

Financial Statements and Report of Independent Certified Public Accountants

Covenant House Missouri

June 30, 2009 and 2008

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**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors
Covenant House Missouri

Audit • Tax • Advisory

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We have audited the accompanying statements of financial position of Covenant House Missouri as of June 30, 2009 and 2008, and the related statements of activities, 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 as established by the American Institute of Certified Public Accountants. 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 the Organization'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 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 Missouri as of June 30, 2009 and 2008, 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.

Grant Thornton LLP

Kansas City, Missouri
November 11, 2009

FINANCIAL STATEMENTS

Covenant House Missouri
STATEMENTS OF FINANCIAL POSITION
June 30,

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 435,534	\$ 384,636
Short-term investments	267,242	969,541
Grants receivable	83,340	269,115
Contributions receivable	25,000	50,000
Other receivables	23,015	23,424
Prepaid expenses	19,328	24,539
Property and equipment, net	4,798,839	4,993,501
Assets held for sale	468,094	468,094
Other assets	680	1,680
	\$ 6,121,072	\$ 7,184,530
LIABILITIES AND NET ASSETS		
Note payable to Parent	\$ 2,350,000	\$ 2,363,000
Accounts payable, accrued expenses, and refundable advances	164,289	455,856
Deferred revenue	4,495	20,385
Due to Parent	8,620	10,460
Other liabilities	116,201	109,644
Total liabilities	2,643,605	2,959,345
Net assets		
Unrestricted		
Undesignated	550,144	871,117
Investment in property and equipment	2,903,883	3,098,550
	3,454,027	3,969,667
Temporarily restricted	23,440	255,518
	3,477,467	4,225,185
	\$ 6,121,072	\$ 7,184,530

The accompanying notes are an integral part of these statements.

Covenant House Missouri
STATEMENT OF ACTIVITIES
Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions, revenues, and other support			
Contributions from individuals, corporations, and foundations	\$ 579,319	\$ -	\$ 579,319
Contributed services and merchandise	32,359	-	32,359
Government grants	344,306	-	344,306
Branding dollars from Parent	984,014	-	984,014
Special event revenue, net	113,931	-	113,931
Net assets released from restrictions	232,078	(232,078)	-
	<u>2,286,007</u>	<u>(232,078)</u>	<u>2,053,929</u>
Investment and other income			
Interest and dividends	20,347	-	20,347
Other income and gains	56,114	-	56,114
	<u>76,461</u>	<u>-</u>	<u>76,461</u>
Total contributions, revenues, and other income	2,362,468	(232,078)	2,130,390
Expenses			
Program services	2,361,126	-	2,361,126
Supporting services			
Management and general	516,982	-	516,982
	<u>516,982</u>	<u>-</u>	<u>516,982</u>
Total expenses	2,878,108	-	2,878,108
Change in net assets	(515,640)	(232,078)	(747,718)
Net assets, beginning of year	3,969,667	255,518	4,225,185
Net assets, end of year	<u>\$ 3,454,027</u>	<u>\$ 23,440</u>	<u>\$ 3,477,467</u>

The accompanying notes are an integral part of this statement.

Covenant House Missouri
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

	Unrestricted	Temporarily restricted	Total
Contributions, revenues, and other support			
Contributions from individuals, corporations, and foundations	\$ 426,343	\$ 41,173	\$ 467,516
Contributed services and merchandise	68,052	-	68,052
Government grants	50,000	607,547	657,547
Branding dollars from Parent	1,266,117	-	1,266,117
Special event revenue, net	178,728	-	178,728
Net assets released from restrictions	2,062,829	(2,062,829)	-
	4,052,069	(1,414,109)	2,637,960
Investment and other income			
Investment income			
Interest and dividends	54,568	9,354	63,922
Net realized losses	(61)	-	(61)
Other income and gains	47,166	-	47,166
	101,673	9,354	111,027
Total contributions, revenues, and other income	4,153,742	(1,404,755)	2,748,987
Expenses			
Program services	1,741,908	-	1,741,908
Supporting services			
Management and general	526,654	-	526,654
Fund raising	183,083	-	183,083
	709,737	-	709,737
Total expenses	2,451,645	-	2,451,645
Change in net assets	1,702,097	(1,404,755)	297,342
Net assets, beginning of year	2,267,570	1,660,273	3,927,843
Net assets, end of year	\$ 3,969,667	\$ 255,518	\$ 4,225,185

The accompanying notes are an integral part of this statement.

