



COVENANT HOUSE ALASKA

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board of Directors
Covenant House Alaska:

We have audited the accompanying statement of financial position of Covenant House Alaska as of June 30, 2009 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Covenant House Alaska's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Covenant House Alaska's 2008 financial statement and, in the report issued by other auditors dated April 14, 2009 they expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Covenant House Alaska's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Alaska as of June 30, 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued our report dated November 3, 2009, on our consideration of Covenant House Alaska'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 report 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 read in conjunction with this report in assessing the results of our audit.

KPMG LLP

November 3, 2009

COVENANT HOUSE ALASKA

Statement of Financial Position

June 30, 2009

(with summarized financial information for the year ended June 30, 2008)

Assets	2009	2008
Cash and cash equivalents	\$ 493,130	273,109
Certificates of deposit	200,000	408,751
Food inventory, at cost	10,678	13,369
Due from affiliates	—	3,574
Grants receivable	960,187	762,755
Other receivables	99,498	116,064
Prepaid expenses	2,652	10,397
Total current assets	<u>1,766,145</u>	<u>1,588,019</u>
Property, equipment, and building improvements, net (note 3)	<u>6,493,655</u>	<u>5,087,050</u>
Total assets	<u><u>\$ 8,259,800</u></u>	<u><u>6,675,069</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 337,611	308,809
Accrued payroll and related liabilities	80,240	51,315
Due to affiliates	7,909	—
Deferred revenue	1,286	9,412
Total current liabilities	<u>427,046</u>	<u>369,536</u>
Net assets:		
Unrestricted:		
Undesignated	1,242,500	1,112,819
Investment in property, equipment and building improvements	<u>6,493,655</u>	<u>5,087,050</u>
Total unrestricted	<u>7,736,155</u>	<u>6,199,869</u>
Temporarily restricted (note 7)	<u>96,599</u>	<u>105,664</u>
Total net assets	<u>7,832,754</u>	<u>6,305,533</u>
Commitments (notes 4, 5, and 8)	<u>—</u>	<u>—</u>
Total liabilities and net assets	<u><u>\$ 8,259,800</u></u>	<u><u>6,675,069</u></u>

See accompanying notes to financial statements.

COVENANT HOUSE ALASKA

Statement of Activities

Year ended June 30, 2009

(with summarized financial information for the year ended June 30, 2008)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Totals</u>	
			<u>2009</u>	<u>2008</u>
Unrestricted public support, revenues and gains:				
Public support:				
Support from Covenant House (note 1)	\$ 910,580	—	910,580	854,519
Contributions (note 2)	679,332	120,339	799,671	859,140
Special events revenue	\$ 604,087			
Less direct benefit to donors	<u>(255,591)</u>	—	348,496	447,080
Total public support	<u>1,938,408</u>	<u>120,339</u>	<u>2,058,747</u>	<u>2,160,739</u>
Revenue and gains:				
Grant income	1,620,097	1,651,252	3,271,349	1,352,124
Interest income	8,860	—	8,860	28,027
Other income	<u>61,055</u>	—	<u>61,055</u>	<u>14,108</u>
Total revenue and gains	<u>1,690,012</u>	<u>1,651,252</u>	<u>3,341,264</u>	<u>1,394,259</u>
Net assets released from restrictions (note 6)	<u>1,780,656</u>	<u>(1,780,656)</u>	—	—
Total public support, revenue and gains	<u>5,409,076</u>	<u>(9,065)</u>	<u>5,400,011</u>	<u>3,554,998</u>
Expenses:				
Program services:				
Shelter and crisis care	1,742,848	—	1,742,848	1,522,495
Outreach	76,741	—	76,741	63,855
Mother/child	269,407	—	269,407	240,247
Medical	84,650	—	84,650	81,197
Youth resource center and job development	444,798	—	444,798	403,708
Rights of passage	<u>629,694</u>	—	<u>629,694</u>	<u>557,519</u>
Total program services	<u>3,248,138</u>	—	<u>3,248,138</u>	<u>2,869,021</u>
Supporting services:				
Management and general	302,574	—	302,574	285,981
Fundraising and special events	303,198	—	303,198	348,493
Other expenses	<u>18,880</u>	—	<u>18,880</u>	—
Total supporting services	<u>624,652</u>	—	<u>624,652</u>	<u>634,474</u>
Total expenses	<u>3,872,790</u>	—	<u>3,872,790</u>	<u>3,503,495</u>
Change in net assets	1,536,286	(9,065)	1,527,221	51,503
Net assets at beginning of year	<u>6,199,869</u>	<u>105,664</u>	<u>6,305,533</u>	<u>6,254,030</u>
Net assets at end of year	\$ <u>7,736,155</u>	<u>96,599</u>	<u>7,832,754</u>	<u>6,305,533</u>

