



COVENANT HOUSE ALASKA

Financial Statements

June 30, 2007

(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, 2007 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 2006 financial statement and, in our report dated August 11, 2006 we 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, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* we have also issued our report dated October 17, 2007, 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

October 17, 2007

COVENANT HOUSE ALASKA

Statement of Financial Position

June 30, 2007

(with summarized financial information for June 30, 2006)

Assets	2007	2006
Cash and cash equivalents	\$ 1,034,151	778,880
Food inventory, at cost	14,541	14,245
Due from affiliates	15,576	—
Grants receivable	315,959	212,529
Other receivables	107,818	121,742
Prepaid expenses	96,140	110,110
Contributed rent receivable (note 2)	—	751,841
Property, equipment, and leasehold improvements, net (note 3)	5,203,927	2,271,442
	<u>\$ 6,788,112</u>	<u>4,260,789</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 331,298	160,086
Accrued payroll and related liabilities	37,032	29,683
Due to affiliates	—	21,223
Deferred revenue	37	1,895
Liability for pension benefits (note 8)	174,301	—
Total liabilities	<u>542,668</u>	<u>212,887</u>
Net assets:		
Unrestricted:		
Undesignated	933,699	869,017
Investment in fixed assets	5,203,927	2,271,442
Total unrestricted	<u>6,137,626</u>	<u>3,140,459</u>
Temporarily restricted (note 7)	107,818	907,443
	<u>6,245,444</u>	<u>4,047,902</u>
Commitments (notes 4, 5, and 8)		
	<u>\$ 6,788,112</u>	<u>4,260,789</u>

See accompanying notes to financial statements.

COVENANT HOUSE ALASKA

Statement of Activities

Year ended June 30, 2007

(with summarized financial information for the year ended June 30, 2006)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Totals</u>	
			<u>2007</u>	<u>2006</u>
Public support and revenue:				
Public support:				
Support from Covenant House (note 1)	\$ 850,917	—	850,917	853,007
Contributions (note 2)	785,040	116,318	901,358	814,789
Contributed rent receivable elimination due to contribution of related property	—	(733,770)	(733,770)	—
Special events revenue	\$ 470,797			
Less direct benefit to donors	<u>216,824</u>	<u>—</u>	<u>253,973</u>	<u>271,980</u>
	<u>253,973</u>	<u>—</u>	<u>253,973</u>	<u>271,980</u>
Total public support	<u>1,889,930</u>	<u>(617,452)</u>	<u>1,272,478</u>	<u>1,939,776</u>
Revenue:				
Grant income	1,314,116	20,957	1,335,073	1,194,788
Interest income	54,336	—	54,336	67,947
Other income	<u>17,074</u>	<u>—</u>	<u>17,074</u>	<u>11,139</u>
Total revenue	<u>1,385,526</u>	<u>20,957</u>	<u>1,406,483</u>	<u>1,273,874</u>
Net assets released from restrictions (note 6)	<u>203,130</u>	<u>(203,130)</u>	<u>—</u>	<u>—</u>
Total public support and revenue	<u>3,478,586</u>	<u>(799,625)</u>	<u>2,678,961</u>	<u>3,213,650</u>
Expenses:				
Program services:				
Shelter and crisis care (note 2)	1,576,169	—	1,576,169	1,276,519
Mother/child	258,306	—	258,306	199,388
Medical	55,226	—	55,226	57,095
Youth resource center and job development	412,923	—	412,923	479,814
Rights of passage	<u>517,766</u>	<u>—</u>	<u>517,766</u>	<u>488,041</u>
Total program services	<u>2,820,390</u>	<u>—</u>	<u>2,820,390</u>	<u>2,500,857</u>
Supporting services:				
Management and general	243,699	—	243,699	249,326
Fundraising	<u>313,029</u>	<u>—</u>	<u>313,029</u>	<u>342,332</u>
Total supporting services	<u>556,728</u>	<u>—</u>	<u>556,728</u>	<u>591,658</u>
Total expenses	<u>3,377,118</u>	<u>—</u>	<u>3,377,118</u>	<u>3,092,515</u>
Change in net assets before the capital contribution and effect of adoption of SFAS No. 158	101,468	(799,625)	(698,157)	121,135
Capital contribution (note 2)	<u>3,070,000</u>	<u>—</u>	<u>3,070,000</u>	<u>—</u>
Change in net assets before effect of adoption of SFAS No. 158	3,171,468	(799,625)	2,371,843	121,135
Effect of adoption of recognition provisions of SFAS No. 158 (note 8)	<u>(174,301)</u>	<u>—</u>	<u>(174,301)</u>	<u>—</u>
Change in net assets	<u>2,997,167</u>	<u>(799,625)</u>	<u>2,197,542</u>	<u>121,135</u>
Net assets at beginning of year	<u>3,140,459</u>	<u>907,443</u>	<u>4,047,902</u>	<u>3,926,767</u>
Net assets at end of year	<u>\$ 6,137,626</u>	<u>107,818</u>	<u>6,245,444</u>	<u>4,047,902</u>

