

Covenant to Care for Children, Inc.

Financial Statements

June 30, 2023

Covenant to Care for Children, Inc.
June 30, 2023

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Independent Auditor's Report

To the Board of Directors
Covenant to Care for Children, Inc.

Qualified Opinion

We have audited the accompanying financial statements of Covenant to Care for Children, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant to Care for Children, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We did not obtain sufficient appropriate audit evidence about the amount recognized as noncash donations because of a lack of accounting controls over the valuation process prior to the initial entry of such donations in the accounting records. We were unable to obtain sufficient appropriate audit evidence about noncash donations by other accounting procedures.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Covenant to Care for Children, Inc. 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 qualified 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 Covenant to Care for Children,

Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 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, including omissions, 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, 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 Covenant to Care for Children, Inc.'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 Covenant to Care for Children, Inc.'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.

Apicella, Testa & Company, P.C.

APICELLA, TESTA & COMPANY, P.C.
Certified Public Accountants

Shelton, Connecticut
February 24, 2024

Covenant to Care for Children, Inc.
Statement of Financial Position
As of June 30, 2023

Assets

Current assets:	
Cash and cash equivalents	\$ 216,202
Grants receivable	12,500
Inventory	4,475
Prepaid and other	<u>12,441</u>
Total current assets	<u>245,618</u>
Property and equipment:	
Leasehold improvements	39,046
Furniture and equipment	19,507
Vehicles	61,851
Less: accumulated depreciation	<u>(113,269)</u>
	7,135
Right of use asset - operating lease - net	<u>20,491</u>
Total property and equipment - net	<u>27,626</u>
Other assets:	
Security deposit	<u>3,005</u>
Total assets	<u><u>\$ 276,249</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable and accrued expenses	\$ 11,508
Accrued payroll and related liabilities	14,787
Refundable advances	5,000
Operating lease liability, current portion	<u>20,491</u>
Total current liabilities	<u>51,786</u>
Total liabilities	<u>51,786</u>
Net assets:	
Without donor restrictions	144,427
With donor restrictions	<u>80,036</u>
Total net assets	<u>224,463</u>
Total liabilities and net assets	<u><u>\$ 276,249</u></u>

The accompanying notes are an integral part of these financial statements.

Covenant to Care for Children, Inc.
Statement of Activities
For the Year Ended June 30, 2023

Changes in net assets without donor restrictions

Revenue and support:	
Government grants	\$ 274,645
Private grants	60,605
Contributions	103,586
Noncash donations	349,371
Interest income	3,328
Net assets released from restrictions	17,144
Total revenue and support	<u>808,679</u>
Expenses:	
Program services	685,622
Supporting services:	
Management and general	67,770
Fundraising and development	25,270
Total expenses	<u>778,662</u>
Changes in net assets without donor restrictions	<u>30,017</u>

Changes in net assets with donor restrictions

Contributions and grants	56,445
Net assets released from restrictions	(17,144)
Changes in net assets with donor restrictions	<u>39,301</u>
Change in net assets	69,318
Net assets - beginning of year	155,145
Net assets - end of year	<u><u>\$ 224,463</u></u>

The accompanying notes are an integral part of these financial statements.

Covenant to Care for Children, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and wages	\$ 190,166	\$ 42,618	\$ 13,525	\$ 246,309
Payroll taxes	15,661	3,510	1,114	20,285
Employee benefits	9,756	5,772	-	15,528
Professional fees	10,500	-	3,175	13,675
Supplies and expenses	5,609	2,431	7,456	15,496
Dues and subscriptions	6,712	2,209	-	8,921
Travel and transportation	2,728	-	-	2,728
Rent and occupancy	33,733	4,008	-	37,741
Insurance	11,797	3,628	-	15,425
Depreciation	5,058	3,594	-	8,652
Direct assistance to individuals	393,902	-	-	393,902
Total expenses	<u>\$ 685,622</u>	<u>\$ 67,770</u>	<u>\$ 25,270</u>	<u>\$ 778,662</u>

The accompanying notes are an integral part of these financial statements.

Covenant to Care for Children, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities	
Change in net assets	\$ 69,318
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	8,652
Amortization of right of use asset	30,139
(Increase) decrease in assets:	
Grants receivable	(7,500)
Change in Inventory	(4,475)
Prepaid expenses	1,389
Security deposit	-
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(6,665)
Accrued payroll and related liabilities	3,283
Refundable advances	5,000
Operating lease liability	(30,139)
Total adjustments	(316)
Net cash provided by (used in) operating activities	<u>69,002</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(2,218)</u>
Net cash provided by (used in) investing activities	<u>(2,218)</u>
Cash flows from financing activities	
	<u>-</u>
Net increase (decrease) in cash and cash equivalents	66,784
Cash and cash equivalents - beginning of year	<u>149,418</u>
Cash and cash equivalents - end of year	<u>\$ 216,202</u>
Supplemental disclosure of cash flow information	
Right of use asset obtained in exchange for operating lease liability	<u>\$ 50,630</u>

The accompanying notes are an integral part of these financial statements.

