9719

COMBINED FINANCIAL STATEMENTS, OTHER FINANCIAL INFORMATION, AUDIT REPORTS AND SCHEDULES RELATED TO OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

Covenant House and Affiliates

Year ended June 30, 2003

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 4-14-04

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, 2003

Contents

ERNST & YOUNG

Ernst & Young LLP
5 Times Square
New York, New York 10036-6530

Phone: (212) 773-3000
www.ey.com

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, 2003, 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 Alaska whose statements reflect total assets of $4,108,123 as of June 30, 2003 and total contributions and revenue of $2,874,059 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 Alaska, is based solely on the report of the other auditors. The prior year summarized comparative information has been derived from Covenant House's 2002 combined financial statements and in our report dated October 22, 2002, we expressed an unqualified opinion on those combined financial statements.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined 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, 2003, and the changes in their combined net assets and their combined cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2003 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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, 2003 taken as a whole. The accompanying combined schedule of expenditures of federal awards and schedule of expenditures of State of New Jersey financial 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 Office of Management and Budget Circular Letter 98-07 and are not a required part of the combined 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, 2003 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

September 15, 2003

Covenant House and Affiliates

Combined Statements of Financial Position

	June 30 2003	June 30 2002
Assets		
Cash and cash equivalents	$ 15,707,015	$ 23,515,641
Short-term investments	14,649,239	5,363,862
Short-term contributions receivable	3,290,994	4,312,421
Grants receivable	3,641,517	3,196,332
Other receivables	1,322,873	3,803,625
Inventory	166,617	182,451
Prepaid expenses	2,620,497	3,204,474
Property, plant and equipment, net	87,056,163	82,016,616
Long-term contributions receivable, net	2,448,787	1,675,048
Long-term investments	38,625,525	44,069,875
Other assets	1,008,201	371,038
Total assets	$ 170,537,428	$ 171,711,383
Liabilities and net assets		
Accounts payable, accrued expenses and refundable advances	$ 10,577,112	$ 10,537,050
Annuities payable	5,553,607	5,167,917
Debt obligations	4,981,467	5,038,581
Deferred revenue	1,013,137	977,807
Total liabilities	22,125,323	21,721,355
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	21,617,545	13,190,014
Investment in property, plant and equipment	82,049,450	77,949,979
Board designated	25,796,444	36,434,762
Total unrestricted	129,463,439	127,574,755
Temporarily restricted	13,547,377	16,727,270
Permanently restricted	5,401,289	5,688,003
Total net assets	148,412,105	149,990,028
Total liabilities and net assets	$ 170,537,428	$ 171,711,383

See accompanying notes.

Covenant House and Affiliates

Combined Statements of Activities

Year ended June 30, 2003 with summarized financial information for 2002

			Temporarily	Permanently	Total	
		Unrestricted	Restricted	Restricted	2003	2002
Contributions, revenue and reclassifications:						
Contributions:						
Contributions from individuals, foundations and corporations, including legacies and bequests of $7,855,033 ($12,685,648 in fiscal 2002)		$ 85,645,145	$ 5,283,599	$ –	$ **90,928,744**	$ 97,002,300
Contributed services and merchandise		814,317	–	–	**814,317**	913,886
Government grants and contracts		21,646,973	364,164	–	**22,011,137**	15,259,859
Special events revenue	$4,224,132					
Less direct benefit to donor costs	982,401					
Net special events income		3,241,731	–	–	**3,241,731**	3,720,238
Total contributions		111,348,166	5,647,763	–	**116,995,929**	116,896,283
Revenue:						
Investment income:						
Interest and dividends		2,650,239	64,614	–	**2,714,853**	1,657,298
Net unrealized gains (losses)		603,283	293,286	(19,425)	**877,144**	(2,901,455)
Net realized losses		(1,735,310)	–	–	**(1,735,310)**	(1,823,911)
Other income, gains		1,433,062	178,014	–	**1,611,076**	830,903
Total revenue		2,951,274	535,914	(19,425)	**3,467,763**	(2,237,165)
Total contributions and revenue		114,299,440	6,183,677	(19,425)	**120,463,692**	114,659,118
Reclassifications:						
Net assets released from restrictions		9,610,565	(9,363,570)	(246,995)	**–**	–
Total contributions, revenue and reclassifications		123,910,005	(3,179,893)	(266,420)	**120,463,692**	114,659,118
Expenses:						
Program services		87,613,611	–	–	**87,613,611**	88,969,560
Supporting services:						
Management and general		12,743,999	–	–	**12,743,999**	11,689,096
Fund-raising		23,759,079	–	–	**23,759,079**	19,309,617
Total supporting services		36,503,078	–	–	**36,503,078**	30,998,713
Total expenses		124,116,689	–	–	**124,116,689**	119,968,273
Current year translation adjustment		(2,095,368)	–	20,294	**(2,075,074)**	2,190
Total expenses and translation adjustment		122,021,321	–	20,294	**122,041,615**	119,970,463
Change in net assets		1,888,684	(3,179,893)	(286,714)	**(1,577,923)**	(5,311,345)
Net assets, beginning of year		127,574,755	16,727,270	5,688,003	**149,990,028**	155,301,373
Net assets, end of year		$ 129,463,439	$ 13,547,377	$ 5,401,289	**$148,412,105**	$149,990,028

See accompanying notes.

