

COVENANT HOUSE, INC.
**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**
YEARS ENDED DECEMBER 31, 2010 AND 2009
AND
INDEPENDENT AUDITORS' REPORT

DHHR - Finance

OCT - 3 2011

Date Received

COVENANT HOUSE, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Covenant House, Inc.
Charleston, West Virginia

We have audited the accompanying statement of financial position of Covenant House, Inc. (the Organization) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2010 on our consideration of Covenant House, Inc.'s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Covenant House, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gray, Griffith & Mays, a.c.

August 22, 2011
Charleston, West Virginia

DHHR - Finance

OCT - 3 2011

Date Received

COVENANT HOUSE, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 41,561	\$ 156,675
Grant receivable	198,444	182,911
Accounts receivable - related party	12,027	25,935
Accounts receivable	17,653	5,526
Prepaid expenses	<u>7,964</u>	<u>3,820</u>
Total current assets	<u>277,649</u>	<u>374,867</u>
Property and equipment, at cost:		
Land	410,491	410,491
Building and improvements	1,769,265	1,720,108
Equipment and furnishings	222,706	208,122
Landscaping	<u>7,719</u>	<u>7,719</u>
	2,410,181	2,346,440
Less: Accumulated depreciation	<u>(618,890)</u>	<u>(552,266)</u>
Total property and equipment	<u>1,791,291</u>	<u>1,794,174</u>
Other assets:		
Investments held by others	2,241	2,241
Investments	<u>1,410,321</u>	<u>1,391,692</u>
Total other assets	<u>1,412,562</u>	<u>1,393,933</u>
Total assets	<u>\$ 3,481,502</u>	<u>\$ 3,562,974</u>

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

	<u>2010</u>	<u>2009</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 44,430	\$ 97,035
Note payable - current portion	873	810
Accrued payroll and withheld taxes	24,929	8,123
Deferred revenue	-	14,354
Other current liabilities	<u>11,612</u>	<u>4,212</u>
Total current liabilities	81,844	124,534
Long-term liabilities:		
Notes payable - less current portion	<u>8,921</u>	<u>10,914</u>
Total liabilities	<u>90,765</u>	<u>135,448</u>
Net assets:		
Unrestricted:		
Unrestricted	1,734,833	1,653,230
Designated	<u>1,000,000</u>	<u>1,000,000</u>
	2,734,833	2,653,230
Temporarily restricted	101,705	220,097
Permanently restricted	<u>554,199</u>	<u>554,199</u>
Total net assets	<u>3,390,737</u>	<u>3,427,526</u>
Total liabilities and net assets	<u>\$ 3,481,502</u>	<u>\$ 3,562,974</u>

COVENANT HOUSE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Support:				
Contributions	\$ 284,624	\$ 44,000	\$ -	\$ 328,624
Government grants	979,799	21,000	-	1,000,799
In-kind contributions	26,885	-	-	26,885
Total support	<u>1,291,308</u>	<u>65,000</u>	<u>-</u>	<u>1,356,308</u>
Revenues:				
Program service fees	17,460	-	-	17,460
Investment income	187,334	-	-	187,334
Special events	36,638	-	-	36,638
Rental income, net of expenses of \$12,369	13,127	-	-	13,127
Other revenues	14,320	-	-	14,320
Total revenues	<u>268,879</u>	<u>-</u>	<u>-</u>	<u>268,879</u>
Net assets released from donor restrictions	<u>183,392</u>	<u>(183,392)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,743,579</u>	<u>(118,392)</u>	<u>-</u>	<u>1,625,187</u>
Expenses:				
Program service expenses:				
Emergency assistance	94,033	-	-	94,033
Food pantry	21,770	-	-	21,770
Clothing closet	7,076	-	-	7,076
LGBT	81,342	-	-	81,342
AIDS	329,881	-	-	329,881
Homeless prevention and rapid re-housing	382,763	-	-	382,763
Mpowerment	64,285	-	-	64,285
State Budget AIDS	43,136	-	-	43,136
SOAR	21,934	-	-	21,934
Technology assistance	7,731	-	-	7,731
Total program service expenses	<u>1,053,951</u>	<u>-</u>	<u>-</u>	<u>1,053,951</u>
Supporting services:				
Management and general	535,124	-	-	535,124
Fundraising	72,901	-	-	72,901
Total supporting services	<u>608,025</u>	<u>-</u>	<u>-</u>	<u>608,025</u>
Total expenses	<u>1,661,976</u>	<u>-</u>	<u>-</u>	<u>1,661,976</u>
Change in net assets	81,603	(118,392)	-	(36,789)
Net assets, beginning	<u>2,653,230</u>	<u>220,097</u>	<u>554,199</u>	<u>3,427,526</u>
Net assets, ending	<u>\$ 2,734,833</u>	<u>\$ 101,705</u>	<u>\$ 554,199</u>	<u>\$ 3,390,737</u>

