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Financial Statements

Covenant House New Orleans

Year ended June 30, 2003 with summarized financial information for the year ended June 30, 2002, with Report of Independent Auditors

COVENANT HOUSE

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 3-31-04

Covenant House New Orleans

Financial Statements

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

Contents

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Report of Independent Auditors

The Board of Directors
Covenant House New Orleans

We have audited the accompanying statement of financial position of Covenant House New Orleans as of June 30, 2003, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Covenant House New Orleans' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Covenant House New Orleans financial statements and, in our report dated September 20, 2002, we expressed an unqualified opinion on those 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 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Covenant House New Orleans as of June 30, 2003, and the changes in its net assets and its 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 30, 2003 on our consideration of Covenant House New Orleans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This 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.

Ernst + Young LLP

September 30, 2003

Covenant House New Orleans

Statements of Financial Position

	June 30	
	2003	2002
Assets		
Cash and cash equivalents	**$ 332,963**	$ 275,227
Short-term investments	**42,000**	39,000
Short-term contributions receivable, net	**30,267**	67,620
Grants receivable	**851,368**	741,026
Other receivables	**78,159**	55,581
Inventory	**3,517**	3,551
Prepaid expenses	**252,095**	260,741
Property, plant, and equipment, net	**988,533**	999,794
Long-term investments	**385,626**	634,022
Long-term contributions receivable	**10,000**	10,000
Other assets	**8,781**	11,647
Total assets	**$ 2,983,309**	$ 3,098,209
Liabilities and net assets		
Liabilities:		
Accounts payable, accrued expenses, and refundable advances	**$ 966,906**	$ 758,538
Due to Parent	**132,827**	210,084
Total liabilities	**1,099,733**	968,622
Net assets:		
Unrestricted:		
Investment in property, plant, and equipment	**988,533**	999,794
Board-designated for endowment purposes	**852,098**	1,028,234
Total unrestricted	**1,840,631**	2,028,028
Temporarily restricted	**42,945**	101,559
Total net assets	**1,883,576**	2,129,587
Total liabilities and net assets	**$ 2,983,309**	$ 3,098,209

See accompanying notes.

Covenant House New Orleans

Statement of Activities

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

	Unrestricted	Temporarily Restricted Designated Projects	Total June 30 2003	Total June 30 2002
Contributions, revenue, and reclassifications:				
Contributions:				
Contribution from Parent	$ 832,397	$ –	$ 832,397	$ 650,000
Contributions from individuals, foundations, and corporations, including legacies and bequests totaling $8,484 in 2003 and $34,337 in 2002	2,494,969	17,945	2,512,914	2,678,446
Contributed services and merchandise	126,935	–	126,935	164,788
Government grants and contracts	3,792,998	–	3,792,998	2,667,422
Special events revenue, net of direct costs of $17,770 in 2003 and $20,600 in 2002	33,964	–	33,964	61,064
Total contributions	7,281,263	17,945	7,299,208	6,221,720
Revenue:				
Investment income:				
Interest and dividends	13,446	–	13,446	45,844
Net unrealized gains (losses)	20,805	–	20,805	(34,525)
Net realized losses	(31,901)	–	(31,901)	(5,066)
Other income	86,587	–	86,587	32,814
Total revenue	88,937	–	88,937	39,067
Total contributions and revenue	7,370,200	17,945	7,388,145	6,260,787
Reclassifications:				
Net assets released from restrictions	76,559	(76,559)	–	–
Total contributions, revenue, and reclassifications	7,446,759	(58,614)	7,388,145	6,260,787
Expenses:				
Program service	6,330,153	–	6,330,153	5,437,280
Supporting services:				
Management and general	613,515	–	613,515	626,062
Fund-raising	690,488	–	690,488	516,782
Total supporting services	1,304,003	–	1,304,003	1,142,844
Total expenses	7,634,156	–	7,634,156	6,580,124
Change in net assets	(187,397)	(58,614)	(246,011)	(319,337)
Net assets, at beginning of year	2,028,028	101,559	2,129,587	2,448,924
Net assets, at end of year	$ 1,840,631	$ 42,945	$ 1,883,576	$ 2,129,587

See accompanying notes.