Covenant House and Affiliates

Combined Statements of Functional Expenses

Year ended June 30, 2003
with summarized financial information for 2002

	Program Services										Supporting Services				Total	
	Shelter and Crisis Care	Outreach	Mother/ Child	Nineline	Medical	Community Service Center	Public Education	Rights of Passage	In-School	Total	Management and General	Fund Raising	Direct Benefit to Donors	Total	2003	2002
Salaries and wages	$18,820,878	$1,853,274	$2,703,054	$1,448,707	$2,602,002	$ 9,103,500	$1,036,233	$ 8,342,721	$127,431	$46,039,800	$ 6,188,233	$ 4,744,341	$ –	$10,932,574	$ 56,972,374	$ 54,932,692
Payroll taxes	2,019,578	210,455	283,900	161,407	277,452	909,716	87,363	778,539	4,972	4,743,782	637,558	397,360	–	1,034,918	5,778,600	5,525,434
Employee benefits	2,986,414	336,277	404,604	299,452	397,086	1,425,638	149,749	1,266,981	8,079	7,274,280	1,176,754	625,320	–	1,802,074	9,076,354	10,592,925
Total salaries and related expenses	23,826,870	2,400,006	3,391,558	1,909,566	3,276,540	11,448,854	1,213,345	10,388,241	140,482	58,057,862	8,002,525	5,767,021	–	13,769,546	71,827,408	71,051,051
Faith Community costs	246,909	–	70,690	–	–	136,938	–	25,111	–	479,648	9	–	–	9	479,657	502,715
Accounting fees	2,772	1,999	–	–	–	6,985	1,923	3,846	–	17,485	566,166	–	–	566,166	583,651	591,440
Legal fees	15,801	3,012	2,929	495	557	74,058	3,424	3,710	142	110,128	97,144	3,524	–	100,668	210,796	78,122
Medical fees	53,623	1,240	3,573	–	376,720	3,461	453	4,990	–	444,057	2,217	–	–	2,217	446,274	494,182
Consulting fees	187,501	34,099	656	41,524	16,420	206,262	69,194	57,552	–	613,258	515,052	1,060,892	–	1,575,924	2,189,182	3,162,417
Supplies	550,380	37,110	85,405	11,598	68,144	246,949	16,623	312,840	1,106	1,330,153	145,217	102,254	35,435	282,906	1,613,059	1,622,121
Telephone	429,479	57,162	49,244	95,640	27,639	330,801	30,294	154,205	3,508	1,177,972	252,336	98,713	–	351,049	1,529,021	2,017,535
Postage and printing	167,534	124,866	6,193	39,786	4,845	234,229	2,934,346	117,517	776	3,629,892	270,172	12,580,016	44,716	12,894,904	16,524,796	13,123,101
Occupancy:																
Fuel and utilities	857,115	36,773	112,758	48,958	43,513	279,059	17,710	491,390	–	1,887,316	297,629	217,936	–	515,565	2,402,881	2,026,786
Repairs and maintenance	322,829	9,187	43,346	7,161	33,444	355,070	7,676	257,489	–	1,036,802	112,541	47,083	–	159,624	1,196,426	1,182,483
Contributed facilities	98,721	24,547	–	–	–	–	–	–	–	123,268	–	1,276	–	1,276	124,544	–
Rent and other	112,600	51,215	28,472	6,082	9,392	545,563	33,198	484,715	2,900	1,272,937	133,036	44,830	–	177,866	1,450,803	1,835,613
Equipment	477,416	24,309	35,126	41,100	34,852	259,290	33,182	217,161	–	1,125,836	169,261	178,292	–	347,553	1,473,389	1,223,093
Transportation	305,643	114,401	55,672	20,516	13,922	272,489	23,868	124,998	532	931,441	174,329	50,503	–	224,832	1,156,273	1,094,121
Specific assistance to individuals:																
Food	1,253,388	46,531	244,348	–	9,456	206,072	21,539	331,974	7,736	2,121,044	25,763	3,552	65,457	94,772	2,215,816	2,102,520
Medical	28,336	2,168	10,738	–	247,187	1,867	75	18,127	–	308,498	2,881	28	–	2,909	311,407	218,029
Contributed medical	24,150	–	–	–	2,388	3,655	–	3,921	–	34,114	1,207	–	–	1,207	35,321	18,564
Clothing, allowance and other	1,017,673	126,290	89,392	–	68,189	1,985,042	40,405	399,870	–	3,726,861	44,216	130,316	–	174,532	3,901,393	2,450,511
Contributed clothing and merchandise	202,931	–	23,524	–	23,048	4,510	15	2,771	–	256,799	1,762	567	–	2,329	259,128	386,549
Temporary help	76,804	26,783	4,721	390	7,252	29,026	4,545	16,231	–	165,752	63,639	31,381	–	95,020	260,772	553,033
Other purchased services	482,840	49,899	64,806	1,863	38,156	281,048	377,310	288,944	885	1,585,751	380,340	2,051,317	776,841	3,208,498	4,794,249	6,077,842
Dues, licenses and permits	17,148	1,658	2,496	212	2,644	13,499	2,812	7,636	146	48,251	22,221	11,206	3,123	36,550	84,801	95,687
Subscriptions and publications	9,264	571	1,466	1,472	1,760	15,571	2,588	5,713	85	38,490	19,185	11,960	–	31,145	69,635	87,325
Staff recruitment	84,752	7,205	3,985	2,327	5,187	32,641	903	22,055	866	159,919	57,172	3,867	–	61,039	220,958	201,327
Insurance	290,734	38,172	43,254	42	48,337	146,079	9,335	153,704	1,611	730,268	175,957	9,231	–	185,188	915,456	871,710
Contributed services	99,368	6,748	83,948	–	95,130	23,263	4,808	34,175	–	347,440	28,575	8,383	–	36,958	384,398	251,178
Miscellaneous	440,238	32,913	68,649	19,838	145,450	174,012	39,432	300,556	1,286	1,322,375	444,416	141,707	53,943	640,066	1,762,441	1,843,039
Bank charges and fees	1,755	854	–	–	72	2,371	976	2,056	–	8,064	228,852	791,737	2,886	1,023,475	1,031,539	840,510
Interest	155,780	30,003	13,053	137	–	11,901	1,126	2,272	–	214,272	8,982	1,294	–	10,276	224,548	156,153
Loss on foreign currency	–	–	–	–	–	–	–	–	–	–	1,361	–	–	1,361	1,361	6,190
Total functional expenses before depreciation and amortization	32,040,155	3,292,679	4,543,037	2,248,757	4,600,244	17,130,565	4,952,105	14,136,350	162,061	83,105,953	12,244,143	23,348,886	982,401	36,575,430	119,681,383	116,145,147
Depreciation and amortization	1,669,068	142,599	113,377	69,499	43,523	882,444	66,009	1,521,139	–	4,507,658	499,856	410,193	–	910,049	5,417,707	4,954,377
Total functional expenses	33,709,223	3,435,278	4,656,414	2,318,256	4,643,767	18,013,009	5,018,114	15,657,489	162,061	87,613,611	12,743,999	23,759,079	982,401	37,485,479	125,099,090	121,099,524
Less cost of direct benefit to donors	–	–	–	–	–	–	–	–	–	–	–	–	982,401	982,400	982,401	1,131,251
Total expenses reported by function on the combined statement of activities	$33,709,223	$3,435,278	$4,656,414	$2,318,256	$4,643,767	$18,013,009	$5,018,114	$15,657,489	$162,061	$87,613,611	$12,743,999	$23,759,079	$ –	$36,503,078	$124,116,689	$119,968,273

See accompanying notes.