Covenant to Care for Children, Inc.
Notes to Financial Statements
June 30, 2023

Note 1 – General

Covenant to Care for Children, Inc. (the Organization), is a nonprofit organization founded in 1987 and located in Hartford, Connecticut. The Organization provides a safety net for abused, neglected or impoverished children in Connecticut by providing essential support in moments that are critical for a child's ability to thrive and a family's ability to stay together. This is accomplished by partnering with State agencies, faith-based communities, and other organizations that share a dedication to improving the lives and futures of at-risk children in Connecticut. Through a collaborative system of program delivery, the Organization mobilizes the generosity of individuals and leverages the resources of social service agencies to provide direct assistance and critical goods to families struggling to meet the basic needs of their children.

The Organization's programs are primarily funded by government and private grants as well as contributions.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation – The financial statements of Covenant to Care for Children, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. See Note 6 for additional information.

Cash and Cash Equivalents – For purposes of the statement of cash flows, Covenant to Care for Children, Inc. considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Grants Receivable – Receivables are stated at unpaid balances, less an allowance for doubtful accounts when appropriate. Allowances for accounts receivable are determined by management based on an assessment of their collectability. Receivables are written off only when management believes amounts will not be collected. There was no allowance for doubtful accounts as of June 30, 2023.

Covenant to Care for Children, Inc.
Notes to Financial Statements
June 30, 2023

Inventory – Inventory consists of donated undistributed children’s clothing. It is valued using published industry rates (also see Note 7).

Property and Equipment – The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Property and equipment is stated at cost at the date of purchase or fair value at the date of donation. Depreciation expense is recorded using the straight-line method over the estimated useful lives of the assets, which range from 3 to 15 years.

Expenditures for repairs and maintenance are generally charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities.

The Organization reviews long-lived assets for impairment using an undiscounted cash flow method whenever events or circumstances indicate the carrying value of an asset may not be recoverable. There were no impairment losses related to long-lived assets as of June 30, 2023.

Leases – The Organization determines if an arrangement is a lease at inception. Leases are classified as either operating leases or finance leases (see also “Adoption of New Accounting Standard” disclosure section of this footnote). If the arrangement is a lease, the organization recognizes a right-of-use (ROU) asset and lease liability on the commencement date of the lease. The ROU asset represents the organization’s right to use an underlying asset for the lease term and the lease liability represents the contractual obligation to make the lease payments. The Organization has elected not to recognize lease assets or liabilities for leases with a term of 12 months or less or that are valued at less than \$5,000 at their commencement.

Lease liabilities are recognized on the statement of financial position based on the present value of the future lease payments over the expected lease term, which includes renewal options when management is reasonably certain they will be exercised. Lease expense for operating leases is recognized on a straight-line basis over the life of the lease.

As most leases do not provide an implicit rate, the Organization has elected to use a risk-free rate as a discount rate when determining the present value of the lease payments for purposes of calculating the ROU asset and lease liability. The Organization has also elected to combine lease and non-lease components and account for them as a single lease component. See Note 5 for further information on leases.

Revenue Recognition – Revenue is recognized in accordance with generally accepted accounting principles as follows:

Contracts – In accordance with FASB ASU 2014-09, revenue from contracts with customers where each party receives commensurate value is accounted for as an exchange transaction. A

Covenant to Care for Children, Inc.
Notes to Financial Statements
June 30, 2023

contract must have been approved by each party, identify the payment terms and rights of each party, have commercial substance, and be probable of collection. Revenue from contracts with customers is recognized when performance obligations have been satisfied. Amounts received in advance of meeting performance obligations are reflected as a liability.

The organization's payment terms do not include a financing component. The organization has the unconditional right to consideration as it satisfies the performance obligation, therefore no contractual assets are recognized. In addition, the organization recognizes the cost of providing services under contracts as incurred, which generally aligns with the recognition of the revenue.

Contributions – Contributions are defined as transactions where the resource provider does not receive commensurate value and can be either conditional or unconditional. A conditional contribution is a transaction where the organization has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advance funding if the organization fails to overcome the barrier. The organization recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as a refundable advance. Unconditional contributions are recognized when pledged or received, as applicable.

Contributions are recorded as either with or without donor restrictions. Contributions are recognized as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated asset or are restricted for a period of time. Contributions received with no donor stipulations are recorded as contributions without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, 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. Contributions received whose restrictions are met in the same period are presented as net assets without donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

The organization records donated materials and services as contributions based upon their estimated fair market value at the date of donation. Donated services are recognized if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased if not provided by donation. General volunteer services do not meet the criteria for recognition and accordingly, no amounts have been reflected for these services. See Note 7 for additional information.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the organization to make estimates and assumptions that affect the reported amounts

Covenant to Care for Children, Inc.
Notes to Financial Statements
June 30, 2023

of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management believes that the organization has no tax positions that would require financial statement recognition or disclosure. The organization’s informational returns for fiscal years ending June 30, 2020 and after are subject to examination by the Internal Revenue Service and the State of Connecticut, generally for three years from the date they were filed.

Advertising – The Organization expenses advertising costs as incurred. For the year ended June 30, 2023, advertising expenses totaled \$-0-.

