

COVENANT TO CARE FOR CHILDREN, INC.

**REPORT ON AUDIT
JUNE 30, 2010 AND 2009**



Kircaldie, Randall & McNab LLC

Certified Public Accountants

81 Wolcott Hill Road
Wethersfield, Connecticut 06109-1242

Members
American Institute of
Certified Public Accountants

Offices
Wethersfield - North Haven

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Covenant to Care for Children, Inc.

We have audited the accompanying statements of financial position of COVENANT TO CARE FOR CHILDREN, INC. (a nonprofit organization) as of June 30, 2010 and 2009, 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 to Care for Children, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Accounting Standards*, we have also issued our report dated November 17, 2010, on our consideration of Covenant to Care for Children, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Kircaldie, Randall, & McNab L.L.C.

Wethersfield, Connecticut
November 17, 2010

COVENANT TO CARE FOR CHILDREN, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30,**

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 119,720	\$ 38,860
Pledges receivable, current portion	38,238	33,480
Prepaid expenses	2,069	7,227
Total Current Assets	<u>160,027</u>	<u>79,567</u>
Other Assets:		
Pledges receivable, net of current portion	0	12,500
Barter dollars available	0	279
Investments, restricted	40,221	34,947
Security deposits	3,323	3,473
Fixed assets, net	39,185	44,586
Total Other Assets	<u>82,729</u>	<u>95,785</u>
Total Assets	<u><u>242,756</u></u>	<u><u>175,352</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable	4,738	4,742
Accrued payroll	3,913	2,630
Accrued vacation	8,457	7,424
Deferred revenue	0	7,500
Total Current Liabilities	<u>17,108</u>	<u>22,296</u>
NET ASSETS		
Net Assets:		
Unrestricted:		
Undesignated	89,332	34,452
Board designated	25,724	11,982
	<u>115,056</u>	<u>46,434</u>
Temporarily restricted	76,812	72,842
Permanently restricted	33,780	33,780
	<u>33,780</u>	<u>33,780</u>
Total Net Assets	<u>225,648</u>	<u>153,056</u>
Total Liabilities and Net Assets	<u><u>\$ 242,756</u></u>	<u><u>\$ 175,352</u></u>

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

COVENANT TO CARE FOR CHILDREN, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2010			2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Donated goods and services	\$ 477,436	\$ 0	\$ 0	\$ 477,436	\$ 572,738	\$ 0	\$ 0	\$ 572,738
Government grants	267,215	0	0	267,215	307,977	0	0	307,977
Foundations	60,612	125,109	0	185,721	80,505	112,269	0	192,774
Religious community	34,448	0	0	34,448	40,079	0	0	40,079
Individuals	29,100	0	0	29,100	26,828	0	0	26,828
Special projects	0	3,560	0	3,560	0	6,816	0	6,816
Events	15,395	0	0	15,395	45,303	0	0	45,303
Miscellaneous	617	0	0	617	1,079	0	0	1,079
United Way	15,596	0	0	15,596	18,118	0	0	18,118
Support for endowment	0	0	0	0	100	0	0	100
Support for food pantry	0	0	0	0	0	10,250	0	10,250
Corporations	15,628	0	0	15,628	14,050	0	0	14,050
Interest and dividend income	1,583	0	0	1,583	2,130	0	0	2,130
Realized and Unrealized Gain (Loss)	4,532	0	0	4,532	(13,771)	0	0	(13,771)
Net assets released from restriction:								
Satisfaction of program restrictions	118,475	(118,475)	0	0	159,485	(159,485)	0	0
Total Support and Revenue	1,040,637	10,194	0	1,050,831	1,254,621	(30,150)	0	1,224,471
Expenses:								
Program services	898,978	6,224	0	905,202	1,191,263	5,114	0	1,196,377
Management and general	26,274	0	0	26,274	39,348	0	0	39,348
Fundraising	46,763	0	0	46,763	60,582	0	0	60,582
Total Expenses	972,015	6,224	0	978,239	1,291,193	5,114	0	1,296,307
Change in Net Assets	68,622	3,970	0	72,592	(36,572)	(35,264)	0	(71,836)
Net Assets, Beginning of Year	46,434	72,842	33,780	153,056	83,006	108,106	33,780	224,892
Net Assets, End of Year	\$ 115,056	\$ 76,812	\$ 33,780	\$ 225,648	\$ 46,434	\$ 72,842	\$ 33,780	\$ 153,056