Covenant House and Affiliates

Combined Statements of Cash Flows

	Year ended June 30 2003	2002
Cash flows from operating activities		
Change in net assets	**$ (1,577,923)**	$ (5,311,345)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Current year translation adjustment	**(2,075,074)**	2,190
Contributed investments	**(547,860)**	(48,107)
Contributions restricted for building construction and fixed asset acquisitions	**(2,614,342)**	(2,159,415)
Discount on contribution receivable	**117,030**	–
Unrealized and realized losses on investments	**858,166**	4,725,366
Net actuarial adjustment related to long-term investments and annuities payable under split-interest agreements	**173,925**	599,035
Depreciation and amortization	**5,417,707**	4,954,377
Use (contributions) of contributed inventory	**15,834**	(85,939)
Contributed property, plant and equipment	**–**	(52,100)
Permanently restricted contributions	**–**	(438,243)
Changes in operating assets and liabilities:		
Contributions receivable	**786,023**	(881,075)
Grants receivable	**(218,241)**	144,441
Other receivables	**2,480,752**	(1,826,390)
Prepaid expenses	**583,977**	1,402,206
Other assets	**(637,163)**	(142,441)
Accounts payable, accrued expenses and refundable advances	**40,062**	1,000,210
Net cash provided by operating activities	**2,802,873**	1,882,770
Cash flows from investing activities		
(Purchases) sales of investments, net	**(4,151,333)**	3,436,885
Purchases of property, plant and equipment and construction in progress	**(8,382,180)**	(11,862,571)
Net cash used in investing activities	**(12,533,513)**	(8,425,686)
Cash flows from financing activities		
Payment of annuity obligations	**(574,266)**	(556,456)
Additions to gift annuity arrangements	**786,031**	580,274
Contributions restricted for building construction and fixed asset acquisitions	**1,732,033**	3,556,103
Proceeds from special-purpose grant restricted for acquisition of property	**35,330**	227,807
Proceeds from loans	**–**	4,644,299
Payment of debt obligations	**(57,114)**	(1,106,897)
Permanently restricted contributions	**–**	438,243
Net cash provided by financing activities	**1,922,014**	7,783,373
Net (decrease) increase in cash and cash equivalents	**(7,808,626)**	1,240,457
Cash and cash equivalents at beginning of year	**23,515,641**	22,275,184
Cash and cash equivalents at end of year	**$ 15,707,015**	$ 23,515,641
Supplemental disclosure of non-cash activities		
Long-term contributions receivable restricted for acquisition of property	**$ 1,365,152**	$ 304,929

See accompanying notes.

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 77,000 runaway and homeless youths during fiscal 2003. 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 New Jersey
Covenant House Alaska	Covenant House New Orleans
Covenant House California	Covenant House Pennsylvania/Under 21
Covenant House Florida	Covenant House Texas
Covenant House Georgia	Covenant House Washington, D.C.
Covenant House Michigan	Covenant House Western Avenue
Covenant House Missouri	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	Casa Alianza Nicaragua
Covenant House Vancouver	Fundación Casa Alianza México, I.A.P.
Asociación Casa Alianza (Guatemala)	Casa Alianza Internacional
Casa Alianza De Honduras	

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

1. Organization and Basis of Combination (continued)

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 Classification

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, except where the instructions of the donor specify otherwise.

- 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 statements 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.

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 as 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 the 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. Except as otherwise disclosed, 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 accompanying combined statements 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.

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 accompanying combined statements 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 on the straight-line basis over the lesser of the term of the lease or their estimated useful lives.

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.

Allowance for Doubtful Accounts

Covenant House maintains an allowance for doubtful accounts for estimated losses that may result from the inability of its donors to make required payments. Such allowances are based upon several factors including, but not limited to, historical experience and the financial condition of the donor.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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.

Use of Estimates

The preparation of the combined 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 combined 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.

Inventories

Inventories consist of materials and supplies which, if purchased, are stated at the lower of cost or market under the average method, or if donated, are stated at current market value.

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 accompanying combined statements 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.

Investment in real estate: 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.

Debt obligations: The carrying amount reported in the accompanying combined statements of financial position for debt obligations approximates fair value.

See Note 7 for additional information regarding investments.

Summarized Financial Information for Fiscal 2002 and Reclassification

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 accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with Covenant House's combined financial statements for the year ended June 30, 2002, from which the summarized information was derived.

Certain prior year balances 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.

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 ("ROP") 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.

4. Allocation of Joint Costs

Under the requirements of the AICPA's Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities that Include Fund Raising* ("SOP 98-2"), 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 $1.5 million incurred in fiscal 2003, approximately $975,000 was allocated to public education. Of the total joint costs of approximately $5.4 million incurred in fiscal 2002, approximately $3.6 million was allocated to public education.

5. Contributions Receivable

Contributions receivable have been recorded at present value, net of estimated uncollectible amounts. Those receivables that are due in more than one year have been discounted to their present value using a discount rate ranging from 3.5% to 8%. The receivables are due as follows:

	June 30	
	2003	**2002**
One year	**$ 3,290,994**	$4,312,421
One to five years	**1,488,403**	822,921
Thereafter	**1,443,463**	1,218,176
	6,222,860	6,353,518
Less discount to present value	**(483,079)**	(366,049)
Present value of contributions receivable	**$ 5,739,781**	$5,987,469

Included in contributions receivable at June 30, 2003 and 2002 is approximately $866,000 and $899,000, respectively, discounted to present value, relating to the fair value of rent-free use of a facility in Anchorage, Alaska contributed by an unrelated party.

6. Grants and Contracts

Grants receivable at June 30, 2003 and 2002 of $3,641,517 and $3,196,332, respectively, are expected to be collected within one year.