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

COVENANT HOUSE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Support:				
Contributions	\$ 307,723	\$ 196,820	\$ -	\$ 504,543
Government grants	717,096	30,000	-	747,096
In-kind contributions	10,007	-	-	10,007
Total support	<u>1,034,826</u>	<u>226,820</u>	<u>-</u>	<u>1,261,646</u>
Revenues:				
Program service fees	37,922	-	-	37,922
Investment income	180,721	-	-	180,721
Special events	10,883	-	-	10,883
Rental income, net of expenses of \$14,992	6,638	-	-	6,638
Other revenues	7,370	-	-	7,370
Total revenues	<u>243,534</u>	<u>-</u>	<u>-</u>	<u>243,534</u>
Net assets released from donor restrictions	<u>54,876</u>	<u>(54,876)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,333,236</u>	<u>171,944</u>	<u>-</u>	<u>1,505,180</u>
Expenses:				
Program service expenses:				
Emergency assistance	229,720	-	-	229,720
Food pantry	26,556	-	-	26,556
Clothing closet	18,264	-	-	18,264
AIDS	483,514	-	-	483,514
Challenge WV	3,665	-	-	3,665
Health action	65,450	-	-	65,450
Homeless prevention and rapid re-housing	79,843	-	-	79,843
SOAR	48,483	-	-	48,483
Diversity	79,122	-	-	79,122
Technology assistance	71,298	-	-	71,298
Total program service expenses	<u>1,105,915</u>	<u>-</u>	<u>-</u>	<u>1,105,915</u>
Supporting services:				
Management and general	234,229	-	-	234,229
Fundraising	53,357	-	-	53,357
Total supporting services	<u>287,586</u>	<u>-</u>	<u>-</u>	<u>287,586</u>
Total expenses	<u>1,393,501</u>	<u>-</u>	<u>-</u>	<u>1,393,501</u>
Change in net assets	(60,265)	171,944	-	111,679
Net assets, beginning	<u>2,713,495</u>	<u>48,153</u>	<u>554,199</u>	<u>3,315,847</u>
Net assets, ending	<u>\$ 2,653,230</u>	<u>\$ 220,097</u>	<u>\$ 554,199</u>	<u>\$ 3,427,526</u>

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

COVENANT HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
 For the Years Ended December 31, 2010

	PROGRAM SERVICES											SUPPORTING SERVICES			Total Expenses
	Emergency Assistance	Food Pantry	Clothing Closet	LGBT	AIDS	HPPH	Measurement	State Budget Aids	Technology Assistance	SOAR	Total Program Expended	Management & General	Fundraising	Total Other Expenses	
Salaries	\$ 2,694	\$ -	\$ 5,389	\$ 18,705	\$ 65,202	\$ 43,647	\$ 52,269	\$ 5,389	\$ 1,617	\$ 17,782	\$ 210,894	\$ 283,778	\$ 59,274	\$ 353,950	
Employee benefits	305	611	1,839	1,839	7,388	4,947	5,924	611	183	2,015	23,878	30,474	6,718	37,192	
Payroll taxes	314	628	1,947	1,947	7,600	5,097	6,082	628	188	2,073	24,557	31,343	6,909	38,250	
Meetings and travel	8,502	-	-	-	-	-	-	-	-	-	14,614	1,224	-	1,224	
Repairs and maintenance	318	-	-	-	547	-	-	-	4,565	-	31,965	3,965	-	3,965	
Insurance	199	-	-	-	-	-	-	-	-	-	318	829	-	3,500	
Interest	15,961	-	-	-	-	-	-	-	-	64	15,961	6,830	-	8,830	
Office supplies	-	-	-	-	-	-	-	-	-	-	263	-	-	828	
Utilities and telephone	-	-	-	-	-	-	-	-	-	-	18,961	-	-	16,961	
Professional services	-	-	-	-	-	-	-	-	-	-	-	12,213	-	12,213	
Printing and postage	-	-	-	-	-	-	-	-	-	-	7,388	-	-	7,388	
Bad debt	-	-	-	-	-	-	-	-	-	-	22,787	-	-	22,787	
Assistance to individuals	61,740	21,770	448	60,787	219,625	329,082	-	-	1,178	-	694,640	22,787	-	4,587	
Public relations	-	-	-	-	-	-	-	-	-	-	-	19,828	-	19,828	
Collaborative share	-	-	-	-	28,518	-	-	36,508	-	-	66,026	-	-	66,026	
Total expenses before depreciation	94,033	21,770	7,078	81,342	326,881	382,763	64,285	49,138	7,731	21,934	1,053,951	488,500	72,801	541,401	
Depreciation	-	-	-	-	-	-	-	-	-	-	-	66,624	-	66,624	
Total expenses	\$ 94,033	\$ 21,770	\$ 7,078	\$ 81,342	\$ 328,881	\$ 382,763	\$ 64,285	\$ 49,138	\$ 7,731	\$ 21,934	\$ 1,053,951	\$ 535,124	\$ 72,801	\$ 608,025	

