

OFFICIAL
FILE COPY
DO NOT SEND OUT

(Xerox necessary
copies from this
copy and PLACE
BACK in FILE)

RECEIVED
LEGISLATIVE AUDITOR

MAY -4 AM 11:09

**Combined Financial Statements, Other Financial
Information and Audit Reports and Schedules
Related to Office of Management and
Budget Circular A-133**

Covenant House and Affiliates

Year ended June 30, 1999

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date MAY 17 2000

Covenant House and Affiliates

Combined Financial Statements, Other Financial Information and Audit Reports and Schedules Related to Office of Management and Budget Circular A-133

Year ended June 30, 1999

Contents

Report of Independent Auditors	1
Combined Financial Statements	
Combined Statement of Financial Position	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses.....	5
Combined Statement of Cash Flows.....	6
Notes to Combined Financial Statements.....	7
Other Financial Information	
Combined Schedule of Expenditures of Federal Awards.....	23
Note to Combined Schedule of Expenditures of Federal Awards.....	27
Schedule of State of New Jersey Assistance	28
Audit Reports and Schedules Related to Office of Management and Budget Circular A-133	
Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance with <i>Government Auditing Standards</i>	29
Report of Independent Auditors on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	31
Combined Schedule of Findings and Questioned Costs	33
Combined Schedule of Letters to Management	35

Report of Independent Auditors

Board of Directors
Covenant House

We have audited the accompanying combined statement of financial position of Covenant House and Affiliates (the "Organization") as of June 30, 1999, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of Covenant House Toronto which statements reflect total assets of \$10,405,455 as of June 30, 1999 and total contributions and revenue of \$8,578,563 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Covenant House Toronto, is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Covenant House and Affiliates at June 30, 1999, and the changes in its combined net assets and its combined cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 1999 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit and that of other auditors were made for the purpose of forming an opinion on the combined financial statements of the Organization for the year ended June 30, 1999 taken as a whole. The accompanying combined schedule of expenditures of federal awards and schedule of State of New Jersey assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of New Jersey and are not a required part of the financial statements. The information in those schedules has been subjected to the auditing procedures applied in the audit of the combined financial statements for the year ended June 30, 1999 and, in our opinion, based on our report and the report of other auditors, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

Ernst + Young LLP

October 14, 1999

Covenant House and Affiliates

Combined Statement of Financial Position

	June 30	
	1999	1998
Assets		
Cash and cash equivalents	\$ 16,428,999	\$ 14,758,737
Short-term investments (Note 7)	4,266,528	4,101,048
Short-term contributions receivable (Note 5)	2,794,856	2,777,430
Grants receivable (Note 6)	1,328,710	1,564,061
Other receivables	2,847,153	1,174,423
Inventory	293,587	542,182
Prepaid expenses (Note 16)	3,721,908	2,074,636
Property held for sale (Note 8)	4,310	806,297
Property, plant and equipment, net (Note 8)	61,803,169	57,609,529
Long-term contributions receivable (Notes 5 and 10)	3,529,200	3,155,749
Long-term investments (Notes 7 and 10)	61,052,804	52,250,735
Other assets	238,011	708,653
Total assets	\$ 158,309,235	\$ 141,523,480
Liabilities and net assets		
Accounts payable, accrued expenses and refundable advances	\$ 8,847,639	\$ 7,288,693
Annuities payable (Note 10)	2,454,861	2,046,565
Debt obligations	64,625	52,215
Total liabilities	11,367,125	9,387,473
Commitments and contingencies (Notes 6, 8, 18 and 19)		
Net assets:		
Unrestricted:		
Undesignated	18,591,275	18,263,380
Investment in property, plant and equipment	61,905,377	57,161,564
Board designated	52,877,612	44,911,878
Total unrestricted	133,374,264	120,336,822
Temporarily restricted (Note 12)	8,494,399	6,775,738
Permanently restricted (Note 13)	5,073,447	5,023,447
Total net assets	146,942,110	132,136,007
Total liabilities and net assets	\$ 158,309,235	\$ 141,523,480

See accompanying notes.

Covenant House and Affiliates

Combined Statement of Activities

Year ended June 30, 1999 with summarized financial information
for the year ended June 30, 1998

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				1999	1998
Contributions, revenue and reclassifications:					
Contributions:					
Contributions from individuals, foundations and corporations, including legacies and bequests of \$8,014,541 (\$5,853,194 in 1998)	\$ 89,808,011	\$2,201,784	\$ 50,000	\$ 92,059,795	\$ 83,597,120
Contributed services and merchandise	2,279,891			2,279,891	1,700,454
Government grants and contracts	8,750,619	74,497		8,825,116	7,756,399
Special events revenue	\$3,102,344				
Less direct benefit to donor costs	<u>687,174</u>				
Net special events income	2,415,170			2,415,170	2,129,127
Total contributions	103,253,691	2,276,281	50,000	105,579,972	95,183,100
Revenue:					
Investment income:					
Interest and dividends	3,061,811	83,386		3,145,197	2,937,980
Unrealized gains and losses	3,364,310			3,364,310	2,871,852
Net realized gains	452,394			452,394	956,706
Change in value of split interest agreements (including change in net unrealized (losses) gains of (\$42,778) in 1999 and \$203,474 in 1998, respectively)		29,244		29,244	138,542
Other income and gains	3,234,085	6,632		3,240,717	1,108,489
Total revenue	10,112,600	119,262	—	10,231,862	8,013,569
Total contributions and revenue	113,366,291	2,395,543	50,000	115,811,834	103,196,669
Reclassifications (Note 14):					
Net assets released from restrictions	676,882	(676,882)		—	—
Total contributions, revenue and reclassifications	114,043,173	1,718,661	50,000	115,811,834	103,196,669
Expenses (Notes 4, 15 and 16):					
Program services	71,250,808			71,250,808	63,969,282
Supporting services:					
Management and general	8,899,258			8,899,258	9,004,099
Fund-raising	20,818,610			20,818,610	18,250,917
Total supporting services	29,717,868	—	—	29,717,868	27,255,016
Total expenses	100,968,676			100,968,676	91,224,298
Current year translation adjustment (Note 11)	37,055			37,055	572,947
Total expenses and translation adjustment	101,005,731	—	—	101,005,731	91,797,245
Change in net assets	13,037,442	1,718,661	50,000	14,806,103	11,399,424
Net assets, beginning of year	120,336,822	6,775,738	5,023,447	132,136,007	120,736,583
Net assets, end of year	\$ 133,374,264	\$8,494,399	\$ 5,073,447	\$146,942,110	\$132,136,007