6. Grants and Contracts (continued)

Covenant House and its affiliates receive 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 believes that the amount of costs disallowed, if any, would not be significant.

As of June 30, 2003, 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.

7. Investments

Investments at June 30, 2003 consist of the following:

	Short-term	Long-term	Total Fair Value
Cash and cash equivalents	$ 4,778,145	$ 4,514,074	$ 9,292,219
Common stocks	1,369,863	16,087,577	17,457,440
U.S. government securities	5,275,028	11,930,404	17,205,432
Corporate debt securities	663,700	1,562,301	2,226,001
Mutual funds	2,475,823	3,737,527	6,213,350
Beneficial interests in trusts held in perpetuity	–	555,891	555,891
Other	8,385	237,751	246,136
	14,570,944	38,625,525	53,196,469
Investment in real estate	78,295	–	78,295
	$14,649,239	$38,625,525	$53,274,764

7. Investments (continued)

Investments at June 30, 2002 consist of the following:

	Short-term	Long-term	Total Fair Value
Cash and cash equivalents	$ 36,905	$ 7,795,891	$ 7,832,796
Common stocks	265,676	15,672,002	15,937,678
U.S. government securities	4,440,531	13,736,739	18,177,270
Corporate debt securities	–	2,034,064	2,034,064
Mutual funds	78,035	4,020,470	4,098,505
Beneficial interests in trusts held in perpetuity	–	575,316	575,316
Other	5,385	235,393	240,778
	4,826,532	44,069,875	48,896,407
Investment in real estate	537,330	–	537,330
	$ 5,363,862	$44,069,875	$49,433,737

8. Property, Plant and Equipment

Property, plant and equipment, net, consisted of the following:

	June 30 2003	2002
Land	$ **18,325,395**	$ 17,983,373
Buildings	**63,719,330**	57,150,359
Building improvements	**20,347,383**	19,395,529
Equipment	**20,384,055**	19,674,556
Equipment under capital leases	**2,812,246**	2,817,665
Leasehold improvements	**16,989,950**	16,625,916
Construction in progress	**1,824,176**	1,030,116
	144,402,535	134,677,514
Less accumulated depreciation and amortization (including accumulated amortization on equipment under capital leases of $2,714,189 in fiscal 2003 and $2,687,372 in fiscal 2002)	**57,346,372**	52,660,898
	$ **87,056,163**	$ 82,016,616

8. Property, Plant and Equipment (continued)

In fiscal 1996, an affiliate 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 the affiliate were to cease utilization of the facility in its program activities, the affiliate would be obligated to the City for the amount of the grant.

In fiscal 1992, an affiliate was awarded two grants totaling approximately 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 the affiliate 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 the affiliate).

9. Debt Obligations

In fiscal 2000, an affiliate borrowed $472,000 from a bank to purchase a building. The term loan bears interest at a rate for five years of 1.75% plus the yield on five-year treasury bonds (8.54% at June 30, 2003) and is secured by the underlying property. The balance outstanding at June 30, 2003 and 2002 of $458,033 and $462,367, respectively, is included as a component of debt obligations in the accompanying combined statements of financial position. Future minimum payments are $44,210, including interest, per year through 2030.

In fiscal 2002, an affiliate borrowed $1,001,000 from a bank to be used for operating purposes. The term loan bears interest at a rate for ten years at 7.6%. During fiscal 2003, Covenant House amended the debt agreement to state an interest rate of 6.15% annually. The loan is secured by certain property located in Orlando, Florida. The balance outstanding at June 30, 2003 and 2002 of $938,715 and $971,944, respectively, is included as a component of debt obligations in the accompanying combined statements of financial position. Future minimum payments are $105,164, including interest, per year through 2011, after which the remaining principal is due.

9. Debt Obligations (continued)

In fiscal 2002, an affiliate borrowed approximately $3.5 million to finance the purchase and renovation of a building for its Shelter and Crisis Care Program. The financing consisted of two five-year term loans with JPMorgan Chase Bank ("Chase") and the Non-Profit Finance Fund, respectively. The term loans bear interest based on the LIBOR or money market rate plus 55 basis points (1.89% at June 30, 2003) and a fixed rate of 6% per annum, respectively. The balance outstanding at June 30, 2003 and 2002 on these loans totals $3,316,247 and $3,508,568, respectively, and is included as a component of debt obligations in the accompanying combined statements of financial position. The loans are collateralized by securities owned by Covenant House and mortgages on the property. Covenant House serves as co-borrower on the loan from Chase.

Covenant House is the lessee of certain equipment under capital leases expiring in various years through fiscal 2007. 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 expense.

The following summarizes the scheduled loan repayment:

2004	$ 414,133
2005	407,060
2006	386,980
2007	2,777,000
2008	108,955
Thereafter	887,339
	$ 4,981,467

Covenant House has an unsecured line of credit agreement with Chase to borrow up to an aggregate amount of $2,500,000. Interest is payable at the Chase prime rate. The line of credit expires on December 31, 2003. There were no borrowings under this facility during fiscal 2003 and 2002.

An affiliate has a $500,000 unsecured line of credit with interest payable at the prime rate.

10. Deferred Revenue

In fiscal 2002 and 2001, an affiliate was awarded special-purpose grant/loans of $150,500 and $750,000, respectively, from the State of New Jersey Department of Community Affairs ("DCA"), passed through the Federal Department of Housing and Urban Development, for the construction and renovation of the Newark Crisis Center. These grant/loans are reflected as deferred revenue in the accompanying combined statements of financial position and will be amortized over a 10-year period commencing in fiscal 2002. In the event the affiliate ceases utilization of the facility for its program activities, the affiliate would be obligated to DCA for the unamortized amount of the grant.

In fiscal 2001, an affiliate was awarded a grant/loan that amounted to $100,000 from the Department of Human Services, State of New Jersey, in order to finance the renovation/improvement of its newly acquired ROP facility. Pursuant to the facility restriction clause and other terms of the capital funding agreement, the grant/loan is reflected as deferred revenue in the accompanying combined statements of financial position and will be amortized over a 20-year period commencing in fiscal 2002.

11. 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 $556,000 and $575,000 at June 30, 2003 and 2002, respectively, and included in long-term investments).

