youth work toward stable housing, meaningful employment, and educational advancement while practicing independence in an environment that honors their dignity, voice, and potential.

YHDP Joint Rapid Rehousing and Transitional Housing

Covenant House Texas provides a Joint Transitional Housing–Rapid Rehousing (TH-RRH) program offering immediate crisis housing (up to 3 months) and longer-term support (up to 12 months) for youth experiencing homelessness. In a safe, youth-centered environment, young people receive wraparound services including employment support, career guidance, financial literacy, education and training assistance, and connections to health care. Through referrals from the Homeless Response System, each young person meets with a Navigator to determine whether TH or RRH best fits their needs. After housing inspection and placement, a Success Manager provides ongoing, trauma-informed support. Referrals and placements honor the safety and affirmation of transgender and gender-expansive youth. Covenant House Texas’s TH-RRH model helps youth build independent living skills, increase income, and transition into safe, permanent housing. For young adults needing long-term assistance, Permanent Supportive Housing offers scattered-site apartments with continued case management and a gradually decreasing rental subsidy. CHT is committed to expanding affordable, youth-centered housing solutions that promote stability, growth, and long-term independence.

Street Outreach

The Covenant House Texas Outreach Program meets young people where they are on the streets, in parks, near transit hubs, and in hidden corners of the community where youth experiencing homelessness often seek safety. Our outreach team travels by van and on foot to offer immediate support, including food, water, hygiene supplies, clothing, blankets, crisis counseling, and referrals to essential services. By returning to the same locations consistently, our staff build trust with youth ages 18–24 who may be runaway, homeless, trafficked, or engaged in unsafe survival activities. We serve all young people with dignity and respect, including LGBTQ+ youth and youth from diverse cultural backgrounds. The program focuses on preventing exploitation, increasing awareness of local health and safety resources, and connecting young people to care when they cannot or will not access traditional services. When a young person is ready, the Outreach Team provides transportation to Covenant House Texas for safe shelter, meals, showers, medical care, and comprehensive support. Through street-based engagement, prevention education, and strong community partnerships, Covenant House Texas works to help youth transition from homelessness to stability reconnecting them with family when appropriate or assisting them in securing permanent housing.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Street Outreach (continued)

Our goal is simple: to meet young people with compassion, build pathways to safety, and walk alongside them as they take steps toward independence.

Public Education and Prevention

Covenant House Texas's Prevention Program educates and empowers communities to understand and respond to youth homelessness and human trafficking. Through public education, advocacy, and outreach, the program informs young people, families, government officials, and the broader public about the challenges youth face and the policies needed to protect and support them. The program combines street-based outreach with at-risk youth prevention efforts, providing services to young people who are literally homeless or fleeing domestic violence. Outreach teams identify unsheltered youth in the Houston and Harris County area, build trusting relationships, and connect them to crisis services, safe shelter, and long-term supports. The goal is to equip youth with the tools, skills, and resources they need to break the cycle of homelessness, achieve independence, and build a brighter future.

Young Parenting Program

Covenant House Texas provides a safe, supportive, and nurturing environment for young parents and their children as they work toward stability and independence. Designed for young adults who are navigating both early parenthood and the impacts of housing insecurity, the program offers trauma-informed, family-centered care that prioritizes safety, empowerment, and healthy child development. Young parents receive individualized case management, access to medical and mental health resources, early childhood supports, and connections to free childcare. They also participate in Circle of Security Parenting, an evidence-based model that strengthens secure attachment, deepens understanding of children's emotional needs, and builds confidence in parenting. This holistic program provides young parents with the support they need to grow into responsible and loving parents, capable of supporting their families financially and emotionally. Participants engage in life skills training, financial literacy, educational and vocational support, and goal planning helping them move toward long-term housing, economic stability, and confident parenting.

Career and Education Services

The Career Services Department empowers youth to explore career pathways, build strong resumes, develop interview skills, and connect with meaningful job and internship opportunities. Through a holistic, youth-centered approach, the department provides the training, guidance, and support needed to achieve permanent employment and long-term self-sufficiency. The program leverages community partnerships, paid internships, on-the-job training, career certifications, and entrepreneurship opportunities to prepare young people for workforce success. Youth receive job-readiness workshops, individualized mentoring, and access to GED or high school completion resources.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Career and Education Services (continued)

Using the IPS model, staff tailor support to each young person's strengths and goals. By building both soft and technical skills, Career Services helps youth gain confidence, secure sustainable employment, and take decisive steps toward independence.