Covenant House New Orleans

Statement of Functional Expenses

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

	Program Services					
	Shelter and Crisis Care	Outreach	Mother/ Child	Medical	Community Service Center	Public Education
Salaries and wages	$ 986,447	$ 95,140	$ 238,822	$ 39,174	$ 1,212,454	$ 26,672
Payroll taxes	94,841	8,943	22,941	3,763	113,218	2,174
Employee benefits	140,501	9,334	36,551	3,912	91,760	4,054
Total salaries and related expenses	1,221,789	113,417	298,314	46,849	1,417,432	32,900
Accounting fees	–	–	–	–	–	–
Legal fees	7	–	1	–	2	–
Medical fees	410	–	84	50,477	1,236	–
Consulting fees	2,666	–	546	1,632	90,131	14,055
Supplies	35,151	135	8,851	1,451	17,468	161
Telephone	10,014	3,914	2,272	519	8,058	319
Postage and printing	817	661	180	320	2,544	24,045
Occupancy:						
Fuel and utilities	48,667	178	11,113	3,567	24,166	–
Repairs and maintenance	7,856	–	1,609	(88)	17,372	–
Contributed facilities	–	–	–	–	–	–
Rent to Parent	95,511	–	21,883	3,280	2,660	–
Rent and other	1,530	–	313	183	4,926	–
Equipment	19,421	95	4,373	955	19,653	773
Transportation	15,221	14,273	3,145	505	23,047	209
Specific assistance to individuals:						
Food	81,947	1,652	16,784	–	–	–
Medical	–	–	51	22,977	544	–
Contributed medical	–	–	–	2,388	53	–
Clothing, allowances, and other	17,685	1,434	4,177	79	1,424,136	–
Contributed clothing and merchandise	18,488	–	3,787	–	22	15
Temporary help	390	–	80	23	7,149	89
Other purchased services	9,611	21	1,995	2,057	37,668	6,745
Dues, licenses, and permits	1,423	40	350	273	811	237
Subscriptions and publications	1,584	–	959	129	1,303	6
Staff recruitment	2,026	139	1,104	303	1,998	–
Insurance	23,409	–	5,181	765	7,134	1,416
Contributed services	2,782	–	570	79,660	3,195	4,675
Miscellaneous	6,343	413	1,499	380	469	227
Bank charges and fees	–	–	–	–	612	–
Total functional expenses before depreciation and amortization	1,624,748	136,372	389,221	218,684	3,113,789	85,872
Depreciation and amortization	26,275	10,279	5,705	1,011	30,652	361
Total functional expenses	1,651,023	146,651	394,926	219,695	3,144,441	86,233
Less cost of direct benefit to donors	–	–	–	–	–	–
Total expenses reported by function on statement of activities	$ 1,651,023	$ 146,651	$ 394,926	$ 219,695	$ 3,144,441	$ 86,233

		Supporting Services				Total	
Rights of Passage	Total Program Services	Management and General	Fund-Raising	Direct Benefit To Donor	Total Supporting Services	2003	2002
$ 369,605	$ 2,968,314	$ 324,149	$ 102,459	$ –	$ 426,608	$ 3,394,922	$ 3,296,145
34,163	280,043	29,541	9,003	–	38,544	318,587	298,346
57,250	343,362	49,883	11,695	–	61,578	404,940	361,968
461,018	3,591,719	403,573	123,157	–	526,730	4,118,449	3,956,459
–	–	38,500	–	–	38,500	38,500	40,050
2	12	2	1	–	3	15	688
4,639	56,846	–	–	–	–	56,846	32,852
1,285	110,315	2,505	81,571	–	84,076	194,391	121,222
8,977	72,194	8,769	2,365	–	11,134	83,328	85,225
7,523	32,619	14,637	4,057	–	18,694	51,313	47,900
309	28,876	3,768	415,308	–	419,076	447,952	395,221
38,671	126,362	12,270	2,595	–	14,865	141,227	140,478
7,896	34,645	(112)	(69)	–	(181)	34,464	75,296
–	–	–	1,276	–	1,276	1,276	–
52,398	175,732	26,459	5,594	–	32,053	207,785	207,785
39,841	46,793	555	185	–	740	47,533	68,397
5,431	50,701	16,280	5,886	–	22,166	72,867	113,910
5,328	61,728	4,675	1,999	–	6,674	68,402	67,809
7,745	108,128	–	–	–	–	108,128	110,051
2,071	25,643	–	–	–	–	25,643	22,739
210	2,651	–	–	–	–	2,651	662
3,176	1,450,687	–	–	–	–	1,450,687	572,331
67	22,379	478	567	–	1,045	23,424	50,106
182	7,913	4,315	83	–	4,398	12,311	30,214
2,283	60,380	17,756	34,422	–	52,178	112,558	83,829
622	3,756	281	394	–	675	4,431	5,735
717	4,698	199	810	–	1,009	5,707	4,224
1,128	6,698	416	20	–	436	7,134	11,829
13,112	51,017	6,761	2,095	–	8,856	59,873	51,745
7,807	98,689	920	8	–	928	99,617	113,529
2,005	11,336	6,518	2,741	17,770	27,029	38,365	55,562
–	612	28,792	537	–	29,329	29,941	27,536
674,443	6,243,129	598,317	685,602	17,770	1,301,689	7,554,818	6,493,384
12,741	87,024	15,198	4,886	–	20,084	107,108	107,340
687,184	6,330,153	613,515	690,488	17,770	1,321,773	7,651,926	6,600,724
–	–	–	–	17,770	17,770	17,770	20,600
$ 687,184	$ 6,330,153	$ 613,515	$ 690,488	$ –	$ 1,304,003	$ 7,634,156	$ 6,580,124