Covenant House records the assets arising from the split-interest agreements on its combined statements 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, 2003 and 2002 ranged from 3.5% to 6.0%.

11. Split-interest Agreements (continued)

At June 30, 2003 and 2002, approximately $8.1 million and $7.8 million, respectively, of long-term assets and approximately $5.6 million and $5.2 million, respectively, of annuities payable in the accompanying combined statements of financial position related to such agreements.

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, 2003 and 2002, long-term receivables relating to such agreements were approximately $1.2 million and $731,000, respectively.

12. 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 statements 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 year.

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 statements of financial position date. Operations are translated based on a weighted average exchange rate for the fiscal year. The resulting translation gains and losses are reported as a component of the applicable net asset classification. At June 30, 2003 and 2002, accumulated translation gains (losses) were approximately $75,000 and ($2 million), respectively.

At June 30, 2003, approximately 15% of Covenant House's assets were held by foreign affiliates.

13. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose and time restrictions:

	June 30	
	2003	2002
Purpose restrictions:		
Covenant House New Jersey purchase and renovation of Crisis Center	$ 47,036	$ 47,036
Latin American programs	228,556	899,500
Covenant House Alaska Shelter and Crisis Care	133,800	164,634
Covenant House Michigan Rights of Passage facility construction	311,782	375,184
Covenant House Texas program restrictions	1,042,390	1,076,607
Covenant House Washington, D.C. program restrictions	79,092	3,601,739
Other donor-imposed purpose restrictions	3,448,541	1,948,363
Time restrictions:		
Donated use of facility (Covenant House Alaska through 2018)	865,661	898,749
Covenant House California Tenth Anniversary Campaign	314,160	425,726
Split-interest agreements	4,055,630	3,403,745
Other time restrictions	3,020,729	3,885,987
	$13,547,377	$16,727,270

14. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. Except for changes in unrealized gains (losses) on the fair value of perpetual trusts administered by third parties, which are reflected in the permanently restricted net asset class, the income is not designated for specific programs and is expendable for unrestricted purposes.

15. Reclassification of Net Assets

Net assets were released from donor restrictions during fiscal 2003 and 2002 by incurring expenses satisfying purpose restrictions or time restrictions elapsing as specified by donors as follows:

	Year ended June 30	
	2003	**2002**
Purpose restrictions satisfied:		
Latin American programs	**$ 208,370**	$ –
Covenant House Alaska Shelter and Crisis Care	**63,351**	260,895
Covenant House California program restrictions	**128,566**	172,555
Covenant House Texas capital campaign	**79,619**	2,804,430
Other net donor-imposed purpose restrictions and reclassifications	**6,782,648**	1,376,782
Time restrictions elapsed:		
Split-interest agreements	**534,093**	72,471
Other time restrictions	**1,566,923**	670,233
Permanent restrictions removed	**246,995**	–
	$ 9,610,565	$ 5,357,366

16. 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 youths. 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 $480,000 and $503,000 for the years ended June 30, 2003 and 2002, respectively, and are reported in the accompanying combined financial statements. The value of contributed services performed by Community members was approximately $358,000 and $531,000 for the years ended June 30, 2003 and 2002, respectively, and was not recognized in the accompanying combined financial statements.

17. Pension Plan and Other Employee Benefits

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 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 accordance with the disclosure requirements of 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, 2003 and 2002. Employee data as of July 1, 2002 and 2001 were projected forward to the June 30, 2003 and 2002 measurement dates, respectively.

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, *Accounting for Pensions*:

	June 30	
	2003	**2002**
Projected benefit obligation	**$ 25,714,155**	$ 22,915,176
Plan assets at fair value	**19,947,289**	17,310,307
Underfunded status	**$ (5,766,866)**	$ (5,604,869)
Prepaid benefit cost recognized in the combined statements of financial position	**$ 853,288**	$ 1,144,745
Weighted-average assumptions		
Discount rate	**6.5%**	6.5%
Expected long-term rate of return on plan assets	**8.5**	8.5
Average rate of increase in compensation levels	**5.5**	5.5
Year ended		
Benefit cost	**$ 2,515,146**	$ 3,950,064
Employer contributions	**2,223,689**	2,298,452
Benefits paid	**326,099**	3,971,855

17. Pension Plan and Other Employee Benefits (continued)

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 $101,000 and $104,000 in fiscal years 2003 and 2002, respectively.

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.

An affiliate provides extended health care and dental benefits to substantially all full-time employees upon retirement. Effective July 1, 2003, this benefit was eliminated. The affiliate's liability of $80,000 as at June 30, 2003 relating to post-employment benefits for retirees who were "grandfathered" with this benefit has been recorded in accounts payable and accrued liabilities in the combined statements of financial position. The gain of $133,900 associated with the curtailment of this defined benefit plan is included in the calculation of post-employment benefits expense.

In addition, the labor laws of Covenant House affiliates in Central America provide for severance pay if an employee is dismissed without just cause. Accrued expenses related to such potential payments are determined in accordance with local statutes and are reflected in the accompanying combined financial statements.

18. 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.

19. Commitments

Covenant House and its affiliates are parties 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, 2003 are as follows:

Year ending June 30:	
2004	$ 771,447
2005	420,338
2006	198,166
2007	147,498
2008	147,289
	$ 1,684,738

20. 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 combined changes in the net assets of Covenant House.

Covenant House owns and operates the building located at 346 West 17th Street. During fiscal 2003, Covenant House received several violation notices stating that the building's facade did not meet the requirements as stated in the City of New York regulations. Therefore, the Board of Directors has authorized expenditures totaling $2.7 million to make necessary repairs. As of June 30, 2003, expenditures in connection with the repair work totaled approximately $450,000.

In fiscal 2003, an affiliate entered into an agreement with a construction company to provide renovations to the 52nd Street New York facility which houses the Mother/Child program. The agreement is a guaranteed maximum price contract with the affiliate committed to $2.1 million adjusted for approved changes in work. The renovation project is anticipated to be completed during winter 2004. The renovations are being funded by a capital campaign launched by the affiliate in fiscal 2002. The affiliate has expended approximately $1.3 million and $101,000 at June 30, 2003 and 2002, respectively, in connection with the renovations.