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

COVENANT TO CARE FOR CHILDREN, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2010			2009				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses:								
Payroll	\$ 245,381	\$ 22,521	\$ 37,280	\$ 305,182	\$ 351,820	\$ 34,302	\$ 30,039	\$ 416,161
Payroll taxes	24,778	1,968	3,669	30,415	35,354	2,718	2,816	40,888
Employee benefits	13,060	1,785	802	15,647	30,081	2,328	0	32,409
Total Salaries and Related Expenses	283,219	26,274	41,751	351,244	417,255	39,348	32,855	489,458
Direct Assistance:								
Clothing and donated goods	477,436	0	0	477,436	572,738	0	0	572,738
Special projects	6,224	0	0	6,224	5,114	0	0	5,114
Food pantry	4,299	0	0	4,299	6,570	0	0	6,570
Total Direct Assistance	487,959	0	0	487,959	584,422	0	0	584,422
Operating Expenses:								
Rents	25,950	0	0	25,950	30,870	0	0	30,870
Foundation expenditures	24,443	0	0	24,443	34,858	0	0	34,858
Insurance	22,683	0	0	22,683	22,861	0	0	22,861
Travel	11,472	0	0	11,472	28,565	0	0	28,565
Professional fees	9,108	0	0	9,108	16,170	0	11,037	27,207
Depreciation	8,239	0	0	8,239	11,561	0	0	11,561
Postage	4,595	0	2,540	7,135	6,921	0	2,378	9,299
Telephone	7,122	0	0	7,122	7,331	0	0	7,331
Printing / copying	3,201	0	1,757	4,958	8,655	0	680	9,335
Miscellaneous	4,110	0	0	4,110	5,236	0	0	5,236
Office supply and expense	3,745	0	0	3,745	4,378	0	0	4,378
Training and meetings	2,896	0	0	2,896	3,383	0	0	3,383
Equipment rental	2,076	0	0	2,076	2,198	0	0	2,198
Dues and subscriptions	2,066	0	0	2,066	1,725	0	0	1,725
Payroll service	1,452	0	0	1,452	1,726	0	0	1,726
Maintenance and repairs	750	0	0	750	680	0	0	680
Event expenses	0	0	625	625	0	0	13,332	13,332
Volunteer recognition	116	0	0	116	82	0	0	82
Outside services	0	0	90	90	7,500	0	300	7,800
Total Operating Expenses	134,024	0	5,012	139,036	194,700	0	27,727	222,427
Total Expenses	\$ 905,202	\$ 26,274	\$ 46,763	\$ 978,239	\$ 1,196,377	\$ 39,348	\$ 60,582	\$ 1,296,307

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

COVENANT TO CARE FOR CHILDREN, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,**

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities:		
Increase (Decrease) in net assets	\$ 72,592	\$ (71,836)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
Depreciation	8,239	11,561
Decrease (Increase) in pledges receivable	7,742	7,531
Decrease (Increase) in other receivables	0	744
Decrease (Increase) in prepaid expenses	5,158	1,658
Decrease (Increase) in barter dollars	279	495
Increase (Decrease) in accounts payable	(4)	(4,500)
Increase (Decrease) in security deposits	150	0
Increase (Decrease) in accrued expenses	2,316	(21,015)
Increase (Decrease) in deferred revenue	(7,500)	0
Net Cash Provided By Operating Activities	<u>88,972</u>	<u>(75,362)</u>
Cash Flows From Investing Activities:		
Purchases of fixed assets	(2,838)	0
Realized and unrealized (gain) loss on investments	(4,532)	13,771
Investments purchased	(742)	(897)
Net Cash Used By Investing Activities	<u>(8,112)</u>	<u>12,874</u>
Increase (Decrease) In Cash And Equivalents	80,860	(62,488)
Cash And Cash Equivalents, Beginning	<u>38,860</u>	<u>101,348</u>
Cash And Cash Equivalents, Ending	<u>\$ 119,720</u>	<u>\$ 38,860</u>
Supplemental Disclosures:		
Donated goods received	\$ 437,751	\$ 572,738