See accompanying notes to financial statements.

COVENANT HOUSE ALASKA

Statement of Functional Expenses

Year ended June 30, 2009

(with summarized financial information for the year ended June 30, 2008)

	Program expenses					
	Shelter and crisis care	Outreach	Mother/ child	Medical	Community service center	Rights of passage
Salaries and wages	\$ 898,820	53,762	160,286	58,128	219,584	343,719
Payroll taxes	77,958	4,684	14,376	4,620	19,197	29,423
Employee benefits	296,093	10,190	46,578	6,616	65,511	104,520
Total salaries and related expenses	<u>1,272,871</u>	<u>68,636</u>	<u>221,240</u>	<u>69,364</u>	<u>304,292</u>	<u>477,662</u>
Faith community costs	10,867	—	—	—	11,162	8,501
Accounting fees	—	—	—	—	—	—
Legal fees	—	—	—	—	—	—
Consulting fees	—	—	—	—	—	—
Supplies	31,148	457	3,394	1,766	18,805	2,557
Telephone	9,994	657	3,804	—	5,485	5,693
Postage & printing	1,091	—	26	—	220	90
Occupancy:						
Fuel and utilities	40,477	—	7,023	—	13,505	23,193
Repairs and maintenance	14,820	—	2,557	—	3,630	24,404
Equipment	12,511	—	—	—	4,606	3,301
Transportation	10,615	4,408	2,593	—	—	8,487
Specific assistance to individuals:						
Food	69,797	2,340	5,457	—	2,961	17,949
Medical	5,930	—	3,615	9,811	—	1,200
Contributed medical	32,419	218	—	—	—	—
Clothing, allowance and other	—	—	4,480	—	21,895	1,761
Contributed clothing and merchandise	13,357	—	—	—	—	—
Other purchased services	58,055	—	—	899	6,136	—
Dues, licenses and permits	265	—	—	1,134	15	35
Subscriptions and publications	70	—	204	179	—	237
Staff recruitment	3,974	—	359	—	1,290	743
Insurance	17,795	11	1,235	437	4,426	6,098
Contributed services	11,761	—	—	—	—	—
Miscellaneous	19,257	14	4,349	1,060	1,938	897
Bank charges and fees	—	—	—	—	—	—
Total functional expenses before depreciation and amortization	<u>1,637,074</u>	<u>76,741</u>	<u>260,336</u>	<u>84,650</u>	<u>400,366</u>	<u>582,808</u>
Depreciation and amortization	105,774	—	9,071	—	44,432	46,886
Total functional expenses	<u>1,742,848</u>	<u>76,741</u>	<u>269,407</u>	<u>84,650</u>	<u>444,798</u>	<u>629,694</u>
Less cost of direct benefit to donors	—	—	—	—	—	—
Total expenses reported by functions on the statement of activities	<u>\$ 1,742,848</u>	<u>76,741</u>	<u>269,407</u>	<u>84,650</u>	<u>444,798</u>	<u>629,694</u>

See accompanying notes to financial statements.