See accompanying notes.

Covenant House and Affiliates

Combined Statement of Functional Expenses

Year ended June 30, 1999 with summarized financial information
for the year ended June 30, 1998

	Program Services					Community Service Center
	Shelter and Crisis Care	Outreach	Mother/Child	Nineline	Medical	
Salaries and wages	\$ 15,942,259	\$ 1,713,928	\$ 2,632,786	\$ 1,430,034	\$ 1,417,941	\$ 5,681,138
Payroll taxes	1,474,144	160,416	243,757	129,260	123,020	482,597
Employee benefits (Note 16)	2,395,734	228,080	349,395	206,976	170,059	696,727
Total salaries and related expenses:	19,812,137	2,102,424	3,225,938	1,766,270	1,711,020	6,860,462
Faith Community costs (Note 15)	376,306	14	151,461	-	14,505	77,542
Accounting fees	982	982	-	-	-	2,902
Legal fees	34,918	11,907	2,623	4,763	720	5,361
Medical fees	148,140	2,786	107	1,988	434,635	3,051
Consulting fees	399,166	14,406	6,977	228,465	3,741	71,674
Supplies	696,034	72,536	86,862	23,855	61,615	137,614
Telephone	438,157	57,582	58,111	216,530	20,624	210,209
Postage and printing	117,015	27,467	7,940	137,668	10,746	51,608
Occupancy:						
Fuel and utilities	550,233	19,748	138,539	20,281	26,187	106,249
Repairs and maintenance	356,138	15,943	61,620	7,772	16,903	73,330
Contributed facilities	-	-	-	-	-	-
Rent and other	522,014	81,548	62,165	1,790	8,363	408,768
Equipment	523,189	88,137	51,910	36,047	23,910	234,701
Transportation	368,118	117,615	33,021	39,655	8,993	172,224
Specific assistance to individuals:						
Food	1,060,462	51,016	203,335	-	7,190	159,384
Medical	25,689	606	91	-	130,637	5,245
Contributed medical	5,828	-	-	-	474,988	333
Clothing, allowance and other	1,309,065	157,657	102,333	34	16,336	404,348
Contributed clothing and merchandise	422,703	-	139,785	-	36,794	113,925
Temporary help	128,536	3,006	10,330	66	9,950	14,160
Other purchased services	445,857	34,227	55,277	59,964	20,842	197,479
Dues, licenses and permits	22,052	5,247	3,039	8,492	2,585	10,458
Subscriptions and publications	17,876	3,805	2,039	5,631	3,511	10,102
Staff recruitment	69,383	6,164	8,736	-	5,366	49,751
Insurance	172,058	20,291	35,044	175	41,195	48,167
Contributed services	145,131	12,163	4,567	534,178	27,122	7,871
Miscellaneous	621,268	53,809	28,883	65,504	21,551	119,662
Bank charges and fees	460	14	29	-	-	484
Interest	20,878	2,415	-	175	13	2,340
Loss on foreign currency	-	-	-	-	-	-
Total functional expenses before depreciation and amortization	28,809,793	2,963,515	4,480,762	3,159,303	3,140,042	9,559,404
Depreciation and amortization	1,804,489	114,128	101,108	239,870	141,307	315,050
Total expenses	30,614,282	3,077,643	4,581,870	3,399,173	3,281,349	9,874,454
Less direct benefit to donor costs	-	-	-	-	-	-
Total expenses reported by function in the statement of activities	\$ 30,614,282	\$ 3,077,643	\$ 4,581,870	\$ 3,399,173	\$ 3,281,349	\$ 9,874,454

See accompanying notes.

