

**COVENANT HOUSE, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**YEARS ENDED DECEMBER 31, 2011 AND 2010  
AND  
INDEPENDENT AUDITORS' REPORT**

**DHHR - Finance**

**SEP 28 2012**

**Date Received**

# COVENANT HOUSE, INC.

## FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

December 31, 2011 and 2010

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# Covenant House

*Helping people in need since 1981*

600 Shrewsbury Street • Charleston WV 25301  
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September 27, 2012

Department of Health and Human Resources  
Office of Internal Control and Policy Development  
Division of Compliance and Monitoring  
One Davis Square, Suite 401  
Charleston, WV 25301

Attention: Kimberly Merritt  
RE: 2011 Final Audit

Dear Kimberly:

Thank you so much for your help on the telephone this morning.

Enclosed please find a copy of Covenant House's Final Audit for 2011. You will also find our Representation Letter and Correction Action Letter as well.

The auditors informed me that page 21; The Schedule of Expenditures of Nonfederal Awards is the page that would want to see.

Thank you again and if you need any additional information please feel free to call Ellen Allen or myself.

Sincerely,

  
Stacy Reynolds, Finance Manager  
Ellen Allen, Executive Director

**DHHR - Finance**

**SEP 28 2012**

**Date Received**





707 Virginia Street E. • Suite 400 • Charleston, WV 25301 • Phone: 304.345.9400 • Fax: 304.345.7258  
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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, 2011 and 2010, 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 3, 2012 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.*

September 25, 2012  
Charleston, West Virginia

# COVENANT HOUSE, INC.

## STATEMENT OF FINANCIAL POSITION

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 67,022	\$ 41,561
Grant receivable	72,491	198,444
Accounts receivable - related party	34,902	12,027
Accounts receivable	30,869	17,653
Prepaid expenses	<u>6,000</u>	<u>7,964</u>
Total current assets	<u>211,284</u>	<u>277,649</u>
Property and equipment, at cost:		
Land	410,491	410,491
Building and improvements	1,769,265	1,769,265
Equipment and furnishings	276,200	222,706
Landscaping	<u>7,719</u>	<u>7,719</u>
	2,463,675	2,410,181
Less: Accumulated depreciation	<u>(686,555)</u>	<u>(618,890)</u>
Total property and equipment	<u>1,777,120</u>	<u>1,791,291</u>
Other assets:		
Investments held by others	2,241	2,241
Investments	<u>1,348,939</u>	<u>1,410,321</u>
Total other assets	<u>1,351,180</u>	<u>1,412,562</u>
Total assets	<u>\$ 3,339,584</u>	<u>\$ 3,481,502</u>

The accompanying notes are an integral part of these financial statements

	<u>2011</u>	<u>2010</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current liabilities:		
Accounts payable	\$ 19,985	\$ 44,430
Note payable - current portion	941	873
Accrued payroll and withheld taxes	16,050	24,929
Other current liabilities	<u>3,657</u>	<u>11,612</u>
Total current liabilities	40,633	81,844
Long-term liabilities:		
Notes payable - less current portion	<u>7,772</u>	<u>8,921</u>
Total liabilities	<u>48,405</u>	<u>90,765</u>
Net assets:		
Unrestricted:		
Unrestricted	1,604,977	1,734,833
Designated	<u>1,000,000</u>	<u>1,000,000</u>
	2,604,977	2,734,833
Temporarily restricted	132,003	101,705
Permanently restricted	<u>554,199</u>	<u>554,199</u>
Total net assets	<u>3,291,179</u>	<u>3,390,737</u>
Total liabilities and net assets	<u>\$ 3,339,584</u>	<u>\$ 3,481,502</u>