See accompanying notes to financial statements.

COVENANT HOUSE ALASKA

Statement of Functional Expenses

Year ended June 30, 2007

	Program expenses			
	Shelter and crisis care	Mother/ child	Medical	Youth resource center and job development
Salaries and wages	\$ 746,025	152,424	34,048	184,155
Payroll taxes	73,450	14,870	3,357	17,725
Employee benefits	228,845	42,783	3,511	64,034
Total salaries and related expenses	1,048,320	210,077	40,916	265,914
Accounting fees	—	—	—	—
Legal fees	—	—	—	—
Supplies	34,602	2,656	340	10,683
Telephone	8,700	3,536	439	4,601
Postage and printing	1,213	83	—	182
Occupancy:				
Fuel and utilities	33,344	5,710	—	13,179
Repairs and maintenance	14,843	1,740	—	5,063
Rent and other (note 2)	117,872	—	—	6,417
Equipment	17,200	—	—	871
Transportation	11,748	5,319	—	5,930
Specific assistance to individuals:				
Food	61,924	4,311	—	2,951
Medical	—	89	11,062	—
Clothing, allowance, and other	1,750	5,074	—	3,605
Contributed clothing and merchandise	28,615	—	—	—
Other purchased services	56,584	1,500	792	3,593
Dues, licenses, and permits	225	—	1,314	95
Subscriptions and publications	164	164	50	—
Staff recruitment	12,767	607	—	739
Insurance	12,798	866	313	3,175
Contributed services (note 2)	12,820	1,977	—	13,195
Miscellaneous	31,345	8,587	—	8,916
Bank charges and fees	—	—	—	—
Total functional expenses before depreciation and amortization	1,506,834	252,296	55,226	349,109
Depreciation and amortization	69,335	6,010	—	63,814
Less cost of direct benefit of special events	—	—	—	—
Total expenses reported by functions on the statement of activities	\$ <u>1,576,169</u>	<u>258,306</u>	<u>55,226</u>	<u>412,923</u>

See accompanying notes to financial statements.