Supporting Services

Public Education	Rights of Passage	Total	Management and General	Fund-Raising	Direct Benefit to Donor Costs	Total	Total 1999	Total 1998
\$ 1,005,589	\$ 5,410,442	\$ 35,234,117	\$ 4,414,309	\$ 3,765,853	\$ -	\$ 8,180,162	\$ 43,414,279	\$ 39,713,115
72,595	459,269	3,145,058	349,731	302,974	-	652,705	3,797,763	3,585,020
114,995	698,497	4,860,463	601,320	434,069	-	1,035,389	5,895,852	4,970,141
1,193,179	6,568,208	43,239,638	5,365,360	4,502,896	-	9,868,256	53,107,894	48,268,276
-	36,772	656,600	5,179	778	-	5,957	662,557	693,297
-	982	5,848	352,603	-	-	352,603	358,451	323,200
1,838	7,821	69,951	36,210	1,165	-	37,375	107,326	112,991
2,484	15,129	608,320	1,750	875	-	2,625	610,945	409,855
122,525	170,012	1,016,966	456,518	1,393,802	-	1,850,320	2,867,286	2,954,565
25,339	278,721	1,382,576	183,339	149,986	3,401	336,726	1,719,302	1,472,227
22,401	158,362	1,181,976	189,866	263,740	-	453,606	1,635,582	1,827,494
3,529,233	27,813	3,909,490	54,787	9,863,844	11,287	9,929,918	13,839,408	11,819,561
2,270	375,485	1,238,992	148,487	98,107	-	246,594	1,485,586	1,619,662
4,323	165,557	701,586	57,055	40,047	-	97,102	798,688	588,933
-	2,160	2,160	53,195	-	-	53,195	55,355	148,044
31,440	378,754	1,494,842	84,807	23,843	-	108,650	1,603,492	1,596,673
18,799	123,656	1,100,349	213,540	164,037	-	377,577	1,477,926	1,546,083
59,686	126,345	925,657	133,443	71,654	-	205,097	1,130,754	948,384
11,853	258,708	1,751,948	7,430	167	-	7,597	1,759,545	1,947,622
-	3,095	165,363	-	-	-	-	165,363	177,736
-	1,332	482,481	-	-	-	-	482,481	904,454
55,139	393,515	2,438,427	29,752	663	-	30,415	2,468,842	1,971,191
-	107,479	820,686	317	32,800	-	33,117	853,803	497,079
5,231	26,242	197,521	41,789	24,225	-	66,014	263,535	259,281
754,841	138,938	1,707,425	204,948	2,946,908	618,300	3,770,156	5,477,581	4,270,552
9,757	12,421	74,051	28,619	14,047	-	42,666	116,717	97,313
18,394	6,736	68,094	17,389	18,297	-	35,686	103,780	92,132
5,386	15,851	160,637	47,384	7,809	-	55,193	215,830	151,055
6,192	82,406	405,528	131,990	6,888	-	138,878	544,406	525,872
-	168,899	899,931	54,692	94,645	53,777	203,114	1,103,045	345,019
46,785	109,850	1,067,312	239,494	172,751	79	412,324	1,479,636	1,079,441
13	32	1,032	207,575	512,939	330	720,844	721,876	644,958
9	4,124	29,954	10,605	17,956	-	28,561	58,515	26,823
-	-	-	107,149	-	-	107,149	107,149	106,393
5,927,117	9,765,405	67,805,341	8,465,272	20,424,869	687,174	29,577,315	97,382,656	87,426,166
45,217	684,298	3,445,467	433,986	393,741	-	827,727	4,273,194	4,286,189
5,972,334	10,449,703	71,250,808	8,899,258	20,818,610	687,174	30,405,042	101,655,850	91,712,355
-	-	-	-	-	687,174	687,174	687,174	488,057
\$ 5,972,334	\$ 10,449,703	\$ 71,250,808	\$ 8,899,258	\$ 20,818,610	\$ -	\$ 29,717,868	\$ 100,968,676	\$ 91,224,298

Covenant House and Affiliates

Combined Statement of Cash Flows

	Year ended June 30	
	1999	1998
Cash flows from operating activities		
Change in net assets	\$ 14,806,103	\$ 11,399,424
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Current year translation adjustment	37,055	572,947
Contribution of investments	(36,202)	(24,287)
Contributed occupancy costs	25,242	23,591
Contribution restricted for building construction/fixed asset acquisition	(322,863)	(2,051,946)
Unrealized and realized gains on investments	(3,816,704)	(3,828,558)
Unrealized gains on investments as a component of change in value of split-interest agreements	(71,506)	(203,474)
Amortization of discount on annuities and receivables	42,262	64,932
Depreciation and amortization	4,273,194	4,286,189
Use of contributed inventory	248,595	228,379
Contributed property, plant and equipment	(675,842)	(26,150)
Gain on sale of fixed assets and property held for sale	(1,796,835)	-
Loss on disposal of fixed assets	-	298
Permanently restricted contribution	(50,000)	-
Changes in operating assets and liabilities:		
Contributions receivable	(966,622)	(718,241)
Grants receivable	235,351	(77,177)
Other receivables	(172,730)	(271,135)
Prepaid expenses	(1,647,272)	(803,928)
Other assets	470,642	17,385
Accounts payable, accrued expenses and refundable advances	1,558,946	31,845
Net cash provided by operating activities	12,140,814	8,620,094
Cash flows from investing activities		
Purchases of investments, net	(5,567,547)	(7,181,283)
Increase in security deposits	-	(65,000)
Purchases of property, plant and equipment and construction in progress	(7,821,569)	(5,579,736)
Proceeds from sale of property held for sale	1,050,000	-
Proceeds from sale of property, plant and equipment	88,754	6,122
Net cash used in investing activities	(12,250,362)	(12,819,897)
Cash flows from financing activities		
Payment of annuity obligations	(321,188)	(274,318)
Additions to gift annuity arrangements	1,224,735	1,116,425
Contributions restricted for building construction	860,263	439,823
Payment of debt obligations	(34,000)	(4,251)
Permanently restricted contribution	50,000	-
Net cash provided by financing activities	1,779,810	1,277,679
Net increase (decrease) in cash and cash equivalents	1,670,262	(2,922,124)
Cash and cash equivalents at beginning of year	14,758,737	17,680,861
Cash and cash equivalents at end of year	\$ 16,428,999	\$ 14,758,737

See accompanying notes.

Covenant House and Affiliates

Notes to Combined Financial Statements

June 30, 1999

1. Organization and Basis of Combination

Organization

Covenant House is a not-for-profit organization which was founded in 1968 and incorporated in 1972. Covenant House and its affiliates provided shelter, food, clothing, counseling, medical attention, crisis intervention, public education and other services to over 60,000 runaway and homeless youths during fiscal 1999. In addition, Covenant House offers a national toll-free crisis intervention hotline.