# COVENANT HOUSE, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenues:</b>				
Support:				
Contributions	\$ 210,921	\$ 82,100	\$ -	\$ 293,021
Government grants	710,532	10,000	-	720,532
In-kind contributions	1,281,283	-	-	1,281,283
Total support	<u>2,202,736</u>	<u>92,100</u>	<u>-</u>	<u>2,294,836</u>
Revenues:				
Program service fees	18,257	-	-	18,257
Investment income	60,136	45	-	60,181
Special events	22,414	-	-	22,414
Rental income, net of expenses of \$12,463	9,364	-	-	9,364
Other revenues	9,065	-	-	9,065
Total revenues	<u>119,236</u>	<u>45</u>	<u>-</u>	<u>119,281</u>
Net assets released from donor restrictions	<u>61,847</u>	<u>(61,847)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>2,383,819</u>	<u>30,298</u>	<u>-</u>	<u>2,414,117</u>
Expenses:				
Program service expenses:				
Emergency assistance	123,820	-	-	123,820
Food pantry	22,244	-	-	22,244
Clothing closet	7,596	-	-	7,596
LGBT	58,681	-	-	58,681
AIDS	172,106	-	-	172,106
Homeless prevention and rapid re-housing	266,973	-	-	266,973
Mpowerment	55,628	-	-	55,628
State Budget AIDS	46,050	-	-	46,050
SOAR	34,285	-	-	34,285
Technology assistance	9,329	-	-	9,329
Housing First I	37,773	-	-	37,773
Housing First II	49,772	-	-	49,772
SHP	2,392	-	-	2,392
Cont-Co care	10,080	-	-	10,080
Lend-A-Hand	1,097,678	-	-	1,097,678
Total program service expenses	<u>1,994,407</u>	<u>-</u>	<u>-</u>	<u>1,994,407</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Supporting services:				
Management and general	404,556	-	-	404,556
Fundraising	<u>114,712</u>	<u>-</u>	<u>-</u>	<u>114,712</u>
Total supporting services	<u>519,268</u>	<u>-</u>	<u>-</u>	<u>519,268</u>
 Total expenses	<u>2,513,675</u>	<u>-</u>	<u>-</u>	<u>2,513,675</u>
 Change in net assets	(129,856)	30,298	-	(99,558)
 Net assets, beginning	<u>2,734,833</u>	<u>101,705</u>	<u>554,199</u>	<u>3,390,737</u>
 Net assets, ending	<u>\$ 2,604,977</u>	<u>\$ 132,003</u>	<u>\$ 554,199</u>	<u>\$3,291,179</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	1,291,308	65,000	-	1,356,308
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	268,879	-	-	268,879
Net assets released from donor restrictions	183,392	(183,392)	-	-
Total support and revenues	1,743,579	(118,392)	-	1,625,187
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	1,053,951	-	-	1,053,951

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Supporting services:				
Management and general	535,124	-	-	535,124
Fundraising	<u>72,901</u>	<u>-</u>	<u>-</u>	<u>72,901</u>
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>

COVENANT HOUSE, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2011

	PROGRAM SERVICES													SUPPORTING SERVICES			Total Expenses			
	Emergency Assistance	Food Pantry	Clothing Closet	LGBT	AIDS	HIVPP	Mpovement	State Budget Aids	Technology Assistance	SOAR	Housing First I	Housing First II	Shp	Dom-Co Care	Land-A Hand	Total Program Expenses		Management & General	Fundraising	Total Other Expenses
Salaries	\$ 25,342	\$ 995	\$ 5,457	\$ 21,600	\$ 59,149	\$ 33,487	\$ 33,779	\$ 479	\$ -	\$ 27,208	\$ 13,482	\$ 17,817	\$ 1,898	\$ 10,080	\$ -	\$ 250,874	\$ 200,868	\$ 72,120	273,056	\$ 523,062
Employee benefits	3,150	-	976	2,894	7,391	4,102	4,197	60	-	3,381	1,877	2,527	238	-	-	28,803	23,874	8,597	32,441	62,244
Payroll taxes	3,443	-	741	2,835	8,536	4,942	4,558	65	-	3,095	1,553	2,434	256	-	-	32,579	28,987	9,385	38,402	68,040
Meetings and travel	-	-	-	-	-	70	-	-	-	-	-	-	-	-	-	70	1,069	242	1,311	1,401
Repairs and maintenance	18,685	-	-	-	-	-	-	-	-	8,000	-	-	-	-	-	24,685	24,110	-	24,110	48,175
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,990	-	-	5,990	8,980
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	423	-	423	823
Office supplies	336	-	-	-	252	138	138	-	-	3,329	-	69	92	-	-	4,414	2,181	908	3,067	7,501
Utilities and telephones	17,812	-	720	-	-	-	-	-	-	-	-	-	-	-	-	18,832	9	-	9	18,941
Professional services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,950	-	17,950	17,950
Printing and postage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,041	11,286	13,327	13,329
Bad debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,889
Assistance to individuals	55,812	21,249	-	-	97,313	224,567	12,055	18,054	-	-	20,792	27,102	-	-	-	478,430	4,889	752	479,191	1,107,707
Public relations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,097,878	1,097,878	4,813	5,418	10,029	1,107,707
In-kind	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	292	-	292	722
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,201	6,708	12,909	12,909
Other grant	-	-	-	31,482	-	-	-	-	-	-	-	-	-	-	-	31,482	13,414	-	13,414	44,878
Fundraising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collaborative share	-	-	-	-	-	-	-	28,392	-	-	-	-	-	-	-	28,392	-	-	-	28,392
<b>Total expenses before depreciation</b>	<b>123,820</b>	<b>22,244</b>	<b>7,566</b>	<b>59,881</b>	<b>172,106</b>	<b>259,073</b>	<b>55,028</b>	<b>46,050</b>	<b>9,329</b>	<b>34,285</b>	<b>37,773</b>	<b>49,772</b>	<b>2,292</b>	<b>10,080</b>	<b>1,067,878</b>	<b>1,094,457</b>	<b>336,891</b>	<b>114,712</b>	<b>451,603</b>	<b>2,446,010</b>
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87,685	-	87,685	87,685
<b>Total expenses</b>	<b>\$ 123,820</b>	<b>\$ 22,244</b>	<b>\$ 7,566</b>	<b>\$ 59,881</b>	<b>\$ 172,106</b>	<b>\$ 259,073</b>	<b>\$ 55,028</b>	<b>\$ 46,050</b>	<b>\$ 9,329</b>	<b>\$ 34,285</b>	<b>\$ 37,773</b>	<b>\$ 49,772</b>	<b>\$ 2,292</b>	<b>\$ 10,080</b>	<b>\$ 1,067,878</b>	<b>\$ 1,094,457</b>	<b>\$ 404,566</b>	<b>\$ 114,712</b>	<b>\$ 510,288</b>	<b>\$ 2,813,675</b>

