Covenant House, Inc.

Financial Statements
and
Supplementary Information

December 31, 2012

Covenant House, Inc.

Table of Contents

Herman & Cormany
Certified Public Accountants, A.C.

Accountants & Consultants

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Covenant House, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

Another audit firm previously audited Covenant House, Inc.'s 2011 financial statements, and their report dated September 25, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2013 on our consideration of Covenant House, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covenant House, Inc.'s internal control over financial reporting and compliance.

Hayman & Conway

Charleston, West Virginia
May 8, 2013

DHHR - Finance
SEP 19 2013
Date Received

Covenant House, Inc.

Statement of Financial Position

December 31, 2012 with Comparative Totals as of December 31, 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 91,583	$ 67,022
Grant receivable	32,133	72,491
Accounts receivable – related party	22,770	34,902
Accounts receivable	43,728	30,869
Prepaid expenses	11,650	6,000
Total Current Assets	201,864	211,284
Property and Equipment, at cost		
Land	410,491	410,491
Building and improvements	1,792,724	1,769,265
Equipment and furnishings	276,200	276,200
Landscaping	7,719	7,719
	2,487,134	2,463,675
Less accumulated depreciation	750,337	686,555
Total Property and Equipment	1,736,797	1,777,120
Other Assets		
Investments held by others	2,410	2,241
Investments	1,348,306	1,348,939
Total Other Assets	1,350,716	1,351,180
Total Assets	$3,289,377	$3,339,584

See independent auditors' report and notes to financial statements.

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 23,570	$ 19,985
Note payable -- current portion	1,014	941
Accrued payroll and withheld taxes	15,153	16,050
Accrued annual leave	17,132	-0-
Grant funds received in advance	22,475	-0-
Other current liabilities	23,493	3,657
Total Current Liabilities	102,837	40,633
Long-term Liabilities		
Notes payable – less current portion	6,926	7,772
Total Liabilities	109,763	48,405
Net Assets		
Unrestricted		
Unrestricted	1,544,246	1,604,977
Designated	1,000,000	1,000,000
Total Unrestricted	2,544,246	2,604,977
Temporarily restricted	81,169	132,003
Permanently restricted	554,199	554,199
Total Net Assets	3,179,614	3,291,179
Total Liabilities and Net Assets	$3,289,377	$3,339,584

Covenant House, Inc.

Statement of Activities

For the Years Ended December 31, 2012 with Comparative Totals for the Year Ended December 31, 2011

	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Total
Support and Revenues					
Support					
Contributions	$ 154,029	$ 53,500	$ -0-	$ 207,529	$ 293,021
Government grants	-0-	500,962	-0-	500,962	720,532
In-kind contributions	5,850	-0-	-0-	5,850	1,281,283
Total Support	159,879	554,462	-0-	714,071	2,294,836
Revenues					
Program service fees	9,821	-0-	-0-	9,821	18,257
Investment income	173,134	30	-0-	173,164	60,181
Special events	58,215	-0-	-0-	58,215	22,414
Rental income, net of expenses of $7,300	16,042	-0-	-0-	16,042	9,364
Other revenues	78,530	-0-	-0-	78,530	9,065
Total Revenues	335,742	30	-0-	335,772	119,281
Net Assets Released From Donor Restrictions	605,326	(605,326)	-0-	-0-	-0-
Total Support and Revenues	1,100,947	(50,834)	-0-	1,050,113	2,414,117
Expenses					
Program Service Expenses					
Emergency assistance	53,085	-0-	-0-	53,085	123,820
Food pantry	27,131	-0-	-0-	27,131	22,244
Clothing closet	7,481	-0-	-0-	7,481	7,596
LGBT	38,006	-0-	-0-	38,006	58,681
AIDS	108,563	-0-	-0-	108,563	172,106
Homeless prevention and rapid re-housing	72,799	-0-		72,799	266,973
Emergency Shelter	28,329	-0-	-0-	28,329	-0-
Mpowerment	-0-	-0-	-0-	-0-	55,628
State Budge AIDS	60,637	-0-	-0-	60,637	46,050
SOAR	36,990	-0-	-0-	36,990	34,285
Technology assistance	7,977	-0-	-0-	7,977	9,329
Housing First I	68,692	-0-	-0-	68,692	37,773
Housing First II	89,484	-0-	-0-	89,484	49,772
Housing First III	1,022	-0-	-0-	1,022	-0-
SHP	7,968	-0-	-0-	7,968	2,392
Cont-Co care	10,080	-0-	-0-	10,080	10,080
Broadway Cares	6,053	-0-	-0-	6,053	-0-
Community Participation	2,949	-0-	-0-	2,949	-0-
Client Access	5,572	-0-	-0-	5,572	-0-
African American Cessation	5,125	-0-	-0-	5,125	-0-
Lend-A-Hand	-0-	-0-	-0-	-0-	1,097,678
Total Program Service Expenses	637,943	-0-	-0-	637,943	1,994,407