Supporting services

Program total	Management and general	Fund raising	Direct cost of Special events	Direct benefit to donors	Parking lot expenses	Supporting services total	Totals	
							2009	2008
1,734,299	160,557	124,337	—	—	—	284,894	2,019,193	1,836,914
150,258	13,192	10,096	—	—	—	23,288	173,546	167,309
529,508	43,665	33,377	—	—	—	77,042	606,550	428,964
2,414,065	217,414	167,810	—	—	—	385,224	2,799,289	2,433,187
30,530	—	—	—	—	—	—	30,530	24,619
—	19,080	—	—	—	—	19,080	19,080	42,190
—	2,891	—	—	—	—	2,891	2,891	848
—	862	—	—	—	—	862	862	—
58,127	2,785	1,850	11,478	226,786	—	242,899	301,026	336,951
25,633	1,808	1,265	—	—	—	3,073	28,706	33,427
1,427	3,993	7,888	8,889	—	—	20,770	22,197	119,734
84,198	—	—	—	—	—	—	84,198	67,274
45,411	1,540	3,610	—	—	—	5,150	50,561	25,813
20,418	—	3,084	—	—	—	3,084	23,502	31,301
26,103	12,735	10	860	—	—	13,605	39,708	51,667
98,504	—	—	2,408	28,805	—	31,213	129,717	121,592
20,556	—	—	—	—	—	—	20,556	42,177
32,637	—	—	—	—	—	—	32,637	—
28,136	—	—	—	—	—	—	28,136	45,520
13,357	—	—	—	—	—	—	13,357	15,403
65,090	—	45,483	24,578	—	—	70,061	135,151	83,502
1,449	2,437	1,935	275	—	—	4,647	6,096	7,073
690	183	249	—	—	—	432	1,122	892
6,366	14,619	479	—	—	—	15,098	21,464	5,105
30,002	8,637	811	—	—	—	9,448	39,450	40,968
11,761	—	—	—	—	—	—	11,761	10,716
27,515	—	6,480	—	—	18,880	25,360	52,875	64,555
—	8,579	11,330	—	—	—	19,909	19,909	9,450
3,041,975	297,563	252,284	48,488	255,591	18,880	872,806	3,914,781	3,613,964
206,163	5,011	2,426	—	—	—	7,437	213,600	187,820
3,248,138	302,574	254,710	48,488	255,591	18,880	880,243	4,128,381	3,801,784
—	—	—	—	255,591	—	255,591	255,591	298,289
3,248,138	302,574	254,710	48,488	—	18,880	624,652	3,872,790	3,503,495

COVENANT HOUSE ALASKA

Statements of Cash Flows

Years ended June 30, 2009

(with summarized financial information for the year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,527,221	51,503
Adjustment to reconcile change in net cash used in operating activities:		
Depreciation	213,600	187,820
Capital grant income	(1,651,252)	—
Change in operating assets and liabilities that provided (used) cash:		
Grants receivable	(197,432)	(446,796)
Other receivables	16,566	(8,246)
Due to/from affiliate	11,483	12,002
Prepaid expense	10,436	12,590
Accounts payable and accrued liabilities	57,727	30,426
Deferred revenue	(8,126)	9,375
Net cash used in operating activities	<u>(19,777)</u>	<u>(151,326)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,620,205)	(200,965)
Purchase of certificates of deposit	(200,000)	(207,217)
Maturities of certificates of deposit	408,751	—
Net cash used in investing activities	<u>(1,411,454)</u>	<u>(408,182)</u>
Cash flows from financing activities:		
Capital grant income	<u>1,651,252</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents	220,021	(559,508)
Cash and cash equivalents at beginning of year	<u>273,109</u>	<u>832,617</u>
Cash and cash equivalents at end of year	<u>\$ 493,130</u>	<u>273,109</u>

See accompanying notes to financial statements.

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2009

(1) History and Summary of Significant Accounting Policies

(a) History

Covenant House Alaska (Agency), a not-for-profit organization incorporated in 1988, operates a facility to provide shelter and support services to homeless or runaway youths ages thirteen to twenty. The facility opened for service in November 1988.