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

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

	PROGRAM SERVICES										SUPPORTING SERVICES				
	Emergency Assistance	Food Pantry	Clothing Closet	LGST	AIDS	HPRP	Empowerment	State Budget Aids	Technology Assistance	SCAR	Total Program Expenses	Management & General	Fundraising	Total Other Expenses	Total Expenses
Salaries	\$ 2,094	\$ -	\$ 5,389	\$ 16,706	\$ 65,202	\$ 43,647	\$ 52,269	\$ 5,389	\$ 1,617	\$ 17,782	\$ 210,694	\$ 293,776	\$ 59,274	\$ 353,050	\$ 563,744
Employee benefits	305	-	811	1,893	7,389	4,947	5,924	611	183	2,015	23,878	30,474	6,718	37,192	61,070
Payroll taxes	314	-	628	1,947	7,500	5,087	5,092	628	188	2,073	24,557	31,341	5,909	38,250	62,807
Meetings and travel	-	-	-	-	-	-	-	-	-	-	-	-	-	1,224	1,224
Repairs and maintenance	9,502	-	-	-	547	-	-	-	4,565	-	14,614	31,965	-	31,965	46,579
Insurance	318	-	-	-	-	-	-	-	-	-	318	3,300	-	3,300	3,618
Interest	-	-	-	-	-	-	-	-	-	-	-	829	-	829	829
Office supplies	199	-	-	-	-	-	-	-	-	64	253	8,830	-	8,830	9,033
Utilities and telephone	19,961	-	-	-	-	-	-	-	-	-	18,961	-	-	18,961	18,961
Professional services	-	-	-	-	-	-	-	-	-	-	-	12,213	-	12,213	12,213
Printing and postage	-	-	-	-	-	-	-	-	-	-	-	7,396	-	7,396	7,396
Bad debt	-	-	-	-	-	-	-	-	-	-	-	22,767	-	22,767	22,767
Assistance to individuals	61,740	21,770	448	60,797	219,825	329,082	-	-	1,178	-	694,640	4,567	-	4,567	699,207
Public relations	-	-	-	-	-	-	-	-	-	-	-	19,828	-	19,828	19,828
Collaborative share	-	-	-	-	29,518	-	-	36,508	-	-	66,026	-	-	-	66,026
Total expenses before depreciation	94,033	21,770	7,076	81,342	329,861	382,783	64,286	43,136	7,731	21,934	1,053,951	468,500	72,901	541,401	1,595,352
Depreciation	-	-	-	-	-	-	-	-	-	-	-	66,624	-	66,624	66,624
Total expenses	\$ 94,033	\$ 21,770	\$ 7,076	\$ 81,342	\$ 329,861	\$ 382,783	\$ 64,286	\$ 43,136	\$ 7,731	\$ 21,934	\$ 1,053,951	\$ 535,124	\$ 72,901	\$ 608,025	\$ 1,661,976