Covenant House Missouri

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2009

	Program services			Rights of Passage	Total program services	Supporting services Management and general	Cost of direct benefits to donors	Total
	Shelter and Crisis Care	Outreach	Community Service Center					
Salaries and wages	\$ 513,260	\$ 94,543	\$ 378,172	\$ 412,359	\$ 1,398,334	\$ 137,452	\$ -	\$ 1,535,786
Payroll taxes	39,218	7,268	28,892	31,345	106,723	10,496	-	117,219
Employee benefits	54,887	11,084	44,147	45,851	155,969	21,855	-	177,824
	607,365	112,895	451,211	489,555	1,661,026	169,803	-	1,830,829
Accounting fees	1,705	314	1,256	1,370	4,645	457	-	5,102
Legal fees	-	-	184	-	184	4,239	-	4,423
Consulting fees	10,181	7,390	10,930	9,403	37,904	3,632	-	41,536
Supplies	5,433	815	7,285	6,204	19,737	1,003	-	20,740
Telephone	4,914	839	7,766	7,411	20,930	1,863	-	22,793
Postage and printing	6,802	8,225	8,140	7,097	30,264	2,624	-	32,888
Occupancy	17,853	1,516	40,937	31,689	91,995	16,372	-	108,367
Fuel and utilities	5,522	2,234	8,629	5,283	21,668	5,027	-	26,695
Repairs and maintenance	1,472	-	-	56	1,528	3,510	-	5,038
Rent and taxes	6,347	192	10,630	12,406	29,575	11,131	-	40,706
Equipment	597	4,303	5,292	2,189	12,381	805	-	13,186
Transportation	16,237	257	16,809	8,019	41,322	-	-	41,322
Specific assistance to individuals	1,409	-	249	163	1,821	-	-	1,821
Food	9,821	-	69,274	9,181	88,276	-	-	88,276
Medical	13,888	-	3,492	12,729	30,109	-	-	30,109
Clothing, allowance, and other	30,536	556	26,143	30,234	87,469	11,643	-	99,112
Contributed clothing and merchandise	10,028	3,976	6,192	9,246	29,442	2,904	98,830	131,176
Temporary help	1,445	-	1,550	1,594	4,589	808	-	5,397
Other purchased services	-	-	-	-	-	1,158	-	1,158
Dues, licenses, and permits	-	-	888	905	1,793	762	-	2,555
Subscriptions and publications	21,999	6,298	16,933	18,214	63,444	5,154	-	68,598
Staff recruitment	-	-	-	-	-	2,250	-	2,250
Insurance	3,404	3,227	3,390	3,882	13,903	4,290	-	18,193
Contributed services	-	-	-	-	-	6,267	-	6,267
Miscellaneous	-	-	-	-	-	49,043	-	49,043
Bank charges and fees	169,593	40,142	245,969	177,275	632,979	134,942	98,830	866,751
Interest	15,905	395	40,943	9,878	67,121	212,237	-	279,358
Depreciation and amortization	792,863	153,432	738,123	676,708	2,361,126	516,982	98,830	2,976,938
Total functional expenses	-	-	-	-	-	-	(98,830)	(98,830)
Less direct benefit-to-donor costs	-	-	-	-	-	-	-	-
Total expenses reported by function on statement of activities	\$ 792,863	\$ 153,432	\$ 738,123	\$ 676,708	\$ 2,361,126	\$ 516,982	\$ -	\$ 2,878,108

The accompanying notes are an integral part of this statement.