Covenant House is the sole member of the following not-for-profit affiliates:

- Under 21
- Covenant House Alaska
- Covenant House California
- Covenant House Florida
- Covenant House Michigan
- Covenant House Missouri
- 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
- Testamentum

In addition, Covenant House is the sole member of Covenant International Foundation ("CIF"), a not-for-profit corporation. CIF is a member of the following international not-for-profit affiliates:

- Covenant House Toronto
- Covenant House Vancouver
- Asociacion Casa Alianza (Guatemala)
- Casa Alianza De Honduras
- Casa Alianza Nicaragua
- Fundacion Casa Alianza Mexico, I.A.P.
- Casa Alianza Internacional

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

1. Organization and Basis of Combination (continued)

Covenant House is also a member of the above international not-for-profit affiliates except for Fundacion Casa Alianza Mexico, I.A.P.

Basis of Combination

The combined financial statements include the accounts of Covenant House, the aforementioned affiliated organizations and the entities, including trusts, for which Covenant House exercises direct or indirect control and possesses an economic interest. All significant intercompany transactions and balances have been eliminated in combination.

2. Summary of Significant Accounting Policies

Fund Accounting and Net Asset Classifications

To ensure compliance with restrictions placed on the resources available to Covenant House, Covenant House'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 combined financial statements, funds that have similar characteristics have been combined into three net asset categories: permanently restricted, temporarily restricted and unrestricted.

- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit Covenant House to use or expend all of the income derived from the donated assets for unrestricted purposes.
- Temporarily restricted net assets contain donor-imposed restrictions that permit Covenant House to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of Covenant House.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. As reflected in the accompanying combined statement of financial position, Covenant House's Board of Directors has designated a portion of the unrestricted net assets of Covenant House for long-term investment purposes.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 managements of Covenant House and its affiliates.

Revenue Recognition

Covenant House records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, Covenant House records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services and gifts of long-lived assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Substantially all of Covenant House's government grants are cost reimbursement type grants and are considered conditional contributions for purposes of applying revenue recognition policies. Contributions are recorded net of estimated uncollectible amounts.

Temporarily Restricted Contributions

Covenant House 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 combined statement of activities as net assets released from restrictions. It is Covenant House's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class activity.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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. Covenant House 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 combined statement of activities as net assets released from restrictions.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost if purchased or, if donated, at fair value at the date of the gift, less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets which range from 3 to 33 years. Leasehold improvements are amortized over the lesser of the term of the lease or their estimated useful lives.

Covenant House is the lessee of certain equipment under capital leases expiring in various years through fiscal 2002. Generally, assets under capital leases are purchased at the end of the lease term. Amortization of assets under capital leases is included in depreciation and amortization.

Contributed Services and Merchandise

Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are 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 combined financial statements.

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

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of the combined statement of cash flows, Covenant House considers highly liquid investments purchased with a maturity of three months or less, other than those held in the long-term investment portfolio, to be cash equivalents.

Supplemental Cash Flow Disclosure

Included as other receivables in the accompanying combined statement of financial position at June 30, 1999 is \$1.5 million reflecting non-cash investing activities associated with the sale of property held for sale during fiscal year 1999.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Investments and Investment Income

Marketable equity securities and debt obligations are carried at quoted market value. Income earned from investments, including realized and unrealized gains and losses, in all net asset classifications, except permanently restricted net assets, is recorded in the net asset class owning the assets. Income earned from permanently restricted investments, including realized and unrealized gains and losses, is recorded as unrestricted, except where the instructions of the donor specify otherwise.

Investments which are undesignated and are not temporarily or permanently restricted are classified as short-term. All other investments are classified as long-term.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The following methods and assumptions were used by Covenant House in estimating its fair value for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the combined statement of financial position for cash and cash equivalents approximate fair value.

Common stocks, mutual funds and debt securities: Fair values of common stocks, mutual funds and debt securities are based on quoted market prices.

Real estate held for sale: Market values for real estate held for sale are not readily determinable and are shown at historical cost if purchased or estimated fair value at date of gift if donated.

Beneficial interests in perpetual trusts: The fair value of beneficial interests in perpetual trusts is approximated by Covenant House's share of the fair value of the assets held by the trust.

See Note 7 for additional information regarding investments.

Summarized Financial Information for Fiscal 1998 and Reclassifications

The accompanying combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Covenant House's financial statements for the year ended June 30, 1998, from which the summarized information was derived.

Certain 1998 amounts have been reclassified to conform with the current year presentation.

3. Components of Program and Supporting Services

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.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

3. Components of Program and Supporting Services (continued)

The *Outreach* program is an effort to reach youths who would otherwise not find their way to the shelters. Outreach vans cruise the city streets every night, searching for these youths and providing them with food, a trained counselor and a safe ride to a shelter.

The *Mother/Child* program provides emergency shelter, food and counseling to homeless mothers under the age of 21 and their children.

Nineline is Covenant House's toll-free number which provides immediate counseling to runaway or potential runaway adolescents and their families.

Medical services include clinics maintained by Covenant House affiliates to provide youths in the programs with needed medical attention.

The *Community Service Center* program provides comprehensive services to youths who have left Covenant House affiliates' crisis centers, and other youths in the community who need support to maintain themselves in stable living situations.

The *Public Education* program informs and educates the public on how to identify potential "runaway" and "throwaway" adolescents, the public and private resources available to help such adolescents before they leave home and the public support services available to these families to improve the home environment.

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

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

Fund-raising services relate to the activities of the development department in raising general and specific contributions.

Direct Benefit to Donor Costs are those costs incurred in connection with special events related to items benefiting attendees of such events, such as meals and entertainment.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

4. Allocation of Joint Costs

The joint costs of certain informational mailings that contain an appeal for funds are allocated between the public education program and fund-raising. Of the total joint costs of approximately \$3.7 million incurred in 1999, approximately \$2.6 million was allocated to public education.