See accompanying notes.

Covenant House New Orleans

Statements of Cash Flows

	Year ended June 30	
	2003	**2002**
Operating activities		
Decrease in net assets	**$ (246,011)**	$ (319,337)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Contribution of investments	**(4,533)**	(11,678)
Contributions restricted for building construction and fixed asset acquisitions	**(88,396)**	(25,000)
Unrealized and realized (gains) losses on investments	**(20,805)**	34,525
Depreciation and amortization	**107,108**	107,340
Contributed property, plant, and equipment	**(3,000)**	(52,100)
Loss on sale of fixed assets	**6,597**	–
Changes in operating assets and liabilities:		
Contributions receivable	**37,353**	4,072
Grants receivable	**(110,342)**	(389,723)
Due to (from) parent	**(77,257)**	162,181
Prepaid expenses	**8,646**	(57,486)
Other assets	**2,901**	4,733
Other receivables	**(22,577)**	(16,026)
Accounts payable, accrued expenses, and refundable advances	**208,368**	320,605
Net cash used in operating activities	**(201,948)**	(237,894)
Investing activities		
Sale of investments, net	**273,734**	276,190
Purchases of property, plant, and equipment	**(104,946)**	(91,654)
Proceeds from sale of property, plant, and equipment	**2,500**	–
Net cash provided by investing activities	**171,288**	184,536
Financing activities		
Contributions restricted for building construction and fixed asset acquisition	**88,396**	25,000
Net cash provided by financing activities	**88,396**	25,000
Net increase (decrease) in cash and cash equivalents	**57,736**	(28,358)
Cash and cash equivalents at beginning of year	**275,227**	303,585
Cash and cash equivalents at end of year	**$ 332,963**	$ 275,227

See accompanying notes.

1. Organization

Covenant House New Orleans is a not-for-profit organization, which was established and incorporated in 1984. Covenant House New Orleans is affiliated with similar organizations in other locations, all of which are affiliates of Covenant House (the Parent). The Parent is the sole member of Covenant House New Orleans and is itself a private, not-for-profit agency that, through its affiliates, offers shelter, food, clothing, counseling, medical attention, crisis intervention, and other services to approximately 77,000 runaway and homeless youths during the current fiscal year. In addition, the Parent offers a national toll-free crisis intervention hotline.

Covenant House New Orleans is affiliated with the following additional not-for-profit organizations through common control by its Parent:

Under 21	Covenant House New Jersey
Covenant House Alaska	Covenant House Pennsylvania/Under 21
Covenant House California	Covenant House Texas
Covenant House Florida	Covenant House Washington, D.C.
Covenant House Georgia	Covenant House Western Avenue
Covenant House Michigan	Testamentum
Covenant House Missouri	

In addition, the Parent 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	Casa Alianza Internacional
Associacion Casa Alianza (Guatemala)	Fundacion Casa Alianza Mexico, I.A.P.
Casa Alianza De Honduras	

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 New Orleans, Covenant House New Orleans' accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which

2. Summary of Significant Accounting Policies (continued)

resources are classified for accounting and reporting into funds established according to their nature and purposes. In the 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 New Orleans to use or expend all of the income derived from the donated assets for unrestricted purposes. CHNO has no permanently restricted net assets at June 30, 2003.