Covenant House Missouri

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2008

	Program services			Rights of Passage	Total program services	Supporting services		Cost of direct benefits to donors	Total
	Shelter and Crisis Care	Outreach	Community Service Center			Management and general	Development		
Salaries and wages	\$ 36,483	\$ 78,395	\$ 317,551	\$ 450,709	\$ 883,138	\$ 205,556	\$ -	\$ -	\$ 1,088,694
Payroll taxes	2,738	5,708	22,830	34,365	65,641	18,149	-	-	83,790
Employee benefits	25,168	14,794	58,812	25,328	124,102	33,505	-	-	157,607
	64,389	98,897	399,193	510,402	1,072,881	257,210	-	-	1,330,091
Accounting fees	1,164	2,810	11,240	16,728	31,942	8,934	-	-	40,876
Legal fees	-	-	-	-	-	28,715	-	-	28,715
Consulting fees	5,940	1,873	7,479	6,729	22,021	48,661	4,357	-	75,039
Supplies	3,676	1,010	13,394	8,377	26,457	16,127	-	-	42,584
Telephone	750	1,154	14,277	21,825	38,006	13,001	-	-	51,007
Postage and printing	5,464	368	8,022	15,447	29,301	11,704	-	7,272	209,152
Occupancy	-	-	-	-	-	-	-	-	-
Fuel and utilities	9,090	-	45,571	26,421	81,082	3,329	-	-	84,411
Repairs and maintenance	1,809	129	5,992	5,379	13,309	2,843	-	-	16,152
Rent and taxes	-	-	1,487	56	1,543	25,570	-	-	27,113
Equipment	1,322	47	4,330	3,899	9,598	2,059	-	-	11,657
Transportation	698	2,591	1,740	3,325	8,354	426	-	-	8,780
Specific assistance to individuals	-	-	-	-	-	-	-	-	-
Food	6,415	745	8,311	11,068	26,539	-	-	-	26,539
Medical	147	-	-	273	420	-	-	-	420
Clothing, allowance, and other	11,691	100	40,816	13,126	65,733	-	-	-	65,733
Contributed clothing and merchandise	928	-	17,005	12,285	30,218	-	-	-	30,218
Temporary help	5,172	2,700	18,702	12,160	38,734	5,697	-	-	44,431
Other purchased services	7,715	2,521	15,360	23,744	49,340	6,281	17,851	-	217,183
Dues, licenses, and permits	643	-	1,326	1,488	3,457	3,140	-	-	6,597
Subscriptions and publications	86	-	111	249	446	304	-	-	750
Staff recruitment	888	-	2,491	1,393	4,772	2,741	-	-	7,513
Insurance	909	3,587	14,348	20,750	39,594	11,403	-	-	50,997
Contributed services	-	-	-	-	-	-	-	-	-
Miscellaneous	3,781	114	4,157	4,249	12,301	6,685	3,948	-	22,914
Bank charges and fees	-	-	-	-	-	6,278	-	-	6,278
Interest	-	-	-	-	-	33,181	-	-	33,181
Depreciation and amortization	68,288	19,749	236,159	208,971	533,167	237,079	183,083	154,931	1,108,260
Total functional expenses	30,489	2,835	63,393	39,143	135,860	32,365	-	-	168,225
Less direct benefit-to-donor costs	163,166	121,481	698,745	758,516	1,741,908	526,654	183,083	154,931	2,606,576
Total expenses reported by function on statement of activities	\$ 163,166	\$ 121,481	\$ 698,745	\$ 758,516	\$ 1,741,908	\$ 526,654	\$ 183,083	\$ -	\$ 2,451,645

The accompanying notes are an integral part of this statement.