5. Contributions Receivable

At June 30, 1999, contributions receivable, net of estimated uncollectible amounts, and discounted to present value, are due to be collected as follows:

One year	\$ 2,794,856
One to five years	1,377,144
More than five years	<u>2,152,056</u>
	<u>\$ 6,324,056</u>

Included in contributions receivable at June 30, 1999 is approximately \$986,000, discounted to present value, relating to the fair value of rent-free use of a facility in Anchorage, Alaska contributed by an unrelated third party.

6. Grants and Contracts

Grants receivable at June 30, 1999 of \$1,328,710 are expected to be collected within one year.

During fiscal 1999, Covenant House and its affiliates received funding under grants and contracts from various federal, state and local government agencies. In accordance with the terms of certain government contracts, the records of certain affiliates are subject to audit for varying periods after the date of final payment of the contracts. The affiliates are liable for any disallowed costs; however, the management of the affiliates believe that the amount of costs disallowed, if any, would not be significant.

As of June 30, 1999, Covenant House had been approved for a number of government cost reimbursable grants in which conditions stipulated in the grant agreements have not been met. Accordingly, these grants are considered conditional promises to give and are not included in the accompanying combined financial statements.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

7. Investments

Investments at June 30, 1999 consist of the following:

	Short-term	Long-term	Total
Cash and cash equivalents	\$ —	\$ 12,123,069	\$ 12,123,069
Common stocks	210,186	20,728,617	20,938,803
U.S. government securities	3,855,527	19,760,045	23,615,572
Corporate debt securities	—	3,151,498	3,151,498
Mutual funds	85,610	4,560,633	4,646,243
Beneficial interests in trusts held in perpetuity	—	624,300	624,300
Other	—	104,642	104,642
	4,151,323	61,052,804	65,204,127
Real estate held for sale	115,205	—	115,205
	\$ 4,266,528	\$ 61,052,804	\$ 65,319,332

8. Property, Plant and Equipment

Property, plant and equipment, net, consisted of the following at June 30, 1999:

Land	\$ 17,757,258
Buildings	34,858,481
Building improvements	16,211,598
Equipment	14,827,718
Equipment under capital leases	2,693,513
Leasehold improvements	14,359,000
Construction in progress	887,962
	101,595,530
Less accumulated depreciation and amortization (including accumulated amortization on equipment under capital leases of \$2,649,012)	39,792,361
	\$ 61,803,169

In fiscal 1996, Covenant House New Jersey ("CHNJ") was awarded a grant of \$1.0 million from the City of Atlantic City (the "City") to be used for the construction of a new shelter facility. The grant provides that if CHNJ were to cease utilization of the facility in its program activities, CHNJ would be obligated to the City for the amount of the grant.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

8. Property, Plant and Equipment (continued)

In fiscal 1992, Covenant House Toronto ("CH Toronto") was awarded two grants totaling Can. \$6,800,000 from the Province of Ontario ("Ontario") to be used to establish a shelter facility located in Toronto, Ontario. The grant provides, among other things, that in the case of disposition, the net proceeds received from the sale of the facility will be distributed to CH Toronto and Ontario in an amount proportionate to the funding provided by the parties for the establishment of the facility (56.1% to Ontario and 43.9% to CH Toronto).

9. Line of Credit

Covenant House has an unsecured line of credit agreement with Chase Manhattan Bank ("Chase") to borrow up to an aggregate amount of \$1,000,000. Interest is payable at the Chase prime rate. There are no outstanding borrowings at June 30, 1999. There were no borrowings under this facility during fiscal 1999.

10. Split-interest Agreements

Covenant House is the beneficiary in a number of split-interest agreements with donors. Covenant House may control donated assets and may share with the donor or the donor's designee income generated from those assets until such time as stated in the agreement (usually upon the death of the donor or the donor's designee) at which time the remaining assets are generally unrestricted for Covenant House's use. Covenant House also has beneficial interests in certain perpetual trusts administered by a third party (valued at approximately \$624,000 at June 30, 1999, included in long-term investments).

Covenant House records the assets arising from the agreements on its combined statement of financial position (at fair value) if the assets are controlled and invested by Covenant House. Covenant House records contribution income and a liability for amounts payable to annuitants using an actuarial calculation at the time of the gift. Adjustments to the actuarial calculation for changes in assumptions are made annually. The discount rates used in the calculation at June 30, 1999 ranged from 6.0% to 7.0%.

At June 30, 1999, approximately \$4.4 million of long-term assets and \$2.5 million of annuities payable in the accompanying combined statement of financial position related to such agreements. State mandated insurance reserves related to these agreements are maintained at the required level.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

10. Split-interest Agreements (continued)

In other situations where assets are controlled and invested by an independent third party, Covenant House records a receivable and contribution income for its share of the assets based on the present value of the estimated future distributions expected to be received by Covenant House over the expected term of the agreement. At June 30, 1999, long-term receivables relating to such agreements were approximately \$875,000.

11. Foreign Currency Translation

The management of Covenant House has determined that the functional currency of certain of its foreign affiliates is the United States dollar and for the remaining foreign affiliates the functional currency is the local currency. Accordingly, for those affiliates that use United States dollars as the functional currency, monetary assets and liabilities are translated using the current exchange rate in effect at the combined statement of financial position date, while nonmonetary assets and liabilities are translated at historical rates. Operations are generally translated at the weighted average exchange rate in effect during the fiscal period. The resulting foreign exchange gains and losses are recorded in the combined statement of activities.

For the affiliates whose functional currency has been determined to be the local currency, *assets and liabilities are translated using the exchange rates in effect at the combined statement of financial position date.* Operations are translated based on a weighted average exchange rate for the fiscal period. The resulting translation gains and losses are reported as a component of the applicable net asset classification. At June 30, 1999, accumulated translation losses were approximately \$1.7 million.