- Temporarily restricted net assets contain donor-imposed restrictions that permit Covenant House New Orleans to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of Covenant House New Orleans.

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. As reflected in the accompanying statement of financial position, Covenant House New Orleans' Board of Directors has designated a portion of the unrestricted net assets of Covenant House New Orleans for long-term investment purposes.

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 Covenant House New Orleans' management.

Revenue Recognition

Covenant House New Orleans records earned revenues on an accrual basis; investment income is recognized in accordance with policies enumerated below. In addition, Covenant House New Orleans 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

2. Summary of Significant Accounting Policies (continued)

recognized as contributions when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts. Nonmonetary contributions are valued at fair market value and recognized as those contributions are utilized.

Temporarily Restricted Contributions

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

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, property, plant, and equipment) are reported as temporarily restricted. Covenant House New Orleans reflects the expiration of the donor-imposed restrictions 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 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 market 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.

Covenant House New Orleans is the lessee of certain equipment under capital leases expiring in various years through fiscal 2004. 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.

2. Summary of Significant Accounting Policies (continued)

Contributed Services and Merchandise

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

Cash and Cash Equivalents

Covenant House New Orleans 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.

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.

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

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

2. Summary of Significant Accounting Policies (continued)

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.

See Note 7 for additional information regarding investments.

Summarized Financial Information for Fiscal 2002 and Reclassifications

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional expense category. 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 the organization's financial statements for the year ended June 30, 2002, from which the summarized information was derived.

Certain prior year account balances have been reclassified to conform with current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

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.

3. Components of Program and Supporting Services (continued)

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

Medical services include basic medical services, referrals, HIV testing, and counseling.

The *Community Service Center* 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. Within this program, Covenant House New Orleans also provides counseling and intervention services through the City of New Orleans Curfew and Assessment Center, and work-related instruction and experience through the White Dove Landscape Training Program.

This program also includes administration fees earned under two agreements that Covenant House New Orleans entered into with the City of New Orleans. The first agreement is with the New Orleans Workforce Investment Board (NOWIB) and Turning Points Academy, Inc. (TPA) to provide management of the Youth One Stop Center, which allows Covenant House New Orleans to coordinate and improve education and employment training services of eligible youth. As the primary fiscal agent, Covenant House New Orleans' role includes oversight of subgrants with various service providers for in-school and out-of-school youth training opportunities. The second agreement allows Covenant House New Orleans to act as a fiduciary agent and administrator of youth summer employment activities. Covenant House New Orleans provides orientation, counseling, and assistance in job placements with compensation for approximately 1,000 youths. This agreement expires in August 2003.

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, help with completing their education and finding a job and housing.

3. Components of Program and Supporting Services (continued)

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 special events, such as meals and entertainment.

4. Related Party Transactions and Interaffiliate Transfers

The Parent provides financial support, as well as management and organizational support, for its affiliated organizations. Contributions and promises to give are generally not specifically designated by donors and are allocated to affiliates based upon Covenant House policy and totaled approximately $34.7 million and $54.1 million for the Parent for fiscal 2003 and 2002, respectively. Fund-raising expenses associated with these activities approximated $9.0 million and $10.7 million in fiscal 2003 and 2002. The Parent provided certain of its affiliates with support contributions, used principally for programs of the affiliates, totaling approximately $22.5 million in fiscal 2003 and $39.2 million in fiscal 2002, respectively. Of these amounts, Covenant House New Orleans received approximately $833,000 and $650,000 in fiscal year 2003 and 2002, respectively.

In addition, the Parent conducts fund-raising activities on behalf of certain affiliates for which costs are allocated to the respective affiliates. Contributions arising from these fund-raising activities are recorded by the respective affiliates. Fund-raising expenses incurred on behalf of Covenant House New Orleans totaled approximately $520,000 and $413,000 for fiscal 2003 and 2002, respectively.

The Parent provides certain of its affiliates with insurance, computer access services, and data software and hardware maintenance. The Parent allocated expenses of approximately $115,000 in 2003 and $119,000 in 2002 related to such services to Covenant House New Orleans.

4. Related Party Transactions and Interaffiliate Transfers (continued)

Covenant House New Orleans leases its program facility from the Parent on a month-to-month basis. Rent paid to the Parent amounted to approximately $208,000 in fiscal 2003 and 2002.