See independent auditors' report and notes to financial statements.

Covenant House, Inc.

Statement of Activities (Continued)

For the Years Ended December 31, 2012, with Comparative Totals for the Year Ended December 31, 2011

	2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2011 Total
Expenses (Continued)					
Supporting Services					
Management and general	$ 419,633	$ -0-	$ -0-	$ 419,633	$ 404,556
Fundraising	104,102	-0-	-0-	104,102	114,712
Total Supporting Services	523,735	-0-	-0-	523,735	519,268
Total Expenses	1,161,678	-0-	-0-	1,161,678	2,513,675
Change in Net Assets	(60,731)	(50,834)	-0-	(111,565)	(99,558)
Net Assets, Beginning	2,604,977	132,003	554,199	3,291,179	3,390,737
Net Assets, Ending	$2,544,246	$ 81,169	$554,199	$3,179,614	$3,291,179

See independent auditors' report and notes to financial statements.

Covenant House, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2012

	Program Services											
	Emergency Shelter	Emergency Assistance	Food Pantry	Clothing Closet	LGBT	AIDS	HPRP	African American Cessation	State Budget Aids	Technology Assistance	SOAR	Community Participation Grant
Salaries	$ 1,713	$25,037	$ 1,005	$5,464	$25,939	$ 39,129	$21,247	$4,510	$ 1,597	$ -0-	$24,916	$ -0-
Employee benefits	327	5,504	-0-	-0-	1,135	4,528	4,227	-0-	67	-0-	8,898	-0-
Payroll taxes	212	3,487	-0-	764	2,897	4,823	2,463	447	146	-0-	3,176	-0-
Meetings and travel	-0-	-0-	-0-	-0-	286	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Repairs and maintenance	6,432	661	-0-	-0-	-0	8	-0-	-0-	-0-	-0-	-0-	-0-
Insurance	2,399	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Interest	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Office supplies	2,177	280	-0-	-0-	361	-0-	230	-0-	50	695	-0-	-0-
Utilities and telephone	13,232	1,553	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Professional services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Printing and postage	33	-0-	-0-	-0-	-0-	-0-	198	-0-	-0-	-0-	-0-	-0-
Bad debt	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Assistance to individuals	1,804	16,563	26,126	1,253	6,705	60,075	44,118	168	20,483	7,282	-0-	2,949
Public relations	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
In-kind	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Other grant	-0-	-0-	-0-	-0-	683	-0-	316	-0-	117	-0-	-0-	-0-
Fundraising	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Collaborative share	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	38,177	-0-	-0-	-0-
Total expenses before depreciation	28,329	53,085	27,131	7,481	38,006	108,563	72,799	5,125	60,637	7,977	36,990	2,949
Depreciation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Expenses	$28,329	$53,085	$27,131	$7,481	$38,006	$108,563	$72,799	$5,125	$60,637	$7,977	$36,990	$2,949

See independent auditors' report and notes to financial statements.