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

# COVENANT HOUSE, INC.

## STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (99,558)	\$ (36,789)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	67,665	66,624
Unrealized (loss) gain on investments	34,700	(119,458)
Realized gain on investments	(57,942)	(35,443)
Contributions of non-cash assets	(57,702)	(29,963)
(Increase) decrease in assets:		
Grants receivable	125,953	(15,533)
Accounts receivable - related party	(22,875)	13,908
Other receivable	(13,216)	(12,127)
Prepaid expenses	1,964	(4,144)
Increase (decrease) in liabilities:		
Accounts payable	(24,445)	(52,605)
Accrued and withheld taxes	(8,879)	6,017
Accrued bonuses and benefits payable	-	10,789
Deferred revenue	-	(14,354)
Other current liabilities	(7,955)	7,400
Net cash used in operating activities	(62,290)	(215,678)
Cash flows from investing activities:		
Purchase of property and equipment	-	(55,144)
Purchase of investments	(17,200)	(116,947)
Sale of investments	161,624	157,609
Change in money market cash	(55,592)	116,976
Net cash provided by investing activities	88,832	102,494
Cash flows used in financing activities:		
Note principal payments	(1,081)	(1,930)
Net increase (decrease) in cash and cash equivalents	25,461	(115,114)
Cash and cash equivalents, beginning of year	41,561	156,675
Cash and cash equivalents, end of year	\$ 67,022	\$ 41,561

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

	<u>2011</u>	<u>2010</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash payments for interest	<u>\$ 623</u>	<u>\$ 829</u>
<b>SUPPLEMENTAL SCHEDULE NONCASH INFORMATION:</b>		
Contribution of Lend-a-Hand	<u>\$ 1,240,803</u>	<u>\$ 26,885</u>
Disbursement of Lend-a-Hand	<u>\$ 1,097,678</u>	<u>\$ -</u>



# COVENANT HOUSE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

### 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, 2011 and 2010

**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. Significant estimates include functional expense allocation and in-kind contribution valuation.

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, 2011 and 2010

**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.

Notes 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, 2011 and 2010

**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 \$10,000 and \$19,800 for the years ended December 31, 2011 and 2010, respectively.

In-Kind Support

During the years ended December 31, 2011 and 2010, the value of contributed services and materials meeting the requirements for recognition in the financial statements was \$1,281,283 and \$26,885, respectively. During 2011, \$53,494 was capitalized, \$130,111 was kept and \$1,097,678 was given away. During 2010, \$26,885 was kept.

**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, 2009.

## COVENANT HOUSE, INC.

### NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

#### 3 -- MORTGAGES AND OTHER NOTES PAYABLE

The mortgages and other notes payable at December 31, 2011 and 2010, consist of the following:

	2011	2010
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>\$ 8,713</u>	<u>\$ 9,794</u>

The principal amount of long-term debt outstanding at December 31, 2011, payable in each of the next five years is as follows:

2012	\$	941
2013		1,014
2014		1,093
2015		1,177
2016		1,269
Thereafter		3,219
	<u>\$</u>	<u>8,713</u>

#### 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, 2011 and 2010 was \$14,793 and \$12,642, respectively.

## COVENANT HOUSE, INC.

### NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

#### 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2011 and 2010, consist of the following:

	2011	2010
Use in future years	\$ 15,000	\$ 15,000
SOAR program	6,094	11,705
Drop-in Center	17,000	-
Client Access Project	8,864	-
Tender Fund	75,045	75,000
Dingess-Rum	5,000	-
Ann & Robert Orders Jr. Foundation	5,000	-
	\$ 132,003	\$ 101,705

#### 6 -- PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2011 and 2010, consist of the following:

	2011	2010
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, 2011 and 2010

#### 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, 2011 and 2010.

Contributions to the Board designated Endowment are included in the investments held at December 31, 2011 and 2010. The investment income, realized and unrealized gains or losses on these investments are unrestricted.