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

COVENANT HOUSE, INC.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (36,789)	\$ 111,679
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	66,624	62,867
Unrealized gain on investments	(119,458)	(164,574)
Realized (gain) loss on investments	(35,443)	13,275
Contributions of non-cash assets	(29,963)	(31,953)
(Increase) decrease in assets:		
Grants receivable	(15,533)	(91,564)
Accounts receivable - related party	13,908	15,923
Other receivable	(12,127)	(15,566)
Prepaid expenses	(4,144)	-
Increase (decrease) in liabilities:		
Accounts payable	(52,605)	54,985
Accrued and withheld taxes	6,017	(1,237)
Accrued bonuses and benefits payable	10,789	6,521
Deferred revenue	(14,354)	-
Other current liabilities	7,400	991
Net cash used in operating activities	(215,678)	(38,653)
Cash flows from investing activities:		
Purchase of property and equipment	(55,144)	(16,812)
Purchase of investments	(116,947)	(202,207)
Sale of investments	157,609	32,212
Change in money market cash	116,976	236,660
Net cash provided by investing activities	102,494	49,853
Cash flows used in financing activities:		
Note principal payments	(1,930)	(48,190)
Net decrease in cash and cash equivalents	(115,114)	(36,990)
Cash and cash equivalents, beginning of year	156,675	193,665
Cash and cash equivalents, end of year	\$ 41,561	\$ 156,675

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

	<u>2010</u>	<u>2009</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for interest	<u>\$ 829</u>	<u>\$ 1,930</u>

COVENANT HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Covenant House, Inc. (the Organization) was organized in 1981 as a non-profit organization to provide low-income persons with housing, food, clothing, education, health care and employment. The Organization is supported primarily through governmental funding in the form of grant awards. The Organization operates the above programs in central and southern West Virginia.

Method of Accounting and Basis of Presentation

The financial statements have been prepared on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation follows the standards set by the Financial Accounting Standards Board. Under those provisions, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets.

Net assets of the two restricted classes are created only by time or donor imposed restrictions on use. All other net assets, including board-designated or appropriated amounts, are considered unrestricted, and are reported as part of the unrestricted class.

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

The Organization has elected to present temporarily restricted contributions, which restrictions are fulfilled in the same time period, within the unrestricted net assets class.

COVENANT HOUSE, INC.**NOTES TO FINANCIAL STATEMENTS**
(Continued)

December 31, 2010 and 2009

1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash accounts, which are not held in investment accounts and are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments, which are not held in investment accounts, purchased with an original maturity of three months or less to be cash equivalents.

Receivables and Allowance for Doubtful Accounts

Accounts receivable are presented in the balance sheet at the time all the requirements for collection have been fulfilled. Grants receivable are recognized once notice of award is received and the grant objectives are substantially met and services have been provided. Management believes all receivables are collectible.

Investments

Investments are carried at fair value. Investments acquired by gift are recorded at the fair value at the date of receipt. Fair value is determined principally from public sources. Cash and cash equivalents of investment accounts held temporarily until suitable investment opportunities arise are included in investments. Realized gains and losses are computed on the average cost method. Unrealized gains or losses are charged or credited to the statement of activities.