5. Allocation of Joint Costs

During the fiscal year ended June 30, 2000, the Parent adopted 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 $34,000 and $192,000 incurred on behalf of Covenant House New Orleans in fiscal year 2003 and 2002, amounts allocated to public education totaled approximately $29,000 and $137,000, respectively.

6. Short-Term Contributions Receivable

At June 30, 2003 and 2002, short-term contributions receivable consist of promises to give of approximately $30,000 and $68,000, respectively, related to special events and direct mail campaigns.

7. Investments

Investments at June 30, 2003 consist of:

	Short-Term	Long-Term	Total Fair Value
Cash and cash equivalents	$ –	$ 117,364	$ 117,364
Common stocks	–	240,271	240,271
Corporate debt securities	–	27,991	27,991
	–	385,626	385,626
Real estate held for sale	39,000	–	39,000
Other assets held for sale	3,000	–	3,000
	$ 42,000	$ 385,626	$ 427,626

7. Investments (continued)

Investments at June 30, 2002 consist of:

	Short-Term	Long-Term	Total Fair Value
Cash and cash equivalents	$ –	$ 94,738	$ 94,738
Common stocks		233,762	233,762
U.S. government securities	–	271,770	271,770
Corporate debt securities	–	33,752	33,752
	–	634,022	634,022
Real estate held for sale	39,000	–	39,000
	$ 39,000	$ 634,022	$ 673,022

8. Property, Plant, and Equipment

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

	June 30 2003	June 30 2002
Land	**$ 100,500**	$ 100,500
Buildings	**262,822**	262,822
Building improvements	**654,910**	654,910
Equipment	**1,369,373**	1,369,164
Equipment under capital leases		
Leasehold improvements	**130,116**	38,479
	2,517,721	2,425,875
Less accumulated depreciation and amortization	**1,529,188**	1,426,081
	$ 988,533	$ 999,794

9. Temporarily Restricted Net Assets

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

	June 30 2003	June 30 2002
Various donor-imposed purpose restrictions	**$ 42,945**	$ 84,399
Time restricted for future periods	**–**	17,160
	$ 42,945	$ 101,559

Net assets were released from restrictions based upon the satisfaction of the following restrictions:

	Year ended June 30 2003	Year ended June 30 2002
Various donor-imposed purpose restrictions	**$ 59,399**	$ 109,463
Elapsed time restrictions	**17,160**	7,160
	$ 76,559	$ 116,623

10. Pension Plan

Covenant House New Orleans participates in a defined benefit pension plan (the Plan) administered by the Parent, covering substantially all employees of the Parent and its domestic affiliates. Benefits are generally based on years of service and average salary, as defined under the Plan. The Parent's policy is to contribute the amount recommended by its actuary. The assets of the Plan, which are held by Mutual of America Life Insurance Company, consist primarily of mutual funds that are invested in equities and debt obligation instruments. Total pension costs of $147,473 and $76,007 were allocated to Covenant House New Orleans from the Parent in fiscal 2003 and 2002, respectively. Separate participant data for Covenant House New Orleans is not available.

10. Pension Plan (continued)

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

11. Tax-Exempt Status

Covenant House New Orleans is qualified as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes under Section 501(a) of the Code. As a not-for-profit organization, Covenant House New Orleans has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code and qualifies for the maximum charitable contribution deduction for donors.

12. Commitments and Contingencies

Currently, there are no known claims or lawsuits for which Covenant House New Orleans would be contingently liable.

13. Concentration of Cash and Cash Equivalents

At June 30, 2003, approximately 72% of total cash and cash equivalents were held by one financial institution.

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The Board of Directors
Covenant House New Orleans

In planning and performing our audit of the financial statements Covenant House New Orleans ("CHNO") for the year ended June 30, 2003, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

At June 30, 2003, CHNO did not record salary expense and an accrued salary payable relating to the Mayor's Team and Workforce Initiative Program ("WIA") grants for service dates in June 2003. Additionally, the related grant revenue and receivable were not recorded. We suggest CHNO properly record and accrue for all amounts, including wages, specific to the Mayors Team and WIA programs to ensure grant expenditures are reported in the proper period and that the financial statements are not materially misstated.

Management's Response

Management agrees with the recommendation and will review to ensure all revenues and expenses for grant expenditures are reported in the proper period.