Supporting services

Rights of passage	Program total	Management and general	Fund raising	Direct benefit to donors	Supporting services total	Totals	
						2007	2006
282,356	1,399,008	121,273	107,443	—	228,716	1,627,724	1,421,094
26,870	136,272	11,029	9,484	—	20,513	156,785	145,724
94,358	433,531	32,109	28,368	—	60,477	494,008	484,444
403,584	1,968,811	164,411	145,295	—	309,706	2,278,517	2,051,262
—	—	13,649	—	—	13,649	13,649	12,700
—	—	3,720	—	—	3,720	3,720	1,817
3,253	51,534	3,798	20,134	188,115	212,047	263,581	266,966
4,860	22,136	2,089	1,640	—	3,729	25,865	30,064
16	1,494	3,078	116,648	—	119,726	121,220	119,300
13,179	65,412	—	—	—	—	65,412	60,509
9,933	31,579	1,588	3,395	—	4,983	36,562	76,537
—	124,289	—	—	—	—	124,289	96,000
871	18,942	—	7,055	—	7,055	25,997	31,467
12,444	35,441	13,460	881	—	14,341	49,782	72,800
13,784	82,970	—	2,634	24,569	27,203	110,173	97,913
—	11,151	—	—	—	—	11,151	16,247
131	10,560	—	—	—	—	10,560	461
—	28,615	—	—	—	—	28,615	—
6,311	68,780	9,315	3,537	—	12,852	81,632	30,374
919	2,553	2,023	1,175	—	3,198	5,751	4,224
164	542	2,593	—	—	2,593	3,135	1,606
268	14,381	3,157	169	—	3,326	17,707	20,122
4,330	21,482	8,550	577	—	9,127	30,609	53,109
1,318	29,310	—	—	—	—	29,310	44,347
—	48,848	9,710	3,496	4,140	17,346	66,194	84,008
2,026	2,026	294	5,309	—	5,603	7,629	7,642
477,391	2,640,856	241,435	311,945	216,824	770,204	3,411,060	3,179,475
40,375	179,534	2,264	1,084	—	3,348	182,882	147,998
—	—	—	—	(216,824)	(216,824)	(216,824)	(234,958)
<u>517,766</u>	<u>2,820,390</u>	<u>243,699</u>	<u>313,029</u>	<u>—</u>	<u>556,728</u>	<u>3,377,118</u>	<u>3,092,515</u>

COVENANT HOUSE ALASKA

Statement of Cash Flows

Year ended June 30, 2007

(with summarized financial information for the year ended June 30, 2006)

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 2,197,542	121,135
Adjustment to reconcile change in net cash provided by operating activities:		
Effect of adoption of recognition provisions of SFAS No. 158	174,301	—
Depreciation and amortization	182,882	147,998
Donation of building	(3,070,000)	—
Contributed rent receivable eliminated due to contribution of related property	733,770	—
Contributed occupancy costs, net	18,071	40,534
Change in operating assets and liabilities that provided (used) cash:		
Grants receivable	(103,430)	(64,285)
Other receivables	13,924	8,514
Due to/from affiliate	(36,799)	50,155
Prepaid expense	13,970	21,166
Food inventory	(296)	(1,740)
Accounts payable and accrued expenses	171,212	(44,901)
Accrued payroll and related liabilities	7,349	10,503
Deferred revenue	(1,858)	1,895
Net cash provided by operating activities	300,638	290,974
Cash flows from investing activities:		
Purchase of property and equipment	(45,367)	(113,885)
Net increase in cash and cash equivalents	255,271	177,089
Cash and cash equivalents at beginning of year	778,880	601,791
Cash and cash equivalents at end of year	\$ 1,034,151	778,880
Supplemental schedule of noncash investing activities:		
Donation of building	\$ 3,070,000	—

See accompanying notes to financial statements.

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2007

(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, 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. The amount of financial support provided, the amount of the funds raised, and the amount of fund raising expenses allocated to the affiliates are based on terms mutually agreed upon by the parties involved. Covenant House allocated fundraising expenses to its affiliates totaling approximately \$9.1 million in 2007 for fundraising activities conducted by Covenant House on their behalf. In fiscal year 2007, Covenant House allocated fundraising expenses to Covenant House Alaska totaling approximately \$137,000.

Contributions received by Covenant House are generally not specifically restricted by donors to specific affiliates. Contributions received by Covenant House approximated \$23.3 million in fiscal year 2007. Of this amount, \$13.8 million was allocated to affiliates as support contributions based on Covenant House's policy, and used principally for program operations. Covenant House Alaska's allocation was approximately \$851,000.

(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:

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

Temporarily restricted resources are restricted by the donor, grantor, or other outside parties whose restrictions either expire by the passage of time or can be fulfilled and removed by actions of the Agency. Revenues associated with these resources are earned when the Agency undertakes the necessary action or other restrictions are met. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporary restricted net assets are classified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2007

(c) 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, 2006 upon which the summarized information was derived.

(d) Use of Estimates

Management of the Agency is required to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(e) Grants and Contracts

Funds received under grants and contracts are recorded as revenue when the related amounts are determined to be due from the grantor agencies. Management considers all amounts to be collectible.

(f) Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold 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 amortization of leasehold improvements are provided over the estimated useful lives of the assets using the straight-line method.