Covenant House Missouri
STATEMENTS OF CASH FLOWS
Year ended June 30,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ (747,718)	\$ 297,342
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Accretion expense	6,557	6,187
Contributions restricted for building renovations and fixed asset acquisitions	-	(41,173)
Depreciation and amortization	279,358	168,225
Changes in operating assets and liabilities		
Contributions receivable and other receivables	25,409	11,833
Grants receivable	185,775	(213,115)
Due to Parent	(1,840)	587,688
Prepaid expenses and other assets	6,211	(4,491)
Accounts payable, accrued expenses, refundable advances, and deferred revenue	<u>(307,457)</u>	<u>363,168</u>
Net cash provided by (used in) operating activities	<u>(553,705)</u>	<u>1,175,664</u>
Cash flows from investing activities		
Purchases of short-term investments	(1,337,794)	(2,534,764)
Maturing of short-term investments	2,040,093	2,252,584
Purchases of property and equipment	<u>(84,696)</u>	<u>(4,361,363)</u>
Net cash provided by (used in) investing activities	<u>617,603</u>	<u>(4,643,543)</u>
Cash flows from financing activities		
Proceeds from special-purpose grant restricted for building renovations and fixed asset acquisitions	-	41,173
Proceeds from note payable to Parent	-	2,363,000
Payment of note payable to Parent	<u>(13,000)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(13,000)</u>	<u>2,404,173</u>
Net change in cash and cash equivalents	50,898	(1,063,706)
Cash and cash equivalents, beginning of year	384,636	1,448,342
Cash and cash equivalents, end of year	<u>\$ 435,534</u>	<u>\$ 384,636</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 47,486	\$ 6,278

The accompanying notes are an integral part of these statements.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE A - ORGANIZATION

Covenant House Missouri (the Organization), a not-for-profit organization, is an operating affiliate of Covenant House (the Parent), a New York-based organization. The Organization provides shelter, residential services, community services, and outreach services to youth in the St. Louis metropolitan area. The Parent is the sole member of the Organization and is itself a private not-for-profit organization which, through its affiliates, provided shelter, food, clothing, counseling, medical attention, crisis intervention, public education, and other services to more than 67,261 runaway and homeless youths during the year ended June 30, 2009.

The Organization is affiliated with the following not-for-profit organizations through common control.

- Covenant House Alaska
- Covenant House California
- Covenant House Florida
- Covenant House Georgia
- Covenant House Michigan
- Covenant House New Jersey
- Covenant House New Orleans
- Covenant House Pennsylvania/Under 21
- Covenant House Texas
- Covenant House Washington, D.C.
- Covenant House Western Avenue
- Covenant House Testamentum
- Covenant House New York/Under 21
- Covenant International Foundation
- Covenant House Toronto
- Covenant House Vancouver
- Asociación Casa Alianza (Guatemala)
- Alianza de Honduras
- Casa Alianza Nicaragua
- Casa Alianza Internacional
- Fundación Casa Alianza México, I.A.P.

Asociación Casa Alianza (Guatemala) ceased operations in fiscal 2009 and is currently in the process of legal dissolution. A new not-for-profit organization will be established in Guatemala during fiscal 2010 and will be a member of Covenant International Foundation.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Net Asset Classification*

Resources available are classified into net asset categories established according to their nature and purpose as follows:

Unrestricted - consists of resources available for general support of the Organization's operations. Unrestricted net assets may be used at the discretion of the Organization's management and Board of Directors.

Investment in Property and Equipment - consists of the net book value of property and equipment less any related debt obligations.

Board-Designated - represents funds set aside at the discretion of the Board of Directors of the Organization for quasi-endowment purposes. Board approval is needed for use or borrowings from these invested funds.

Temporarily Restricted - represents amounts restricted by donors and grantors for specific activities of the Organization or to be used at some future date. The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use through either purpose or time restrictions. When a donor restriction expires (i.e., when a time restriction ends or a purpose restriction is fulfilled), temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the accompanying statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions and investment returns are met in the same accounting period, such amounts are reported in unrestricted net assets.