Clinical and Mental

Homelessness affects every dimension of a young person's life physical, emotional, and psychological. Because youth are still developing cognitively, physically, and socially, these challenges can have lasting impacts. This is especially true for young people of color, LGBTQ+ youth, and survivors of human trafficking, who often face additional layers of trauma and adversity. At Covenant House Texas, we are deeply committed to providing compassionate, high-quality medical and mental health care. Our dedicated team brings a wide range of expertise, including our Director of Clinical Services, Mental Health Director, Baylor College of Medicine–affiliated physicians, psychologists, a psychiatrist, licensed clinicians, and graduate-level counseling interns. Together, they conduct comprehensive assessments including biopsychosocial evaluations, physical screenings and mental health screenings to ensure each young person receives the individualized care and support they deserve. CHT offers a broad array of therapeutic services to nurture emotional well-being and foster healing. In addition to traditional individual and group counseling, youth can engage in creative and holistic therapies such as yoga, art and music therapy, journaling workshops, spiritual services, physical fitness, and parenting classes. Each service is thoughtfully designed to meet youth where they are, helping them build resilience, discover their strengths, and move forward with confidence and hope.

Case Management

The Case Management program at Covenant House Texas provides each young person with individualized, trauma-informed, and strengths-based support as they work toward stability and independence. Through consistent relationship-building and intentional goal planning, Success Managers walk alongside youth, helping them create a pathway toward long-term success. Success Managers partner with youth in both the Safe Haven and Rights of Passage (ROP) programs, offering structure, encouragement, and accountability. Upon entry, each young person is paired with a dedicated Success Manager who coordinates services, supports daily progress, and helps them navigate challenges in a respectful and empowering way.

Within 48 hours of joining Safe Haven or ROP, youth meet with their Success Manager to begin the success-planning process, which includes:

Strengths Assessment: Exploring the youth's talents, interests, and resources across areas such as education, employment, health, daily living, relationships, and finances.

Youth Well-Being Survey: A collaborative monthly check-in to understand emotional and social well-being and track growth over time.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

1. Organization and Tax Status *(continued)*

Components of Program and Supporting Services (continued)

Program Services (continued)

Case Management (continued)

Individualized Service Plan (ISP): A youth-led roadmap with clear, achievable goals updated monthly using the stages of change model to reflect motivation and progress.

Housing Assessment: A review completed through the Homeless Information System (HMIS) to understand housing history and connect youth to appropriate resources.

Through this collaborative, healing-centered process, Covenant House Texas ensures that every young person has the support, tools, and guidance needed to strengthen life skills, build confidence, and move toward a future marked by hope and stability.

Supporting Services

Management and General

Management and general services include administration, finance and general support activities. Certain administrative costs that relate to specific programs have been allocated to those programs.

Fundraising

Fundraising services relate to the activities of the development department in raising general and specific contributions.

Direct Benefit to Donor Costs

Direct benefit to donor are costs incurred in conjunction with items such as meals and entertainment benefiting attendees of special events.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

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

Net Asset Presentation

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

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

Covenant House Texas

Notes to Financial Statements
June 30, 2025

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

Net Asset Presentation (continued)

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

Income and gains earned on endowment fund investments are available to be used in the “without donor restrictions” or “with donor restrictions” net asset classes based upon stipulations by donors.

Cash and Cash Equivalents

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

Revenue Recognition

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

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

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. During FY25 \$45,388,695 of restricted net assets were released as a result of the building being placed into 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.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

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

Functional Allocation of Expenses

The majority of expenses are directly identified with the program or supporting service to which they relate and are charged accordingly. Expenses incurred by shared services such as administrative, finance, human resources, security, housekeeping, and maintenance are allocated among programs and supporting services on the basis of percentage of time spent by staff on a particular program or task, and other criteria as determined by the management of the Organization.