At June 30, 1999, approximately 12% of Covenant House's assets were held by foreign affiliates.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose and time restrictions at June 30, 1999:

Purpose restrictions:	
Purchase and renovation of the Crisis Center	\$ 2,588,777
Covenant House Texas program restrictions	161,783
Latin American Programs	14,361
Other donor-imposed purpose restrictions	208,269
Time restrictions:	
Donated use of facility	985,581
Covenant House California tenth anniversary campaign	1,054,056
Split-interest agreements	2,799,006
Other time restrictions	682,566
	<u>\$ 8,494,399</u>

13. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The income is not designated for specific programs and is expendable for unrestricted purposes.

14. Reclassification of Net Assets

Net assets were released from donor restrictions during fiscal 1999 by incurring expenses satisfying purpose restrictions or time elapsing as specified by donors as follows:

Purpose restrictions satisfied:	
Covenant House California program restrictions	\$ 64,500
Other donor-imposed purpose restrictions	388,084
Time restrictions elapsed:	
Split-interest agreements	94,226
Other time restrictions	130,072
	<u>\$ 676,882</u>

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

15. Faith Community

Contributed services were provided by Covenant House Faith Community ("Community") members. Community members are full-time volunteers who commit themselves to a year of service to runaway and homeless youth. Room and board, \$15 stipend per week, health insurance and reimbursement for other personal expenses are provided to Community members. The expenses associated with Community members were approximately \$663,000 for the year ended June 30, 1999 and are reported in the accompanying combined financial statements. The value of contributed services performed by Community members was approximately \$640,000 and was not recognized in the accompanying combined financial statements.

16. Pension Plan

Covenant House has a defined benefit pension plan (the "Plan") covering substantially all of its employees and the employees of its domestic affiliates. Benefits are generally based on years of service and average salary, as defined under the Plan. Covenant House's policy is to contribute the amount recommended by its actuary. The Plan was amended effective July 1, 1998 in order to conform with the Tax Reform Act of 1986. The assets of the Plan, which are held by the Mutual of America Life Insurance Company, consist primarily of mutual funds that are invested in equities and debt obligation instruments.

In fiscal 1999, Covenant House adopted the disclosure requirements contained in Statement of Financial Accounting Standards No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* ("SFAS 132"). Covenant House has decided to provide the abbreviated disclosures available to nonpublic entities.

The Plan's actuary performed the computations required for financial statement disclosure as of June 30, 1999. Employee data as of July 1, 1998 were projected forward to the June 30, 1999 measurement date. During fiscal 1999, changes in actuarial assumptions resulted in an increase in the projected benefit obligation of approximately \$2.6 million.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

16. Pension Plan (continued)

The following table presents the Plan's related disclosures under the provisions of SFAS 132, as accounted for under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions*, as follows:

	June 30, 1999
Projected benefit obligation	\$ 15,938,791
Plan assets at fair value	16,074,499
Funded status	\$ 135,708
Prepaid benefit cost recognized in the combined statement of financial position	\$ 1,704,864
Weighted-average assumptions	
Discount rate	6.5%
Expected long-term rate of return on plan assets	8.5%
Average rate of increase in compensation levels	5.5%
For the year ended June 30	
Benefit cost	\$ 801,950
Employer contributions	\$ 1,473,858
Benefits paid	\$ 411,774

Total pension expense for fiscal 1999 was approximately \$1.9 million.

In addition to the above, one of the domestic affiliates maintains a defined contribution plan for substantially all of its employees. The affiliate contributes 4% of eligible employees' compensation plus a matching contribution equal to 50% of the employees' contribution, with a maximum match of 2% per year. The expense related to the defined contribution plan was approximately \$81,000 in fiscal year 1999.

Covenant House also maintains a tax-deferred annuity plan for its employees. Covenant House does not make contributions to this plan; contributions are made only by the participants.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

17. Tax-Exempt Status

Covenant House and its U.S. affiliates are qualified as tax-exempt organizations described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, are not subject to federal income taxes under Section 501(a) of the Code. Covenant House and its U.S. affiliates, as not-for-profit organizations, are exempt from state and local income taxes and have been classified as publicly-supported charitable organizations under Section 509(a)(1) of the Code and qualify for the maximum charitable contribution deduction for donors.

18. Commitments

Covenant House and its affiliates are party to a number of operating leases. Aggregate future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 1999 are approximately as follows:

Year ending June 30:	
2000	\$ 605,000
2001	561,000
2002	453,000
2003	164,000
2004	72,000
2005	5,000
	<u>\$1,860,000</u>

19. Contingencies

Covenant House and certain of its affiliates are contingently liable under various claims and lawsuits, many of which are covered in whole or in part by insurance. In managements' opinions, none of these claims and lawsuits will have a material adverse effect on the combined financial position or changes in the combined net assets of Covenant House.

Covenant House and Affiliates

Notes to Combined Financial Statements (continued)

20. Impact of Year 2000 (Unaudited)

Over the last two fiscal years, Covenant House reviewed all of its computer programs and determined that some were not Year 2000 (“Y2K”) compliant. Where it deemed necessary, Covenant House replaced or made changes to existing software. In addition, Covenant House has contacted its significant third party providers and believes that they are also Y2K compliant. Covenant House has completed testing of its updated programs and is confident that all of its “mission critical” systems will remain operational in the new millennium. The cost associated with the review, updating and testing of these systems was not material.