Permanently Restricted - consists of funds which are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments may be available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. *Revenue Recognition*

The Organization records as revenues the following types of contributions, when they are received unconditionally, at their fair values: cash; promises to give; and certain contributed merchandise, professional services, and facilities. Conditional contributions are recognized as revenues when the conditions on which they depend have been substantially met. The Organization's grants were government cost-reimbursed type grants and were considered to be conditional contributions. Contributions are recorded net of estimated uncollectible amounts.

As of June 30, 2007, the Organization had been approved for a number of government-reimbursable grants for which conditions stipulated in the grant agreements had not been met at that time. One federal government grant totaling \$200,000 was conditional upon yearly reporting by the Organization and available funding of the granting agency. Three government grants totaling approximately \$585,000 were conditional upon the Organization's use of eligible expenses for the renovation of one of its buildings. Accordingly, these grants were considered conditional at June 30, 2007. During the year ended June 30, 2008, all applicable conditions were met and the items noted above were taken into revenue.

Special event revenue represents funds raised from the Organization's annual Gala event, golf tournament, Cardinal Day, Turkey Trax, and bike event. Special event revenue is recognized when the event occurs.

3. *Temporarily Restricted Contributions*

It is the Organization's policy to record temporarily restricted contributions received and expended in the same accounting period as unrestricted net assets, except for contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment), which are reported as temporarily restricted. The Organization reflects the expiration of the donor-imposed restriction when long-lived assets have been placed in service, at which time temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. *Functional Expense Allocation*

Expenses which can be directly identified with the program or supporting services to which they relate are charged accordingly. Other expenses have been allocated among program and supporting service classifications on the basis of square footage of office space occupied, salaries, or other bases as deemed appropriate by the Organization's management.

5. *Cash and Cash Equivalents*

The Organization considers all highly liquid investments which have an original maturity of three months or less from the date of purchase and which are not subject to withdrawal restrictions to be cash equivalents.

6. *Short-Term Investments*

The Organization considers short-term investments to be those with an original maturity of more than 3 months and less than 12 months from the date of purchase. Short-term investments consist of certificates of deposit, money markets and various bonds.

7. *Property and Equipment, net*

Property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. Buildings, furniture, vehicles, and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the useful life of the asset or the related lease period. Property and equipment are depreciated or amortized over the following estimated useful lives:

Buildings	33 years
Building improvements	1-12 years
Furniture, vehicles, and equipment	1-12 years
Leasehold improvements	2-29 years

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. *Contributed Services and Merchandise*

Contributed services are recognized as revenues 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 they are 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 these criteria are not recognized as revenues and are not reported in the accompanying financial statements.

Contributions of clothing and merchandise are valued at their estimated fair market value at the date of receipt. These contributions are recognized as revenues when received and expensed from inventory when used.

9. *Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10. *Asset Retirement Obligation*

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, the Organization has recorded a liability for the future estimated costs of removing asbestos from buildings it owns. There are no assets legally restricted to fund this liability. The liability is recorded as other liabilities on the accompanying statements of financial position and is summarized as follows:

Balance, July 1, 2007	\$ 103,457
Accretion expense	6,187
Balance, June 30, 2008	<u>109,644</u>
Accretion expense	6,557
Balance, June 30, 2009	<u><u>\$ 116,201</u></u>

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

11. *Contributions*

Contributions, including unconditional promises to give, are reported as revenues in the period received. Unconditional promises to give greater than one year are discounted to reflect the present value of future cash flows at a risk-free rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any.

From time to time, the Organization will establish an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make required payments. Such allowance is based upon several factors including, but not limited to, historical experience and the financial condition of the donor. As of September 30, 2009 and 2008, no allowance was considered necessary.

12. *Recently Issued Accounting Pronouncements*

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, (Statement 157), which defines fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. Statement 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. Statement 157 was effective for fiscal years beginning after November 15, 2007. On July 1, 2008 the Organization adopted Statement 157 with no impact on its consolidated financial statements. See Note L.