In addition to the reportable conditions described above, we have the following comments on other matters.

Governmental Grants and Programs

Eligibility Testing

We selected 25 participants for eligibility testing for the WIA program. For one participant in the program, we noted the barrier applicable to this participant was not documented in the participant's file. As a part of the acceptance/approval process, case workers are required to complete a standardized form containing all barriers in which a participant may possess in order to be deemed an eligible participant. This form was not completed for this one participant, however through review of the file we did note that this participant met a required barrier. We suggest that this form be completed for all participants during the acceptance/approval process for file maintenance and proper evaluation of each participant. CHNO and the Turning Points Academy should more closely monitor the maintenance of the participants' files to ensure proper eligibility is documented to support grant expenditures.

Management's Response

Management agrees with the recommendation and has since documented on the appropriate form evidence of applicable barriers of the WIA eligible participant in question.

Cash Disbursements Testing

To test the controls over the cash disbursements process for the WIA program, we selected 25 expenditures from the check registers. For one of the cancelled checks, the appropriate signature was not provided on the request for reimbursement. We recommend that files be maintained in a more orderly manner so that they may be accessed for review and provide support for grant expenditures.

Management's Response

Management agrees with the recommendation and has since secured the administrative signature of approval of a cash disbursement for the WIA program.

Other Prepaid Accounts

During our detail testing of the Other Prepaid expense account, we noted that the CHNO nets some grant funds with CHNO funds. When salary and wage expense is incurred for CHNO and the Mayor's Team, the appropriate entry is made to record the expense. However, when there is an error (i.e., hours worked are incorrect, hourly rate is incorrect), and a void and/or manual check is issued, the Other Prepaid expense account (with an assigned grant job number) is affected. The Other Prepaid expense account is used for the sole purpose of tracking voided and manual checks until such time they are called in to an outside payroll processing company (ADP). CHNO maintains a log of all WIA and Mayor's Team manual and void payroll checks, which tracks the date when they are reported to ADP. We noted that there was a significant number of voided payroll checks where participant checks were voided and reissued due to errors in the amounts or pay rates. These checks, voided and manual, included checks issued to pay for orientation related to the WIA program. Thus, when checks are voided, this account is decreased and when manual checks are issued, this account is increased. The corresponding counter-account is either cash (manual check) or miscellaneous receivable (void check), due from ADP. Most manual/void checks were called in to ADP by June 30, 2003, subsequently reversing the entries in the prepaid account. One significant exception was a number of void orientation checks received and recorded in the prepaid account after the last payroll adjustments were processed for June 2003. As a result of CHNO tracking voided and manual payroll checks of CHNO with those of government funded grants (though CHNO assigns a grant job number), the balance in this account is the net effect of voided and manual checks for CHNO and the programs (Mayor's Team and WIA). Due to the net effect, the company has not properly determined the amount applicable to the Refundable Advances account. Because CHNO is obligated to return unused grant funds to the City, voided and manual checks for CHNO should not be netted against Mayor's Team and WIA.

Management's Response

Management's use of the job number assignment allows for a distinction between CHNO manual and void checks and those of grant-related activities, particularly Mayor's Team and WIA. Management, however, will monitor its grant activities to ensure that all transactions affecting the Refundable Advance account are properly reflected at the close of the month.

Reporting

CHNO was unable to provide reporting to support that the required earmarking, where at least 95% of eligible participants must be disadvantaged low-income youth per 29 USC 2801, was tracked and documented.

Management's Response

The Louisiana Virtual One Stop (LAVOS) is the official database mandated by the State Department of Labor to report all WIA eligible participants. While LAVOS has provisions for identifying those WIA participants not income eligible but who fall within the 5% window, manipulation of the database for point-in-time tracking is done by the state. Management later implemented a supplemental tracking system to ensure that 95% of eligible participants enrolled were disadvantaged low-income youth. Management previously documented and approved all eligible participants prior to entering in LAVOS.

Other Covenant House New Orleans Processes

Financial Statement Close Process

We also noted during our audit that the financial statement close process is not performed timely. We were scheduled to perform our year-end procedures the week beginning August 11, 2003, however; we did not receive the first trial balance until August 21, 2003, almost two months after year-end. Management continued to make adjusting entries during the audit process and provided us with updated versions of the trial balance. We suggest that management review the financial statement close process and ensure appropriate reviews are performed so that interim financial statements can be performed timely and accurately.