Property and Equipment

Property and equipment are recorded at cost as of the date of acquisition or fair value as of the date received in the case of gifts. The assets are capitalized when the Organization determines that substantial future benefits will be achieved and have a cost value of at least \$1,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost and accumulated depreciation of property sold or retired is removed from the related asset and accumulated depreciation accounts and any resulting gain or loss is recorded in the period of disposal. Renewals and improvements, which extend the useful lives of assets, are capitalized at cost. The cost of routine maintenance and repairs are charged to expense as incurred.

COVENANT HOUSE, INC.**NOTES TO FINANCIAL STATEMENTS**
(Continued)

December 31, 2010 and 2009

1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)Property and Equipment (Continued)

Contributed property and equipment with donor restrictions on how long the assets must be used are recorded as restricted contributions. All other contributions of property and equipment are recorded as unrestricted contributions when the assets are placed in service.

Note Payable

The carrying amount of the notes payable approximates fair value because the financial instruments bear interest at a rate that approximates the current market rate for notes with similar maturities and credit quality.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Concentration of Credit Risk

The Organization maintains its cash and short-term investments at financial institutions located in West Virginia. The balances in these accounts, at times, may exceed Federally insured limits.

Contributed Services and Assets

Contributions of services are recognized if the services received create or enhance nonfinancial assets, or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. Contributed services which are recognized are valued at the estimated cost that would have been incurred by the Organization to purchase similar services. Donated land, stock, and other assets are valued at the fair market value at the date of donation.

COVENANT HOUSE, INC.**NOTES TO FINANCIAL STATEMENTS**
(Continued)

December 31, 2010 and 2009

1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)Fair Value Measurements

FASB codification 820 "Fair Value Measurements," was issued in order to establish a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements. Codification 820 also expands disclosures about fair value measurements and applies whenever other authoritative literature requires certain assets and liabilities to be measured at fair value, but does not expand the use of fair value.

"Fair Value Measurements" establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3).

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was approximately \$19,800 and \$8,200 for the years ended December 31, 2010 and 2009, respectively.

2 – INCOME TAXES

The Organization, which is not classified as a private foundation, is recognized by the Internal Revenue Service as exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar sections of state statutes and is determined to not be a private foundation. The Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years ending before January 1, 2008.

COVENANT HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

3 – MORTGAGES AND OTHER NOTES PAYABLE

The mortgages and other notes payable at December 31, 2010 and 2009, consist of the following:

	2010	2009
Chase Home Financial, secured by deed of trust on real estate; monthly payments are currently \$131 (variable due to adjustable interest rate); interest at December 31, 2010, 7.5%, due June 1, 2019	<u>\$ 9,794</u>	<u>\$ 11,724</u>

The principal amount of long-term debt outstanding at December 31, 2010, payable in each of the next five years is as follows:

2011	\$ 873
2012	941
2013	1,014
2014	1,093
2015	1,177
Thereafter	4,696
	\$ 9,794

4 – PENSION PLAN

The Organization maintains a 403(b) retirement plan for full-time employees with one or more years of services. The plan requires annual contributions by the employer of 6% of each eligible employee's annual pay. Total expenses for the years ended December 31, 2010 and 2009 was \$12,642 and \$17,175, respectively.

COVENANT HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 and 2009, consist of the following:

	2010	2009
Use in future years	\$ 15,000	\$ 15,000
SOAR program	11,705	-
Pepper, Mason & Hayes - Homeless Prevention	75,000	154,820
LGBT program (Health Action)	-	50,277
	\$ 101,705	\$ 220,097

6 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2010 and 2009, consist of the following:

	2010	2009
Permanent endowments, with certain restrictions on the use of income: specifically, income to supplement operations and deferred maintenance.	\$ 435,308	\$ 435,308
Land	118,891	118,891
	\$ 554,199	\$ 554,199

7 – RISKS AND UNCERTAINTIES

The Organization invests in various investment activities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of activities and changes in net assets.

COVENANT HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

8 – INVESTMENTS

Marketable securities and other investments are stated at fair value (of which all are level 1 investments) and are summarized as follows as of December 31, 2010 and 2009.

Contributions to the Board designated Endowment are included in the investments held at December 31, 2010 and 2009. The investment income, realized and unrealized gains or losses on these investments are unrestricted.