On February 12, 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB 157* (FSP 157-2), which delayed the effective date to fiscal years beginning after November 15, 2008 for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Nonfinancial assets include fair value measurements associated with business acquisitions and impairment testing of tangible and intangible assets. The Organization expects that the provisions of FSP 157-2 will not have a material effect on its financial statements.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. *Subsequent Events*

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes principles and standards related to the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. SFAS 165 requires an entity to recognize, in the financial statements, subsequent events that provide additional information regarding conditions that existed at the balance sheet date. Subsequent events that provide information about conditions that did not exist at the balance sheet date shall not be recognized in the financial statements under SFAS 165. SFAS 165 is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted this standard on June 30, 2009. The adoption of SFAS 165 did not have a material effect on the Company's consolidated financial statements.

14. *Reclassifications*

Certain immaterial reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation. These reclassifications had no effect on the change in net assets.

NOTE C - COMPONENTS OF PROGRAM AND SUPPORTING SERVICES

1. *Shelter and Crisis Care*

The Shelter and Crisis Care program provides crisis care, shelter, food, clothing, counseling, and legal advice to abandoned and runaway youths through Covenant House programs in North and Central America.

2. *Outreach*

The Outreach program is an effort to reach youths who are on the streets for various reasons. Outreach vans cruise the city streets day and night searching for these youths and providing them with food, a trained counselor, and referrals to shelters and health and other services, if needed. Youths are also referred to the Organization's Community Service Center (CSC), where they receive ongoing counseling and other services.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE C - COMPONENTS OF PROGRAM AND SUPPORTING SERVICES - Continued

3. *Community Service Center*

The CSC program provides comprehensive services to youths in the residential programs and to other youths in the community who need support in order to complete their education, obtain employment, and maintain themselves in stable living situations.

4. *Rights of Passage*

The Rights of Passage program provides transitional living services to youths for up to 18 months, including individual counseling and help with completing their education and finding jobs and housing.

5. *Management and General*

Management and general services include administration, finance, and general support activities. Certain administrative costs that relate to specific programs have been allocated to those programs.

6. *Development*

Development services relate to the activities of the development program in raising general and specific contributions.

7. *Direct Benefit-to-Donor Costs*

Direct benefit-to-donor costs are costs incurred in conjunction with items such as meals and entertainment benefiting attendees of special events.

NOTE D - CONTRIBUTIONS RECEIVED FROM PARENT

In fiscal year 2009, contributions received from parent includes contributions received from individuals, corporations, and foundations as a result of fundraising activities conducted by the Parent on behalf of the Organization and other Covenant House affiliates. It also includes a subsidy or contribution from Parent to help support the program activities of the Organization. Covenant House Parent refers to this as “branding dollars” or “contributions received from Parent”.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE D - CONTRIBUTIONS RECEIVED FROM PARENT - Continued

In fiscal year 2008, contributions received from Parent includes only support or subsidy.

NOTE E - RELATED-PARTY TRANSACTIONS

The Parent provides financial support, as well as management and organizational support, for its affiliated organizations. It also conducts fundraising activities for its own programs and the programs of its affiliates. Contributions and promises to give totaled approximately \$55.9 million and \$30.3 million for the parent in the years ended June 30, 2009 and 2008, respectively. Contributions received by the Parent are generally not specifically restricted by donors to specific affiliates.

In fiscal 2009, the parent changed its policy of allocating contributions to its affiliates. It combined contributions received from individuals, corporations, and foundations plus a parent subsidy and appropriated "branding dollars" or "contributions received by parent" to each Covenant House affiliate. In fiscal 2009, the Organization received \$984,014 in contributions received from Parent.

Contributions received by the Parent and allocated to affiliates, based on the Parent's policy in effect at the time, approximated \$32.3 million and \$22.2 million in fiscal 2009 and 2008, respectively.

As a result of this change in policy, there were no fundraising expenses incurred by the Parent that were allocated to the affiliates in fiscal 2009. Fundraising expenses incurred by the Parent and allocated to affiliates totaled approximately \$8.8 million in the fiscal year ended 2008. An amount of \$183,083 was charged by the Parent for such fundraising and other activities carried out on behalf of the Organization; this amount was recorded as fundraising activities in the statements of activities.