The statement of functional expenses is prepared based on actual expenses of each program and an allocation of expenses from shared services or non-program services. Expenses of shared services or non-program services are allocated to programs in several ways: (1) based on the ratio of participants to the total client population of the Organization; (2) based on the number of full-time employees in each department categorized by the functional area they support; or (3) other criteria as determined by the Organization's management.

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:

Property and improvements	40 years
Buildings	33 years
Furniture 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, 2025, the Organization established an allowance against contributions and pledges receivable of \$2,000. There was no allowance established as of June 30, 2024.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

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

Contributions and Pledges Receivable (continued)

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Refundable Advance

Amounts received related to conditional contributions, if any, are reported as a refundable advance until the conditions have been substantially met.

Contributions of Nonfinancial Assets

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

	<u>2025</u>	<u>2024</u>	<u>Usage in Program/ Activities</u>	<u>Donor Restriction</u>	<u>Fair Value Techniques</u>
Goods	\$ 190,959	\$ 257,077	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, 2024 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, 2024, 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.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

2. Summary of Significant Accounting Policies (continued)

Leases (continued)

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.

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, 2022.

Subsequent Events Evaluation by Management

The Organization has evaluated events through February 5, 2026, 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

Notes to Financial Statements June 30, 2025

3. Contributions and Pledges Receivable

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

	<u>2025</u>	<u>2024</u>
In one year or less	\$ 4,118,419	\$ 6,814,313
Between one year and five years	<u>1,410,092</u>	<u>2,195,696</u>
	5,528,511	9,010,009
Less:		
Bequests receivable allowance	2,000	-
Discount, at 3.79% and 4.33%	<u>282,910</u>	<u>351,597</u>
	<u>\$ 5,243,601</u>	<u>\$ 8,658,412</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>2025</u>	<u>2024</u>
Grants	\$ 320,341	\$ 397,744
Other	503,666	511,753

In 2023, the Organization received an unconditional pledge of \$500,000 from a donor to establish an endowment fund. This pledge was initially included within capital campaign pledges receivable in the fiscal year 2024 financial statements. During fiscal year 2025, management determined that the pledge relates to the Organization's endowment rather than the capital campaign and reclassified the balance to other receivables.

As of June 30, 2025, the full \$500,000 pledge remains outstanding and is recorded in other receivables. Management believes the full amount is collectible and, accordingly, no allowance has been recorded.

Subsequent to June 30, 2025, the Organization collected \$250,000 of the pledge. These funds are held in a restricted cash account and are classified within net assets with donor restrictions. The remaining \$250,000 is expected to be collected during the year ending June 30, 2026.

Covenant House Texas

Notes to Financial Statements June 30, 2025

5. Property and Equipment

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

	<u>2025</u>	<u>2024</u>
Land	\$ 2,989,891	\$ 2,989,891
Building improvements	515,061	447,823
Buildings	48,857,694	1,780,548
Furniture and equipment	343,608	343,608
Vehicles	184,084	184,084
Computer hardware and software	136,693	136,693
Covenant House Texas video	26,452	26,452
Construction in progress	-	33,277,355
Donated mineral royalty interests	669	669
Capitalized interest	146,495	-
Leasehold improvements	<u>337,650</u>	<u>337,650</u>
	53,538,297	39,524,773
Accumulated depreciation	<u>(1,258,135)</u>	<u>(909,186)</u>
	<u>\$ 52,280,162</u>	<u>\$ 38,615,587</u>

Depreciation expense was \$348,949 and \$147,140 for the years ended June 30, 2025 and 2024.

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, 2025, there were no contributions recorded within construction in process and as of June 30, 2024, \$30,453,609 of restricted contributions were recorded within construction in process. On May 1, 2025, the building was placed into service and \$45,388,695 was reclassified from construction in progress to buildings.

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 \$218,565 and \$197,701 at June 30, 2025 and 2024. The fair value of the trust was valued using level 3 inputs.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

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, 2023	\$	188,128
Change in fair value		<u>9,573</u>
Balance, June 30, 2024		197,701
Change in fair value		<u>20,864</u>
Balance, June 30, 2025	\$	<u><u>218,565</u></u>

7. Lease Commitments

The Organization has entered into thirteen operating leases for space and copiers expiring through fiscal 2030.