Other Financial Information

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1999 Expenditures
	U.S. Department of Housing and Urban Development			
	Community Development Block Grants/Entitlement Grants			
Covenant House Alaska	Municipality of Anchorage Community Development Department	14.218	B98KC02001	\$ 227,765
Covenant House California	Los Angeles Community Development Department	14.218	95335	45,991
				<u>273,756</u>
Covenant House New Orleans	Community Development Block Grants/State's Programs	14.228	ESG-014E	55,899
Covenant House New Orleans	City of New Orleans	14.228	ESG-013F	59,532
				<u>115,431</u>
Covenant House Texas	Emergency Shelter Grants Program	14.231	FC 33544	134,838
Covenant House Texas	Child Care Council of Greater Houston	14.231	427281	80,546
				<u>215,384</u>
Covenant House California	Supportive Housing Program	14.235	CA16N15-1121	361,710
Covenant House California	Los Angeles Housing Authority	14.235	CA16I3960043	136,446
Covenant House Florida	Supportive Apartment Housing Program	14.235	N/A	186,385
Covenant House Florida	Received directly	14.235	FL29B96-0703	84,415
Covenant House New Orleans	Homeless Services Network of Orange County, Inc.	14.235	FL29B97-0702	32,057
Covenant House New Orleans	Homeless Services Network of Orange County, Inc.	14.235	N/A	87,616
Covenant House New Orleans	Received directly	14.235	N/A	51,361
Covenant House New Orleans	Received directly	14.235	N/A	59,093
Covenant House New Orleans	Received directly	14.235	N/A	14,791
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B80-7001	10,639
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA22B97-0203	37,429
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B96-1401	42,600
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B96-0817B	90,618
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	14.235	TX21B95-0243-B	13,446
Covenant House Texas	Harris County Housing and Community Development Agency	14.235	TX21K150990	39,250
Covenant House Texas	Women's Right of Passage	14.235	TX21B971302	45,935
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	14.235	TX21B960617	42,119
Under 21	Received directly	14.235	N/A	1,250,842
				<u>2,586,752</u>

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1999 Expenditures
Covenant House New Orleans	U.S. Department of Housing and Urban Development (continued) HOME Investment Partnerships Program City of New Orleans	14.239	CHDO-98005	\$ 108,224
Covenant House California	Housing Opportunity for Persons with AIDS City of Los Angeles Health and Human Services	14.241	C-96701	47,968
Covenant House Alaska	Community Development Block Grant/Economic Development Initiative	14.246	N/A	1,000,000
Covenant House Washington	Enterprise Community Grant Program District of Columbia Department of Housing and Community Development	N/A	98-ED-03-03	39,244
Covenant House Alaska	Continuum of Care State of Alaska Department of Community of Regional Affairs Total U.S. Department of Housing and Urban Development	N/A	AK06B801001	13,138 <u>4,399,897</u>
Covenant House New Orleans	U.S. Department of Health and Human Services Projects for Assistance in Transition from Homelessness Received directly	93.150	N/A	9,414
Under 21	Project Grant for Health Services to the Homeless Received directly	93.151	N/A	200,914
Covenant House Texas	HIV Demonstrating Program for Children, Adolescents and Women Houston Regional HIV/AIDS Resource Group	93.153	PEDFY97	3,895
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	93.153	PEDFY98	34,097 <u>37,992</u>
Covenant House New Jersey	Transitional Living for Homeless Youth Received directly	93.550	02CX0013/02	194,509

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1999 Expenditures
	U.S. Department of Health and Human Services (continued)			
Covenant House Alaska	Street Outreach Program for Runaway and Homeless Youth Received directly	93.557	N/A	\$ 39,153
Covenant House New Jersey Under 21	Received directly	93.557	N/A	66,789
Covenant House Washington	Received directly	93.557	N/A	73,245
Covenant House California	Received directly	93.557	N/A	60,107
	Los Angeles Youth Network	93.557	90Y0200301	20,139
				<u>259,433</u>
Covenant House New Orleans Under 21	Job Opportunities and Basic Skills Training FINDEWORK Family Day Care Project	93.561 93.561	523249 90EO0072/01	85,489 58,520
				<u>144,009</u>
Covenant House Florida	Comprehensive Runaway and Homeless Youth Center for Disease Control and Prevention	93.623	04CY0621/1	41,239
Under 21	Foster Care-Title IV-E City of New York Administration for Children Services	93.658	9561316	323,030
Covenant House California Covenant House California	Housing Opportunities for Persons With AIDS City of Los Angeles Department of Health and Human Services City of Los Angeles Department of Health and Human Services	93.940 93.940	H206335 H206336	38,595 39,520
				<u>78,115</u>
Covenant House Florida	HIV Prevention Outreach and Testing/Counseling Program Florida Department of Children and Families	93.959	JH530	37,497
Covenant House New Orleans	Louisiana Department of Social Services—Office of Community Services Planned Overnight and Recreational Respite Total U.S. Department of Health and Human Services	N/A	58-1669937	34,286
				<u>1,360,438</u>

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Federal Award Recipient	Federal Grantor/Program Title/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	1999 Expenditures
	U.S. Department of Agriculture			
	Nutrition Cluster			
	School Breakfast Program:			
Covenant House Alaska	Alaska Department of Education	10.553	AK-016921251	\$ 12,755
Covenant House Florida	Florida Department of Education	10.553	01-0237	32,086
Covenant House New Orleans	Louisiana Department of Education	10.553	7547	38,973
Under 21	New York State Department of Education	10.553	706139	112,830
	National School Lunch Program:			
Covenant House Alaska	Alaska Department of Education	10.555	AK-016921251	28,738
Covenant House Florida	Florida Department of Education	10.555	01-0237	39,187
Under 21	New York State Department of Education	10.555	706139	77,550
	Total Nutrition Cluster			342,119
	Total U.S. Department of Agriculture			342,119
	Federal Emergency Management Association			
	Federal Emergency Management Food and Shelter Program			
Covenant House Alaska	United Way	83.523	14-0188-0-LR0-14	5,760
Covenant House California	United Way	83.523	LRO 163	32,435
Covenant House New Orleans	United Way	83.523	16-3658-024	5,186
Covenant House Florida	United Way	83.523	17-1570-00-LRO-17	36,700
Covenant House Texas	United Way	83.523	15.7828.00	29,609
Under 21	United Way	83.523	17-6314-030	13,307
	Total Federal Emergency Management Association			122,997
	Total Federal Awards			\$6,225,451

See accompanying note.