Covenant House, Inc.

Statement of Functional Expenses (Continued)

For the Year Ended December 31, 2012

	Program Services (Continued)								Supporting Services				
	Housing First I	Housing First II	Housing First III	SHP	Cont-Co Care	Broadway Cares	Client Access	Total Program Expenses	Management & General	Fundraising	Total Supporting Services	Total Expenses	2011 Total
Salaries	$16,927	$20,580	$420	$6,009	$10,080	$-0-	$-0-	$204,573	$222,725	$68,185	$290,910	$ 495,483	$ 523,962
Employee benefits	3,285	3,553	-0-	1,137	-0-	-0-	-0-	32,661	49,901	12,000	61,901	94,562	62,244
Payroll taxes	2,075	2,507	49	782	-0-	-0-	-0-	23,828	22,332	7,153	29,485	53,313	68,040
Meetings and travel	37	-0-	-0-	-0-	-0-	-0-	-0-	323	558	512	1,070	1,393	1,401
Repairs and maintenance	-0-	-0-	-0-	-0-	-0-	-0-	-0-	7,101	8,394	509	8,903	16,004	48,175
Insurance	-0-	-0-	-0-	-0-	-0-	-0-	-0-	2,399	3,261	-0-	3,261	5,660	8,980
Interest	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	523	-0-	523	523	623
Office supplies	-0-	-0-	-0-	-0-	-0-	-0-	-0-	3,793	9,472	1,822	11,294	15,087	7,501
Utilities and telephone	-0-	-0-	-0-	-0-	-0-	-0-	-0-	14,785	3,765	-0-	3,765	18,550	18,641
Professional services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	17,009	225	17,234	17,234	17,050
Printing and postage	-0-	-0-	-0-	-0-	-0-	-0-	-0-	231	5,602	1,363	6,965	7,196	13,339
Bad debt	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	4,889
Assistance to individuals	46,272	62,724	553	-0-	-0-	6,053	-0-	303,128	1,909	3,929	5,838	308,966	479,191
Public relations	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	5,060	5,060	5,060	1,107,707
In-kind	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	12,999
Other grant	96	120	-0-	40	-0-	-0-	5,572	6,944	10,400	-0-	10,400	17,344	44,876
Fundraising	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	3,344	3,344	3,344	-0-
Collaborative share	-0-	-0-	-0-	-0-	-0-	-0-	-0-	38,177	-0-	-0-	-0-	38,177	26,392
Total expenses before depreciation	68,692	89,484	1,022	7,968	10,080	6,053	5,572	637,943	355,851	104,102	459,953	1,097,896	2,446,010
Depreciation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	63,782	-0-	63,782	63,782	67,665
Total Expenses	$68,692	$89,484	$1,022	$7,968	$10,080	$6,053	$5,572	$637,943	$419,633	$104,102	$523,735	$1,161,678	$2,513,675

See independent auditors' report and notes to financial statements.

Covenant House, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2012 with Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	$(111,565)	$ (99,558)
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	63,782	67,665
Unrealized (gain) loss on investments	(134,306)	34,700
Realized gain on investments	(852)	(57,942)
Contributions of non-cash assets	-0-	(57,702)
(Increase) decrease in assets:		
Grants receivable	40,358	125,953
Accounts receivable – related party	12,132	(22,875)
Other receivable	(12,859)	(13,216)
Prepaid expenses	(5,650)	1,964
Increase (decrease) in liabilities:		
Accounts payable	3,585	(24,445)
Accrued and withheld taxes	(897)	(8,879)
Accrued bonuses and benefits payable	17,132	-0-
Grant funds received in advance	22,475	-0-
Other current liabilities	19,836	(7,955)
Net Cash Used In Operating Activities	(86,829)	(62,290)
Cash Flows From Investing Activities		
Purchase of property and equipment	(23,459)	-0-
Purchase of investments	(19,371)	(17,200)
Sale of investments	108,742	161,624
Change in money market cash and fees	(127,258)	(55,592)
Withdrawal of investments to fund operations	173,509	-0-
Net Cash Provided by Investing Activities	112,163	88,832
Cash Flows From Financing Activities		
Note principal payments	(773)	(1,081)
Net Cash Used In Financing Activities	(773)	(1,081)
Net Increase in Cash and Cash Equivalents	24,561	25,461
Cash and Cash Equivalents, Beginning of Year	67,022	41,561
Cash and Cash Equivalents, End of Year	$ 91,583	$ 67,022

See independent auditors' report and notes to financial statements.