Covenant House (Parent), a New York Corporation, is the national organization with which Covenant House Alaska is affiliated. Covenant House provides financial support as well as management and organizational support for its affiliated organizations. Covenant House conducts fund-raising activities for its own programs and the programs of its affiliates for which a fee is charged. Contributions received from the Parent includes contributions received from individuals, corporations and foundations as a result of fundraising activities conducted by the Parent on behalf of the Agency and other Covenant House affiliates. It also includes a subsidy from the Parent to help support the program activities of the Agency.

Contributions and promises to give received by the Parent totaled approximately \$55.9 million for the fiscal year ended June 30, 2009. Contributions received by the Parent are generally not specifically restricted by donors to specific affiliates. Contributions received by the Parent and allocated to affiliates, based on the Parent's policy in effect at the time, approximated \$32.3 million for the fiscal year ended June 30, 2009. In 2009, the Agency received \$910,580 in contributions from the Parent.

(b) Basis of Presentation

The financial statements are presented on an accrual basis of accounting. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Agency and changes therein are reported as follows:

To ensure compliance with restrictions placed on the resources available to the Agency, the Agency's accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting into funds established according to their nature and purposes. In the financial statements, funds that have similar characteristics have been combined into two net asset categories: temporarily restricted and unrestricted. There are no permanently restricted net assets.

Temporarily restricted net assets contain time and donor-imposed restrictions that permit the Agency to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Agency.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

(c) Revenue Recognition

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

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2009

assets. Multi-year pledges receivable are recorded at present value based on the expected collection date using an estimated discount rate. Conditional contributions and grants are recognized as revenue when the conditions on which they depend have been substantially met. The Agency also raises funds through special events, such as galas. Event revenues, net of related costs with a direct-benefit to donors, are recorded as unrestricted contributions since such funds can be used for general operations unless there are donor-imposed restrictions. Costs to generate restricted and unrestricted donations and grants are expensed as incurred.

Funds received under grants and contracts are recorded as revenue when the related services have been performed.

(d) *Temporarily Restricted Contributions*

The Agency records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. It is the Agency's policy to record temporarily restricted contributions received for which the related restrictions are met in the same accounting period in the unrestricted net asset class activity.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. Absent explicit donor restrictions on how long those long-lived assets must be maintained, the Agency reflects the expiration of the donor-imposed restriction when the donated or acquired long-lived assets have been placed in service, at which time temporarily restricted net assets are released from restrictions.

(e) *Contributed Services and Merchandise*

Contributed services are recognized as revenue if the services received, create or enhance nonfinancial assets, require specialized skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

(f) *Comparative Financial Information*

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or program expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2008 upon which the summarized information was derived.

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2009

(g) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect additions to, and deductions from, net assets. Actual results could differ from those estimates.

(h) Allowance for doubtful accounts

The Agency maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make required payments. Such allowances are based upon several factors including, but not limited to, historical experience and the financial condition of the donor. As of June 30, 2009, management considers all amounts to be collectible.

(i) Functional expense allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses, by function, have been allocated among program and supporting services classifications on the basis of square footage of office space occupied, salaries, and other bases determined by the management of the Agency.

(j) Property, Equipment, and Building Improvements

Property, equipment, and building improvements are recorded at cost or, if acquired by donation, at fair market value at the date of acquisition. Depreciation of property and equipment and building improvements is provided over the estimated useful lives of the assets using the straight-line method.

(k) Income Taxes

Covenant House Alaska is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code as communicated to the Agency in a letter from the Internal Revenue Service dated November 20, 1991. Therefore, it is exempt from federal and state income tax except for unrelated business taxable income.

(l) Food Inventories

Purchased inventories are stated at cost and donated inventories are stated at fair value as of the donation date.