Expense Allocations – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. While directly identifiable expenses are charged to the specific programs and supporting services for which they were incurred, certain costs have been allocated among the programs and supporting services benefited. Those expenses that are allocated include certain salaries and wages, and payroll taxes, which are allocated on the basis of estimates of time and effort as well as certain occupancy costs that are allocated on the basis of usage. Management and general expenses include those expenses that are not directly identifiable with any specific function, but provide for the overall support and direction of the organization.

Adoption of New Accounting Standard – The organization adopted Accounting Standards Update (ASU) No. 2016-02 (ASC Topic 842), *Leases*, on July 1, 2022. The new standard was intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use (ROU) assets and corresponding lease liabilities in the statement of financial position for leases with terms greater than 12 months.

The organization elected to apply the new standard using the modified retrospective transition method. Comparative prior period amounts have not been adjusted and continue to be reported in accordance with the previous lease accounting guidance. The organization also elected to apply the package of practical expedients that allowed it to not reassess at adoption (i) the lease classification of existing leases, (ii) whether existing and expired contracts are or contain leases, and (iii) initial direct costs for existing leases.

As a result of implementing the standard, the organization recognized operating right-of-use assets of \$50,630 and operating lease liabilities of \$50,630 in its statement of financial position as of July 1, 2022.

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The adoption did not have a material impact on the organization’s statement of activities or cash flows for the year ended June 30, 2023. See Note 5 for additional information on leasing arrangements.

Subsequent Events – Subsequent events were evaluated through February 24, 2024, which is the date the financial statements were available to be issued.

Note 3 – Liquidity and Availability

Covenant to Care for Children, Inc. has the following financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures:

	2023
Cash and cash equivalents	\$ 216,202
Grants receivable, net	12,500
Total financial assets at year-end	228,702
Less amounts unavailable for general expenditures in one year due to:	
Restricted by donors	(80,036)
Total financial assets available for general expenditure within one year	\$ 148,666

Covenant to Care for Children, Inc. has a policy to structure its financial assets available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Organization invests cash in excess of daily requirements in various money market accounts.

Note 4 – Concentrations

Credit Risk – The organization maintains its cash deposits with local financial institutions, which may at times exceed the limits insured by the Federal Deposit Insurance Corporation.

Government Grant – A significant portion of the Organization’s funding comes from a grant from the State of CT Department of Children and Families (DCF). As with all government funding, this grant is subject to reduction or termination in future years. A significant reduction in this grant, if it were to occur, would likely lead to a reduction in the programs and services offered.

Covenant to Care for Children, Inc.
Notes to Financial Statements
June 30, 2023

Note 5 – Leases

The Organization entered into an agreement with a third-party to lease office space in Hartford on March 1, 2014. As of July 1, 2022, the lease is being treated as an operating lease under FASB ASC 842. The lease is for an initial term of ten years and contains an option to renew for an additional five years. The renewal rate is subject to mutual written consent which has not happened at the date of these statements. Total lease payments recognized as expense using the straight-line basis were \$31,064 for the year ending June 30, 2023.

The Organization used a risk-free rate of 2.84% to discount future payments.

The remaining maturities of the lease liability through February of 2024 is \$20,710, of which \$219 represents interest.

The organization is also renting additional storage space on a month-to-month basis at a cost of \$100 per month.

Note 6 – Net Assets with Donor Restrictions

Net assets with donor restrictions and changes therein are as follows:

	Balance <u>July 1, 2022</u>	Additions	Releases	Balance <u>June 30, 2023</u>
Purpose restricted:				
Basic essential goods	\$ 25,100	\$ 30,445	\$ (7,389)	\$ 48,156
Basic human needs	-	11,000	-	11,000
Mattresses for children	5,000	-	-	5,000
Time restricted	<u>10,635</u>	<u>15,000</u>	<u>(9,755)</u>	<u>15,880</u>
Total	<u>\$ 40,735</u>	<u>\$ 56,445</u>	<u>\$ (17,144)</u>	<u>\$ 80,036</u>

Releases of net assets are the result of satisfying the restriction by incurring expenses satisfying the restricted purposes or by the occurrence of the passage of time or other events specified by donors.

Note 7 – Noncash Donations

The Organization receives donated goods consisting of clothing and other supplies. These items are distributed to children and families served under the Organization’s programs. The total value of donated goods received by type of support was as follows:

Covenant to Care for Children, Inc.
Notes to Financial Statements
June 30, 2023

	<u>2023</u>
Holiday gifts for children	\$ 88,017
Clothing	29,822
Furniture	5,237
Children's goods	<u>226,295</u>
Total noncash donations	<u>\$ 349,371</u>

An expense of \$349,371 associated with these donations is included with "Direct assistance to individuals" on the statement of functional expenses.

Note 8 – Commitments and Contingencies

The Organization has received grants for specific purposes that are subject to review, audit and adjustment by grantor agencies. Such audits could lead to requests for reimbursements to such agencies for any expenditures or claims disallowed under the terms of the agreements. Management believes that such disallowances, if any, would not be material to the financial statements.