December 31, 2010	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Money market funds	\$ 73,684	\$ 73,684	\$ -
Common stocks	1,054,882	1,173,550	118,668
Preferred stocks	112,285	112,625	340
Corporate bonds	<u>50,012</u>	<u>50,462</u>	<u>450</u>
	<u>\$ 1,290,863</u>	<u>\$1,410,321</u>	<u>\$ 119,458</u>
December 31, 2009	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Money market funds	\$ 190,659	\$ 190,659	\$ -
Common stocks	1,126,675	1,131,260	4,585
Preferred stocks	25,007	19,640	(5,367)
Corporate bonds	<u>50,012</u>	<u>50,133</u>	<u>121</u>
	<u>\$ 1,392,353</u>	<u>\$1,391,692</u>	<u>\$ (661)</u>

The Organization has designated part of its investments as a permanent endowment account. These investments total \$435,308 at December 31, 2010 and 2009, respectively, and are recorded as a long-term asset in the accompanying financial statements. The Board's intent for this account is that until the account reaches \$1,000,000, no portion of the funds are available for use in the programs or activities of the Organization. When the account reaches \$1,000,000, only the investment income will be used for programs and upkeep of the building. At the Board's discretion, all amounts can be used for operating purposes at any time.

COVENANT HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

8 – INVESTMENTS (Continued)

Following is a summary of investment income from investments and cash deposits for the years ended December 31,

	2010	2009
Interest and dividend income	\$ 32,433	\$ 29,422
Unrealized gains (loss)	119,458	164,574
Realized (loss) gains	35,443	(13,275)
	\$ 187,334	\$ 180,721

9 – RELATED PARTY TRANSACTIONS

The Organization operates and administers the programs of Community Housing, Inc. Community Housing, Inc. was incorporated as a non-stock, not-for-profit organization and certain of its board members are the same as those of the Organization. Community Housing, Inc. was established to meet the requirements of a Section 811 U.S. Department of Housing and Urban Development Program.

The Organization has an agreement that is open ended and may be cancelled by either party on 30 days notice and calls for management fees of 11.4% of gross residential income collected with a cap of \$246 per month for the year ended December 31, 2010 including \$41 per unit occupied, per month for the year ended December 31, 2010. A summary of these balances and transactions follows:

	2010	2009
Related party receivable	\$ 12,027	\$ 25,935
Management fees income and expense reimbursement	\$ 3,992	\$ 3,566

10 – GRANT – HOUSING OPPORTUNITIES FOR PEOPLE WITH AIDS

The Organization has been awarded three grants from the West Virginia Office of Economic Opportunity on behalf of the State of West Virginia for individuals with AIDS. One grant is for the period May 1, 2006 to April 30, 2009 and is for \$1,391,000. Another grant in the amount of \$1,006,384 is for the period May 1, 2005 to April 30, 2008. (Completely received in 2008) A new grant is an extension of the second grant and is for the period from May 1, 2008 to April 30, 2011, in the amount of \$376,535.

COVENANT HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2010 and 2009

10 -- GRANT – HOUSING OPPORTUNITIES FOR PEOPLE WITH AIDS (Continued)

The total awards that have unexpended funds available to be used by the following agencies:

	2010	2009
Covenant House	\$ 106,963	\$ 163,589
Passed-through to:		
Caritas House, Inc.	-	1,207
Community Network, Inc.	-	35,044
	\$ 106,963	\$ 199,840

Total revenues from the above grants for the years ended December 31, 2010 and 2009 was \$362,231 and \$581,862, respectively. The amount passed through to other agencies totaled \$66,026 and \$217,368 for the years ended December 31, 2010 and 2009, respectively, is reflected as a portion of the collaborative share expenses in the accompanying financial statements.

11 -- OPERATING LEASES

The Organization leases a part of its facility to unrelated parties under operating leases with terms not exceeding one year. Rental income for the year ended December 31, 2010 and 2009 was \$21,505 and \$21,630, respectively. Future minimum rental payments total \$3,562 for 2010.

12 – SUBSEQUENT EVENTS

The Organization's management has evaluated events and transactions occurring after December 31, 2010 through the date of the Auditors' Report, which is the date the financial statements were available to be issued. No significant events were noted requiring adjustments to or disclosure in the Financial Statements.

In 2011, the Organization received approximately one million four hundred thousand dollars in cash and in-kind donations.