The Organization had five operating leases that commenced prior to July 1, 2022, for space and copiers with the latest expiring in July 2030. 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 October 2028. Each of these leases provides a different annual base rent, payable in monthly installments. During fiscal 2025, the Organization entered into one new operating lease for a copy machine.

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

	2025	2024
Right of use assets - operating leases	\$ 2,145,990	\$ 1,842,035
Less: accumulated amortization	<u>(1,812,938)</u>	<u>(1,239,234)</u>
	<u>\$ 333,052</u>	<u>\$ 602,801</u>

As of June 30, 2025, the future minimum lease payments under the lease agreements described above are as follows:

2026		\$ 90,337
2027		90,337
2028		75,325
2029		26,925
2030		2,725
Thereafter		<u>227</u>
Total undiscounted operating lease payments		285,876
Less imputed interest		<u>(19,982)</u>
Present value of operating lease liabilities		<u><u>\$ 265,894</u></u>

Covenant House Texas

Notes to Financial Statements June 30, 2025

7. Lease Commitments *(continued)*

Cash paid for the amounts included in the measurement of operating lease liabilities for the years ended June 30, 2025 and 2024, totaled \$751,673 and \$542,501.

Information associated with the measurement of the Organization's operating lease obligations as of June 30, 2025 and 2024, is as follows:

	<u>2025</u>	<u>2024</u>
Weighted-average remaining lease term in years for operating leases	3.28	0.93
Weighted-average discount rate for operating leases	4.60%	4.60%

Operating lease expense for the years ended June 30, 2025 and 2024 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 \$163,099 and \$0 to Baylor during the years ended June 30, 2025 and 2024.

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 \$0 and \$141,480 to Baylor during the years ended June 30, 2025 and 2024.

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 \$36 million and \$37 million for the years ended June 30, 2025 and 2024. In 2025 and 2024, the Organization received \$955,896 and \$1,006,200 in contributions from the Parent. In both 2025 and 2024, grants from Parent related to the National Sleep Out Event totaled \$528,933 and \$537,971.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

9. Related Party Transactions *(continued)*

Certain board members have relationships with various companies and financial institutions where the Organization conducts its business. Revenue reflected in the accompanying statement of activities includes contributions from certain board members related to the capital campaign in the amount of \$123,290 in 2025 and \$325,000 in 2024. Of this amount, the Organization has established a receivable of \$112,000 and \$393,075, which is included in contributions and pledges receivable in the accompanying statement of financial position at June 30, 2025 and 2024.

Subsequent to June 30, 2025, the Organization obtained a \$500,000 loan from the Parent. The loan is unsecured, bears no interest for a two-year term, and is payable on or before the second anniversary of the loan's issuance. The full \$500,000 was drawn subsequent to year end and remains outstanding as of the report date.

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 \$216,434 and \$207,278 for the years ended June 30, 2025 and 2024.

11. Net Assets With Donor Restrictions

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

	2025	2024
Shelter and crisis care	\$ 20,653	\$ 23,176
Beneficial interest held in trust	218,565	197,701
Future endowment	500,000	500,000
Capital campaign	-	41,518,024
	\$ 739,218	\$ 42,238,901

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:

	2025	2024
Shelter and crisis care	\$ 220,773	\$ 16,300
Rights of Passage	-	500,000
Strategic plan initiative	70,000	20,000
Capital campaign	45,388,695	1,199,406
	\$ 45,679,468	\$ 1,735,706

Covenant House Texas

Notes to Financial Statements
June 30, 2025

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 requires monthly payments of accrued interest. All outstanding principal and accrued interest are due and payable in full at maturity in December 2032. During June 30, 2025, funds were borrowed against the loan totaling \$9,909,172. During 2025, the Organization made principal payments of \$2,775,000. There were no borrowings or payments made during fiscal 2024. During fiscal year 2025, the Organization capitalized \$146,495 of interest related to the loan and building construction.

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, the Organization incurred and recognized \$3,622,462 worth of construction costs towards this grant. There were no costs incurred during fiscal 2025.

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 2025 and 2024, the Organization incurred \$670,000 and \$8,692,944 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.