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

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - Organization and Summary of Significant Accounting Policies:

Organization:

Covenant to Care for Children, Inc., (hereinafter the "Organization") is a nonprofit Connecticut corporation established to connect social workers and other professionals with faith communities throughout Connecticut, in order to provide programs, goods and services to abused, neglected and impoverished children and to the families working to provide them with safe, nurturing environments. Its goal is that children have the opportunity to become healthy and productive adults through recreational, educational and social activities, mentoring programs, foster parent recruitment and support, and child welfare awareness.

Financial Statement Presentation:

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Unrestricted

Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted

Net assets whose use by the Organization is subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. The change in temporarily restricted net assets is impacted primarily by gifts with time and donor constraints; such as restricted annual fund gifts, unconditional pledges and deferred giving instruments.

Permanently Restricted

Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Organization.

Cash and Cash Equivalents:

All cash instruments with a maturity date of three months or less are considered as cash equivalents. During the year the amount of cash in excess of F.D.I.C. insured limits varies as cash requirements fluctuate. At June 30, 2010 and 2009, there were no uninsured balances.

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 - Organization and Summary of Significant Accounting Policies (cont.):

Concentrations of Risk:

The Organization receives significant amounts of funding from the State of Connecticut, \$259,715 and \$277,977 for the years ended June 30, 2010 and 2009, respectively. Lack of such support would have a material effect on the financial statements and would impact the Organization's ability to continue as a going concern.

Income Taxes:

The Organization is a not-for-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. The Organization is a publicly supported organization. There was no unrelated business income for the years ended June 30, 2010 and 2009.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 support, revenue, and expenses during the reporting period. Actual results may differ from those estimates.

Contributed Services:

The Organization recognized contributed services for the years ended June 30, 2010 and 2009 in the amounts of \$7,540 and \$2,227, respectively. Donated services are valued by using appropriate average rates per hour for comparable services had they been purchased. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The Organization benefits from more than 50,000 volunteer hours per year.

COVENANT TO CARE FOR CHILDREN, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 1 - Organization and Summary of Significant Accounting Policies (cont.):

Donated Goods:

Donated goods consisting of food, clothing, and other donated items are valued according to Goodwill thrift shop valuation guides. Donated goods are used for activities as described in the Organization's nature of activities. The value of donated goods received for the years ended June 30, 2010 and 2009 were \$469,896 and \$570,511, respectively.

The Organization is a member of a barter organization. The Organization can trade donated goods it cannot use, to other companies and not-for-profit organizations for barter dollars which can be spent on other goods needed by the Organization. There is no expiration of barter dollars. The value of barter dollars available at June 30, 2010 and 2009 were \$0 and \$279, respectively.

Note 2 - Pledges Receivable:

Pledges receivable consists of the following for the fiscal years ended June 30, 2010 and 2009:

	2010	2009
Current:		
Foundations	\$ 38,238	\$ 23,480
Federal M3 Program	0	10,000
	38,238	33,480
Long-Term:		
Foundations	0	12,500
Total Pledges Receivable	\$ 38,238	\$ 45,980

Note 3 - Investments:

Restricted investments consist of the following at June 30, 2010 and 2009:

	2010		2009	
	FMV	Cost	FMV	Cost
Vanguard Asset Allocation Fund	\$ 40,221	\$ 43,636	\$ 34,947	\$ 42,893

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 3 – Investments (cont.):

The restrictive nature of the above investment is as follows:

The Organization has established endowment fund objectives to help facilitate its long-term financial stability by providing alternative funding sources. The principal portions of contributions received have been appropriately classified as permanently restricted. The investment earnings are classified as unrestricted-board designated, in accordance with the Organization's income distribution provisions.

Note 4 - Fixed Assets:

It is the Organization's policy to capitalize material amounts of office equipment. Lesser amounts are expensed. Purchased office equipment is capitalized at cost. Donations of office equipment are recorded at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is calculated using the straight-line method over the estimated life of the asset. Leasehold improvements are capitalized and depreciated over the life of the lease using the straight-line method.