Covenant House and Affiliates

Note to Combined Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

1. Basis of Presentation

The accompanying combined schedule of expenditures of federal awards includes the federal grant activity of Covenant House and Affiliates for the year ended June 30, 1999 and is prepared on the accrual basis of accounting as prescribed by generally accepted accounting principles. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Covenant House and Affiliates

Schedule of State of New Jersey Assistance

Year ended June 30, 1999

Award Recipient	New Jersey Grantor/Program Title	New Jersey Grant Number	1999 Expenditures
Covenant House New Jersey	State of New Jersey Children's Trust Fund, Child Life Protection Commission:		
	Salaries (includes fringe benefits)		\$ 25,000
	OTPS-Program expense	N/A	4,600
			<u>29,600</u>
Covenant House New Jersey	State of New Jersey Department of Health and Senior Services passed through City of Atlantic City— Atlantic City Partnership for the Prevention of HIV/AIDS:		
	Salaries		31,558
	Fringe benefits		8,836
	OTPS-Program expenses	99-741-AIDS-00	5,775
			<u>46,169</u>
Total State of New Jersey Assistance			<u><u>\$ 75,769</u></u>

**Audit Reports and Schedules Related to
Office of Management and Budget
Circular A-133**

**Report of Independent Auditors on Compliance and
on Internal Control Over Financial Reporting Based
on an Audit of the Financial Statements in Accordance
with *Government Auditing Standards***

Board of Directors
Covenant House

We have audited the combined financial statements of Covenant House and Affiliates (the "Organization") as of and for the year ended June 30, 1999, and have issued our report thereon, which expressed reliance on other auditors, dated October 14, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that *might be material weaknesses*. A *material weakness* is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the combined financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We

noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we, and the other auditors, noted other matters involving the internal control over financial reporting, which we, and the other auditors, have reported to management of the Organization in separate letters as indicated in the accompanying combined schedule of letters to management.

This report is intended solely for the information and use of the Organization's audit committee, management, federal awarding agencies, pass-through grantors and the State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

October 14, 1999

**Report of Independent Auditors on Compliance with
Requirements Applicable to each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Board of Directors
Covenant House

Compliance

We have audited the compliance of Covenant House and Affiliates (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that are applicable to its major federal programs for the year ended June 30, 1999. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying combined schedule of findings and questioned costs. We did not audit a major federal program (CFDA No. 14.246) with federal expenditures totaling \$1,000,000, which is identified in the summary of auditors' results section of the accompanying combined schedule of findings and questioned costs. This federal program was audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to compliance with requirements applicable to this major federal program, is based solely on the report of other auditors. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We, and the other auditors, conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 1999. The results of the auditing procedures of other auditors disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying combined schedule of findings and questioned costs as item 99-1.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we, and the other auditors, considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We, and the other auditors, noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Organization's audit committee, management, federal awarding agencies, pass-through grantors and the State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.

October 14, 1999

Ernst & Young LLP

Covenant House and Affiliates

Combined Schedule of Findings and Questioned Costs

Year ended June 30, 1999

Part I—Summary of Auditors' Results Section

Financial Statement Section

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards Section

Dollar threshold used to determine Type A programs	\$300,000
Auditee qualified as low-risk auditee?	Yes
Type of auditor's report on compliance for major programs	Unqualified
Internal control over compliance:	
Material weakness(es) identified?	No
Were reportable condition(s) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section 510(a))?	Yes
Identification of major programs:	

CFDA Number(s) or Contract Number	Name of Federal Program or Cluster
14.235	U.S. Department of Housing and Urban Development: Supportive Housing Program
14.246	Economic Development Initiative (audited by other auditors)

Covenant House and Affiliates

Combined Schedule of Findings and Questioned Costs (continued)

Year ended June 30, 1999

Part II—Schedule of Financial Statement Findings

None.

Part III—Schedule of Federal Award Findings and Questioned Costs

99-1 Real Property Acquisition

Major Program—U.S. Department of Housing and Urban Development, Community Development Block Grant/Economic Development Initiative, CFDA No. 14.246.

Requirement—The Real Property Acquisition and Relocation Assistance Compliance Requirement under OMB Circular A-133 requires that property acquired with grant proceeds be appraised by qualified independent appraisers. All appraisals must be examined by a review appraiser to assure acceptance. After acceptance, the review appraiser certifies the recommended or approved value of the property.

Noncompliance—Covenant House Alaska purchased a building for \$608,000 using federal funds received from the U.S. Department of Housing and Urban Development Community Development Grant/Economic Development Initiative. The funds were allowed to be used for the purchase of a building. However, prior to the purchase, no appraisal and review appraisal were obtained.

Questioned Cost—\$608,000.

Recommendation—We recommend that Covenant House Alaska contact its grantor to determine the appropriate course of action.

Covenant House and Affiliates

Combined Schedule of Letters to Management

Year ended June 30, 1999

<u>Covenant House Entity</u>	<u>Date Letter Issued</u>
Covenant House (Parent Entity)	October 7, 1999
Under 21	September 20, 1999
Covenant House Alaska	September 3, 1999
Covenant House California	N/A
Covenant House Florida	August 6, 1999
Covenant House New Jersey	September 20, 1999
Covenant House New Orleans	N/A
Covenant House Texas	N/A
Covenant House Washington, D.C.	N/A