20. Contingencies (continued)

In fiscal 2003, an affiliate completed construction of a permanent building on its main site for the Crisis Center and is proceeding with improvements to other buildings on and premises of the main site. All improvements are expected to be completed in September 2004 and to have an approximate cumulative cost of $4,000,000. The improvements are being funded by a fundraising campaign. As of June 30, 2003, the affiliate has expended approximately $2.1 million in connection with the improvements.

Other Financial Information

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	2003 Expenditures
	U.S. Department of Housing and Urban Development			
	Community Development Block Grants/Entitlement Grants:			
	State of Alaska Department of Community and Regional Affairs;			
Covenant House Alaska	Municipality of Anchorage	14.218	B000MC02001	$ 168,937
Covenant House California	Los Angeles Housing Authority	14.218	2002CDBG13	110,833
Covenant House California	Los Angeles Housing Authority	14.218	2002CDBG14	76,933
	Early HIV Intervention Programs:			
Covenant House California	Los Angeles Community Development Department	14.218	99277	67,085
	Public Facilities Program:			
Covenant House New Orleans	City of New Orleans	14.218	CD#50-251(02)	77,396
				501,184
	Emergency Shelter Grants Program:			
Covenant House Michigan	State of Michigan	14.231	HML-2002-1120-ESM	32,487
Covenant House New Orleans	City of New Orleans	14.231	ESG-017F	35,836
Covenant House New Orleans	City of New Orleans	14.231	ESG-018F	40,334
Covenant House Texas	Child Care Council of Greater Houston	14.231	FC 33544	132,642
Covenant House Texas	Texas Department of Housing and Community Affairs	14.231	421281	7,461
Covenant House Texas	Texas Department of Housing and Community Affairs	14.231	422281	72,738
Under 21	New York State Office of Temporary & Disability Assistance	14.231	C009386	81,647
				403,145
	Supportive Housing Program:			
Covenant House Alaska	Received directly	14.235	N/A	215,334
Covenant House Alaska	Received directly	14.235	N/A	21,000
Covenant House California	Los Angeles Housing Authority	14.235	CA16B800-0061	385,024
Covenant House California	The Salvation Army	14.235	CA1B00-0057	12,000
Covenant House California	Received directly	14.235	N/A	129,846
Covenant House Florida	Homeless Services Network of Orange County, Inc.	14.235	FL29B90-0703	85,058
Covenant House Florida	Homeless Services Network of Orange County, Inc.	14.235	FL29B10-7005	136,008

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2003

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	2003 Expenditures
	U.S. Department of Housing and Urban Development (continued)			
	Supportive Housing Program (continued):			
Covenant House Florida	Received directly	14.235	N/A	$ 186,014
Covenant House Florida	Broward County Human Services Department	14.235	02-8202-HUD-1	137,196
Covenant House Michigan	City of Detroit	14.235	2563788	405,500
Covenant House New Orleans	Received directly	14.235	N/A	36,448
Covenant House New Orleans	Received directly	14.235	N/A	74,638
Covenant House New Orleans	Received directly	14.235	N/A	137,645
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B10-3011	7,755
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B00-3013	23,340
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B00-3020	34,371
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B90-3002	36,569
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B00-3004	27,988
Covenant House New Orleans	UNITY for the Homeless, Inc.	14.235	LA48B00-3006	20,345
Covenant House Texas	Received directly	14.235	N/A	226,442
Covenant House Texas	Depelchin Children's Center	14.235	TX01B109-017	65,757
Covenant House Texas	Depelchin Children's Center	14.235	TX01B209-006	26,817
Covenant House Texas	Received directly	14.235	N/A	165,438
Under 21	Received directly	14.235	N/A	2,764,576
				5,361,109
	Housing Opportunities for Persons with AIDS:			
Covenant House California	City of Los Angeles Housing and Urban Development	14.241	102154	52,746
	Economic Development Initiative:			
Covenant House Florida	Received directly	14.246	N/A	300,394
Covenant House Michigan	Received directly	14.246	N/A	672,117
Covenant House Under 21	Received directly	14.246	N/A	250,000
				1,222,511
	Total U.S. Department of Housing and Urban Development			7,540,695

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2003

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	2003 Expenditures
	U.S. Department of Health and Human Services			
	Disaster Assistance:			
Under 21	Received directly	93.003	N/A	$ 71,192
	Project Grant for Health Services to the Homeless:			
Under 21	Received directly	93.151	N/A	328,332
	HIV Demonstrating Program for Children, Adolescents and Women:			
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	93.153	COV.014	5,041
Covenant House Texas	Houston Regional HIV/AIDS Resource Group	93.153	COV.015	42,578
				47,619
	Immunization:			
Under 21	New York State Department of Health and Mental Hygiene	93.268	N/A	23,014
	Transitional Living for Homeless Youths:			
Covenant House Alaska	Received directly	93.550	N/A	120,029
Covenant House Alaska	Received directly	93.550	N/A	92,169
Covenant House Florida	Received directly	93.550	N/A	6,062
Covenant House Missouri	Received directly	93.550	N/A	150,000
Covenant House New Jersey	Received directly	93.550	N/A	150,000
Covenant House New Jersey	Received directly	93.550	N/A	50,000
Covenant House Pennsylvania	Received directly	93.550	N/A	22,302
Covenant House Washington, D.C.	Received directly	93.550	N/A	105,097
				695,659