SUPPLEMENTAL INFORMATION

COVENANT HOUSE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2010

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass - Through Id. No.</u>	<u>Expenditures Paid</u>
U.S. Department of Housing and Urban Development:			
Housing Opportunities for People with AIDS	14.241		\$ 314,807 *
Homelessness Prevention and Rapid Re-Housing Community Development Block Grants/Entitlement Grants	14.262		\$ 372,852 *
Supportive Housing Program	14.218		17,399
Emergency Shelter Grants Program	14.235		10,080
	14.231		<u>13,133</u>
			728,271
Department of Health and Human Services Center for Disease Control and Prevention			
HIV Prevention Activities: Health Dept. Based	97.024		<u>105,456</u>
			<u>\$ 833,727</u>

* Denotes major program

See Independent Auditors' Report and Notes to the
Schedule of Expenditures of Federal Awards.

COVENANT HOUSE, INC.**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2010

1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "*Audits of States, Local Governments and Non-Profit Organizations.*" Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See Independent Auditors' Report.

COVENANT HOUSE, INC.**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

For the Year Ended December 31, 2010

2009-1 PAYROLL PROCESSINGCondition and Criteria

HOPWA funds were used to cover a portion of an employee's salary even though their timesheets show the time as being spent on a SOAR program or supporting service.

Recommendation

We recommend that appropriate procedures be established to ensure that accurate timesheets are kept and that appropriate programs and supporting services be billed for the respective time spent on that particular program or supporting service.

Current Status

The recommendation was adopted in December 2009. No similar findings were noted in the 2010 audit.

2009-2 HOUSING OPPORTUNITIES FOR PEOPLE WITH AIDS (HOPWA)Condition and Criteria

Invoices/supports that were used to substantiate expenditures were erroneously discarded or misplaced. There was little or no documentation available to support these expenditures that were being billed to the HOPWA program. This makes it difficult to determine allocability, allowability or reasonableness of these costs charged to the federal program.

Recommendation

We recommend that procedures be developed to strengthen internal controls over the retention and proper filing of invoice/support for expenditures.

Current Status

The recommendation was adopted in December 2009. Similar finding was noted in the 2010 audit.



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**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**

To the Board of Directors
Covenant House, Inc.
Charleston, West Virginia

We have audited the financial statements of Covenant House, Inc. (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated August 22, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Covenant House, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Covenant House, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. [2010-1] 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covenant House, Inc.'s financial statements are free of 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 determination of financial statement amounts. 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* and which are described in the accompanying schedule of findings and questioned costs as item 2010-1.

We noted certain matters that we reported to management of the Covenant House, Inc. in a separate letter dated August 22, 2011.

Covenant House, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Covenant House, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gray, Griffith & Mays, a.c.

August 22, 2011
Charleston, West Virginia



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Covenant House, Inc.
Charleston, West Virginia

We have audited Covenant House, Inc.'s (a nonprofit organization) compliance with the types of compliance requirements described in the (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Covenant House, Inc.'s major federal programs for the year ended December 31, 2010. Covenant House, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Covenant House, Inc.'s management. Our responsibility is to express an opinion on Covenant House, Inc.'s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Covenant House, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Covenant House, Inc.'s compliance with those requirements.

In our opinion, Covenant House, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item (2010-1).

Internal Control Over Compliance

Management of Covenant House, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Covenant House, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Covenant House, Inc.'s internal control over compliance.

A deficiency in internal control over compliance 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, 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness, as defined above. However we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-1. 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.

Covenant House, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Covenant House, Inc.'s response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the board of directors, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gray, Griffith & Mays, a.c.

August 22, 2011
Charleston, West Virginia

COVENANT HOUSE, INC.**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended December 31, 2010

Financial Statements:

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

* Material weakness(es) identified? Yes _____ No X * Significant deficiency(s) identified not considered to be material weakness? Yes X No _____

Noncompliance material to financial statements noted?

Yes _____ No X **Federal Awards:**

Internal control over major programs:

* Material weakness(es) identified? Yes _____ No X * Significant deficiency(s) identified not considered to be material weakness? Yes X No _____

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes X No _____**Major Programs:**CFDA Number

14.241

14.262

Name of Federal Program or Cluster

Housing Opportunities for People with AIDS

Homeless Prevention and Rapid Re-Housin

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes _____ No X

COVENANT HOUSE, INC.**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended December 31, 2010

2010-1 HOUSING OPPORTUNITIES FOR PEOPLE WITH AIDS (HOPWA)Condition and Criteria

Invoices/supports that were used to substantiate expenditures were erroneously discarded or misplaced. There was little or no documentation available to support these expenditures that were being billed to the HOPWA program. This makes it difficult to determine allocability, allowability or reasonableness of these costs charged to the federal program.