<u>December 31, 2011</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Money market funds	\$ 129,275	\$ 129,275	\$ -
Common stocks	997,572	1,081,825	84,253
Preferred stocks	112,284	112,755	471
Corporate bonds	<u>25,006</u>	<u>25,084</u>	<u>78</u>
	<u>\$ 1,264,137</u>	<u>\$1,348,939</u>	<u>\$ 84,802</u>

  

<u>December 31, 2010</u>	<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>

The Organization has designated part of its investments as a permanent endowment account. These investments total \$435,308 at December 31, 2011 and 2010, 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, 2011 and 2010

#### 8 – INVESTMENTS (Continued)

Following is a summary of investment income from investments and cash deposits for the years ended December 31, 2011 and 2010

	2011	2010
Interest and dividend income	\$ 36,939	\$ 32,433
Unrealized gains (loss)	(34,700)	119,458
Realized (loss) gains	57,942	35,443
	\$ 60,181	\$ 187,334

#### 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, 2011 and 2010, respectively, including \$41 per unit occupied, per month for the year ended December 31, 2011 and 2010, respectively. A summary of these balances and transactions follows:

	2011	2010
Related party receivable	\$ 34,902	\$ 12,027
Management fees income and expense reimbursement	\$ 2,296	\$ 2,706

#### 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. The first grant is for the period from May 1, 2008 to April 30, 2011, in the amount of \$376,535. The second grant in the amount of \$115,269 is for the period July 1, 2010 to December 31, 2012. The final grant in the amount of \$115,237 is for the period July 1, 2011 to June 30, 2012.



## COVENANT HOUSE, INC.

### NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2011 and 2010

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

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

	2011	2010
Covenant House	\$ 73,420	\$ 106,963

Total revenues from the above grants for the years ended December 31, 2011 and 2010 was \$153,532 and \$362,231, respectively. The amount passed through to other agencies totaled \$0 and \$66,026 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010 was \$21,827 and \$21,505, respectively. Future minimum rental payments total \$4,362 for 2011.

#### 12 – SUBSEQUENT EVENTS

The Organization's management has evaluated events and transactions occurring after December 31, 2011 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.

## **SUPPLEMENTAL INFORMATION**

## COVENANT HOUSE, INC.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass - Through Id. No.	Expenditures Paid
U.S. Department of Housing and Urban Development:			
Housing Opportunities for People with AIDS	14.241		\$ 153,532 *
Homelessness Prevention and Rapid Re-Housing-ARRA	14.262		272,905 *
Community Development Block Grants/Entitlement Grants	14.218		9,000
Supportive Housing Program	14.235		10,080
Emergency Shelter Grants Program	14.231		13,617
Housing First	14.261		<u>77,798</u>
			536,932
Department of Health and Human Services Center for Disease Control and Prevention:			
HIV Prevention Activities: Health Dept Based	93.940		<u>52,677</u>
			<u>\$ 589,609</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, 2011

**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, 2011

**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.

**COVENANT HOUSE, INC.**

## SCHEDULE OF EXPENDITURES OF NONFEDERAL AWARDS

For the Year Ended December 31, 2011

<u>State Grantor/Program</u>	<u>Account Number</u>	<u>Expenditures Paid</u>
West Virginia Department of Health and Human Resources State Budget Aids	110247	\$ 36,927
West Virginia Department of Health and Human Resources State Budget Aids	120054	15,497
West Virginia Department of Health and Human Resources LGBT	110257	37,736
West Virginia Department of Health and Human Resources LGBT	120213	19,077

See Independent Auditors' Report.



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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, 2011, and have issued our report thereon dated August 3, 2012. 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 purpose 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. [2011-1] 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 2011-1.

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.*

September 25, 2012  
Charleston, West Virginia





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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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

**Compliance**

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, 2011. 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, 2011. 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 (2011-1).

### 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 a 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 2011-1. *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.*

September 25, 2012  
Charleston, West Virginia

DHHR - Finance

SEP 28 2012

Date Received

## COVENANT HOUSE, INC.

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2011

**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-Housing

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, 2011

**2011-1 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 \$148,733 because 4 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

Management initiated internal control policies for reviewing and approving invoices, which detected the billing errors in 2012. A check was issued to cover the over expensed funds.



# Covenant House

*Helping people in need since 1981*

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September 25, 2012

Gray, Griffith & Mays, A.C.  
707 Virginia Street, East  
Suite 400  
Charleston, WV 25301

We are providing this letter in connection with your audits of the statements of financial position of Covenant House, Inc. as of December 31, 2011 and 2010 and the related statements of activities, functional expenses and cash flows for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, functional expenses, and cash flows of Covenant House, Inc. in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, functional expenses and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of September 25, 2012 the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under the Organization's control.
2. We have made available to you all—
  - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Minutes of the meetings of Executive Board and Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared for the period January 1, 2011 through the date of our report and the date of this letter.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.