During fiscal year 2025, the Organization received a Direct Subsidy of \$750,000 from the Federal Home Loan Bank of Dallas ("FHLB"), through Texas Capital Bank, N.A., pursuant to the Affordable Housing Program Agreement (the "Agreement") among FHLB, Texas Capital Bank, and the Organization. Under the Agreement, the subsidy is structured as a conditional grant to support the development of an affordable housing project. The Organization is required to complete the project in accordance with the approved AHP application and to maintain the project's affordability for a 15-year retention period following completion. The 15-year-retention period commences upon receipt of the certificate of occupancy.

Covenant House Texas

Notes to Financial Statements
June 30, 2025

12. Campus Redevelopment (*continued*)

The subsidy is subject to repayment only if the Organization fails to comply with the requirements of the Agreement or if the property is sold, transferred, refinanced, or otherwise ceases to meet AHP affordability restrictions during the retention period. Otherwise, the funding does not bear interest and is not required to be repaid.

In accordance with ASC 958-605, amounts received under the Agreement are recorded as a refundable advance until the conditions for recognition have been substantially met.

13. 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.

14. 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:

	2025	2024
Cash and cash equivalents	\$ 758,940	\$ 4,227,585
Contributions and pledges receivable, net	5,243,601	8,658,412
Grants receivable	320,341	397,744
Due from Parent	7,601	1,219
Other receivables	503,666	511,753
Beneficial interest held in trust	218,565	197,701
Total Financial Assets	7,052,714	13,994,414
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	739,218	42,238,901
Add back: Amounts included in construction in progress	-	(30,453,609)
Donor imposed restricted amounts	739,218	11,785,292
Financial Assets Available to Meet General Expenditures over the next twelve months	\$ 6,313,496	\$ 2,209,122

Covenant House Texas

Notes to Financial Statements
June 30, 2025

14. 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.

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, 2025 and 2024, approximately \$440,000 and \$3,700,000 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 various donors and are expected to be collected in the normal course of business.

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Covenant House Texas

Uniform Guidance Schedules and Reports

June 30, 2025

Covenant House Texas

Schedule of Expenditures of Federal Awards Year Ended June 30, 2025

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: Continuum of Care Program	14.267	TX0649Y6E002301	\$ -	\$ 622,436
Pass-Through Office of Special Needs Assistance Programs: Youth Homelessness Demonstration Program	14.276	TX0649Y6E002000	-	527,093
Pass-Through Child Care Council of Greater Houston, Inc. and City of Houston Housing & Community Development Department: Emergency Solutions Grant Program	14.231	4600018191	-	437,327
Pass-Through Harris County Community Services Department: Emergency Solutions Grant Program	14.231	E-23-UC-48-0002; 2023-007b / E -24-UC-48-002;2024-007a	-	36,701
Pass-Through Texas Department of Housing & Community Affairs: Emergency Solutions Grant Program	14.231	42247000043/ 42227000143/ 46257000043	-	140,352
			-	614,380
CDBG - Entitlement Grants Cluster:				
Pass-Through Harris County Community Services Department: Community Development Block Grants/Entitlement Grants	14.218	E-20-UC-48-002; C2020-050c	-	93,096
Total CDBG - Entitlement Grants Cluster			-	93,096
Total U.S. Department of Housing and Urban Development			-	1,857,005
U.S. Department of the Treasury:				
Pass-Through Harris County Public Health Services Department: Coronavirus State and Local Fiscal Recovery Funds	21.027	220163	-	114,806
U.S. Department of Health & Human Services:				
Pass-Through Family Youth Services Bureau, Street Outreach Program: Education & Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557	90YO2557-01-00	-	100,190
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	-	18,572
Total Expenditures of Federal Awards			\$ -	\$ 2,090,573

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, 2025

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, 2025. 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, 2025, 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 February 5, 2026.

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

February 5, 2026



Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards 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, 2025. 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, 2025.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2025, and have issued our report thereon dated February 5, 2026, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of 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

PKF O'Connor Davies, LLP

March 19, 2026

Covenant House Texas

Schedule of Findings and Questioned Costs
Year Ended June 30, 2025

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, 2025.

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.