Management's Response

Accomplishing the Mayor's Team and WIA Youth Services grants has posed the greatest challenge in meeting the timeliness of the financial statement close process. The nature of the agreements, which involved employing and overseeing youth during the summer months (Mayor's Team) and monitoring grant subrecipients (WIA and Mayor's Team), required greater attention by management to ensure fiscal accountability and grant compliance. Since relinquishing its role as operator of the WIA Youth One Stop and fiduciary of the Mayor's Team, management anticipates and ensures a timely close of its financial statement process in the future.

Legislative Auditor Filing

The Legislative Auditor notified Covenant House New Orleans that they did not receive the audited financial statements for the year ended June 30, 2003 and the applicable reports required by Government Accounting Standards by the statutory completion date of December 31, 2003.

Management's Response

The required reports are promptly being submitted to the Louisiana Legislative Auditors.

Prior Year Comments

We have the following updates on matters presented to you during the prior year audit.

Grant Agreements

Due to the increased activity of the Workforce Initiative Program, we noted additional demands on Covenant House New Orleans administrative and finance personnel. We suggest that as the Board of Directors and Finance Committee review and evaluate additional opportunities, they consider all aspects of the additional grants and ensure that the compensation to the Agency adequately cover direct and indirect costs and opportunities costs for other projects.

Management's Response

Management agrees with this recommendation and will incorporate in future grant proposals assurances for maximum cost recovery and minimum administrative burden.

Current Year Update

During the current year's audit, we noted that the WIA and Mayors Team grant continues to be an obstacle for the finance department in completing its routine tasks. However, CHNO will no longer oversee the Workforce Initiative Program, effective in fiscal year 2004.

Aging of Grant/Pledge Receivables

During the course of our audit, we noted that the aging of receivables is not monitored or reviewed until year-end. We identified one pledge receivable and several grant receivables aged greater than 120 days that raised collectibility concerns. We suggest management participate in the review of receivable schedules on a timely basis to ensure interim financial statements appropriately reflect any needed adjustments.

Management's Response

Management has historically participated in the periodic review of its receivable balances during the year; however, temporary staff shortages and the increased activities of a new grant initiative delayed the process until year end. Management will enforce its practice with timely quarterly reviews to ensure its interim financial statements are a fair representation.

Current Year Update

We have noted an improvement in this area during our audit of fiscal year 2003. During our testing, we noted the applicable schedules had been prepared on a timely basis and reviewed by management periodically prior to year-end.

Bank Reconciliation Preparation

During our test of controls, we noted that the operating account bank reconciliations were not prepared timely for five months. We suggest that management make an effort to ensure that bank reconciliations are prepared monthly to make sure that variances and discrepancies are resolved.

Management's Response

Though there is evidence of timely preparation of bank reconciliations of the main operating and payroll bank accounts, management will monitor all bank accounts to ensure timely preparation and approval in the future.

Management believes the untimely bank reconciliation of its operating account for five (5) months was a direct result of the temporary absence of key staff and shuffling of duties to accommodate increased demands of the finance department. Management will enforce its practice that all bank accounts are reconciled within thirty (30) days from the close of the month.

Current Year Update

We noted the timely preparation of bank reconciliations has continued to be a concern. We selected 60 bank reconciliations from a population of all cash accounts for three months during the fiscal year to test the timeliness of their preparation, resolution of significant reconciling items, and approval by the director of finance. We noted that bank reconciliations in December 2002 for the pass-through accounts were not being performed within thirty (30) days of receipt of the bank statement. We also noted that there were five (5) bank reconciliations that did not have evidence of approval by the director of finance.

* * * * * * *

This report is intended solely for the information and use of the board of directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst & Young LLP

September 30, 2003

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

The Board of Directors
Covenant House New Orleans

We have audited the financial statements of Covenant House New Orleans as of and for the year ended June 30, 2003, and have issued our report thereon dated September 30, 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 Covenant House New Orleans'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 Covenant House New Orleans's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Covenant House New Orleans's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This reportable condition was reported to management of Covenant House New Orleans in a separate letter dated September 30, 2003.

A material weakness is a reportable 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 caused by errors or fraud in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Covenant House New Orleans in a separate letter dated September 30, 2003.

This report is intended solely for the information and use of the finance committee, management, and the Office of the Legislative Auditor, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

September 30, 2003