Covenant House, Inc.

Statement of Cash Flows (Continued)

For the Year Ended December 31, 2012 with Comparative Totals for the Year Ended December 31, 2011

	2012	2011
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 523	$ 623
Supplemental Schedule Noncash Information		
Contribution of Lend-a-Hand	$5,850	$1,240,803
Disbursement of Lend-a-Hand	$ -0-	$1,097,678

See independent auditors' report and notes to financial statements.

Note A – 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.

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.

Note A – Nature of Activities and Significant Accounting Policies (Continued)

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.

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 services.

Depreciation expense for the years ended December 31, 2012 and 2011 was $63,782 and $67,665, respectively.

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.

Note A – Nature of Activities and Significant Accounting Policies (Continued)

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.

Concentrated 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.

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 $7,093 and $10,000 for the years ended December 31, 2012 and 2011, respectively.

In-Kind Support – During the years ended December 31, 2012 and 2011, the value of contributed services and materials meeting the requirements for recognition in the financial statements was $5,850 and $1,281,283, respectively. During 2012 donated items totaling $5,850 were retained by the Organization. During 2011 $53,494 was capitalized, $130,111 was retained, and $1,097,678 was given away.

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Note B – 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 ended before January 1, 2010.

Note C – Mortgages and Other Notes Payable

The mortgages and other notes payable at December 31, 2012 and 2011, consist of the following:

	2012	2011
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, 2012, 7.5%, due June 1, 2019	$7,940	$8,713

The principle amount of long-term debt outstanding at December 31, 2012, payable in each of the next five years is as follows:

Year Ended	Amount
2013	$1,014
2014	1,093
2015	1,177
2016	1,269
2017	1,367
Thereafter	2,020
	$7,940

Note D – 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, 2012 and 2011 was $20,389 and $14,793, respectively.

Note E – Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012 and 2011, consist of the following:

	2012	2011
Use in future years	$ -0-	$ 15,000
SOAR program	6,094	6,094
Drop-in Center	-0-	17,000
Client Access Project	-0-	8,864
Tender Fund	75,075	75,045
Dingess-Rum	-0-	5,000
Ann & Robert Orders Jr. Foundation	-0-	5,000
	$81,169	$132,003

Note F - Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2012 and 2011, consist of the following:

	2012	2011
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

Note G – 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.

Note H – 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, 2012 and 2011.

Contributions to the Board designated Endowment are included in the investments held at December 31, 2012 and 2011. The investment income, realized and unrealized gains or losses on these investments are unrestricted.

December 31, 2012	Cost	Market Value	Unrealized Gain (Loss)
Cash	$ 905	$ 905	$ -0-
Money market funds	82,111	82,111	-0-
Common stocks	828,403	1,235,423	407,020
Preferred stocks	29,742	29,867	125
	$941,161	$1,348,306	$407,145

December 31, 2011	Cost	Market Value	Unrealized Gain (Loss)
Money market funds	$ 129,275	$ 129,275	$ -0-
Common stocks	997,572	1,081,825	84,253
Preferred stocks	112,284	112,755	471
Corporate bonds	25,006	25,084	78
	$1,264,137	$1,348,939	$84,802

Following is a summary of investment income from investments and cash deposits for the years ended December 31, 2012 and 2011.