Combined Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2003

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	2003 Expenditures
	U.S. Department of Health and Human Services (continued)			
	Street Outreach Program for Runaway and Homeless Youths:			
Covenant House Alaska	Received directly	93.557	N/A	$ 45,442
Covenant House Alaska	Received directly	93.557	N/A	75,274
Covenant House California	Received directly	93.557	N/A	99,882
Covenant House Florida	Received directly	93.557	N/A	58,983
Covenant House New Orleans	Tulane University Health Services Center/LA Department of Social Services	93.557	06YO0528/01	3,482
Covenant House New Orleans	Tulane University Health Services Center/LA Department of Social Services	93.557	06YO0528/02	7,705
Covenant House Texas	Received directly	93.557	N/A	90,770
Covenant House Washington, D.C.	Received directly	93.557	N/A	14,559
Covenant House Washington, D.C.	Received directly	93.557	N/A	80,070
				476,167
	Block Grants for Community Mental Health Services:			
Under 21	NYS Department of Health	93.558	CO16668	98,688
Covenant House Washington, D.C.	D.C. Children and Youth Investment Trust Corporation	93.558	018-C-00	177,132
Covenant House Washington, D.C.	D.C. Children and Youth Investment Trust Corporation	93.558	06-L-03	34,090
				309,910
	Job Opportunities and Basic Skills Training:			
	FINDWORK:			
Covenant House New Orleans	Office of Family Support/LA Department of Social Services	93.561	545681	17,952
Covenant House New Orleans	Office of Community Services/LA Department of Social Services	93.561	20007023	483
Covenant House New Orleans	Office of Family Support/LA Department of Social Services	93.561	20061627	26,281
Covenant House New Orleans	Office of Family Support/LA Department of Social Services	93.561	586713	75,145
Covenant House New Orleans	Office of Community Services/LA Department of Social Services	93.561	586824	6,000
				125,861

Combined Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2003

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	2003 Expenditures
	U.S. Department of Health and Human Services (continued)			
	Independent Living Pilot Program:			
Covenant House Alaska	State of Alaska Department of Youth and Family Services	93.674	06-31361	$ 30,000
	Medical Assistance Program:			
Covenant House Florida	Broward Health Start Coalition, Inc.	93.778	COVES00	1,127
	HIV Prevention Outreach and Testing/Counseling Program:			
Covenant House Florida	Florida Department of Children and Families	93.959	JD901	128,803
Covenant House Washington, D.C.	D.C. Department of Health/Addiction Prevention and Recovery Administration	93.959	PYS03-EB-01	27,114
				155,917
	Maternal and Child Health Services Block Grant			
Covenant House Florida	Broward Healthy Start Coalition Inc.	93.994	COVES00	7,929
	Total U.S. Department of Health and Human Services			2,272,727
	U.S. Department of Agriculture			
	Nutrition Cluster:			
	School Breakfast Program:			
Covenant House Alaska	Alaska Department of Education	10.553	AK-16921-251	9,127
Covenant House Florida	Florida Department of Education	10.553	01-0237	46,060
Covenant House New Orleans	Louisiana Department of Education	10.553	7547	49,567
Under 21	New York State Department of Education	10.553	706139	158,763
	National School Lunch Program:			
Covenant House Alaska	Alaska Department of Education	10.555	AK-16921-251	21,230
Covenant House Florida	Florida Department of Education	10.555	01-0237	63,424
Under 21	New York State Department of Education	10.555	706139	114,206
	Total Nutrition Cluster			462,377
	Total U.S. Department of Agriculture			462,377

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2003

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	2003 Expenditures
	Federal Emergency Management Administration			
	Federal Emergency Management Food and Shelter Program:			
Covenant House Alaska	United Way	83.523	14.188.O.LRO.14	$ 2,160
Covenant House California	United Way	83.523	LRO 163	50,618
Covenant House Florida	EFS Emergency Shelter & Community Service Network	83.523	19-1570-00-LRO-17	98,013
Covenant House New Orleans	United Way	83.523	21-3658-00	5,607
Covenant House Texas	United Way	83.523	LRO-005	38,483
Under 21	United Way	83.523	20-6314-030	6,300
	Total Federal Emergency Management Administration			201,181
	U.S. Department of Justice			
	Office of Juvenile Justice Delinquency Prevention:			
	Juvenile Justice-Peers Educating Peers Grant:			
Covenant House Texas	The Governor's Criminal Justice Plan for Texas	16.540	2001-JF-FX-0048	9,296
Covenant House Texas	The Governor's Criminal Justice Plan for Texas	16.540	2002-JF-FX-0048	19,876
				29,172
	Bureau of Justice Assistance:			
	Local Law Enforcement Block Grant, Curfew and Assessment Program:			
Covenant House New Orleans	City of New Orleans	16.592	00-MYR-101	100,786
Covenant House New Orleans	City of New Orleans	16.592	02-CJCO-007	210,050
				310,836
	Total U.S. Department of Justice			340,008

Covenant House and Affiliates

Combined Schedule of Expenditures of Federal Awards (continued)

Year ended June 30, 2003

Federal Award Recipient	Federal Grantor/Program Title/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	2003 Expenditures
	U.S. Department of Labor			
	Youth Opportunities Program (under the Workforce Investment Act):			
Covenant House California	Los Angeles Community Development Department	17.259	103529	$ 184,054
Covenant House New Orleans	City of New Orleans: New Orleans Workforce Investment Board	17.259	00-MYR-063	9,503
Covenant House New Orleans	City of New Orleans: New Orleans Workforce Investment Board	17.259	03-MYR-014	18,999
Covenant House New Orleans	City of New Orleans: New Orleans Workforce Investment Board	17.259	00-MYR-076	1,641,732
				1,854,288
	Youth Opportunity:			
Covenant House Washington, D.C.	Department of Employment Services	17.263	S02CHWY1	940,999
	Total U.S. Department of Labor			2,795,287
	U.S. Department of Education			
	Adult Education:			
Covenant House Washington, D.C.	University of the District of Columbia	84.002A	V002A0200051	50,000
	Technology Grant:			
Covenant House California	Received directly	84.341A	N/A	139,338
	Total U.S. Department of Education			189,338
	Congressional Appropriation			
	Washington, D.C. Appropriations Committee:			
Covenant House Washington, D.C.	Community Center Construction	N/A	99	1,225,000
	Total Expenditures of Federal Awards			$15,026,613

See accompanying notes to combined schedule of expenditures of federal awards.

Notes to Combined Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

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, 2003 and is prepared on the accrual basis of accounting as prescribed by accounting principles generally accepted in the United States. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Grant/Loan Awards

In fiscal 2001, Covenant House New Jersey was awarded two special-purpose grant/loans of \$750,000 and \$20,500, respectively, from the Department of Housing and Urban Development (CFDA No. 14.231) passed through the State of New Jersey Department of Community Affairs ("DCA") for its program facilities in Newark, New Jersey. The outstanding balance of these grant/loans at June 30, 2003 is \$616,400. These grant/loans are being amortized over a ten-year period commencing in fiscal 2002. In the event that Covenant House New Jersey ceases utilization of the facilities for which these funds were intended for its program activities, Covenant House New Jersey would be obligated to DCA for the unamortized amount of the grant/loans.