(g) 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 tax except for unrelated business taxable income, if any.

(h) Food Inventories

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

(i) Cash and Cash Equivalents

Cash and cash equivalents consist of short-term unrestricted, highly liquid investments that are readily convertible to cash.

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2007

(j) ***Statement of Position 98-2, Accounting for Costs of Activities of Not for Profit Organizations and State and Local Government Entities that Include Fund Raising (SOP 98-2)***

Under the requirements of SOP 98-2, the joint costs of certain informational mailings that contain an appeal for funds are allocated between the public education program and fund-raising. No total joint costs for the year ended June 30, 2007 were allocated to public education.

(2) **Contributions**

(a) ***Contributed Services***

Volunteers in the community provide approximately 4,054 hours of contributed services to the Agency. The value of these services performed and the expenses associated with these volunteers were approximately \$85,092 for the year ended June 30, 2007. 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 \$219,061 for the year ended June 30, 2007. These items are recorded in the accompanying financial statements.

(c) ***Program Facilities***

In December 2006, the facility in which the Agency operates was donated by an unrelated organization. The donated building has been capitalized at fair value as measured by its replacement cost at the date of the donation. The value was determined by a commercial estimator to be \$3,070,000. Prior to the donation, the building was owned by the unrelated organization and provided to the Agency for an annual rental of \$1. The contribution of this facility was recorded as contributions receivable in the accompanying financial statements at the fair value of the remaining contributed rent discounted at 7% for the remaining period of the lease agreement, approximately twenty years. The contribution was being amortized over the term of the agreement. For the year ended June 30, 2007, the related lease expense and contribution income recorded prior to the donation were \$40,000 and \$21,929, respectively.

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

A summary of property, equipment, and leasehold improvements at June 30, 2007 is as follows:

Land and property	\$	5,120,000
Equipment		887,438
Leasehold improvements		1,508,215
		<hr/>
		7,515,653
Less accumulated depreciation and amortization		<hr/>
		2,311,726
	\$	<hr/> <hr/>
		5,203,927

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2007

(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 2007, the line of credit was not accessed.

(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:		
2008	\$	18,436
2009		9,429
2010		2,069
2011		2,069
Thereafter		—
	\$	<u>32,003</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 in 2007 as follows:

Shelter and crisis care	\$	105,592
Time restrictions expired passage of specified time		18,071
Restricted for capital use		79,467
	\$	<u>203,130</u>

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 consist of the following:

Shelter and crisis care:		
United Way contributions for the subsequent year	\$	<u>107,818</u>

COVENANT HOUSE ALASKA

Notes to Financial Statements

June 30, 2007

(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 is allocated an annual pension expense by Covenant House, which was \$817 for the year ended June 30, 2007. Separate participant data and related pension information for the Agency is not available. Effective December 31, 2006, Covenant House froze service credits in the Plan. Compensation increases will continue to apply within the plan structure for those participants who have at least 45 points (age plus years of service).

Effective June 30, 2007 the Agency and Covenant House implemented the recognition provisions of Statement of Financial Accounting Standards No. 158 *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* which requires the recognition of the funded status of its defined benefit pension plan as an asset or liability with the offset to unrestricted net assets. Upon adoption of SFAS No. 158, the Agency reduced unrestricted net assets in the amount of \$174,301 to record the previous unrecognized underfunded status of its allocated portion of the Plan, as calculated by Covenant House. As of June 30, 2007, the Agency's allocated portion of the Plan's projected benefit obligation is \$174,301 greater than its allocated portion of the plan assets which was recognized as a liability for pension benefits at year-end. Covenant House will continue to fund the Plan and the allocation of pension expense by Covenant House to the Agency is not expected to change.

In addition, Covenant House adopted a new defined contribution 403(b) savings and retirement plan, effective January 1, 2007. All employees are immediately eligible to enter the 403(b) savings plan. Covenant House will match 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 will immediately receive the employer match. Per diem employees who worked more than 1,000 hours in 2006 are also immediately eligible for the match. In addition, Covenant House will add 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 \$25,403 for the year ended June 30, 2007.