(m) Cash and Cash Equivalents

Cash and cash equivalents consist of short-term unrestricted, highly liquid investments that are readily convertible to cash. For the purpose of the statements of cash flows, the Agency considers highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Agency maintains its cash with established commercial banks. At times, the cash balances exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash equivalents.

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2009

(n) **Reclassifications**

Certain reclassifications which have no effect on changes in net assets or net assets have been made to the 2008 summarized financial information to conform them to current year classifications.

(2) **Contributions**

(a) **Contributed Services**

Volunteers in the community provide approximately 5,024 hours of contributed services to the Agency. The value of these services performed and the expenses associated with these volunteers were approximately \$98,258 for the year ended June 30, 2009. The value of these services is not recorded in the accompanying financial statements.

(b) **Contributed Goods and Services**

The Agency received goods and services from unrelated organizations with a fair value of \$261,374 for the year ended June 30, 2009. These items are recorded in the accompanying financial statements.

(3) **Property, Equipment, and Building Improvements**

A summary of property, equipment, and building improvements is as follows:

	2009
Property	\$ 3,305,321
Equipment	996,904
Building improvements	586,724
Total	4,888,949
Less accumulated depreciation	1,718,293
Net depreciable assets	3,170,656
Construction in progress	1,508,320
Land	1,814,679
Property, equipment and building improvements, net	\$ 6,493,655

(4) **Debt Obligations**

Covenant House Alaska has an unsecured line of credit with Wells Fargo to borrow up to \$80,000. Interest is payable at the prime rate plus 2%. During fiscal year 2009, the line of credit was not accessed.

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2009

(5) Leases

The agency has operating leases for several vehicles and office equipment. The future minimum lease payments for these are as follows:

Year ending June 30:	
2010	\$ 25,779
2011	15,949
2012	<u>6,396</u>
	<u>\$ 48,124</u>

(6) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

The agency incurred expenses related to the following programs as required by the grantor as follows:

	<u>2009</u>
Time restrictions expired passage of specified time	105,664
Restricted for capital use	<u>1,674,992</u>
	<u>\$ 1,780,656</u>

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	<u>2009</u>
United way contributions for the subsequent year	\$ 96,599
	<u>\$ 96,599</u>

(8) Pension Plan

The Agency participates in a defined benefit pension plan (Plan) sponsored by Covenant House covering substantially all of the employees of Covenant House and its domestic affiliates. Benefits are generally based on years of service and final average salary. The Agency's contribution to the defined benefit pension plan was \$0 for the year ended June 30, 2009. Effective December 31, 2006, the Parent froze service credits in the Plan. Compensation increases will continue to apply within the plan structure for those participants who have exceeded certain thresholds of age and years of service to protect the benefits of older and longer tenured employees. Covenant House has further amended the plan effective August 1, 2009 to cease adjustments in the accrued benefit due to salary increases so that no further benefits will accrue under the plan after that date.

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2009

Covenant House adopted a new defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees were immediately eligible to enter the 403(b) savings plan. Covenant House matched 50 cents for every dollar contributed up to 6% of compensation. All full-time and part-time employees with benefits employed with Covenant House as of December 31, 2006 were eligible to receive the employer match. Per diem employees who worked more than 1,000 hours during the year were also eligible for the match. In addition, Covenant House added significant employer contributions to the retirement account for all employees who work 1,000 hours in a year. The rate of contribution (percent of compensation) is based upon points. Points equal the sum of age and years of service. The employer contribution percentage ranges are from 1% to 9% based on points. Employer contributions for the Savings and Retirement Account will be 100% vested after three years of service. Total expense related to the 403(b) plan was \$85,008 for the year ended June 30, 2009. The employer match contribution to the 403(b) plan has been suspended for fiscal 2010. As of the report date, no decision was reached on when the employer match portion will be resumed. The annual employer contribution to the 403(b) plan was not suspended and remains intact.

(9) Subsequent Events

In connection with the preparation of the financial statement the Covenant House evaluated subsequent events after the balance sheet date of June 30, 2009 through November 3, 2009, which was the date the financial statements were available to be issued.