	2012	2011
Interest and dividend income	$ 38,006	$ 36,939
Unrealized gains (loss)	134,306	(34,700)
Realized gains (loss)	852	57,942
	$173,164	$ 60,181

Note I – Endowment Funds (Continued) Note I – Endowment Funds

Covenant House, Inc.'s endowment includes one donor-restricted fund. As of December 31, 2012, there was $435,308 in permanently restricted net assets as these endowment funds are donor-restricted funds in that they are restricted to investment in perpetuity. 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.

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the organization classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets. In accordance with SPMIFA, the Organization considered the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies – The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets of the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity, debt securities, and cash with allocations according to the advice provided by the investment advisor with the approval of the investment committee.

Spending Policy – The Foundation has a policy that no amounts will currently be expended from expendable portion of the endowment until the funds are needed to further the goals of the Foundation. To date, no amounts have been spent from the endowment funds.

Note J – 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, 2012 and 2011, respectively, including $41 per unit occupied, per month for the year ended December 31, 2012 and 2011, respectively. A summary of these balances and transactions follows:

	2012	2011
Related party receivable	$22,770	$34,902
Management fees income and expense reimbursement	$ 2,870	$ 2,296

Note K – 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 July 1, 2010 to December 31, 2012, in the amount of $115,269. The second grant in the amount of $115,237 is for the period July 1, 2011 to June 30, 2012. The final grant in the amount of $116,346 is for the period July 1, 2012 to June 30, 2013.

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

	2012	2011
Covenant House	$81,770	$ 73,420

Total revenues from the above grants for the years ended December 31, 2012 and 2011 was $107,988 and $153,532, respectively.

Note L – 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, 2012 and 2011 was $23,342 and $21,827, respectively. Future minimum rental payments to be received total $1,582 for 2013.

Note M – Subsequent Events

The Organization's management has evaluated events and transactions occurring after December 31, 2012 through May 8, 2013, 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

Herman & Cormany
Certified Public Accountants, A.C.
Accountants & Consultants

Independent Auditors' Report on Additional Information

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

We have audited the financial statements of Covenant House, Inc., as of and for the year ended December 31, 2012, and have issued our report thereon dated May 8, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of nonfederal awards is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Herman & Cormany

Charleston, WV
May 8, 2013

1031 Quarrier Street, Suite 511 • Charleston, WV 25301-2397 • (304) 345-2320 • (304) 345-2325 fax
www.herman-cormanycpas.com

Covenant House, Inc.

Schedule of Expenditures of Nonfederal Awards

For the Year Ended December 31, 2012

State Grantor/Program	Agreement Number	Expenditures Paid
West Virginia Department of Health and Human Resources State Budget Aids	G130072	$26,135
West Virginia Department of Health and Human Resources State Budget Aids	G120054	$34,502
West Virginia Department of Health and Human Resources LGBT	G130222	$22,484
West Virginia Department of Health and Human Resources LGBT	G120213	$15,522
West Virginia Department of Health and Human Resources African American Smoking Cessation	G130223	$ 5,125

See independent auditors' report on additional information.

Herman & Cormany

Certified Public Accountants, A.C.

Accountants & Consultants

Independent Auditors' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Covenant House, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Covenant House, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Covenant House, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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www.herman-cormanycpas.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covenant House, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hleman & Conway

Charleston, West Virginia
May 8, 2013

DHHR - Finance

SEP 19 2013

Date Received

Covenant House, Inc.

Summary Schedule of Prior Year Audit Findings

For the Year Ended December 31, 2012

SIGNIFICANT DEFICIENCY

2011-1 Housing Opportunities for People with AIDS (HOPWA)

Condition: Invoices and 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.

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

Current Status: Management initiated internal control policies for reviewing and approving invoices, which detected the billing errors in 2012. The condition is no longer considered to be a deficiency at December 31, 2012.

Covenant House
Helping people in need since 1981

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Corrective Action Plan
September 26, 2012

State of West Virginia
Governor's Office of Economic Opportunity
700 Washington Street, E., 4th 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

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

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 19 2012
Date Received