5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule, if any, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have or will post the proposed adjusting entries to the Organization's general ledger.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Organization involving—
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.
9. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
10. We have a process to track the status of audit findings and recommendations.
11. We have identified to you any previous financial audits, attestations engagements, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
12. We have provided our views on the prior year's reported findings, conclusions, and recommendations, as well as our planned corrective actions.
13. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
14. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the Organization is contingently liable.

- c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB Accounting Standards Codification 275, *Risks and Uncertainties*.
15. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
16. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
17. Covenant House, Inc. is an exempt organization under Section 501c (3) of the Internal Revenue Code. There are no activities of which we are aware that would jeopardize the Organization's tax exempt status, and all activities subject to tax on unrelated business income or excise or other tax, if any, have been disclosed to you. All required filings with tax authorities are up-to-date.
18. There are no –
  - a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for reporting noncompliance.
  - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification 450, Contingencies
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed FASB Accounting Standards Codification 450, Contingencies
  - d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
19. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with generally accepted accounting principles and we have not consulted a lawyer concerning litigation, claims, or assessments

20. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
21. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
22. With respect to federal award programs:
  - a. We are responsible for understanding and complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* including requirements relating to preparation of the schedule of expenditures of federal awards
  - b. We have, prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133 and have identified and disclosed in the schedule of expenditures of federal awards made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance
  - c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
  - d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
  - e. We are responsible for understanding and complying with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program
  - f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.



- g We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities
- h We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i We have complied, with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards.
- j We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report
- k We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l Amounts claimed or used for matching were determined in accordance with relevant guidelines in *OMB Circular A-122, Cost Principles for Nonprofit Organizations*, and Subpart C, *Cost Sharing and Matching*, of *OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*.
- m We have disclosed to you our interpretation of compliance requirements that may have varying interpretations, if any.
- n We have made available to you all documentation relating to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.

- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), subsequent to the date, which compliance was audited
  - r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which basic financial statements have been prepared.
  - s. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
  - t. We have charged costs to federal awards in accordance with applicable cost principles.
  - u. We are responsible for and have accurately prepared a summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on the prior audit findings by federal awarding agencies and pass-through entities, including all management decisions
  - v. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
  - w. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
23. In regards to your preparation of Federal 990 tax return, maintaining the fixed asset schedules and assistance in drafting the financial statements and related notes and schedule of expenditures of federal and state awards, we have:
- a. Made all management decisions and performed all management functions.
  - b. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
  - c. Evaluated the adequacy and results of the services performed.
  - d. Accepted responsibility for the results of the services
  - e. Established and maintained internal controls, including monitoring ongoing activities

We have evaluated events and transactions occurring after December 31, 2011 through the date of this letter, which is the date the financial statements were available to be issued. No significant events were noted requiring adjustment to or disclosure in the financial statements.



Ellen Allen, Executive Director



Stacy Reynolds, Finance Manager

DHHR - Finance

SEP 28 2012

Date Received





# Covenant House

Helping people in need since 1981

600 Shrewsbury Street • Charleston, WV 25301  
304 344 8053 • [wvcovenanthouse.org](http://wvcovenanthouse.org)

## Corrective Action Plan September 26, 2012

State of West Virginia  
Governor's Office of Economic Opportunity  
700 Washington Street, E., 4<sup>th</sup> Floor  
Charleston, WV 25301

Covenant House, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2011.

Name and address of independent public accounting firm:

Gray, Griffith & Mays, AC  
707 Virginia Street, E., Suite 400  
Charleston, WV 25301

Audit Period: For the year ended December 31, 2011

The findings from the December 31, 2011 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings – Financial Statement and Federal Awards Audit – Significant Deficiency

2011-1 Housing Opportunities for People with AIDS (HOPWA), CFDA No. 14.241

*Recommendation:* Covenant House, Inc. should develop procedures to strengthen internal controls over the retention and proper filing of invoice/support for expenditures.

*Action Taken:* In June 2011 management implemented procedures to ensure sufficient documentation is retained to support reimbursement requests. Specifically, the financial request forms used for HOPWA were improved to include more detail, including verification of expenditure, cross-referencing supporting documents, and including case notes if necessary. Training also occurred at this time to ensure that staff members complied with these updated documentation/retention requirements.

If the Governor's Office of Economic Opportunity has any questions regarding this plan, please call Stacy Reynolds at 304-344-8053, ext 23.

Sincerely,

Ellen Allen  
Executive Director

DHHR - Finance

SEP 28 2012

Date Received