Potential Effect

We questioned \$2,393.87 because 5 invoices with little or no support were not available for our examination.

Cause

We found that there was lack of adherence to prescribed accounting policies and procedures and to Federal regulations requiring that records be retained for a period of three years.

Recommendation

We recommend that procedures be developed to strengthen internal controls over the retention and proper filing of invoice/support for expenditures.

Current Status

The recommendation was adopted in December 2010. Similar findings were noted in the 2009 audit.



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August 22, 2011

To the Board of Directors
Covenant House, Inc.
Charleston, West Virginia

In planning and performing our audit of the financial statements of Covenant House, Inc., (the Organization), as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

CONTROL OVER OUTSTANDING CHECKS

Audit procedures in the cash area disclosed that there were old outstanding checks on the bank reconciliation statement that went unresolved for extended periods of time. Old outstanding checks should be investigated and properly resolved as part of internal control over cash disbursements. We suggest that, at least annually, all old outstanding checks be investigated and resolved by someone other than the person preparing reconciliations. **This is a repeat comment.**

SEQUENTIAL NUMERICAL CHECK CONTROL

While conducting cash disbursements testing, we noted that many checks were written out of sequence. Cash disbursements control procedures should be designed to be practicable and to provide reasonable assurance that no unauthorized payments are made, all liabilities are timely paid, and payments are accurately recorded. These controls include accounting for the sequential use of checks. We recommend strict numerical control be kept over all checks and that checks be issued in sequence. **This is a repeat comment.**

BANK RECONCILIATIONS

During the audit, we noted that the bank reconciliation for the Organization's cash accounts did not reconcile the bank balance to the general ledger balance at December 31, 2010. We recommend that the bank account be properly and timely reconciled each month to the general ledger and that unidentified differences and unusual items be investigated and resolved promptly. Corrective action should be taken, so that the bank balance and the general ledger balance properly reconciles monthly. **This is a repeat comment.**

CASH RECEIPTS

During our testing of rental income we discovered that checks that had been received from renters for the payment of rent relating to the rental offices at Covenant House, Inc. were being deposited into Community Housing, a related entity, bank account. We strongly suggest that the cash receipts system be designed to ensure that all receipts relating to Covenant House, Inc be segregated and deposited in the proper bank account in a timely manner. **This is a repeat comment.**

VOIDED CHECKS

During our cash disbursement procedures it was noted that several checks were voided and deleted from the Organization's accounting system, QuickBooks. This practice greatly weakens the internal control over the cash disbursement process. We recommend that all voided check be retained and not be deleted from the accounting system. This will strengthen controls over cash disbursements. **This is a repeat comment.**

RELATED PARTY TRANSACTIONS

During our audit, it was noted that Covenant House was paying the expenditures of Community Housing. This transaction process was not properly tracked and recorded which caused difficulties in the related party transaction reporting. We strongly recommend that proper documentation and recording of related party transactions be performed. **This is a repeat comment.**

RECORD STORAGE AND RETRIEVAL

During our audit we noticed that accounting records frequently could not be located when needed. The causes of the problem were numerous:

- Lack of a clearly specified system for filing records
- Failure of those who removed records from files to indicate who took the record
- Failure to return the record to the files or misfiling it when it was returned

The result was that employees spent nonproductive time searching for needed documents. This condition could also present problems if government agencies need documents in support of tax returns and other reports subject to audit. We recommend that the following steps be taken:

- Adopt a systematic manner of filing documents, such as vendor bills filed alphabetically by vendor name or pre-numbered sales invoices.
- Describe system in the accounting manual so employees will know how to find and refile documents.
- Institute use of sign-out cards to be filled out when documents are removed from a file.
- Determine when unneeded records should be removed to other storage areas to create room for needed records.

This is a repeat comment.

This communication is intended solely for the information and use of the Board of Directors and Management of Covenant House, Inc. and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Gray, Griffith & Mays, a.c.

DHHR - Finance

OCT - 8 2011

Date Received