Under the former policy of providing parent support and returning contributions based on locality, support from the Parent to all affiliates was approximately \$16.0 million in the year ended June 30, 2008; of this amount, the Organization received \$612,249.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE E - RELATED-PARTY TRANSACTIONS - Continued

As of the year ended June 30, 2009 and 2008, the Organization's promissory note with the Parent was \$2,350,000 and \$2,363,000, respectively. The note bears interest at the same rate as the Parent's line of credit with its bank (.74% at June 30, 2009). The note is unsecured and payable upon demand, with a maturity date of November 30, 2009. As of the year ended June 30, 2009, Management is in the process of refinancing the promissory note with a third party and has a signed commitment letter to refinance the promissory note.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30,

	<u>2009</u>	<u>2008</u>
Buildings	\$ 232,330	\$ 232,330
Building improvements	4,488,811	4,471,217
Furniture, vehicles, and equipment	494,536	435,116
Leasehold improvements	124,855	117,180
	<u>5,340,532</u>	<u>5,255,843</u>
Less accumulated depreciation and amortization	<u>(541,693)</u>	<u>(262,342)</u>
	<u>\$ 4,798,839</u>	<u>\$ 4,993,501</u>

Depreciation and amortization expense amounted to \$279,358 and \$168,225 for the years ended June 30, 2009 and 2008, respectively.

During the year ended June 30, 2008, the Organization entered into a marketing agreement to sell certain buildings that are no longer in use. The related net assets totaling \$468,094 have been classified as assets held for sale in the Organization's statement of financial position at June 30, 2009 and 2008 and are no longer being depreciated. The net assets are being valued at the lower of carrying value or fair value, less cost to sell.

NOTE G - LEASE AGREEMENTS

The Organization has entered into various noncancelable operating leases for facilities and equipment; these leases expire at various dates through March 2013. Rental expense under all operating leases amounted to \$15,145 and \$33,381 for the years ended June 30, 2009 and 2008, respectively.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE G - LEASE AGREEMENTS - Continued

Future minimum lease payments are as follows:

Year ending June 30,	Amount
2010	\$ 11,907
2011	7,181
2012	6,287
2013	4,890
	<u>\$ 30,265</u>

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets become available for use upon the expiration of certain purpose and time restrictions. Net assets were released from donor restrictions during 2009 by the Organization's expending of funds which satisfied donor-specified purpose and time restrictions as follows:

	June 30, 2008	2009 contributions	Released from restrictions in 2009	June 30, 2009
Purpose restrictions				
Acquisition of property and equipment	\$ 244,245	\$ -	\$ (220,805)	\$ 23,440
Time restrictions				
Rights of Passage Program (fiscal year 2008)	11,273	-	(11,273)	-
	<u>\$ 255,518</u>	<u>\$ -</u>	<u>\$ (232,078)</u>	<u>\$ 23,440</u>

In 2008, the Organization had a non-interest-bearing loan totaling \$237,500 from a local housing commission. If certain provisions of the agreement are met over a 30-year period, the loan amount will be forgiven in full. In reviewing the terms of the agreement, management believes it is unlikely that the Organization will fail to satisfy any of these provisions. Accordingly, the loan amount has been recorded as revenue and temporarily restricted net assets in the accompanying financial statements.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE I - EMPLOYEE BENEFIT PLANS

The Organization participates in a defined benefit pension plan (the Plan) sponsored by the Parent; the Plan covers substantially all employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and average salary, as defined under the Plan. The Organization is allocated an annual pension expense by the Parent; there was no expense for the years ended June 30, 2009 or 2008. Separate actuarial data for the employees of the Organization is not available. The Organization had no liability related to the Plan at June 30, 2009 or 2008.

Effective December 31, 2006, Covenant House froze service credits in the Plan. Compensation increases continued to apply within the plan structure for those participants who 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.