The following is a summary of fixed assets, accumulated depreciation, and depreciation expenses charged to operations for the fiscal years ended June 30, 2010 and 2009:

	2010			2009		
	Basis	Accum. Deprec.	Deprec. Exp.	Basis	Accum. Deprec.	Deprec. Exp.
Office equipment	\$ 46,102	\$ 35,628	\$ 5,423	\$ 82,441	\$ 69,381	\$ 8,745
Leasehold	42,243	13,533	2,816	42,243	10,717	2,816
Fixed assets, net	\$ 88,345	\$ 49,161	\$ 8,239	\$ 124,684	\$ 80,098	\$ 11,561

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 5 - Unrestricted - Board Designated Net Assets:

Unrestricted – board designated net assets consist of interest income generated from the endowment fund that is reinvested in the endowment account as designated by the board.

Note 6 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of funds designated by donors for specific expenses. The following is a summary of temporarily restricted net assets:

	<u>2010</u>	<u>2009</u>
Hartford Foundation for Public Giving	\$ 38,216	\$ 23,910
Special Projects	17,833	22,902
Food Pantry	7,807	12,106
Ahearn Family Foundation	3,924	1,924
Prospect Fund	3,550	0
Hartford County Bar Foundation	2,000	0
Community Foundation of NW CT.	1,659	2,000
General Reinsurance	1,000	0
Hartford Wolfpack Foundation	822	2,000
Greater Hartford Auto Dealers	0	2,000
Mabel Hoffman Charitable Trust	0	1,000
Office of Policy & Management	0	5,000
	<u>\$ 76,812</u>	<u>\$ 72,842</u>

Note 7 - Permanently Restricted Net Assets:

Permanently restricted net assets consist of funds from donors designated for an endowment, which has been established to provide a supplemental income source.

Note 8 - Pension:

Eligible employees of the Organization may participate in a pension arrangement involving pretax salary reductions. Under the terms of the plan, the Organization has no pension liability or expense.

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 9 - Fair Values of Financial Instruments:

The Organization's financial instruments, none of which are held for trading purposes, include cash and investments. The organization estimates that the fair value of all financial instruments at June 30, 2010 and 2009 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the organization could realize in a current market exchange. The Organization has established a fair value hierarchy based on input levels. The Organization's financial instruments are considered Level 1 – Quoted Prices in Active Markets for Identical Assets.

Note 10 - Rents:

Rent consists of payments for office space in Bloomfield, Stratford and Waterbury. The Organization's Bloomfield office space has a lease, which is effective through November 30, 2010. Rental payments for the current period were \$24,150.

The Organization also had a lease for its Stratford location. The lease agreement was terminated as of September 30, 2009 concurrent with the Organizations permanent closing of that office site. The current year payments were \$1,200.

There was no lease agreement contract for the Waterbury office, but the Organization also permanently closed that office site as of September 30, 2009. Current year payments were \$600.

Future obligations under the Bloomfield lease agreement is as follows:

Fiscal Year Ended	June 30, 2011	10,062
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Note 11 – Working Capital Loan:

The Organization has an available line of credit in the amount of \$75,000 from the Greater Hartford Business Development Center. The line is available through May 31, 2011. The Organization did not utilize the line of credit during the year ended June 30, 2010 and no balance existed at that date.

Note 12 – Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through November 17, 2010, the date which the financial statements were available to be issued.



Kircaldie, Randall & McNab LLC

Certified Public Accountants

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Board of Directors
Covenant to Care for Children, Inc.

We have audited the financial statements of Covenant to Care for Children, Inc. (a nonprofit organization) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 17, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting:

In planning and performing our audits, we considered Covenant to Care for Children, Inc.'s internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Covenant to Care for Children, Inc. internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Covenant to Care for Children's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Covenant to Care for Children, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Covenant to Care for Children, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Covenant to Care for Children, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Covenant to Care for Children, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether Covenant to Care for Children, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and State of Connecticut awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kircaldie, Randall, & McNab L.L.C.

Wethersfield, Connecticut
November 17, 2010