3. Subrecipients

Of the federal expenditures presented in the Schedule, Covenant House provided funding to a subrecipient under the following award:

U.S. Department of Labor:		
Youth Opportunities Program (under the Workforce Investment Act)	17.259	\$ 810,836

Covenant House and Affiliates

Schedule of Expenditures of State of New Jersey Financial Assistance

Year ended June 30, 2003

Award Recipient	New Jersey Grantor/Program Title	New Jersey Grant Number	Grant Period	2003 Expenditures
	Department of Health and Senior Services			
Covenant House New Jersey	Passed through City of Atlantic City—Atlantic City Partnership for the Prevention of HIV/AIDS:	55706	July 1, 2002 - June 30, 2003	
	Salaries			$ 49,680
	Fringe benefits			6,782
	Total Department of Health and Senior Services			56,462
	Department of Human Services			
Covenant House New Jersey	Division of Youth and Family Services, Transitional Living, Newark Rights-of-Passage:	0300-GM	July 1, 2002- June 30, 2003	
	Salaries			234,261
	Fringe benefits			60,908
	OTPS			118,467
	Total Department of Human Services			413,636
	Total Expenditures of State of New Jersey Financial Assistance			$470,098

See accompanying notes to schedule of expenditures of State of New Jersey financial assistance.

Notes to Schedule of Expenditures of State of New Jersey Financial Assistance

Year ended June 30, 2003

1. Basis of Presentation

The accompanying schedule of expenditures of State of New Jersey financial assistance includes the grant activity of Covenant House New Jersey for the year ended June 30, 2003 and is prepared on the accrual basis of accounting as prescribed by accounting principles generally accepted in the United States. The information in this schedule is presented in accordance with State of New Jersey Office of Management and Budget Circular Letter 98-07.

2. Grant/Loan Awards

In fiscal 2001, Covenant House New Jersey was awarded a special-purpose grant/loan of $750,000 from the Department of Housing and Urban Development ("HUD") (CFDA No. 14.231) passed through the State of New Jersey Department of Community Affairs ("DCA"). In addition, Covenant House New Jersey was awarded a special-purpose grant loan of $150,500 from DCA. Of this amount, $20,500 was passed through DCA from HUD. The balance of the funding, $130,000, came directly from DCA. The outstanding balance of these grant/loans at June 30, 2002 is $616,400. These grant/loans are being amortized over a ten-year period commencing in fiscal 2002. In the event that Covenant House New Jersey ceases utilization of the facilities for which these funds were intended for its program activities, Covenant House New Jersey would be obligated to DCA for the unamortized amount of the grant/loans.

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

Ernst & Young
■ Ernst & Young LLP
5 Times Square
New York, New York 10036-6530
■ Phone: (212) 773-3000
www.ey.com

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, 2003, and have issued our report thereon, which expressed reliance on other auditors, dated September 15, 2003. We conducted our audit 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.

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 noted other matters involving the internal control over financial reporting, which we 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

September 15, 2003

Ernst & Young

Ernst & Young LLP
5 Times Square
New York, New York 10036-6530

Phone: (212) 773-3000
www.ey.com

Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Federal and State of New Jersey 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* and the State of New Jersey *State Grant Compliance Supplement* that are applicable to its major federal and State of New Jersey programs for the year ended June 30, 2003. The Organization's major federal and State of New Jersey programs are identified in the summary of auditors' results section of the accompanying combined schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal and State of New Jersey programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and State of New Jersey Office of Management and Budget Circular Letter 98-07 ("98-07"). Those standards, OMB Circular A-133 and 98-07 require that we plan and perform the audits 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 major federal and State of New Jersey programs 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 audits provide a reasonable basis for our opinion. Our audits do not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and State of New Jersey programs for the year ended June 30, 2003.

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 and State of New Jersey programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on major federal and State of New Jersey programs 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 and 98-07. Other auditors' consideration of internal control over compliance with requirements that could have a direct and material effect on the portion of the major federal programs (CFDA Nos. 14.218 and 14.235) they audited is included in their report dated August 15, 2003.

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 major federal and State of New Jersey programs 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 other auditors noted no matters involving the internal control over compliance and its operation that we and other auditors 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.

Ernst + Young LLP

September 15, 2003

Covenant House and Affiliates

Combined Schedule of Findings and Questioned Costs

Year ended June 30, 2003

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	$450,798
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))?	No

Identification of major programs:

CFDA Number(s) or Contract Number	Name of Federal Program or Cluster
	U.S. Department of Housing and Urban Development:
14.218	Community Development Block Grants/Entitlement Grants
14.235	Supportive Housing Program
14.246	Economic Development Initiative
	U.S. Department of Labor:
17.259	Workforce Investment
17.263	Youth Opportunity
	U.S. Department of Health and Human Services:
93.557	Street Outreach Program for Runaway and Homeless Youths
99	Congressional Appropriation

Combined Schedule of Findings and Questioned Costs (continued)

Year ended June 30, 2003

State of New Jersey 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 major programs:	
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 State of New Jersey Office of Management and Budget Circular Letter 98-07	No

Identification of major programs:

State of New Jersey Contract Number	Name of State of New Jersey Program
0300-GM	Department of Human Services Division of Youth and Family Services Transitional Living, Newark Rights-of-Passage

Part II—Schedule of Financial Statement Findings

None.

Part III—Schedule of Federal Findings and Questioned Costs

None.

Part IV—Schedule of State of New Jersey Findings and Questioned Costs

None.

Covenant House and Affiliates

Combined Schedule of Letters to Management

Year ended June 30, 2003

Covenant House Entity	Date Letter Issued
Covenant House (Parent Entity)	September 15, 2003
Covenant House Alaska	N/A
Covenant House California	N/A
Covenant House Florida	N/A
Covenant House Georgia	August 8, 2003
Covenant House New Jersey	August 8, 2003
Covenant House New Orleans	September 30, 2003
Covenant House Pennsylvania	August 1, 2003
Covenant House Texas	N/A
Under 21	September 19, 2003
Covenant House Washington, D.C.	September 8, 2003