In addition, the Parent adopted a new defined contribution 403(b) savings and retirement plan [the 403(b) plan], effective January 1, 2007. Employees are immediately eligible to participate in the 403(b) plan. The Parent matches \$0.50 of every \$1.00 contributed up to 6% of compensation. All full-time and part-time employees who receive benefits and who were employed by the Organization as of December 31, 2006 receive the employer match immediately. Per diem employees who worked more than 1,000 hours in 2006 are also immediately eligible to receive the employer match. New hires as of January 1, 2007 and later receive the employer match once they have completed 1,000 hours of service. Employees who work at least 1,000 hours per year receive additional employer contributions from the Parent. These contributions range from 1% to 9% of employee compensation and are determined using a formula based on points, which equal the sum of age and years of service. Employer contributions to the 403(b) plan are 100% vested after employees have completed three years of service. Total expense related to the 403(b) plan was \$41,887 and \$35,663 for the years ended June 30, 2009 and 2008 respectively.

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.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE J - TAX-EXEMPT STATUS

The Organization is qualified as a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the IRC), and accordingly is not subject to federal income taxes on income related to its exempt purpose under Section 501(a) of the IRC. As a not-for-profit organization, the Organization is also exempt from Missouri income and sales taxes. The Organization has been classified as a publicly supported charitable organization under Section 509(a)(1) of the IRC and therefore qualifies for the maximum charitable contribution deduction for donors.

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 requires that all tax positions be evaluated using a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. Differences between positions taken in a tax return and amounts recognized in the financial statements are recorded as adjustments to income taxes payable or receivable, or adjustments to deferred income taxes, or both. FIN 48 also requires expanded disclosures at the end of each annual reporting period. In December 2008, the FASB issued FASB Staff Position No. 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (FIN 48-3). FIN 48-3 defers the effective date of FIN 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. Accordingly, the Organization adopted FIN 48-3 upon issuance and is electing to defer its adoption of FIN 48 until July 1, 2009. The Organization currently accounts for its uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for a single uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE K - GOVERNMENT GRANTS

In accordance with the terms of certain government grants, the records of the Organization are subject to audit for varying periods after the date of final payment of the grants. The Organization is liable for any disallowed costs; however, management believes that the amounts of disallowed costs, if any, would not be significant. Government grants amounted to \$344,306 and \$657,547 for the years ended June 30, 2009 and 2008, respectively.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts reported in the balance sheet for cash and cash equivalents, short-term investments, receivables, accounts payable, and note payable to Parent are short-term in nature and their carrying value approximates fair value.

As is disclosed in Note B12, the Organization adopted Statement 157 effective July 1, 2008. Statement 157 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Organization's assumptions (unobservable inputs). Where an asset or a liability falls within that hierarchy depends on the lowest-level input which is significant to the fair value measurements as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of three broad levels as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 inputs which are either directly or indirectly observable.
- Level 3 - Unobservable inputs developed using the Organization's estimates and assumptions, which reflect those which market participants would use.

The determination of where an asset or a liability falls in the hierarchy requires significant judgment. The Organization evaluates its hierarchy disclosures for each reporting period; based on various factors, it is possible that an asset or a liability may be classified differently from one reporting period to another. However, the Organization expects that changes in classifications between different levels will be rare.

Covenant House Missouri
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2009 and 2008

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The Company's financial assets measured at fair value on a recurring basis, subject to the disclosure requirements of Statement 157, were as follows at June 30, 2009:

	Fair value measurements at reporting date using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Certificates of deposit	\$ 101,711	\$ -	\$ -	\$ 101,711
Money Market	100,611	-	-	100,611
Bond Index Fund	64,920	-	-	64,920
	<u>\$ 267,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 267,242</u>

NOTE M - SUBSEQUENT EVENTS

The Company has evaluated events and transactions subsequent to the balance sheet date through November 11, 2009, the date these financial statements were issued.